



Investing for members *and their communities*

While 2003 was a challenging year for the financial services industry, I am proud to say that Foresters™ remains financially strong and stable. Despite continuing global and economic uncertainties affecting the marketplace, we achieved healthy results overall, including a net income of \$20.7 million. Fiscal responsibility and governance were top-of-mind, in-force business grew and our \$897 million surplus continues to protect Foresters future for our members.

We remain committed to Foresters Brand Promise: investing in the enrichment of our members' lives by providing them with financial products and services tailored to meet their unique needs, sharing our financial strength with their communities and inspiring others through our active involvement in children's causes.

In 2003, we maximized the value of Foresters Brand Promise in part through strong business focus and operational discipline. We reduced costs in many areas, combined our U.S. and Canadian sales teams to better focus on core markets, merged our U.S. and Canadian marketing groups and restructured our health business in the United Kingdom.

We also introduced a new model for the funding we provide to our branch system. With full implementation in 2005, the new model is based on the positive impact our branches bring to their communities, measured through volunteer hours and funds raised.

Our almost one million members and 2,000 employees across North America and the United Kingdom bring Foresters Brand Promise to life at the local and national levels. In 2003, they volunteered a remarkable 1.8 million hours of their personal time with organizations, charities and local fundraising activities. This is up from 1.5 million hours in 2002. They also helped Foresters charitable and community partners raise \$34 million, an increase of 16 percent over 2002.

The total value of Foresters contribution to our members' communities in 2003 (in the form of funds raised and volunteer hours at established values) was \$66 million. This is a tremendous return on our investment in sponsorships, funding of the branch system and administrative costs.

Some of our largest investments of funds and resources support our national partnerships, including

Children's Miracle Network in North America and Barnardo's Children's Charity and the Association of Children's Hospices in the United Kingdom.

In 2003, we strengthened our legacy of preventing and treating child abuse with donations from Foresters Prevention of Child Abuse Funds. We donated \$1 million (U.S.) to Prevent Child Abuse America and \$462,000 (Cdn) to 10 children's hospitals affiliated with Children's Miracle Network in Canada.

We're proud of our generous support of children's causes and the unique value we bring to the community. I know of no other organization that has such an impact.

My thanks to Foresters members and employees for a year of discipline, focus and unflagging enthusiasm that produced admirable achievement and inspiration.

Michael J. White
President and CEO

2003 Financial Highlights

BOARD OF DIRECTORS

J. Christopher Wansbrough
(Chair)

Ontario, Canada

Bernard E. Bloom

Southampton, United
Kingdom

Patrick L. Culver

Illinois, United States

G.A. (Dean) Francey

British Columbia, Canada

Patrick W. Kenny

Connecticut, United States

Hugh F. Lindsay

British Columbia, Canada

Barbara J. McDougall

Ontario, Canada

Alexander Mikalachki

Ontario, Canada

E. Irene Miles

California, United States

Debra A. Roessler

Pennsylvania, United States

Barbara A. Spencer

Alberta, Canada

Clifford V. Thorne

Washington, DC,

United States

W. Ross Walker

Ontario, Canada

Michael J. White

Ontario, Canada

INTERNATIONAL

FRATERNAL PRESIDENT

William B. Foster

Florida, United States

SENIOR

MANAGEMENT TEAM

Michael J. White

President and

Chief Executive Officer

Nicholas J. DiRenzo

Senior Vice President

North American Marketing
and Service

George M. Habib

Senior Vice President

Fraternal

Lynn Haight

Senior Vice President and

Chief Financial Officer

Glenn Hymers

Senior Vice President

North American Sales

George Mohacs

Senior Vice President

Operations and

Information Technology

Suanne Nielsen

Senior Vice President

Human Resources and

Communications

Peter Robinson

Senior Vice President and

Group Managing Director,

United Kingdom

Paul M. Winokur

Senior Vice President and

Chief Actuary

Foresters business

Foresters net income of \$20.7 million benefited from improved equity markets, improved business retention, cost reduction initiatives and a tax recovery from the Canada Revenue Agency.

Given that a substantial proportion of our business is carried out in the United States, the weakening U.S. dollar relative to the Canadian dollar had a significant impact in 2003 on our total assets, surplus and operational results. Foresters balance sheet felt the effect of an 18 percent decline in the value of the U.S. dollar in relation to the Canadian dollar from December 31, 2002 to December 31, 2003. Our total assets declined in U.S. dollar terms from \$5.1 billion to \$4.3 billion, year over year. The impact on various U.S. revenues and expenses was lower, but still significant, with the average exchange rate for the year falling by about 11 percent.

Premiums declined 7 percent in comparison to 2002. Eliminating the impact of currency fluctuations, premiums increased by just over 1 percent. Certain products achieved very satisfactory results, such as the U.K. segregated investment sales business and third-party mutual fund sales. However, this was offset by low interest rates, the withdrawal of certain annuity and third-party products from Foresters product portfolio in North America, and a less-than-full complement of Foresters representatives.

Net investment income decreased marginally by \$4.9 million over 2002. This decrease was attributable to foreign exchange as our surplus investments are held in U.S. dollars. Foresters benefited greatly from the improved equity markets and exceeded our industry benchmarks. Excluding the impact of currency fluctuations, net investment income increased by over 8 percent.

Foresters incurred over \$249 million in policy benefits in 2003. Excluding the impact of foreign currency fluctuations, policy benefits declined by \$12.3 million, primarily due to a reduction in life and annuity surrenders. This resulted from Foresters competitive interest rates and our proactive business program for retaining members.

Foresters operations in Canada, the United States and the United Kingdom were successful in implementing substantial and constructive cost containment initiatives during 2003.

Foresters community investment totaled \$14.7 million, an increase of 33 percent over 2002, in support of our members and their communities.

Capital structure

Foresters ability to fulfill our financial commitments to members continues to be excellent. Even with the impact of currency fluctuations, which reduced our surplus in 2003 by over \$154 million, Foresters still maintains a strong capital position. We have a surplus of \$897 million and strong solvency ratios in all three countries to protect our members and their investments, and to allow Foresters to remain healthy in the current uncertain economic environment.

Supporting our strong solvency ratios is an investment portfolio consisting primarily of high quality bonds and long-term equity holdings. Bonds represent 70 percent of total assets and are closely matched to the duration and profile of the policy liabilities they support. Equity investments represent 19 percent of total assets.

Our strong capital position is further demonstrated by our A (Excellent)* rating, which was reaffirmed for 2003 by the A.M. Best Company.

* 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 financial strength, operating performance and market profile when compared to the standards established by the A.M. Best Company. A.M. Best assigns ratings from A++ to F, A++ and A+ being superior ratings and A and A- being excellent ratings.

2003 Annual Report

Consolidated Balance Sheet (summarized)

December 31, 2003, with comparative figures for 2002 (in thousands of US dollars)

	2003 US Dollars	2002 US Dollars
Assets		
Investments:		
Cash and short-term securities _____	70,258	72,118
Bonds and other fixed-term securities _____	3,045,930	3,429,238
Mortgages _____	95,814	142,909
Common shares _____	838,592	1,127,293
Real estate _____	26,338	28,681
Loans to policyholders _____	171,349	205,964
Other invested assets _____	5,225	8,442
	<u>4,253,506</u>	<u>5,014,645</u>
Other assets _____	102,545	101,401
	<u>4,356,051</u>	<u>5,116,046</u>
Liabilities and Surplus		
Policy liabilities:		
Policy benefits under insurance and fraternal certificates _____	2,392,554	2,822,000
Policy benefits under annuity contracts _____	622,277	682,384
	<u>3,014,831</u>	<u>3,504,384</u>
Other insurance certificates and contract liabilities _____	67,479	81,567
Other liabilities _____	52,500	53,607
Deferred net gains realized on disposal of investments _____	323,746	425,140
Surplus _____	897,495	1,051,348
	<u>4,356,051</u>	<u>5,116,046</u>

Consolidated Statement of Income (summarized)

December 31, 2003, with comparative figures for 2002 (in thousands of US dollars)

	2003 US Dollars	2002 US Dollars
Revenue:		
Premiums _____	240,011	258,144
Net investment income _____	280,454	285,334
Other income _____	22,188	27,891
	<u>542,653</u>	<u>571,369</u>
Policy benefits and expenses:		
Policy benefits _____	249,202	283,922
Increase in policy liabilities _____	26,110	33,600
Membership fee removal _____	-	29,355
Strategy implementation costs _____	5,638	18,281
Community Investment _____	14,726	11,043
Dividends to members _____	39,313	42,950
Operating expenses and agent compensation _____	191,267	184,747
	<u>526,256</u>	<u>603,898</u>
Totals:		
Income (loss) before income taxes _____	16,397	(32,529)
Income taxes (recovery) _____	(4,339)	5,648
Net Income (loss) _____	<u>20,736</u>	<u>(38,177)</u>

Note: The complete consolidated financial statements of Foresters are prepared and presented in Canadian dollars. The consolidated balance sheet (summarized) and the consolidated statement of income (summarized) have been converted into U.S. dollars for the convenience of the reader using the December 31, 2003 exchange rate of Canadian \$ 1.2965.



Canada

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Principal Subsidiaries

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United Kingdom

Forester Financial Services Ltd.
Forester Health Ltd.
Forester Investments Ltd.
Forester Life Ltd.
Web: www.foresters.co.uk

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

The 2003 financial statements of Foresters, which are summarized in this report, can be obtained by writing to:

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

Auditors' Report

*The Board of Directors,
The Independent Order of Foresters:*

The accompanying consolidated balance sheet (summarized) and consolidated statement of income (summarized) are derived from the complete consolidated financial statements of The Independent Order of Foresters (Foresters) as at December 31, 2003 and for the year then ended on which we expressed an opinion without reservation in our report dated February 16, 2004. 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.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 16, 2004

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, 2003 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 16, 2004.

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 16, 2004