

The State of Royal Neighbors of America

The Financial State of Royal Neighbors of America as of December 31, 2009

Audit Committee Report to Members, May 2010

The Royal Neighbors of America Audit Committee operates under a written charter adopted by the Board of Directors, and is responsible for overseeing the Society's financial reporting process on behalf of the Board of Directors and Society members. This responsibility is accomplished by following a detailed work plan of activities. Management is responsible for Royal Neighbors' financial statements and the financial reporting process, including internal controls. The Society's independent auditors are responsible for performing an independent audit of Royal Neighbors' financial statements in accordance with applicable regulatory accounting principles.

The Audit Committee's responsibility is to monitor and oversee these processes. In this context, the Audit Committee is authorized, among other things, to approve and retain the independent auditors to conduct the annual audit of the Society's financial books and records, review the proposed scope and results of the audit, review and pre-approve the independent auditor's audit and non-audit services rendered, approve the audit fees to be paid, review and approve related party transactions, recognize and prevent prohibited non-audit services by Royal Neighbors' independent auditors, review the annual operating budget proposed by management, and establish procedures for complaints received by the Society regarding accounting matters.

The Audit Committee was formed in September 2004 and meets at least quarterly through the year. The Committee meets with representatives of management and the independent public accountants to review matters of a material nature related to auditing, financial reporting, internal controls, and audit results. For 2009, the Audit Committee retained the firm of Kerber, Eck & Braeckel, and LLP (KEB) as Royal Neighbors' independent auditors.

The Audit Committee is comprised of four independent board members. They are: Chairperson V. Sue Molina, Patricia Gibford, Sister Francis Clare Radke, and Dr. Benét Spence.

The Audit Committee is comprised of four independent board members:

Chairperson –

V. Sue Molina

Patricia Gibford

Sister Francis Clare Radke

Dr. Benét Spence



INSURING LIVES • SUPPORTING WOMEN • SERVING COMMUNITIES™

www.royalneighbors.org

Royal Neighbors Financial Statement Summary

(dollars in thousands)

Balance Sheet

	2009	2008
Investments including bonds, common stocks, and mortgage loans	\$ 666,040	623,329
Real estate	6,177	6,475
Contract loans	13,874	14,225
Cash and short-term investments	12,570	9,932
Other assets	20,504	17,640
Total admitted assets	\$ 719,165	671,601
Insurance reserves and claims	\$ 479,519	435,798
Other liabilities	18,100	22,300
Total reserves and liabilities	\$ 497,619	458,098
Certificateholders' surplus:		
Fraternal fund	\$ 89,911	88,523
Unassigned surplus	131,635	124,980
Total certificateholders' surplus	221,546	213,503
Total insurance reserves, liabilities, and surplus	\$ 719,165	671,601

Income Statement

Premium income, net of reinsurance	\$ 82,031	57,214
Investment income	36,398	36,727
Reinsurance allowances and miscellaneous income	22,473	26,310
Total income	140,902	120,251
Benefits paid or provided	78,167	58,994
Commissions	32,453	25,431
General and administrative expenses	27,917	23,983
Net income (loss) before net realized capital gains (losses)	2,365	11,843
Net realized capital gains (losses)	(2,266)	(1,429)
Net income	\$ 99	10,414

Philanthropic Expenses

In 2009 we paid 70 scholarships (including renewals) totaling	\$175,568
Fraternal Support	\$1,054,064
Nation of Neighbors SM Program	\$247,000

Royal Neighbors Foundation

Contributions from Royal Neighbors	\$25,000
Contributions from other sources	\$25,303
Benefits paid out (Heroes at Home, Disaster Relief, State Scholarships, etc.)	\$92,109



INSURING LIVES • SUPPORTING WOMEN • SERVING COMMUNITIESSM

www.royalneighbors.org

The State of Royal Neighbors of America

Management's Report to the Membership

	December 31	
	2009	2008
	(dollars in thousands)	
Insurance in force face amount	2.8 billion	2.2 billion
Admitted assets	\$719,165	\$671,601
Certificateholders' surplus	221,546	213,503
Premium income, net of reinsurance	82,031	57,214
Net income	99	10,414

In its 114th year, Royal Neighbors is pleased to report another successful financial year. Our financial position is strong with assets of \$719.2 million and surplus of \$221.5 million, resulting in a surplus ratio of 30.8%, which is significantly above the industry benchmark of 8.0%.

Premium income, before reinsurance, increased \$19.5 million to \$150.3 million. New sales in 2009 resulted in \$44.7 million of annuity premium and \$16.9 million of annualized life premium. This growth was accomplished while management continued its efforts to monitor and control operating expenses.

The 2009 financial year was indeed a successful one and we are more excited than ever about the future of Royal Neighbors. The Royal Neighbors leadership team remains com-

mitted to a responsible growth strategy that benefits all members and to continuously executing against our long-standing commitment of neighbors helping neighbors.

Product options available

- Whole Life
- Level Premium Term Life
- Universal Life
- Single Premium Immediate Annuity
- Flexible Premium Deferred Annuity
- Traditional Individual Retirement Annuity
- Roth Individual Retirement Annuity
- Simplified Issue Whole Life
- Graded Death Benefit Whole Life
- Single Premium Deferred Annuity (1, 5, and 6-year interest guarantee)
- Medicare Supplement

These products are not available in all states.

Please call: (866) 845-6665 for more information, or visit us at www.royalneighbors.org.



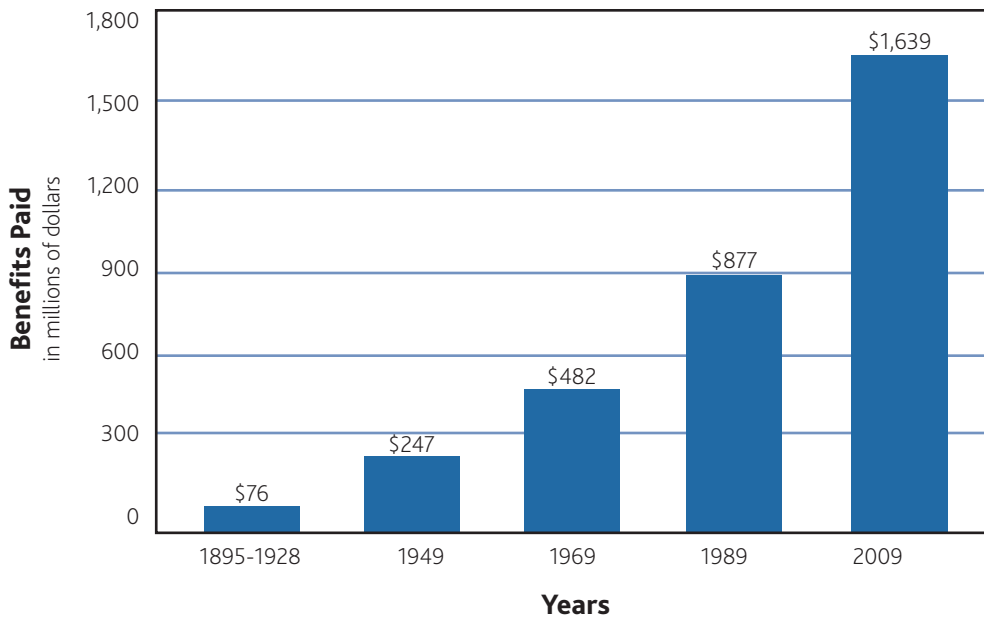
INSURING LIVES • SUPPORTING WOMEN • SERVING COMMUNITIES™

www.royalneighbors.org

Since 1895, Royal Neighbors of America has been paying and/or providing insurance benefits to members and their beneficiaries.

This chart illustrates the cumulative amounts that have been paid or provided at selected intervals during that time. There are many ways in which our members receive these benefits, including death benefits, interest earned, and refunds. We are very proud to report that over the last 115 years benefits paid to members have grown from \$76 million in the first 34 years to more than \$1.6 billion. In the last 20 years alone, the benefits to our members have almost doubled. We believe this record of performance demonstrates the enduring financial strength of the Society as well as our commitment to honor the promises made in the insurance contracts held by our members.

Royal Neighbors of America Insurance Benefits Paid or Provided to Society Members since 1895



Royal Neighbors is rated
A- (Excellent) by the
A.M. Best Company
for overall financial strength and
ability to meet ongoing
obligations to certificateholders.
(4th highest out of 15)
as of Dec. 31, 2009



INSURING LIVES • SUPPORTING WOMEN • SERVING COMMUNITIES™

www.royalneighbors.org