

2005 Financial Highlights  
*and*  
Consolidated Financial  
Statements [Click Here](#)

The Independent Order  
of Foresters

Year ended  
December 31, 2005



# 2005: A year of progress and achievement

The positive impact of Foresters strong commitment to members, their families and their communities was amply illustrated in 2005.

During a year of progress and achievement, Foresters brought financial security in the form of life insurance and annuities, as well as valuable benefits, to our members in Canada, the United States and the United Kingdom, while achieving record community impact.

## Business Overview

Foresters overall financial performance in 2005 was strong:

- Net income of \$66 million increased by \$32 million over 2004. Approximately 50 percent of this increase arose from significant one-time items, including tax recoveries and non-recurring actuarial reserve adjustments. The balance of the increase is due to ongoing operational profits.
- Net investment income totaled \$378 million – level with 2004.
- At \$1.2 billion, our surplus, on a relative size basis, is well above reserves held by most financial services providers.
- Our solvency ratios remain extremely robust in our three member countries.

Sales revenues were \$336 million, \$53 million higher than in 2004. Much of the increase came from annuity sales in the United States, and a successful year in the United Kingdom in single premium Individual Savings Account sales. As well, Foresters paid out \$336 million in policy benefits to its members.

In comparison to 2004, Foresters operating expenses, including agent compensation, decreased by \$42 million.

Just under 50 percent of this decrease was achieved through tight expense controls, especially in our North American sales organization, the benefits of the outsourcing of our IT infrastructure to CGI and efficiencies in the operation of our service delivery area. At the same time, enhanced systems and procedures brought improved administrative service levels.

## Community Impact

Foresters impact on our members' communities grew significantly:

- Foresters direct community investment in 2005 was \$20 million.
- Our members and employees volunteered more than 4.5 million hours of their personal time with organizations, charities and local fundraising activities.
- Together our members and employees helped Foresters charitable and community partners raise more than \$71 million, a substantial increase over \$58 million in 2004.
- The total value of Foresters contributions to our members' communities (in the form of funds raised and volunteer hours at established values) was more than \$184 million in 2005, up substantially from \$153 million in 2004.

Foresters support of children's causes through national community partnerships included \$2.9 million contributed directly to Children's Miracle Network (North America), and more than \$325,000 to Barnardo's Children's Charities and the Association of Children's Hospices (United Kingdom).

Recent natural disasters around the world once again brought home our true value as a community-oriented organization. Foresters, our members

and employees provided major support for victims of the tsunami, hurricanes Katrina, Rita and Wilma and the earthquake in Pakistan.

Foresters support combined \$587,000 in financial aid, with well over 2,000 volunteer hours and administrative and insurance-related support for members affected by these natural disasters. Additionally, Foresters made a significant donation to UNICEF to support relief efforts for victims of the tsunami and the Pakistan earthquake.

## Looking Ahead

The future holds great promise for Foresters as we continue to build on our strengths as a financially robust and caring fraternal benefit organization.

A stronger focus on marketing and administrative capabilities, commenced in late 2005, will enhance the effectiveness of our sales force and broaden our distribution organization. This will improve our financial position, expand our network of members and increase our community impact. At the same time, tight expense controls will continue, with support provided only to expenses that truly add value to Foresters.

I thank and congratulate our members and employees whose outstanding efforts made 2005 both successful and rewarding. We are well positioned to build on Foresters strong heritage in the years ahead.

George Mohacci  
President and CEO

All amounts are shown in Canadian Dollars.

## Consolidated Balance Sheet (summarized)

December 31, 2005, with comparative figures for 2004 (in millions of Canadian dollars)

	2005	2004
<b>Assets</b>		
<b>Investments:</b>		
Cash and short-term securities	121	85
Bonds and other fixed-term securities	3,788	3,833
Mortgages	61	81
Common shares	1,056	1,055
Real estate	17	35
Loans to policyholders	196	205
Other invested assets	16	14
	<u>5,255</u>	<u>5,308</u>
Other assets	132	130
	<u>5,387</u>	<u>5,438</u>
<b>Liabilities and Surplus</b>		
Policy benefits under insurance, annuity and fraternal certificates	3,612	3,708
Other insurance certificates and contract liabilities	86	82
Other liabilities	63	82
Deferred net gains realized on disposal of investments	470	443
Surplus	1,156	1,123
	<u>5,387</u>	<u>5,438</u>

## Consolidated Statement of Income (summarized)

Year ended December 31, 2005, with comparative figures for 2004 (in millions of Canadian dollars)

	2005	2004
<b>Revenue:</b>		
Premiums	336	283
Net investment income	378	378
Other income	25	28
	<u>739</u>	<u>689</u>
<b>Policy benefits and expenses:</b>		
Policy benefits	336	335
Increase in policy benefit liabilities	73	4
Community Investment	20	18
Dividends	43	47
Agent compensation	51	54
Operating expenses	152	191
	<u>675</u>	<u>649</u>
Income before income taxes	64	40
Income taxes	(2)	6
<b>Net Income</b>	<u>66</u>	<u>34</u>

**BOARD OF DIRECTORS**

W. Ross Walker Chairman <i>Ontario, Canada</i>	George S. Mohacsi <i>Ontario, Canada</i>
Bernard E. Bloom International Fraternal President <i>Southampton, England</i>	Barbara J. McDougall <i>Ontario, Canada</i>
James R. Daugherty <i>Arizona, United States</i>	Christopher H. McElvaine <i>Ontario, Canada</i>
John P. Meyerholz <i>New Jersey, United States</i>	
William B. Foster <i>Florida, United States</i>	E. Irene Miles International Fraternal Vice President <i>Arizona, United States</i>
Richard M. Freeborough <i>Ontario, Canada</i>	David E. Morrison <i>Manitoba, Canada</i>
Patrick W. Kenny <i>Connecticut, United States</i>	Glenn K. Reid <i>British Columbia, Canada</i> <i>Appointed February 14, 2006</i>
Kash Manchuk <i>Ontario, Canada</i>	
Louise L. McCormick <i>Connecticut, United States</i>	

G. A. (Dean) Francey  
We are saddened by the loss of Board Member G. A. (Dean) Francey, who passed away on September 9, 2005 in Surrey, British Columbia, Canada. Dean was elected to the Board of Directors in 2001 and in 2005, and served on the Fraternal and Ethics & Governance Committees. Dean was a dedicated Foresters member. He chaired the Constitution & Laws Committee (2001) and the Constitution Committee (2005). In recognition of his exceptional service to Foresters, Dean received the Lifetime Achievement Award in 2005.

**MANAGEMENT COMMITTEE**

George Mohacsi <i>President &amp; CEO</i>	Suanne Nielsen <i>Senior Vice President Human Resources &amp; Communications</i>
Lynn Haight <i>Chief Operating Officer &amp; Chief Financial Officer</i>	Christopher Pinkerton <i>Senior Vice President Marketing</i>
Nicholas J. DiRenzo <i>Senior Vice President North American Sales</i>	Peter Robinson <i>Senior Vice President &amp; Group Managing Director, United Kingdom</i>
Sharon Giffen <i>Senior Vice President &amp; Chief Actuary</i> <i>Appointed March 1, 2006</i>	
Gail Johnson Morris <i>Senior Vice President, Service Delivery</i> <i>Appointed March 1, 2006</i>	

# Management's Discussion and Analysis

## Financial Review – Overview, Year ended December 31, 2005

### General

Net income for the year ended December 31, 2005 was \$66 million, \$32 million higher than in 2004. This increase reflects significant improvements in operating expenses, lower project costs and higher Canadian tax recoveries, including an interest refund of \$5 million.

Total life and annuity premiums, of \$336 million, exceeded 2004 levels by \$53 million, or 19 percent. This significant increase was attributable to three factors: strong annuity sales in the fourth quarter of 2005 in the United States, primarily due to the introduction of our new Equity Indexed Annuity product; the successful conversion of former segregated (Open Ended Investment Company – OEIC) business into proprietary Life Individual Savings Account (ISA's) products in the United Kingdom; and the U.K.'s successful year with single premium ISA sales over and above the OEIC conversions.

Investment yield was up modestly from 2004 levels, producing net investment income of \$378 million, in line with 2004 results.

Policy benefits, at \$336 million, were comparable with 2004 results, while policy dividends decreased by \$4 million, reflecting a decline in life certificates in force.

Actuarial reserves increased substantially over 2004 due to an increase in annuity sales in the United States and the success of Foresters U.K. operations in converting OEIC business into proprietary Life business.

Return on equity for the year ended December 31, 2005 was 6 percent (3 percent excluding one-time adjustments), as compared to 3 percent (2 percent excluding one-time adjustments) in 2004. Foresters continues to rely on the strong performance of its surplus investments to offset losses in insurance and fraternal operations and to produce a positive bottom line.

Foresters operating expenses, including agent compensation, decreased by \$42 million when compared to 2004. During 2005, rigorous cost containment initiatives in Canada, the U.S. and the U.K., combined with a new variable agent compensation arrangement for North American financial representatives, accounted for approximately 50 percent of this reduction. The balance of the reduction is attributable to 2004 costs related to restructuring and an accounting adjustment required to address changes in post retirement benefits.

Community Investment during 2005 totaled \$20 million, a \$2 million, or 14 percent, increase over 2004.

## Translation of Foreign Currency

Foresters conducts its business in three primary currencies: the Canadian dollar, the British pound and the U.S. dollar. In accordance with Canadian generally accepted accounting principles (GAAP), all assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period and all income statement items are translated at the average exchange rates for the reported period.

The impact of foreign currency exchange rate fluctuations on Foresters results is significant. The majority of Foresters business is in the U.S. and the continued rise in value of the Canadian dollar relative to the U.S. dollar (and, to a lesser extent, the British pound) reduces Foresters surplus and causes variances in some comparisons solely due to currency.

During 2005, Foresters surplus declined by \$33 million due to the strengthening of the Canadian dollar.

### Reconciliation of surplus (\$ millions)

Surplus, December 31, 2004	1,123
Net Income, December 31, 2005	66
Impact of change in foreign exchange rates	(33)
Surplus, December 31, 2005	1,156

## Agent productivity

Foresters U.K. operations have been successful in managing costs and productivity in recent years. In North America, low sales, combined with high acquisition and maintenance expense costs, continue to be a significant challenge. Agent productivity improved during the past year, but this productivity improvement was largely based on increased sales of investment products, rather than proprietary life sales, which provide higher margins. Despite promising improvements in 2005, Foresters agent productivity remains well below industry averages.

## In-force certificates

Foresters in-force life and annuity base has been declining over time. The most significant factor has been insufficient new sales. Foresters block of business is mature and has a relatively low average certificate size, while the average age of Foresters in-force membership is approximately 58. Mortality assumptions are proving accurate and persistency for business older than two years is in line with industry averages, with Canadian experience better than the industry average, and U.S. experience slightly worse. Persistency for business within the first two years is worse than industry averages. Once again, Canadian experience is better than the industry

average, while the U.S. is worse. Based on the latest information published by the FSA (for 2004), overall the U.K.'s 24-month persistency is better than the industry average for sales through company representatives.

The average face value of new North American life insurance certificates sold in 2005 was \$171,000, contributing to the continued increase in Foresters worldwide insurance in force. Foresters in-force insurance in the fourth quarter of 2005 was just under \$21.2 billion. This is the 14th consecutive quarter of growth for worldwide total insurance in force. The U.K. operations contribute to this net increase partly due to the inclusion of new products sold through Forester Life.

## Solvency

Foresters maintains a strong surplus position, well in excess of regulatory requirements. Regulatory solvency ratios continue to be strong with the Canadian Minimum Continuing Capital and Surplus Requirements (MCCSR) at December 31, 2005 of 408 percent, compared to 396 percent at December 31, 2004. The average MCCSR for Canadian life insurers for 2004 was 218 percent. Risk Based Capital (RBC) for the U.S. and the Free Asset Ratio for the U.K. are also in line with prior years and remain strong.

	December 2005	December 2004
Canada – MCCSR	408%	396%
United States – RBC Branch	505%	542%
United States – RBC Trusteed	270%	253%
United Kingdom - Free Asset Ratio	19%	17%

## Performance by Business Segment

During 2005, profitability improved significantly for three of Foresters four business segments, showing accumulative improvement of \$51 million. Profitability in the United States has declined since 2004 by \$19 million due to a one-time actuarial reserve release in 2004 resulting from refinement of actuarial methods and models. As the U.S. is Foresters largest business segment, management is focused on reducing costs and increasing revenues in this most important line of business.

(\$ millions)	2005	2004
<b>Net Income by Segment</b>		
United States	(30)	(11)
Canada	19	(12)
United Kingdom	16	(2)
World Surplus	61	59
Total	66	34

All amounts are shown in Canadian Dollars.

# Foresters rated A (Excellent) by the A.M. Best Company

Foresters financial strength, as measured by A.M. Best Company, is rated "A" (Excellent). 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 our rating, A.M. Best stated that Foresters rating outlook is "stable," which means it is unlikely to change in the near future, assuming our financial strength is maintained and our operations grow. A.M. Best assigns ratings from A++ to F, A++ being superior ratings and A and A- being excellent ratings.

## United States

Foresters U.S. operations represent Foresters largest business segment, accounting for 60 percent of total worldwide premiums written and more than 84 percent of North American premiums.

### Major Proprietary Products

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

## Canada

Foresters Canadian operations accounted for 11 percent of total premiums in 2005 and represent Foresters smallest business segment.

### Major Proprietary Products

Protection	Investment	Member Benefits
<ul style="list-style-type: none"> <li>• Whole Life</li> <li>• Universal Life</li> <li>• Term Life</li> </ul>	<ul style="list-style-type: none"> <li>• Guaranteed Investment Certificates</li> <li>• Immediate Annuity</li> <li>• Segregated Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Critical Illness Benefits</li> <li>• Competitive and Orphan Scholarships</li> <li>• Orphan Benefit</li> <li>• Terminal Illness Benefit</li> </ul>

## United Kingdom

Foresters U.K. operations contributed 29 percent of total premiums written in 2005.

### Major Proprietary Products

Protection	Investment (savings)	Member Benefits
Lifestyle Protection Plan (Life cover, Critical Illness and Income Protection)	<ul style="list-style-type: none"> <li>• Individual Savings Accounts</li> <li>• Child Trust Fund</li> <li>• Savings and Investment Plan</li> <li>• Personal Pensions</li> </ul>	<ul style="list-style-type: none"> <li>• Critical Illness Benefits</li> <li>• University Scholarships</li> <li>• Orphan Benefit and Scholarships</li> <li>• Terminal Illness Benefit</li> </ul>

## World Surplus

Foresters World Surplus account represents the excess surplus over a 250 percent MCCR level and is supported by \$702 million of the total \$5.3 billion total Foresters invested assets. The threshold of 250 percent MCCR is not a regulatory requirement but a management allocation of surplus amounts above a level that allows each product and country segment sufficient assets to manage its operations. The total \$1.2 billion of reported surplus includes surplus attributed to product, country and World Surplus segments.

## Future Outlook

In October 2005, Foresters established a relationship with National Agents Alliance (NAA), an Independent Marketing Organization with a large distribution capability. Management believes that the relationship with NAA will enable Foresters to utilize capital in a more efficient manner to grow the insurance business. Additionally, the new business strain created by sales through NAA will have minimal impact on Foresters MCCR.

Initiatives are currently underway to improve and refine Foresters products, marketing and field distribution structure, increase membership levels, and develop additional sources of revenue. The year ahead will bring significant changes, building upon the advances made in Foresters worldwide operations in 2005.

## Auditors' Report

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, 2005 and for the year then ended on which we expressed an opinion without reservation in our report dated February 13, 2006. 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  
Toronto, Canada  
February 13, 2006

## Appointed Actuary's Report

The Board of Directors,  
The Independent Order of Foresters:

I have valued the policy liabilities of The Independent Order of Foresters ("Foresters") for its complete consolidated balance sheet as at December 31, 2005 and their change in its consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods and expressed an opinion on these liabilities without reservation in my report dated February 13, 2006.

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.



Paul M. Winokur  
Fellow, Canadian Institute of Actuaries  
Toronto, Canada  
February 13, 2006  
*Senior Vice President & Chief Actuary  
during 2005 and until February 28, 2006*



### Canada

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### Principal Subsidiaries

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Fax: 416 467 2484  
Toll Free: 1 800 461 6729

#### United Kingdom

Forester Health Ltd.  
Forester Investments Ltd.  
Forester Life Ltd.  
Web: [www.foresters.co.uk](http://www.foresters.co.uk)

Foresters™ is a trademark of The Independent Order of Foresters, a fraternal benefit society.

The 2005 financial statements of Foresters, which are summarized in this report, can be obtained by writing to:

Lynn Haight  
Chief Operating Officer  
and Chief Financial Officer  
Foresters  
Foresters House  
789 Don Mills Road  
Toronto, Ontario  
M3C 1T9

The full 2005 Audited Financial Statements will be available on Foresters web site at [www.foresters.biz](http://www.foresters.biz)