

2008 Financial Highlights

The Independent Order
of Foresters

Year ended
December 31, 2008



Fulfilling our mission in difficult economic times

Foresters once again fulfilled its mission as champions of the well-being of families in 2008. This was achieved despite an economic downturn that negatively impacted Foresters investment returns and was a challenging environment for financial organizations worldwide.

Even in these difficult economic times, Foresters increased the number of families insured, involved more members in our mission and supported communities in important ways:

- Gained 48,000 new members, despite losing membership due to deaths, surrenders and the sale of Forester Health in the UK
- Invested \$27 million in member benefits and initiatives, branch operations and community development
- Increased total premiums from new and existing business by almost 18% to \$450.6 million
- Grew assets by \$800 million to \$6.2 billion
- Maintained our strong surplus at \$1.2 billion and strong solvency ratios in Canada, the US and the UK

Overall adverse market conditions led to a net income loss of \$197 million, compared with a net gain of \$139 million in 2007, however, Foresters paid an impressive \$367 million in insurance benefits and an additional \$45 million in dividends.

In 2009, Foresters is celebrating our 135th anniversary. Over the years, we have earned the trust and confidence of our members by helping to provide financial security and meaningful benefits of membership.

We enter 2009 financially strong. We are committed to achieving our vision of growing our membership on a profitable basis and continuing our proud tradition of serving our members, their families and their communities.

Once again, I offer my sincere thanks to our members, employees and distributors for the important contributions they have made to Foresters success together in 2008. I look forward to the exciting possibilities ahead.

George Mohacsi
President and CEO

Operational achievements

One of the most significant highlights of the past year was the acquisition of Unity Life of Canada. It creates a strong national presence and triples Foresters premium income in Canada.

2008 highlights:

- Two new Universal Life products in the US and expansion of our US distribution network to more than 12,500 agents
- Continued strong UK performance with an 11% growth in sales in a difficult economy
- Important governance activities leading to the 40th International Assembly in Halifax in June 2009

Tested by time.

Our **mission** – we champion the well-being of families

Foresters exists solely to enrich the lives of its members, their families and the communities where they live.

Honoring our rich tradition of caring, we champion the well-being of families by providing quality life insurance, unique member benefits and inspiring community activities. Our mission has endured since our founding 135 years ago.

There are three ways that we bring our **mission** to life.

Quality life insurance

We *deliver* on our promise to help members with their need for financial security by providing quality protection, savings and investment products¹. We help protect the financial security of generations of families by offering innovative products that meet the needs of families.

Unique member benefits

We *offer* complimentary life, health and educational member benefits^{2,3} that help you and your family get more out of life today and tomorrow. It's a way of sharing our financial strength. These member benefits include critical illness and terminal illness benefits, scholarships, young family member benefits and disaster relief assistance.

In addition, members have opportunities for personal development, social interaction and participation in governance matters.



Inspiring community activities

We *provide* opportunities for community involvement through meaningful Foresters-sponsored events and family activities. Volunteering is a cornerstone of Foresters mission. Our members are making a difference, volunteering (almost a million hours in 2008) and raising funds for organizations dedicated to children's health, active living and other causes that strengthen families and communities.

Since 1990, Foresters has helped raise more than \$330 million for more than 170 children's hospitals to ensure all children have access to the quality, specialized health care they deserve. And that's just the beginning.

We are better together. That belief is the foundation of our mission and the power behind our purpose.

¹ Investments offered through Foresters Equity Services, Inc. Member FINRA, SIPC, 6640 Lusk Blvd., Suite A-202, San Diego, CA 92121 T. 858 550 4844.

² Based on Nov 1, 2000 Benefit Package.

³ These non-contractual member benefits are subject to eligibility, availability requirements and limitations and may be changed or cancelled at any time.

Community impact

At Foresters, we share our financial strength through member benefits and community investments that focus on improving the health and well-being of children, their families and the communities in which they live.

2008 highlights:

- 500 competitive scholarships awarded in Canada, US and UK
- Over 250 local charities assisted
- 350 members across the US received financial assistance through Foresters Disaster Relief program
- More than US\$50 million raised to support children's hospitals in Canada, US and UK, through Children's Miracle Network Radiothon program

Trusted for tomorrow.

Management's Discussion and Analysis

Financial Highlights for the year ended December 31, 2008

All amounts are shown in millions of Canadian dollars unless otherwise stated.

Management's Discussion and Analysis provides an opportunity to review and highlight operational activities, financial performance and the surplus position of Foresters for the period ended December 31, 2008.

Impact of Foreign Currency

Foresters reports the consolidated results of its international operations in Canadian dollars. These reported results were affected by fluctuations in foreign exchange rates. As a substantial portion of Foresters business is carried out in the US, the strengthening of the US dollar in 2008 relative to the Canadian dollar had a significant impact on Foresters Canadian dollar results. Total assets of \$6.2 billion at year end represented an increase of \$800 million over 2007. Approximately \$600 million of this increase can be attributed to the strengthening of the US dollar. Additionally, a foreign currency gain of \$216 million is included in other comprehensive income in 2008.

Acquisitions and Dispositions

During 2008, Foresters made a number of acquisitions which benefited its insurance operations in Canada and the United Kingdom increasing Foresters total assets as outlined below:

Acquisitions	(\$ millions)	Total assets acquired*
Canada		
Unity Life of Canada (Unity Life)	\$ 513	
Forethought Life Insurance Company Canadian branch	82	
Washington National Insurance Company Canadian Individual Life business	2	
United Kingdom		
Domestic and General Life Assurance Company Ltd. (D&G)	8	
Total	<u>\$ 605</u>	

* Net of acquisition costs

Segregated fund assets also increased by \$60 million as a result of the Unity Life acquisition.

Additionally, Foresters disposed of its UK health care insurance subsidiary, Forester Health Ltd. (FHL) on January 2, 2008 resulting in a gain of \$8 million.

Analysis of Income (Loss)

Foresters 2008 earnings were negatively affected by the severe credit market deterioration and declines in equity markets in the fourth quarter. It is important to note that Foresters insurance operations remain healthy, and its balance sheet and Canadian Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio continue to be strong despite these market declines. US Risk Based Capital and UK Free Asset ratios are also strong and well above industry averages.

The consolidated net loss for the year ended December 31, 2008 was \$197 million, \$336 million lower than in 2007. The main factors contributing to this decrease were:

- \$193 million higher net investment losses, largely due to realized losses on the sale of equities and bonds;
- \$119 million strengthening of actuarial liabilities related to refinements of investment and asset default assumptions;
- \$54 million loss due to new business strain and lower profit release on inforce business; and
- \$6 million due to other small items.

This decrease was offset by:

- \$24 million higher release of actuarial liabilities related to refinements of other actuarial assumptions;
- \$8 million gain on the sale of FHL; and
- \$4 million gain on acquisitions in Canada and UK.

Premiums

Total life and annuity premiums of \$451 million were \$68 million, or 18% higher than in 2007. Excluding Unity Life premiums of \$67 million in 2008 and FHL premiums of \$14 million in 2007, premiums were \$15 million better than the same period in 2007.

This significant increase was mainly attributable to:

- improved first year life earned premiums of \$21 million, primarily due to increased term insurance business in the US;
- higher renewal premiums of \$9 million, mainly universal life products in the US; and
- higher unit-linked annuity premiums of \$16 million in the UK.

Positive results achieved

- Rated "A" (Excellent)* by A.M. Best for the 9th consecutive year
- Well capitalized in light of the current market conditions with a MCCSR ratio of 344%
- Four acquisitions completed and substantially integrated in 2008 adding \$605 million in total assets
- Continued strong sales results in all three countries
- A 32% increase in overall certificate count
- Worldwide total insurance in-force continued to grow in 2008, increasing from \$20.6 billion at December 31, 2007 to \$30.7 billion at December 31, 2008

*An "A" (Excellent) rating is assigned to companies that have a strong ability to meet their ongoing obligations to policyholders and have, on balance, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best Company. In assigning Foresters rating, A.M. Best stated that Foresters rating outlook is "stable", which means it is unlikely to change in the near future, assuming Foresters financial strength is maintained and operations grow. A.M. Best assigns ratings from A++ to F, A++ being superior ratings and A and A- being excellent ratings.

Board of Directors

W. Ross Walker
Chair
Ontario, Canada

Bernard E. Bloom
International Fraternal President
United Kingdom

James R. Daugherty
Arizona, United States

William B. Foster
Florida, United States

Richard M. Freeborough
Ontario, Canada

Patrick W. Kenny
Connecticut, United States

Kash Manchuk
Ontario, Canada

Louise L. McCormick
Connecticut, United States

Barbara J. McDougall
Ontario, Canada

Christopher H. McElvaine
Ontario, Canada

John P. Meyerholz
New Jersey, United States

E. Irene Miles
International Fraternal
Vice President
Arizona, United States

George S. Mohacsi
Ontario, Canada

David E. Morrison
Manitoba, Canada

Glenn K. Reid
British Columbia, Canada

This increase was partially offset by:

- lower single life premiums of \$19 million in the UK due to an erosion of consumer confidence resulting from declining equity markets; and
- lower annuity premiums of \$12 million in the US as a result of the economic slowdown.

Net Investment Income (Loss)

In 2008, the net investment loss was \$95 million compared to net investment income of \$378 million in 2007, a difference of \$473 million. Net investment income (loss) was comprised of investment income which includes interest, dividends, net rental income, realized gains on the sales of investments and unrealized gains due to changes in the market value of investments.

This significant decrease was attributable to the following:

- net investment losses on assets backing liabilities, largely offset against the change in actuarial liabilities were \$298 million lower than in 2007 mainly due to the impact of realized and unrealized losses on equities and foreign exchange forward contracts; and
- realized bond and equity losses on assets backing surplus, which impact net income directly, were \$175 million lower than the prior year.

Certificateholder Benefits

Certificateholder benefits, which primarily include death benefits, life and annuity surrenders, of \$367 million, increased by 7.6% or \$26 million over 2007. Excluding the impact of Unity Life and FHL health benefits, policy benefits would have been \$7 million higher than the same period in 2007 primarily as a result of:

- an increase in death benefits of \$11 million in the US and
- an increase in surrenders of \$9 million in the UK due to the erosion of consumer confidence.

These increases were offset by a \$13 million decrease in annuity surrenders in the US.

Fraternal

Fraternal operations were comprised of funding of branch operations, national and local community partnerships to create volunteer opportunities for our members, staff time and benefits to members, such as scholarships, fun family events and our critical illness benefit. Foresters investment in fraternal operations totaled \$27 million in 2008, compared to \$26 million for the prior year.

In-force Certificate Count and Membership

Certificates in-force increased in 2008 by 193,325 primarily due to acquisitions in Canada during the year which more than offset the decrease in certificates in the UK as a result of the sale of the UK health subsidiary.

Total certificate statistics were as follows:

Certificate Count	2008	2007	% change
United States	332,639	326,494	2%
United Kingdom	167,606	204,337	-18%
Canada	303,860	79,949	280%
Total	804,105	610,780	32%

Despite this growth in certificate count, the number of voting members decreased from 739,000 at the end of 2007 to 651,000 in 2008. While there were increases in membership in both Canada and the US, the removal of the UK Health subsidiary membership more than offset these increases. Additionally, the UK Child Trust Funds certificateholders (now over 69,000) become voting members only when they reach the age of 16 representing a sizable future membership potential.

Surplus

Surplus (\$millions)	Retained Earnings	Accumulated Comprehensive Income	Total Surplus
As at December 31, 2007	1,559	(143)	1,416
Net loss	(197)	-	(197)
Other comprehensive income	-	24	24
As at December 31, 2008	<u>1,362</u>	<u>(119)</u>	<u>1,243</u>

The total \$1.2 billion of reported surplus includes amounts attributed to corporate surplus within each country and World Surplus. Foresters uses the Canadian solvency requirement, the MCCSR, specified by the Office of the Superintendent of Financial Institutions Canada, to allocate surplus across its operating segments in each country up to a 225% MCCSR level. The threshold of 225% MCCSR is not a regulatory requirement but a management allocation of surplus which allows each country segment sufficient assets to manage its operations.

Foresters World Surplus account represents the excess surplus over a 225% MCCSR level and is supported by \$542 million of invested assets. Investment income on these assets provides Foresters with the income and cash flow to fund its insurance and fraternal operations.

In 2008, surplus decreased \$173 million from the prior year. The decrease in retained earnings was a result of the net loss of \$197 million for 2008 which was partially offset by an increase in other comprehensive income of \$24 million. Other comprehensive income was comprised of unrealized foreign currency translation gains of \$216 million offset by net unrealized losses on available for sale assets of \$192 million.

Return on equity was negative 13.5% in 2008, compared with positive 9% in 2007. This decrease was driven primarily by investment market declines in 2008.

Solvency

Financial strength is critical to generating new business, maintaining and expanding distribution

networks and providing a base for future expansion and growth. Foresters strong surplus position is in excess of regulatory requirements. Solvency ratios were above industry averages in all three countries in which Foresters operates.

Solvency	2008	2007
Canada – MCCSR	344%	406%
United States Branch		
– RBC (Fraternal)	472%	609%
United Kingdom		
– Free Asset Ratio	9%	15%

MCCSR – Minimum Continuing Capital and Surplus Requirement
RBC – Risk Based Capital

Executive Leadership Team

George S. Mohacsi
President & CEO

Euan Allison
*Group Managing Director,
United Kingdom*

Kasia Czarski
*Senior Vice President,
Chief Membership & Marketing
Officer*

Sharon Giffen
*Senior Vice President
& Chief Actuary*

Lynn J. Haight
*Chief Financial Officer
& Chief Membership Officer*

Suanne M. Nielsen
*Senior Vice President
& Chief Administrative Officer*

Christopher H. Pinkerton
President, US Division

Anthony W. Poole
President, Canada Division

Peter Sweers
*Senior Vice President
& Chief Information Officer*

Performance by Business Division

United States Division

Foresters US Division accounted for 42% of total worldwide premiums in 2008 compared to 45% in 2007.

Major Products

Protection	Investment	Member Benefits
<ul style="list-style-type: none"> • Whole Life • Universal Life • Term Life 	<ul style="list-style-type: none"> • Deferred Annuity • Immediate Annuity • Equity Indexed Annuity 	<ul style="list-style-type: none"> • Competitive and Orphan Scholarships • Young Family Member Benefit • Terminal Illness Benefit • Critical Illness Benefit • Benevolence

On an annualized sales basis, term life sales were 13% worse than last year, while whole life sales and universal life sales were better than last year by 12% and 62% respectively.

Deteriorating economic conditions during 2008, and in particular, the dramatic weakening of consumer confidence, negatively impacted overall sales. However, despite the challenging economic environment, the US Division continued to put in place key elements of its plan: distribution was expanded significantly to over 12,500 appointed agents; key products were introduced, including two new Universal Life products; marketing activities aimed at increasing agent adoption of Foresters products were increased; service capabilities were improved; and a greater emphasis was placed on our fraternal difference.

For 2009, the US Division will continue to implement its strategy of growing sales profitably by recruiting additional agents, delivering profitable products including new niche products such as Final Expense, improving agent loyalty by continuing to improve service capabilities and high-touch marketing activities, improving persistency and focusing on expense management.

United Kingdom Division

Foresters UK Division contributed 36% of total Foresters premiums in 2008, compared to 47% in 2007.

Major Products

Protection	Investment and Savings	Member Benefits
<ul style="list-style-type: none"> • Lifestyle Protection Option (Life Cover, Critical Illness and Income Protection) • Mortgage Protection Options (Life Cover and Critical Illness) 	<ul style="list-style-type: none"> • Individual Savings Accounts • Child Trust Fund • Savings and Investment Plan • Deferred Annuity 	<ul style="list-style-type: none"> • University Scholarships • Orphan Benefit and Scholarships* • Terminal Illness Benefit* • Benevolence

During the 12 months ended December 2008, sales issued totaled \$113 million, comprised of \$86 million in single and \$27 million regular premiums, representing an increase of 6% over 2007. Strong sales of annuities offset lower single premium savings product sales, while regular premium savings sales increased by

*Only available on pre-1995 plans

3% over 2007. These increases were achieved despite almost unprecedented turbulence in world financial markets and the consequent loss of confidence of our members and potential members. Forester Life Ltd continues to benefit from a steady flow of Child Trust Funds allocated by HM Revenue and Customs.

The UK Division has adopted the regulator's program to create a culture of "Treating Customers Fairly" within its normal operating processes. A new processing system is being developed to improve the services provided to our existing customers and to support the expected growth in new business volumes.

In January the UK Division sold its healthcare subsidiary, Forester Health Ltd, generating a profit of \$8 million, and in November the UK Division acquired the business of Domestic & General Life Assurance Ltd, comprising \$6 million in assets and 1,100 policies.

While its bottom line result was adversely affected by the falling values of its equity investments, the UK Division's underlying fundamentals continued to show promise with rising sales adviser productivity and strict control of expenses resulting in an acquisition expenses underrun for the second successive year.

The UK Division intends to pursue its strategy of organic growth through its direct salesforce combined with further acquisitions. Financial strength, which provides reassurance for its members, employees and shareholders, has been maintained throughout this difficult economic period without unduly constraining the UK Division's future business strategy. This was evidenced by the investment in the new policy processing system and the provision of funding for suitable acquisitions or mergers.

Canadian Division

Foresters Canadian Division accounted for 22% of total Foresters premiums in 2008 growing from 8% in 2007.

Major Products

Protection	Investment	Member Benefits
<ul style="list-style-type: none"> • Whole Life • Universal Life • Term Life • Critical Illness • Funeral Planning • Group Creditor 	<ul style="list-style-type: none"> • Guaranteed Investment Certificates • Immediate Annuity • Segregated Funds 	<ul style="list-style-type: none"> • Competitive and Orphan Scholarships • Young Family Member Benefit • Terminal Illness Benefit • Critical Illness Benefit • Benevolence

In 2008, the Canadian Division's growth strategy was implemented with the acquisition of Unity Life of Canada in April. The strategy provided new and significant access to products and distribution in Canada and resulted in immediate sales growth in the Canadian Division.

In Canada, Unity Life and Foresters products are sold exclusively through the Unity Life distribution network which is made up of independent brokers, third-party marketers and contracted distribution partnerships.

Under the new and expanded distribution model, sales (which now include Unity Life product sales) grew to \$16.8 million in weighted premiums* compared to \$1.6 million in weighted premiums in 2007. Reflecting this exceptional sales growth, 9,577 new Canadian Foresters members were added in 2008.

Traditional insurance products, including Term Life, Whole Life, and Universal Life accounted for 64% of the sales volume in 2008, with investment and non-traditional product sales making up the remaining 36%.

The Canadian Division intends to achieve sales growth and improved financial performance by continuing its strategy of providing products in niche markets, supported by increased dedication to enhancing distributor relationships and member service.

Future Outlook

Foresters theme for 2009 is "Big Vision, Steady Growth". This theme reflects our desire to grow our membership and conduct a profitable insurance operation that invests capital wisely, while engaging our members in our mission of championing the well-being of families.

Despite the global economic downturn, Foresters, with its financial strength and proven strategy, is well positioned to make solid progress towards achieving these goals in 2009.

* The deposit/premium contribution of Annuity, Immediate Annuity, Segregated Fund, Funeral Planning and Group Creditor product sales is discounted when measured as sales volume for the division.

Summarized Consolidated Balance Sheets

As at December 31, 2008, with comparative figures for 2007 (In millions of Canadian dollars)

	2008	2007
Assets		
Investments		
Cash and short-term securities	\$ 98	\$ 82
Bonds and other fixed-term securities	4,671	3,641
Mortgages	21	30
Stocks	969	1,216
Real estate	27	19
Loans to certificate holders	215	171
Other invested assets	105	148
	<u>6,106</u>	<u>5,307</u>
Other assets	95	82
Total assets	<u>\$ 6,201</u>	<u>\$ 5,389</u>
Liabilities and Surplus		
Actuarial liabilities	\$ 4,714	\$ 3,807
Other insurance certificate and contract liabilities	140	87
Other liabilities	80	56
Deferred net gains realized on disposal of investments	24	23
	<u>4,958</u>	<u>3,973</u>
Total liabilities	<u>4,958</u>	<u>3,973</u>
Surplus		
Retained earnings	1,362	1,559
Accumulated other comprehensive income (loss)	(119)	(143)
Total surplus	<u>1,243</u>	<u>1,416</u>
Total liabilities and surplus	<u>\$ 6,201</u>	<u>\$ 5,389</u>

Exchange Rates

	2008	2007	%+/-
US dollar rate:			
<i>Year-end rate - balance sheet</i>			
	1.2180	0.9913	23%
<i>Average rate - income statement</i>			
	1.0671	1.0748	(1%)
UK pound rate:			
<i>Year-end rate - balance sheet</i>			
	1.7754	1.9653	(9%)
<i>Average rate - income statement</i>			
	1.9605	2.1487	(9%)

Summarized Consolidated Statements of Income (Loss)

For the year ended December 31, 2008 with comparative figures for 2007 (In millions of Canadian dollars)

	2008	2007
Revenue		
Premiums	\$ 451	\$ 383
Net investment income (loss)	(95)	378
Other income	22	17
	<u>378</u>	<u>778</u>
Certificateholder benefits and expenses		
Certificateholder benefits	367	341
Change in actuarial liabilities	(104)	48
Dividends to members	45	40
Agent compensation	93	56
Operating expenses	147	131
Fraternal investment	17	17
	<u>565</u>	<u>633</u>
Income (loss) before income taxes	<u>(187)</u>	<u>145</u>
Income taxes	10	6
Net income (loss)	<u>\$ (197)</u>	<u>\$ 139</u>

The Summarized Consolidated Balance Sheets and Summarized Consolidated Statements of Income have been derived from Foresters Consolidated Financial Statements, which are prepared in accordance with Canadian generally accepted accounting principles and are available at www.foresters.com

Canada

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Local Rate: 08457 990011
Fax: 020 8628 3500
Web: www.foresters.co.uk

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(With its subsidiary Foresters
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a fraternal benefit society.

The 2008 financial statements of
Foresters, which are summarized in
this report, can be obtained by
writing to:

Lynn Haight
Chief Financial Officer
& Chief Membership Officer
Foresters House
789 Don Mills Road
Toronto, Ontario, Canada
M3C 1T9
E-mail: lhaight@foresters.com

Auditors' Report on Summarized Financial Statements

The Board of Directors, The Independent Order of Foresters:

The accompanying summarized consolidated balance sheet and consolidated statement of income are derived from the complete consolidated financial statements of The Independent Order of Foresters ("Foresters") as at December 31, 2008 and for the year then ended on which we expressed an opinion without reservation in our report dated February 17, 2009. The fair summarization of the complete consolidated financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized consolidated financial statements.

In our opinion, the accompanying consolidated financial statements fairly summarize, in all material respects, the related complete consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on Foresters financial position, results of operations and cash flows, reference should be made to the related complete consolidated financial statements.



Chartered Accountants,
Licensed Public Accountants
Toronto, Canada
February 17, 2009

Appointed Actuary's Report

The Board of Directors, The Independent Order of Foresters:

I have valued the policy liabilities in the consolidated balance sheets of The Independent Order of Foresters as at December 31, 2008 and their change in the consolidated statements of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods and I expressed an opinion on these liabilities without reservation in my report dated February 17, 2009.

In my opinion, the amount of policy liabilities contained in the accompanying summarized financial statements is consistent with the related complete consolidated financial statements.

These summarized consolidated financial statements do not contain all the disclosures required by accepted actuarial practice. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on Foresters financial position, results of operations and cash flows, reference should be made to the related complete consolidated financial statements.



Sharon T. Giffen
Fellow, Canadian Institute of Actuaries
Toronto, Canada
February 17, 2009