Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2017

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MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements have been prepared by management, who are responsible for their integrity, objectivity and reliability. International Financial Reporting Standards ("IFRS") including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") have been applied and management has exercised its judgement and made best estimates where deemed appropriate. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of The Independent Order of Foresters ("Foresters Financial") within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Foresters Financial. Management maintains an extensive system of internal accounting controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored by an internal audit department.

The Board of Directors, acting through the Audit and Compliance Committee, which comprises directors who are not officers or employees of Foresters Financial, oversees management responsibility for the financial reporting and internal control system.

The Appointed Actuary is appointed by the Board of Directors to carry out an annual valuation of liabilities for future benefits. In performing this valuation, the Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of insurance contract liabilities are in accordance with accepted actuarial practice and requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of insurance and investment contract liabilities at the balance sheet date to meet all certificateholders' obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the amount of insurance and investment contract liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of Foresters Financial and prepare a report for the Board of Directors. The analysis tests Foresters Financial's capital adequacy under several adverse but plausible conditions using the relevant Standards of Practice of the Canadian Institute of Actuaries. In carrying out his work the Appointed Actuary makes use of the work of the internal audit department and KPMG LLP Chartered Professional Accountants ("Auditors"). The Appointed Actuary's Report outlines the scope of the valuation and the Actuary's opinion.

Foresters Financial engages external Auditors to express an opinion on the financial statements. The responsibility of these Auditors is to carry out an independent and objective audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report regarding the fairness of presentation of Foresters Financial's consolidated financial statements in accordance with IFRS, including the accounting requirements of OSFI. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and his report on the insurance and investment contract liabilities. The Auditors' report outlines the scope of their audit and their opinion.

Michael Stramaglia
Co-Interim Chief Executive Officer

Paul Reaburn, F.C.I.A., F.S.A., M.A.A.A.
Executive Vice President and
Chief Financial Officer

Toronto, Canada
February 13, 2018

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of The Independent Order of Foresters, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of comprehensive income, changes in surplus and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Independent Order of Foresters as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 13, 2018
Toronto, Canada

APPOINTED ACTUARY'S REPORT

To the Board of Directors of The Independent Order of Foresters

I have valued the policy liabilities and reinsurance recoverables of The Independent Order of Foresters for its consolidated statement of financial position as at December 31, 2017 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

Trudy Engel
Fellow, Canadian Institute of Actuaries
Toronto, Canada

February 13, 2018

THE INDEPENDENT ORDER OF FORESTERS
Consolidated Statement of Comprehensive Income
For the year ended December 31
(in thousands of Canadian dollars)

	Note	2017	2016
REVENUE			
Gross premiums	15	$ 1,149,801	$ 1,086,457
Ceded premiums	15	(94,640)	(87,791)
Net Premiums		1,055,161	998,666
Net Investment Income			
Interest and dividends (net)	4	273,752	283,987
Net realized gains	4	146,592	76,770
Net change in unrealized gains on fair value through profit and loss investments	4	124,682	100,566
Net foreign currency (losses) gains on available-for-sale assets	4	(3,369)	5,523
Total Investment Income		541,657	466,846
Fee revenue	16	375,495	352,554
Other operating income	16	12,327	11,302
TOTAL REVENUE		**1,984,640**	**1,829,368**
BENEFITS & EXPENSES			
Gross benefits	17	760,955	716,808
Ceded benefits	17	(60,153)	(46,150)
Gross change in insurance contract liabilities	12	379,740	356,501
Ceded change in insurance contract liabilities	12	(40,116)	(18,878)
Policy dividends		47,349	46,721
Commissions		371,060	342,096
Operating expenses	18	442,769	482,407
Ceded commissions and operating expenses	18	(21,265)	(17,653)
Fraternal investment		19,961	18,753
TOTAL BENEFITS & EXPENSES		**1,900,300**	**1,880,605**
Income (Loss) before income taxes		84,340	(51,237)
Income Taxes			
Current	19	32,539	27,790
Deferred	19	13,724	(3,695)
Total Income Taxes		46,263	24,095
NET INCOME (LOSS)		**38,077**	**(75,332)**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to net income			
Remeasurement losses on employee benefit plans, net of income tax recovery (expense) of $63 (($51) in 2016)	8	(16,575)	(10,053)
Net unrealized gains on property	7	1,669	687
Total items that will not be reclassified to net income		**(14,906)**	**(9,366)**
Items that are or may be reclassified subsequently to net income			
Net unrealized gains (losses) on available-for-sale assets, net of income tax recovery of $870 (2016: $149)		(12,970)	4,156
Reclassification of net realized losses on available-for -sale assets, net of income tax (expense) recovery of ($332) (2016: $706), to net income		(1,563)	(6,986)
Net unrealized foreign currency translation losses		(96,828)	(84,451)
Total items that are or may be reclassified subsequently to net income		**(111,361)**	**(87,281)**
TOTAL OTHER COMPREHENSIVE LOSS		**(126,267)**	**(96,647)**
TOTAL COMPREHENSIVE LOSS		**$ (88,190)**	**$ (171,979)**

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statement of Financial Position
As at December 31
(in thousands of Canadian dollars)

	Note	2017	2016
ASSETS			
Invested Assets			
Cash, cash equivalents and short-term securities	4	$ 296,724	$ 359,702
Bonds	4	7,208,479	7,114,582
Equities	4	772,235	788,873
Derivative financial instruments	4	16,100	1,986
Other invested assets	4	161,173	155,295
Loans to certificate holders	4	359,254	368,721
Total Invested Assets		8,813,965	8,789,159
Reinsurance assets	12	348,658	315,808
Accrued investment income		69,627	70,392
Deferred acquisition costs on investment contracts	6	72,533	61,565
Prepaid commissions		80,975	68,177
Deferred tax assets	19	43,439	39,767
Other assets	6	109,404	91,855
Property and equipment	7	64,446	63,041
Employee benefit assets	8	3,020	3,170
Goodwill and intangible assets	9	244,628	268,436
		9,850,695	9,771,370
Net investments for accounts of segregated fund unit holders	5	7,832,864	3,673,561
TOTAL ASSETS		**$ 17,683,559**	**$ 13,444,931**
LIABILITIES			
Insurance contract liabilities	12	$ 7,128,783	$ 6,994,702
Investment contract liabilities	13	162,189	161,805
Derivative financial instruments	4	5,296	16,789
Benefits payable and provision for unreported claims		175,776	156,656
Other liabilities	11	263,498	253,211
Employee benefit obligations	8	84,575	69,439
		7,820,117	7,652,602
Investment contract liabilities for accounts of segregated fund unit holders	5	7,832,864	3,673,561
TOTAL LIABILITIES		15,652,981	11,326,163
SURPLUS			
Retained earnings		1,773,598	1,735,521
Accumulated other comprehensive income		256,980	383,247
		2,030,578	2,118,768
TOTAL LIABILITIES AND SURPLUS		**$ 17,683,559**	**$ 13,444,931**

Contractual obligations and commitments (note 22)
Contingent liabilities (note 23)

(See accompanying notes)

On behalf of the Board:

Director

Director

THE INDEPENDENT ORDER OF FORESTERS
Consolidated Statement of Changes in Surplus
For the year ended December 31
(in thousands of Canadian dollars)

		Accumulated Other Comprehensive Income				
		Non-permanent		Permanent		
	Retained earnings	Unrealized gains (losses) on available-for-sale assets	Cumulative translation account	Net unrealized gains (losses) on property	Remeasurement gains (losses) on employee benefit plans	Total
Balance as at December 31, 2016	**$ 1,735,521**	**$ 51,798**	**$ 342,879**	**$ 13,432**	**$ (24,862)**	**$ 383,247**
Net income	38,077	-	-	-	-	-
Other comprehensive income (loss):						
Pre-tax balance	-	(13,840)	(96,828)	1,669	(16,638)	(125,637)
Reclassification of net realized losses on available-for-sale assets	-	(1,231)	-	-	-	(1,231)
Income tax recovery (expense)	-	538	-	-	63	601
Total other comprehensive income (loss)	-	(14,533)	(96,828)	1,669	(16,575)	(126,267)
Total comprehensive income (loss) for the period	38,077	(14,533)	(96,828)	1,669	(16,575)	(126,267)
Balance as at December 31, 2017	**$ 1,773,598**	**$ 37,265**	**$ 246,051**	**$ 15,101**	**$ (41,437)**	**$ 256,980**
Balance as at December 31, 2015	**$ 1,810,853**	**$ 54,628**	**$ 427,330**	**$ 12,745**	**$ (14,809)**	**$ 479,894**
Net loss	(75,332)	-	-	-	-	-
Other comprehensive income (loss):						
Pre-tax balance	-	8,082	(84,451)	687	(10,002)	(85,684)
Reclassification of net realized losses on available-for-sale assets	-	(11,767)	-	-	-	(11,767)
Income tax recovery (expense)	-	855	-	-	(51)	804
Total other comprehensive income (loss)	-	(2,830)	(84,451)	687	(10,053)	(96,647)
Total comprehensive income (loss) for the period	(75,332)	(2,830)	(84,451)	687	(10,053)	(96,647)
Balance as at December 31, 2016	**$ 1,735,521**	**$ 51,798**	**$ 342,879**	**$ 13,432**	**$ (24,862)**	**$ 383,247**

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS
Consolidated Statement of Cash Flows
For the years ended December 31
(in thousands of Canadian dollars)

	2017	2016
Cash flow from operating activities		
Net income per statements of comprehensive income	$ 38,077	$ (75,332)
Items disclosed separately:		
Interest paid on benefits	5,175	5,163
Income tax paid (received)	22,404	22,237
Income tax refunds received including interest	2,658	(3,994)
Interest received	(244,798)	(246,006)
Adjusted net income	**(176,484)**	**(297,932)**
Items not affecting cash:		
Depreciation and amortization	24,872	32,779
Net increase (decrease) in insurance contract liabilities	379,740	356,501
Net decrease (increase) in reinsurance assets	(40,116)	(18,878)
Net realized and unrealized gains (losses) on invested assets	(268,586)	(175,571)
Net foreign currency gains on available-for-sale assets	3,369	(5,523)
Net foreign currency losses (gains) on other assets and other liabilities	322	(4,725)
Employee benefit provision	10,455	9,915
Amortization of premium and discount on bonds	15,698	15,302
Deferred income tax expense	13,724	(3,695)
Impairment losses (gains) on property and equipment	-	-
Net change in other assets and other liabilities	(32,783)	3,969
Other items resulting from operations:		
Interest paid on benefits	(5,175)	(5,163)
Income tax paid	(22,404)	(22,237)
Income tax refunds received including interest	(2,658)	3,994
Interest received	244,798	246,006
Increase (decrease) due to operating activities	**144,772**	**134,742**
Cash flow from investing activities		
Investments sold or matured:		
Bonds	2,314,588	2,245,261
Equities	403,155	806,671
Mortgages	199	190
Investments acquired:		
Bonds	(2,543,321)	(2,421,243)
Equities	(324,270)	(747,125)
Other items, net	(41,325)	(15,451)
Acquisitions, net	-	(17,669)
Increase (decrease) due to investing activities	**(190,974)**	**(149,366)**
Foreign exchange gains (losses) on cash held in foreign currencies	(16,776)	(19,539)
Net increase (decrease) in cash and cash equivalents for the year	**(62,978)**	**(34,163)**
Cash and cash equivalents, beginning of year	**359,702**	**393,865**
Cash and cash equivalents, end of year	**296,724**	**$ 359,702**

(See accompanying notes)

DESCRIPTION OF BUSINESS

The Independent Order of Foresters ("Foresters Financial") is a Fraternal Benefit Society, which provides fraternal benefits to its members as well as individual life insurance, savings and retirement products, through its branch and subsidiary operations in the United States (“U.S.”), Canada and the United Kingdom (“U.K.”). Foresters Financial operates investment management businesses in all three countries and a mutual fund business in the U.S and Canada.

Foresters Financial commenced business in Canada in 1881. It is incorporated under the Insurance Companies Act – Canada (“the Act”), and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). In addition, Foresters Financial foreign branch and subsidiary operations are regulated by statutory authorities in the U.S. and the U.K. Foresters Financial’s registered office is located at 789 Don Mills Road, Toronto, Ontario M3C 1T9, Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to comparative periods presented in these statements unless otherwise indicated.

1.1 Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements also comply with the accounting requirements of OSFI.

These consolidated financial statements were authorized for issue by the Board of Directors on February 13, 2018.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial assets at fair value through profit and loss (“FVTPL”), available-for-sale (“AFS”) financial assets and derivative financial instruments are measured at fair value;
- Employee benefit assets and obligations represent the funded status of these plans which is calculated as the difference between plan assets at fair value and the present value of defined benefit obligations;
- Reinsurance assets and insurance contract liabilities are calculated using the Canadian Asset Liability Method (“CALM”);
- Land and buildings are measured at fair value.

1. Significant accounting policies (continued)

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition applies to all assets and liabilities measured at fair value except for impairment provisions using value in use to determine the recoverable amount of the asset.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Foresters Financial's functional currency.

d) Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and underlying assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. The areas where the use of estimates and assumptions have the most significant effect are: the measurement and classification of insurance and investment contract liabilities, the calculation of fair value of financial instruments, impairment testing of goodwill, amortization of deferred acquisition costs, determination of employee benefit assets and liabilities, income taxes, provisions for unreported claims, impairment provisions and the determination of contingencies. The use of estimates and assumptions is discussed in more detail in the relevant notes to these consolidated financial statements.

1.2 Basis of consolidation

The consolidated financial statements include the results of operations and the financial position of all entities controlled by either Foresters Financial or its subsidiaries. Control exists when Foresters Financial or one of its subsidiaries has power to direct the activities that significantly affect returns, exposure or rights to variable returns based on the subsidiary's performance and the ability to use its power to affect returns. Subsidiaries are fully consolidated from the date on which control is transferred to Foresters Financial until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align with the policies of the group. Intra group transactions are eliminated on consolidation. Foresters Financial's principal subsidiaries are listed in note 24.

1.3 Segmented reporting

Operating segments have been identified based on internal management reports which are used by senior management to assess performance and make decisions.

Foresters Financial has four operating segments and a corporate segment. In 2016, Foresters Financial restructured its operational management forming a North American Life Insurance and Annuity ("NALIA") management team and a North American Asset Management ("NAAM") team.

1. Significant accounting policies (continued)

The four operating segments are:

- NALIA sells insurance, annuities and segregated fund products;
- NAAM provides investment management services and distributes mutual funds;
- U.K. Savings, Investments and Protection ("UKSIP") sells protection, pension, unit linked savings and investment products through subsidiary operations;
- Membership works closely with the other operating divisions to develop and administer member benefits through Foresters Financial's operations in each country. Membership has no external source of income and its operations are fully funded by the corporate division;

The Corporate segment holds surplus investments above those required to satisfy management's internal capital targets for each of the five segments.

1.4 Foreign currency

Foreign operations

For Foresters Financial foreign operations, the local currency is the currency used to transact business and has been defined as the functional currency. Foresters Financial's U.S. and U.K. operations prepare their financial statements in U.S. dollars and the British pound sterling, which are their respective functional currencies. These operations transact business only in their functional currencies.

In preparing these consolidated financial statements, the functional currencies of the foreign subsidiaries and branch operations have been translated into Canadian dollars which is the presentation currency. All assets and liabilities are translated at the closing exchange rate at the balance sheet date, and income and expenses are translated using the average exchange rate for the year. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are presented separately in the currency translation account, a separate component of accumulated other comprehensive income ("AOCI"). When a foreign operation has been sold, these unrealized foreign currency translation gains and losses are recognized in net income.

Monetary and non-monetary assets

Foreign exchange differences arising from the translation of monetary items and non-monetary items held at FVTPL are included in net income on the consolidated statement of comprehensive income.

Foreign exchange translation gains and losses attributable to monetary AFS assets are recognized in net income, while translation differences related to non-monetary AFS assets are recognized in other comprehensive income ("OCI"). On the derecognition of non-monetary AFS assets, any exchange gains or losses relating to these items are then recognized in net income.

1. Significant accounting policies (continued)

Foreign currency transactions

Foreign currency transactions are converted to the appropriate functional currency on the date of the transaction.

1.5 Invested assets

At initial recognition, invested assets are designated or classified as FVTPL, AFS or loans and receivables as follows:

	FVTPL assets	AFS assets	Loans and receivables
Short-term securities			X
Bonds	X	X	
Equities	X	X	
Derivative financial instruments	X		
Other invested assets	X	X	X
Loans to certificateholders			X

Invested assets can be classified as FVTPL assets if they are acquired principally for the purpose of selling or repurchasing in the near term.

Invested assets supporting insurance and investment contract liabilities are designated as FVTPL in order to reduce measurement or recognition inconsistencies that would otherwise arise as a result of measuring assets and the corresponding liabilities on different bases.

Invested assets supporting surplus are classified as AFS assets.

a) Cash, cash equivalents and short-term securities

Cash and cash equivalents are comprised of cash balances, overnight deposits, and fixed income securities that are highly liquid and have original maturities of three months or less.

Short-term securities are carried at amortized cost and include highly liquid investments with original maturities of more than three months, but less than one year.

The carrying value of cash, cash equivalents and short-term securities approximates their fair value.

b) Bonds

Bonds are designated as either FVTPL or AFS and are initially recorded at fair value on the trade date.

The fair value of publicly traded bonds is determined using quoted market mid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. Foresters Financial does not have any bonds for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

1. Significant accounting policies (continued)

Interest income is recorded as interest and dividends (net) on the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method and realized gains and losses on the sale of bonds are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

Changes in the fair value of FVTPL bonds are recorded as net unrealized gains (losses) on fair value through profit and loss investments, a component of net income on the consolidated statement of comprehensive income.

Changes in the fair value of AFS bonds are recorded as net unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income.

c) Equities

Equities are designated as either FVTPL or AFS and are initially recorded at fair value on the trade date.

The fair value of publicly traded equities is determined using quoted market mid prices. For non-publicly traded equities, fair value is estimated on the basis of dealer quotes or recent transactions of similar investments. Transaction costs on FVTPL equities are expensed. Directly attributable transaction costs on AFS equities are capitalized as part of the original cost of the equity.

Dividend income is recorded as interest and dividends (net) on the ex-dividend date and realized gains and losses on the sale of equities are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

Changes in the fair value of FVTPL equities are recorded as net unrealized gains (losses) on fair value through profit and loss investments, a component of net income on the consolidated statement of comprehensive income.

Changes in the fair value of AFS equities are recorded as net unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income.

d) Derivative financial instruments

Foresters Financial utilizes certain derivative financial instruments in portfolios supporting actuarial liabilities in order to hedge against fluctuations in foreign exchange rates and stock market indices. These derivative financial instruments are classified as FVTPL assets or liabilities and are initially recorded at fair value. The fair value of derivative financial instruments is based on quoted market prices, unless they are non-publicly traded in which case fair value is estimated on the basis of models and includes an element of credit risk.

1. Significant accounting policies (continued)

Foresters Financial has presented derivative financial instruments on a net basis where Foresters Financial has the right to offset. When the net fair value is positive, a net asset is reported and when the net fair value is negative, a net liability is reported. Where Foresters Financial does not have the right to offset, derivative financial instruments with a positive fair value are recorded as an asset while derivative financial instruments with a negative fair value are recorded as a liability.

Realized gains and losses on the sale of these instruments are recorded as net realized gains (losses) and changes in the fair value of these contracts are recorded as net unrealized gains (losses) on fair value through profit and loss investments, both of which are components of net income on the consolidated statement of comprehensive income.

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Foresters Financial is required to separate embedded derivatives from the host contract, if an embedded derivative has economic and risk characteristics that are not closely related to the host contract, meets the definition of a derivative, and the combined contract is not measured at fair value with changes recognized in income. If an embedded derivative is separated from the host contract, it will be accounted for as a derivative.

e) Other Invested Assets

Limited partnerships

Limited partnerships classified as AFS assets are recorded at fair value. Foresters Financial does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment where Foresters Financial is a limited partner. Changes in fair value are recorded as net unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income. Realized gains or losses on sale are recorded as net realized gains (losses), a component of net income on the consolidated statement of comprehensive income.

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters Financial does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment where Foresters Financial is a limited partner. Changes in fair value are recorded as net unrealized gains (losses) on fair value through profit and loss investments and realized gains or losses on sale are recorded as Net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

Mortgages

Mortgages are classified as loans and receivables and are carried at amortized cost.

The difference between the proceeds on sale and outstanding principal balance is recorded as net realized gains (losses), a component of net income, on the consolidated statement of comprehensive income.

1. Significant accounting policies (continued)

Seed money investment in segregated funds

Seed money represents Foresters Financial's initial investment in its segregated funds and is measured at fair value. Fair value is based on the net asset value of the segregated investment fund. Changes in fair value are recorded as net unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income.

f) Loans to certificate holders

Loans to certificate holders are classified as loans and receivables and are carried at their unpaid balance. These loans are fully secured by the cash surrender value of the certificates on which the respective loans are made.

g) Derecognition

Foresters Financial derecognizes an invested asset only when the contractual rights to the cash flows from the instrument expire, or when substantially all of the risks and rewards of ownership of the asset are transferred.

h) Invested asset impairments

Invested assets other than FVTPL assets are assessed individually for impairment on a quarterly basis. Foresters Financial considers various factors in assessing impairments, including but not limited to, the financial condition and near term prospects of the issuer, specific adverse conditions affecting an industry or region, a significant and prolonged decline in fair value below the cost of an asset, bankruptcy or default of the issuer, and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due.

FVTPL assets are carried at fair value and all realized and unrealized gains and losses are recorded in net income, therefore no further impairment decision is necessary. Additionally, insurance contract liabilities include a margin to account for future asset impairments which will reduce future cash flows.

AFS assets are carried at fair value, however unrealized gains and losses are recorded in OCI and accumulated in AOCI. When an AFS asset is identified as impaired, the net loss in AOCI is reclassified to Net realized gains (losses), a component of net income. Any further reduction in value subsequent to the initial recognition of impairment is also included in net income in the period in which the change occurs.

The fair value of mortgages is calculated by discounting estimated cash flows using a market interest rate. The fair value of non-performing mortgages is based on estimated cash flows discounted using a rate which approximates the risk associated with the estimated cash flows.

When mortgages are classified as impaired, allowances for credit losses are established to adjust the carrying value of the mortgage to its net recoverable amount, with a charge to Net realized gains (losses), a component of net income.

1. Significant accounting policies (continued)

An impairment loss on AFS bonds and loans and receivables is reversed if there is objective evidence of a permanent recovery in the value of the asset based on an event occurring after the impairment loss was initially recognized. Such a reversal is reflected in net income.

Any subsequent recovery in the fair value of impaired AFS equity securities is recognized in OCI.

1.6 Deferred acquisition costs on investment contracts

Deferred acquisition costs ("DAC") represent incremental costs incurred at the time of issue of an investment contract. DAC is capitalized to the extent that it can be recovered through future expected margins on these contracts. Deferred acquisition costs are amortized at a rate consistent with the pattern of emergence of future expected margins on the underlying policies over a period not exceeding 30 years. DAC is reviewed by category of business at the end of each reporting period and is written down for the amount that is no longer considered to be recoverable.

1.7 Property and equipment

Property

Property consists of land and buildings, which are predominantly occupied by Foresters Financial or its subsidiaries.

Land is carried at fair value and is not depreciated. The buildings are carried at fair value. The fair value of property is appraised annually by external independent appraisers and is based on an income approach combining the discounted cash flow method and the direct capitalization method using as inputs rental income from current leases, expenses incurred and other assumptions that market participants would use when pricing property under current market conditions. The changes in fair value are recognized as net unrealized gains (losses) on property, a component of OCI in the consolidated statement of comprehensive income.

When a property is impaired, the net fair value loss is recorded in OCI in the current period to the extent that all previously recorded net fair value gains in AOCI have been offset. Any losses not absorbed in this manner are recorded in net income.

Equipment

Equipment includes leasehold improvements, furniture and computer equipment, which are carried at historical cost less accumulated depreciation and impairment losses. When the carrying amount of these assets is greater than the estimated recoverable amount, it is considered to be impaired and is written down through net income.

1. Significant accounting policies (continued)

Depreciation

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of the asset as follows:

Asset type	Useful life
Buildings	15 - 30 years
Furniture	10 years
Computer equipment	3 - 5 years
Leasehold improvements	the term of the lease

Under IFRS, componentization is required when parts of property and equipment have different useful lives and each component is accounted for as a separate item. Depreciation methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate. Any changes in estimates are accounted for in the current period.

Depreciation and repair and maintenance costs are expensed during the period in which they are incurred, and are included in operating expenses on the consolidated statement of comprehensive income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits, in excess of the most recently assessed standard of performance of the existing asset, will flow to Foresters Financial and the renovation replaces an identifiable part of the asset, which is derecognized. Major renovations are depreciated over the remaining useful life of the related asset.

1.8 Goodwill and intangible assets

a) Recognition and measurement

Goodwill

Acquisitions of businesses where Foresters Financial obtains control are accounted for using the purchase method. This involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangibles and the liabilities assumed, based on their fair values at the date of acquisition. Any excess is recorded as goodwill.

Goodwill is initially measured as the excess of the purchase price of an acquisition of a subsidiary over the fair value of net identifiable assets acquired. After initial recognition, goodwill is carried at cost less any accumulated impairment losses. If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in net income for the year. All goodwill is considered to have an indefinite life and therefore, not amortized.

Goodwill is reviewed at least annually, to assess whether the recoverable amount is in excess of its carrying amount. Any impairment loss is expensed and allocated against the carrying amount of goodwill. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill acquired in business combinations is allocated, from the acquisition date, to each of the cash-generating units ("CGUs") that are expected to benefit from the business combination. A CGU is the smallest identifiable group

1. Significant accounting policies (continued)

of assets that generates cash inflows that are independent of cash inflows from other groups of assets.

Any potential goodwill impairment is identified by comparing the carrying value of the CGU to which goodwill has been allocated with its fair value. If any potential impairment is identified, then it is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the CGU less the fair value of its assets and liabilities. The fair value of the CGU is determined using an internally developed valuation model which considers various factors including normalized earnings, projected earnings and price earnings multiples.

Intangible assets

i) Acquired intangibles

Intangible assets acquired through business combinations are comprised of mutual fund, separate account, and children's trust fund savings plan asset management contracts, a distribution network, computer software, unit cost reductions and customer relationships.

The initial cost of intangible assets acquired in a business combination is fair value at the date of acquisition. The fair value of acquired identifiable intangible assets is based on an analysis of discounted cash flows. After the date of acquisition, these intangibles are carried at cost less accumulated amortization and impairment losses.

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangibles with indefinite useful lives are reviewed annually for impairment. Intangibles with finite useful lives are reviewed only if there is an indicator for impairment. Impairment losses are expensed immediately.

ii) Computer software

Computer software is carried at cost less accumulated amortization and impairment losses. When the carrying amount of the asset is greater than the estimated recoverable amount, it is considered to be impaired and is written down through net income.

b) Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognized as Operating expenses on the consolidated statement of comprehensive income.

The estimated useful lives for current and comparative periods are as follows:

Asset type	Useful life
Distribution network	7 years
Unit cost reductions	10 years
Management contracts and customer relationships	5 – 12 years
Software	1 – 5 years

1. Significant accounting policies (continued)

The mutual fund and separate account asset management contracts have indefinite useful lives and are not amortized.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.9 Insurance and investment contracts

Product contracts are classified as insurance or investment contracts based on the level of insurance and financial risk Foresters Financial accepts from the certificate holder.

a) Insurance contract liabilities

Insurance contract liabilities include life, health and annuity lines of business. Insurance contracts are those contracts that transfer significant insurance risk to Foresters Financial. Significant insurance risk exists when Foresters Financial agrees to compensate certificate holders or beneficiaries of an insurance contract for specified future events such as death or disability, that may adversely affect the certificate holder and whose amount and timing are uncertain. Insurance contracts are shown as insurance contract liabilities on the consolidated statement of financial position.

Insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM") which is based on accepted actuarial practices according to standards established by the Actuarial Standards Board and the requirements of OSFI. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations, including the provision of fraternal benefits, and involves a significant amount of judgment. Valuation assumptions are based on current best estimate assumptions plus a margin for uncertainty for each material contingency. Any change in insurance contact liabilities is recorded in the gross change in insurance contract liabilities on the consolidated statement of comprehensive income.

Insurance contract liabilities less reinsurance assets represent an estimate of the amount, net of future premiums and investment income, which will be sufficient to pay future benefits, dividends, commissions and expenses on in-force insurance and annuity certificates.

b) Reinsurance assets

Foresters Financial enters into reinsurance arrangements with reinsurers in order to limit its exposure to significant losses, manage capital and reduce volatility of financial results. Maximum limits have been established for the retention of risks associated with life insurance certificates by line of business. Risks in excess of these limits are reinsured with well-established, highly rated reinsurers. Foresters Financial enters into two types of reinsurance arrangements:

- quota share reinsurance arrangements whereby Foresters Financial retains a percentage of the risk associated with life insurance certificates, and
- excess of loss reinsurance arrangements whereby risks in excess of established retention limits are ceded to reinsurers.

1. Significant accounting policies (continued)

Reinsurance transactions do not relieve Foresters Financial of its primary obligation to certificate holders. Losses could result if a reinsurer fails to honour its obligations.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance arrangement and with accepted actuarial practice in Canada. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Impairment occurs when there is objective evidence that Foresters Financial will not be able to collect amounts due under the terms of the contract. Any impairment loss is recorded in net income on the consolidated statement of comprehensive income.

Premiums for reinsurance ceded are presented as ceded premiums, reinsurance recoveries on claims incurred are recorded as ceded certificate holder benefits and payments, and commissions and expenses related to reinsured contracts are recorded as ceded commissions and operating expenses on the consolidated statement of comprehensive income. The net amount due from reinsurers with respect to ceded premiums, paid claims and expenses is recorded either as an amount receivable from or payable to reinsurers and included in other assets or other liabilities, respectively, on the consolidated statement of financial position.

c) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to Foresters Financial. Investment contracts include deferred annuities with no guarantees, settlement options with no life contingency and various amounts on deposit. These contracts are measured at amortized cost.

Investment contracts are initially recorded at fair value less any directly attributable transaction costs and thereafter are carried at amortized cost. Deposits to and withdrawals from investment contracts increase or decrease the liability respectively.

d) Segregated funds

Foresters Financial issues Separate Accounts in the U.S., Segregated Funds in Canada and Unit Linked contracts in the U.K. These contracts are collectively referred to as segregated funds. The value of these contracts is directly linked to the fair value of the underlying investments supporting these contracts. The unit holder bears the risks and rewards of the performance of these investments.

Foresters Financial presents segregated fund net assets, which are in the legal name and title of Foresters Financial but are held on behalf of unit holders, as a single line item in the consolidated statement of financial position.

Market value movement in the underlying segregated fund net assets along with any investment income earned and expenses incurred are directly attributed to unit holders. Foresters Financial does not present these amounts as revenue on the consolidated statement of comprehensive income; however, they are disclosed in note 5.

1. Significant accounting policies (continued)

Deposits to and withdrawals from, segregated funds increase or decrease the liability, respectively. For services provided to unit holders, Foresters Financial receives investment management and guarantee fees which are directly charged by the segregated funds to unit holders. This revenue is recorded as Fee revenue on the consolidated statement of comprehensive income.

Investment income and changes in the fair value of the segregated fund investments are offset by a corresponding change in the segregated fund liabilities.

Net investments for account of segregated fund unit holders
These investments are carried at fair value. Fair value is determined using quoted market values unless quoted market values are not available, in which case estimated fair values are determined by Foresters Financial, based on dealer quotes or recent transactions of similar investments.

Investment contract liabilities for account of segregated fund unit holders
These liabilities are measured at fair value reflecting the fair value of the underlying net assets. Certain segregated fund products provide death and maturity benefit guarantees to the unit holder. The liability for these guarantees is recorded under insurance contract liabilities.

e) Derecognition

The liabilities under insurance and investment contracts are derecognized when the obligation is discharged or cancelled.

1.10 Other liabilities

Other liabilities primarily consist of accounts payable, reinsurance financing provision, accrued expenses, and current and deferred income tax liabilities.

A provision for onerous contracts is recognized when the expected benefits to be derived from a contract are lower than the cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of completing the contract.

1.11 Income taxes

The tax expense for the year is comprised of current and deferred taxes. Tax is usually recognized as an expense or income in the consolidated statement of comprehensive income, except when it relates to an item included in OCI or directly in surplus, in which case tax is recognized in other comprehensive income or surplus, respectively.

The current tax expense (recovery) is based on taxable income (loss) for the year under local tax regulations and the enacted or substantively enacted tax rate for the year for each taxable entity and any adjustment to tax payable in respect of previous years.

Deferred income taxes are accounted for using the liability method, whereby tax expected to be payable or recoverable is calculated on temporary differences arising between the

1. Significant accounting policies (continued)

carrying amounts of assets and liabilities under IFRS and the tax assets and liabilities calculated under the regulations of the relevant tax authority. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that it will not reverse in the foreseeable future. Temporary differences, tax losses and tax loss carry-forwards are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which these tax assets can be utilized.

The carrying amount of recognized deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it becomes probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are offset if a legally enforceable right to offset current income tax assets and liabilities exists, and deferred income taxes relate to the same legal entity and the same taxation authority.

1.12 Employee benefits

Foresters Financial maintains contributory and non-contributory defined benefit pension and post retirement plans, as well as defined contribution pension plans for eligible employees and agents.

a) Defined benefit and post retirement plans

The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. The specific features of these plans vary in accordance with the employee group and countries in which employees are located. In addition, Foresters Financial maintains supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various registered pension plans.

Foresters Financial also provides certain post retirement medical and dental benefits to eligible qualifying employees and to their dependents if certain requirements are met. These post retirement benefits are not pre-funded.

Foresters Financial net obligation in respect of defined benefit pension plans and post retirement benefits is calculated separately for each plan. Plan assets are measured at fair value. The cost of pensions and post retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary projections, retirement ages of employees and other variables.

1. Significant accounting policies (continued)

Remeasurements arising from defined benefit plans are made up of actuarial gains, the return excluding interest on plan assets and adjustments for the effect of the asset ceiling. All remeasurements are recognized immediately in OCI and all other expenses are reflected in employee benefits within operating expenses on the consolidated statement of comprehensive income.

Employee benefit assets arise from pension plans that are in a surplus position (plan assets are greater than the plan obligations). Employee benefit obligations arise from unfunded plans for supplementary pension and post retirement benefits and pension plans that are in a deficit position.

The value of any employee benefit asset arising from a defined benefit pension plan is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

b) Defined contribution plans

A defined contribution plan is a post employment benefit plan under which Foresters Financial pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an operating expense in the consolidated statement of comprehensive income in the periods during which services are rendered by employees.

c) Long-term disability benefits

For claims made under long term disability plans for benefits that are not insured, an obligation is recognized from the date the event occurred that caused the disability. The amount of the obligation which is included under other liabilities is based on the estimated present value of the benefits expected to be paid by Foresters Financial in providing the benefit. The change in the obligation during the year together with any actuarial gains or losses is recognized in net income as an operating expense. Where the claims are fully insured, there is no obligation to recognize and the premiums paid under the insurance policy are recognized as an operating expense.

1.13 Revenue recognition

Revenue is recognized as follows, after eliminating intra group transactions:

a) Insurance contracts

Premiums are recognized as revenue when they come due and collection is reasonably assured. On recognition, the insurance contract liability is calculated and recorded with the result that benefits and expenses are matched to premium revenue.

b) Fees

Fees primarily include fees earned from the management of segregated fund, proprietary mutual fund and institutional assets, brokerage fees on the sale of proprietary and third party mutual fund products, distribution fees on the distribution of mutual fund shares and service fees for maintaining mutual fund shareholder accounts. Fees are recognized on an accrual basis and reported as fee revenue.

1. Significant accounting policies (continued)

c) Net investment income

Investment income, net of investment expenses, realized gains (losses) on the sale of investments and changes in the fair value of FVTPL assets are recorded in net investment income on the consolidated statement of comprehensive income.

Changes in the fair value of AFS assets are recognized in OCI on the consolidated statement of comprehensive income.

1.14 Leases

Leases are classified as operating leases when a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under operating leases are expensed on a straight-line basis over the period of the lease. Where Foresters Financial is the lessor, the income is recognized on a straight-line basis over the lease term.

1.15 Contingent liabilities

Contingent liabilities are recognized as liabilities on the statement of financial position when it is probable that Foresters Financial will incur a future expense and the amount can be reliably measured. If the event resulting in a future obligation is less than probable but greater than remote or, the amount cannot be reliably estimated, the contingency is disclosed in the notes to the financial statements.

1.16 Fraternal investment

Fraternal investment represents the contribution made by Foresters Financial to support its members, their families and the communities in which they live. These contributions include donations to charities for supporting various community causes, sponsorships for various fund raising programs, support for the volunteer branch system, the provision of scholarships and other benevolent activities. These contributions are recognized as an expense when they are incurred under fraternal investment within the consolidated statement of comprehensive income.

2. ACCOUNTING AND REPORTING CHANGES

New and Amended International Financial Reporting Standards to be Adopted in 2018 or Later

The following new standards were issued by the IASB and are expected to be adopted in 2018 or later.

a) IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was issued in May 2017 and is effective for years beginning on or after January 1, 2021, to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. IFRS 17 will replace IFRS 4 Insurance Contracts and will change the fundamental principles used by Foresters Financial for recognizing and measuring insurance contract liabilities. It will also change the presentation and disclosures of Foresters Financial's

2. Accounting and reporting changes (continued)

consolidated financial statements. Foresters Financial is assessing the impact of this standard and expects that it will have a significant impact on the consolidated financial statements.

b) IFRS 9 Financial Instruments

In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments* (IFRS 9), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

In September 2016, the IASB issued amendments to IFRS 4, to allow insurance entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until 2021 (the “deferral approach”) to align with Foresters Financial’s adoption of IFRS 17. Foresters Financial qualifies and intends to elect the deferral approach permitted under the amendments. Consequently, Foresters Financial will continue to apply IAS 39, the existing financial instrument standard until January 1, 2021.

Foresters Financial is currently assessing the impact the adoption of these amendments will have on its consolidated financial statements.

c) IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 will replace IAS 18 Revenue alongside other standards and interpretations.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.
On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

2. Accounting and reporting changes (continued)

The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. Foresters Financial intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018.

We have completed our identification of the contracts within the scope of this standard and are currently performing a detailed assessment of the revenues and costs related to these contracts to determine the potential impact that the adoption of IFRS 15 will have on the consolidated financial statements. Based on Foresters Financial's assessments completed to date, it does not expect the adoption of this standard to have a material impact on the consolidated financial statements. Foresters Financial continues to monitor interpretations and developments related to the standard, principally for the asset management industry.

d) IFRS 16 Leases

In January 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

Foresters Financial intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

e) Other amendments

IFRIC 23 Uncertainty over Income Tax Treatments was issued in June 2017 and is effective for years beginning on or after January 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The extent of the impact of adoption of the standard has not yet been determined.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

3. BUSINESS COMBINATIONS

On May 4, 2016, Foresters Financial, through its wholly owned subsidiary Foresters Life Insurance Company, acquired 100% of the shares of 3284664 Nova Scotia Company which in turn owned 100% of Aegon Capital Management Inc. and Aegon Fund Management Inc.

Aegon Capital Management Inc. and Aegon Fund Management Inc. were renamed to Foresters Asset Management Inc. ("FAM") and Foresters Financial Investment Management Company of Canada Inc. ("FFIMCO") respectively. The acquired business contributed revenue of $10.0 million and net income of $1.9 million for the period from May 4, 2016 to December 31, 2016. If the acquisition had occurred on January 1, 2016, management estimates that revenue would have been $15.4 million, and net income for the year would have been $2.5 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2016.

FAM provides investment management services for institutional clients in Canada. FFIMCO is an investment fund manager that manufactures and distributes a group of proprietary mutual funds registered in Canada.

The Company incurred acquisition costs of $0.8 million that have been included in operating expenses. Details of the allocation of the purchase consideration, to net assets acquired and goodwill are as follows:

Total consideration transferred	$ 20,440
Less fair value of net identifiable assets	13,879
Goodwill	$ 6,561

Total consideration transferred includes cash consideration of $18.9 million and $1.5 million of incurred assumed liabilities relating to retention costs and a holdback to be paid on the anniversary date. This was considered fair value at the acquisition date.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Business combinations (continued)

The fair value of assets and liabilities acquired was as follows:

	Fair value
Assets	**$**
Cash and cash equivalents	2,771
Deferred selling costs	3,011
Deferred tax asset	4,384
Other assets	472
Intangible assets acquired on acquisition:	
Asset management contracts	5,035
Customer relationships	3,791
	19,464
Liabilities	
Deferred tax liability on intangible assets	2,362
Other liabilities	3,223
	5,585
Total net identifiable assets	13,879

At the date of acquisition, the transaction increased Foresters Financial's assets under management by approximately $10.1 billion (unaudited).

The goodwill is attributable mainly to the skills and technical talent of the workforce and the synergies expected to be achieved from leveraging the in-house institutional asset management capabilities to benefit Foresters Financial.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. INVESTED ASSETS

a) Summary of invested assets

The carrying values and fair values of invested assets were as follows:

	Fair value through profit and loss	Available-for-sale	Other	Total carrying value	Total fair value
As at December 31, 2017					
Cash, cash equivalents and short-term securities	$ 187,023	$ 109,701	$ -	$ 296,724	$ 296,724
Bonds	6,087,840	1,120,639	-	7,208,479	7,208,479
Equities	704,699	67,536	-	772,235	772,235
Derivative financial instruments	16,100	-	-	16,100	16,100
Other invested assets	98,897	61,998	278	161,173	161,187
Loans to certificateholders	-	-	359,254	359,254	359,254
Total invested assets	7,094,559	1,359,874	359,532	8,813,965	8,813,979
Net investments for account of segregated fund unit holders	7,832,864	-	-	7,832,864	7,832,864
Total investments	$ 14,927,423	$ 1,359,874	$ 359,532	$ 16,646,829	$ 16,646,843
As at December 31, 2016					
Cash, cash equivalents and short-term securities	$ 192,565	$ 167,137	$ -	$ 359,702	$ 359,702
Bonds	6,064,841	1,049,741	-	7,114,582	7,114,582
Equities	694,178	94,695	-	788,873	788,873
Derivative financial instruments	1,986	-	-	1,986	1,986
Other invested assets	81,526	73,265	504	155,295	155,320
Loans to certificateholders	-	-	368,721	368,721	368,721
Total invested assets	7,035,096	1,384,838	369,225	8,789,159	8,789,184
Net investments for account of segregated fund unit holders	3,673,561	-	-	3,673,561	3,673,561
Total investments	$ 10,708,657	$ 1,384,838	$ 369,225	$ 12,462,720	$ 12,462,745

Also held are derivative financial liabilities recorded as FVTPL with a carrying value and fair value of $5,296 (2016: $16,789).

4. Invested assets (continued)

b) Fair value hierarchy

Foresters Financial follows a fair value hierarchy to categorize the inputs to the valuation techniques used to measure the fair value of financial assets. The three levels of the hierarchy are:

Level 1

Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2

Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, credit risks, and default rates.

Level 3

Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 financial instruments are initially fair valued at their transaction price. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

Private placements are valued using a discounted cash flow analysis. The inputs to the valuation include the current credit rating for the bonds and credit spreads to treasury securities. Limited partnerships are valued using discounted cash flow methodologies, direct capitalization methods, comparable private company transactions and the income approach. Significant unobservable inputs include assumed future market conditions, projected income and expense scenarios, discount rates, terminal EBITDA and exit multiples used in the calculations.

For certain financial assets which are of a short term nature, the carrying value approximates fair value, no fair value is disclosed. The most significant category for fair value measurement is invested assets and the hierarchy level is based upon the following guidelines:

Bonds including short-term securities

Government bonds and treasury bills (classified as short-term securities) are valued using prices received from external pricing providers (such as dealers, brokers, industry groups, pricing services or regulatory agencies) who generally base the price on quotes received from a number of market participants.

Level 1 corporate bonds listed or quoted in an established over-the-counter market are valued using prices received from external pricing providers who generally consolidate quotes received from a panel of investment dealers into a composite price. As the market becomes less active, the quotes provided by some investment dealers may be based on modeled prices rather than on actual transactions. These sources are based largely on

4. Invested assets (continued)

observable market data, and therefore these instruments are treated as Level 2 within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote, the instruments are treated as Level 3.

Other corporate bonds and non-government based short-term securities such as unquoted bonds, commercial paper (“CP”) and certificates of deposit (“CDs”) are valued using models. For CP and CDs, the model inputs such as LIBOR yield curves, FX rates, volatilities and counterparty spreads comprise observable market data. For unquoted bonds, the model includes credit spreads which are obtained from brokers or estimated internally. The classification of these instruments within the fair value hierarchy will be either Level 2 or 3, depending upon the nature of the underlying pricing information used for valuation purposes.

Equity securities

Listed securities are treated as Level 1 within the fair value hierarchy and are valued using prices sourced from the primary exchange or dealer, broker, industry group, pricing service or regulatory agency and so quoted in an active market. The quoted market price is the current mid price.

Unlisted securities are treated as Level 2 within the fair value hierarchy and a valuation technique is used for these instruments with the inputs coming from observable market data.

Derivative financial instruments

Exchange traded futures and options are valued using prices sourced from the relevant exchange and are treated as Level 1 within the fair value hierarchy. The other derivative financial instruments are valued using valuation techniques based on observable market data and are classified as Level 2 within the fair value hierarchy.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Invested assets (continued)

The following tables present the invested assets measured at fair value and classified by the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
December 31, 2017	**$**	**$**	**$**	**$**
Cash, cash equivalents and short-term securities	121,045	175,679	-	296,724
FVTPL assets:				
Bonds	346,050	5,513,270	228,520	6,087,840
Equities	233,260	471,439	-	704,699
Derivative financial instruments	1,169	14,931	-	16,100
Other invested assets	-	-	98,897	98,897
Net investments for account of segregated fund unit holders	7,043,671	789,193	-	7,832,864
	-	-	-	
AFS assets:	-	-	-	
Bonds	9,677	1,110,962	-	1,120,639
Equities	8,793	58,743	-	67,536
Other invested assets	-	30,482	31,516	61,998
	7,763,665	8,164,699	358,933	16,287,297

	Level 1	Level 2	Level 3	Total fair value
December 31, 2016				
Cash, cash equivalents and short-term securities	117,388	242,314	-	359,702
FVTPL assets:				
Bonds	376,107	5,445,831	242,903	6,064,841
Equities	647,931	46,247	-	694,178
Derivative financial instruments	1,986	-	-	1,986
Other invested assets	-	-	81,526	81,526
Net investments for account of segregated fund unit holders	3,211,782	461,779	-	3,673,561
AFS assets:				
Bonds	7,682	1,042,059	-	1,049,741
Equities	56,234	38,462	-	94,696
Other invested assets	-	36,673	36,592	73,265
	4,419,110	7,313,365	361,021	12,093,496

Also held are derivative financial liabilities measured at fair value and classified as Level 2 on the fair value hierarchy of $5,296 (2016: $16,789).

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Invested assets (continued)

The following table represents the movement in Level 3 invested assets.

	FVTPL		AFS		
	Bonds	Other invested assets	Bonds	Equities and other invested assets	Total
	$	$	$	$	$
2017					
Balance, beginning of year	242,903	81,526	-	36,592	361,021
Changes during the year:					
Purchases	-	17,328	-	-	17,328
Sales and redemptions	(7,220)	-	-	-	(7,220)
Realized gains/losses	-	-	-	-	-
Change in unrealized gains (losses) included in:	-	-	-	-	
Other comprehensive income	-	-	-	(5,076)	(5,076)
Net income (loss)	(7,163)	43	-	-	(7,120)
Balance, end of year	228,520	98,897	-	31,516	358,933
2016					
Balance, beginning of year	224,428	71,901	-	40,868	337,197
Changes during the year:					
Purchases	31,310	10,188	-	-	41,498
Sales and redemptions	(8,432)	-	-	(1,338)	(9,770)
Realized gains/losses	-	-	-	-	-
Change in unrealized gains (losses) included in:					
Other comprehensive income	-	-	-	(2,938)	(2,938)
Net income (loss)	(4,403)	(563)	-	-	(4,966)
Balance, end of year	242,903	81,526	-	36,592	361,021

There were no material transfers between Level 1, 2 and 3 during 2017 or 2016. The fair value of level 3 assets includes a number of investments that are impacted by different market sensitivities. The significant assumptions used to assess the market sensitivity of these assets include: changes in interest rates, real estate capitalization rates, and in the global infrastructure index. The analysis was based on a 1% increase and a 1% decrease in the relevant sensitivity. The following table shows the impact of this analysis on the fair value of the related assets at December 31:

	2017		2016	
	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
FVTPL assets:				
Interest rate sensitivity	(16,798)	16,798	(18,136)	18,136
Real estate capitalization rates	(10,048)	14,748	(9,762)	14,272
AFS assets:				
Global infrastructure index sensitivity	531	(531)	64	(64)

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Invested assets (continued)

c) Cash, cash equivalents and short-term securities

Cash, cash equivalents and short-term securities were comprised of:

	2017 $	2016 $
Cash	121,045	117,388
Cash equivalents	45,229	49,074
	166,274	166,462
Short-term securities	130,450	193,240
	296,724	359,702

Short-term securities are comprised of notes and commercial paper with a maturity date not later than April 2018 (2016: October 2017).

d) Derivative financial instruments

Foresters Financial utilizes derivative financial instruments, including options and foreign exchange forward contracts, when appropriate, to hedge against fluctuations in foreign exchange rates and changes in stock market indices. Foresters Financial does not enter into these financial instruments for trading or speculative purposes. Foresters Financial only enters into derivative financial contracts with approval from the Board of Directors and policies are established to limit counterparty exposure. Adherence to these policies is monitored regularly and reported to the Risk and Investment Committee.

The fair value of Foresters Financial's foreign exchange forward contracts can be positive or negative. Gross derivative counterparty exposure is measured as the total fair value of all outstanding contracts in a gain position (excluding any offsetting contracts in negative positions). Foresters Financial limits the risk of credit losses from derivative counterparties by establishing minimum acceptable counterparty credit ratings of AA, entering into master netting arrangements (based on standard ISDA agreements) and holding collateral to limit credit exposures. Foresters Financial's derivative financial instruments were held with counterparties rated AA or higher as at December 31, 2017 and 2016. At December 31, 2017, the largest single counterparty exposure was $16,451 (2016: $6,308).

Foresters Financial is exposed to credit risk resulting from the potential default of counterparties to the foreign exchange forward contracts that are in a net gain position. For contracts in a net gain position, the counterparty may be required to post collateral to Foresters Financial. As at December 31, 2017, Foresters Financial had received collateral with an estimated market value of $10,245 against a net asset of $14,931. For contracts in a net liability position, the counterparties are exposed to credit risk from the potential default by Foresters Financial. Foresters Financial may be required to post collateral to the counterparty for contracts in a net liability position. As at December 31, 2017, Foresters Financial posted collateral with an estimated market value of $5,747 (2016: $14,447) against a net liability of $5,296 (2016: net liability of $16,789). Foresters Financial and the counterparties have the right to sell, pledge, invest, or use any posted collateral. During 2017 and 2016, Foresters Financial did not sell, pledge, invest or use any posted collateral.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Invested assets (continued)

Credit quality of the collateral received and posted is monitored regularly. Eligible collateral includes Canadian Federal and Provincial Government fixed income securities, some of which have credit ratings of AAA, and all of which have investment grade ratings.

The following table summarizes derivative financial instruments outstanding:

	Notional amount by remaining term to maturity				Fair value		
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net
As at December 31, 2017							
Foreign exchange forward contracts	294,455	124,025	194,986	613,466	28,922	19,287	9,635
Options purchased	-	-	-	-	5,725	-	5,725
Options written	-	-	-	-	-	4,556	(4,556)
	294,455	124,025	194,986	613,466	34,647	23,843	10,804
As at December 31, 2016							
Foreign exchange forward contracts	33,942	112,777	218,388	365,107	10,323	27,112	(16,789)
Options purchased	-	-	-	-	6,530	-	6,530
Options written	-	-	-	-	-	4,544	(4,544)
	33,942	112,777	218,388	365,107	16,853	31,656	(14,803)

Notional amount represents the face amount of derivative financial instruments to which a rate or price is applied to determine the amount of cash flows to be exchanged. It represents the volume of outstanding derivative financial instruments and does not represent the potential gain or loss associated with market risk or credit risk of such instruments.

Fair value of a derivative financial instrument is equivalent to the replacement cost based on quoted market prices. Positive fair value, representing an unrealized gain to Foresters Financial, is the maximum credit risk measured as at the balance sheet date if the counterparties were to default on their obligations to Foresters Financial.

e) Impairments

There were no invested assets classified as loans and receivables that were impaired and therefore required an impairment loss provision. The movement on the impairment allowance account for AFS invested assets was as follows:

	2017		2016	
	Bonds $	Equities $	Bonds $	Equities $
Balance, beginning of year	-	12	-	675
Provisions in year	-	-	-	-
Recoveries in year	-	(12)	-	(583)
Foreign exchange movement	-	-	-	(80)
Balance, end of year	**-**	**-**	**-**	**12**

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Invested assets (continued)

During 2017, Foresters Financial did not reverse any impairment losses previously taken on AFS bonds that were sold during the year (2016: $0).

f) Net investment income

Interest and dividends (net) were derived from the following sources:

	2017				2016			
	FVTPL $	AFS $	Other $	Total $	FVTPL $	AFS $	Other $	Total $
Interest income from:								
Cash, cash equivalents and short-term securities	361	1,343	-	1,704	3,966	502	-	4,468
Bonds	211,077	33,723	-	244,800	211,617	34,404	-	246,021
Other invested assets			26	26			40	40
Loans to certificateholders	-	-	19,343	19,343	-	-	19,590	19,590
	211,438	35,066	19,369	265,873	215,583	34,906	19,630	270,119
Dividend income from equities	11,680	1,605		13,285	12,877	2,896		15,773
Income from other invested assets	5,493	5,377	-	10,870	4,842	3,467	-	8,309
Less: Investment expenses	(15,085)	(1,191)	-	(16,276)	(8,772)	(1,442)	-	(10,214)
Total interest and dividends (net)	213,526	40,857	19,369	273,752	224,530	39,827	19,630	283,987

No interest income was accrued on impaired invested assets in 2017 or 2016.

The following table shows the net realized gains on invested assets during the year:

	2017			2016		
	FVTPL $	AFS $	Total $	FVTPL $	AFS $	Total $
Bonds	80,338	1,711	82,049	46,748	8,663	55,411
Equities	42,634	4,813	47,447	17,364	1,164	18,528
Derivative financial instruments	2,688	-	2,688	1,764	-	1,764
Other invested assets	-	14,408	14,408	2	1,065	1,067
Net realized gains	125,660	20,932	146,592	65,878	10,892	76,770

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Invested assets (continued)

The following table shows the net change in unrealized gains on FVTPL investments recorded in net income for the year ended December 31:

	2017 $	2016 $
Bonds	99,340	55,342
Equities	(890)	39,373
Derivative financial instruments	26,190	6,414
Other invested assets	42	(563)
Net unrealized gains on FVTPL investments	124,682	100,566

The net foreign currency gains (losses) on AFS assets, recognized in net investment income was ($3,369) (2016: $5,523).

5. INVESTMENTS FOR ACCOUNT OF SEGREGATED FUND UNIT HOLDERS

a) Segregated fund net assets

The following table shows the breakdown of segregated fund assets by category of asset:

	2017 $	2016 $
Cash, cash equivalents and short-term securities	102,352	67,853
Bonds	1,070,596	770,664
Equities	6,660,879	2,878,462
Other assets net of liabilities	29,522	(6,744)
Total net assets	7,863,349	3,710,235
Less: Segregated fund seed money investment (note 21)	30,485	36,674
Net investments for account of segregated fund unit holders	7,832,864	3,673,561

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

5. Investments for account of segregated fund unit holders (continued)

b) Changes in segregated funds

The following table presents the change in investments for accounts of segregated fund unit holders:

	2017 $	2016 $
Balance, beginning of year	3,673,561	3,746,007
Investment contract transfer *	3,230,945	-
	6,904,506	3,746,007
Additions to the account of the unit holders:		
Deposits received from unit holders	611,886	394,319
Investment income	564,965	94,712
Net realized gains on sale of investments	30,232	258,772
Net change in unrealized gains on investments	197,717	167,683
	1,404,800	915,486
Deductions to the account of the unit holders:		
Amounts withdrawn or transferred by unit holders	383,031	326,660
Net realized losses on sale of investments	-	145,480
Net change in unrealized losses on investments	-	17,456
Management fees and other operating costs	113,430	59,508
	496,461	549,104
Less: Income earned on segregated fund seed money investment	578	777
Effect of change in foreign exchange rates	20,597	(438,051)
Balance, end of year	7,832,864	3,673,561

The change in investment contract liabilities for accounts of segregated fund unit holders had an equal and offsetting change during the year.

*On January 2, 2017, the entire investment management business of Forester Fund Management Limited (“FFML”) comprising Child Trust Funds, Junior ISAs and Growing Up Bonds were transferred to Forester Life Limited (“FLL”), both subsidiaries of Forester Holdings (Europe) Limited. Investment contract liabilities for accounts of segregated fund unit holders increased by $3,230,945 relating to the 914,251 insurance policies issued in FLL.

c) Investment risks associated with segregated funds

Segregated fund net assets may be exposed to a variety of financial and other risks. These risks are primarily mitigated by investment guidelines that are actively monitored by professional and experienced portfolio managers. Investment returns on these products belong to the unit holders, accordingly, Foresters Financial does not bear the risk associated with these assets outside of guarantees offered on certain variable annuity products. For information regarding the risks associated with the annuity and segregated funds guarantees see note 10.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

6. OTHER ASSETS

a) Other assets

Other assets were comprised of the following:

	2017 $	2016 $
Accounts receivable	43,566	48,313
Amounts due from reinsurers	26,245	12,855
Prepaid expenses	18,461	15,687
Income taxes recoverable	15,028	12,477
Other	6,104	2,523
	109,404	91,855

The carrying value of these assets approximates their fair value. Other assets of $104,287 (2016: $87,093) will be realized within 12 months from the reporting date.

b) Deferred acquisition costs

The following table shows changes in deferred acquisition costs on investment contracts during the year:

	2017 $	2016 $
Deferred acquisition costs, beginning of year	61,565	56,608
Additions	16,180	16,480
Amortization	(2,683)	(6,837)
Effect of change in foreign exchange rates	(2,529)	(4,686)
Deferred acquisition costs, end of year	72,533	61,565

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

7. PROPERTY AND EQUIPMENT

The following table shows changes in the property and equipment balances during the year:

	Property		Equipment		
	Land $	Buildings $	Furniture and Equipment $	Leasehold Improvements $	Total
Net carrying value as at December 31, 2016	14,982	29,090	13,392	5,577	63,041
Additions	-	225	5,985	-	6,210
Gains (losses) included in OCI changes in fair value (unrealized)	343	1,326	-	-	1,669
Disposals	-	-	(155)	-	(155)
Depreciation expense	-	(1,011)	(4,078)	(474)	(5,563)
Effect of change in foreign exchange rates	79	152	(646)	(341)	(756)
Net carrying value as at December 31, 2017	15,404	29,782	14,498	4,762	64,446
Net carrying value as at December 31, 2015	14,713	31,378	9,488	6,302	61,881
Additions	-	443	7,710	-	8,153
Gains (losses) included in OCI changes in fair value (unrealized)	957	(270)	-	-	687
Disposals	-	-	(242)	-	(242)
Depreciation expense	-	(1,266)	(3,141)	(530)	(4,937)
Effect of change in foreign exchange rates	(688)	(1,195)	(423)	(195)	(2,501)
Net carrying value as at December 31, 2016	14,982	29,090	13,392	5,577	63,041

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Property and equipment (continued)

The following table shows the gross and net carrying values of property and equipment:

	Gross carrying value	Accumulated depreciation	Net carrying value
	$	$	$
December 31, 2017			
Land	15,404	-	15,404
Buildings	29,782	-	29,782
Furniture and equipment	41,979	27,481	14,498
Leasehold improvements	9,287	4,525	4,762
	96,452	32,006	64,446
December 31, 2016			
Land	14,982	-	14,982
Buildings	29,090	-	29,090
Furniture and equipment	35,012	21,620	13,392
Leasehold improvements	10,183	4,606	5,577
	89,267	26,226	63,041

The land and buildings were revalued at December 31, 2017 by an independent appraiser. The fair value of land and buildings was $15,404 and $29,782 respectively ($14,982 and $29,089 on December 31, 2016). When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount. The net amount is restated to the revalued amount of the asset.

The land and buildings are situated in Canada and the U.K. The appraisal on the land and building in Canada was based on an income approach combining the discounted cash flow method and the direct capitalization method. The key assumptions for rental rates were based on existing market rates and a discount and capitalization rate of 7.50% and 7.00% (2016: 7.50% and 7.50%). A 1% increase in the discount and capitalization rate would result in a $5,400 decrease (2016: $5,500 decrease) in the fair value. The U.K. land and building was appraised on the basis of existing use as defined in the practice statements set out in the Royal Institution of Chartered Surveyors (“RICS”) valuation standards. The U.K. land component was valued using an assumption that consent to a change of use for residential would be forthcoming.

Land and buildings are measured at fair value using the revaluation model. They are treated as Level 3 in the fair value hierarchy and unobservable inputs are used in the determination of the fair value, such as having an annual external appraisal by an independent property appraiser with appropriate recognized professional qualifications.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Property and equipment (continued)

The following table shows a reconciliation of the opening balances to the closing balances for Level 3 land and buildings:

	2017 $	2016 $
Balance, beginning of year	44,072	46,091
Building and garage addition	225	443
Reclassification entry, accumulated depreciation	(1,011)	(1,266)
Effect of change in foreign exchange rates	235	(1,883)
Gain/Loss Included:		
Market value adjustment, changes in fair value unrealized (OCI)	1,669	687
Balance, end of year	45,190	44,072

Foresters Financial elected to set the deemed cost of owner occupied properties at fair value on the date of transition to IFRS. If land and buildings had continued to be stated at amortized historical cost, the amounts would be as follows:

	2017 $	2016 $
Cost	37,670	37,242
Less: Accumulated depreciation	(5,969)	(4,959)
Net book value	31,701	32,283

8. EMPLOYEE BENEFIT PLANS

Foresters Financial has a number of funded and unfunded defined benefit pension, defined contribution pension, post retirement and post employment benefit plans and long term disability benefits in the U.S., Canada and the U.K. The defined benefit pension plans provide benefits to employees based on an average earnings formula. Foresters Financial also provides post retirement health benefits to certain employee groups in the U.S. and Canada.

All registered pension plans are in funds that are legally separate from Foresters Financial. In the U.S. and Canada, the pension funds are governed by a Management Pension Committee ("MPC") made up of representatives from Foresters Financial. The MPC is responsible for setting policies around investments and contributions.

Actuarial valuations of the pension and post retirement benefit plans are performed periodically for accounting purposes, based on a market-related discount rate and management's best estimate assumptions.

Foresters Financial measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2015 for the U.S. plan, December 31, 2015 for the Canadian plan and April 1, 2017 and July 1, 2017 for the U.K. plans. The effective date of the next required valuation is December 31, 2018 for the U.S. and the Canadian plan and April 1, 2020 and July 1, 2020 for the U.K. plans.

a) Defined benefit pension plans

Employee benefit assets and obligations include any surplus or deficit positions on defined benefit pension plans. The surplus or deficit position is calculated as the difference between plan assets and the accrued benefit obligation.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Employee benefit plans (continued)

The following table shows the changes in the defined benefit pension plans assets and obligations during the year:

	2017 $	2016 $
Change in plan assets:		
Fair value of plan assets at January 1	293,877	295,058
Interest income	11,052	11,750
Return on plan assets excluding interest income	5,953	4,347
Employer contributions	8,554	7,997
Employee contributions	1,206	1,354
Benefits paid	(12,126)	(14,139)
Effect of change in foreign exchange rates	1,045	(12,490)
Fair value of plan assets at December 31	309,561	293,877
Change in projected benefit obligations:		
Accrued benefit obligations at January 1	312,745	307,402
Current service cost	6,665	6,303
Employee contributions	1,206	1,354
Interest cost	11,496	11,957
Benefits paid	(12,126)	(14,139)
Remeasurements		
- experience adjustments	(537)	(513)
- actuarial (gains) losses from changes in financial assumptions	21,722	23,462
- actuarial (gains) losses from changes in demographic assumptions	(474)	(7,730)
Effect of change in foreign exchange rates	1,637	(15,351)
Accrued benefit obligations at December 31	342,334	312,745
Balance as at December 31	**(32,773)**	**(18,868)**
Amounts recognized on statement of financial position		
Employee benefit assets	**3,020**	**3,170**
Employee benefit obligations (note 8b)	**35,793**	**22,038**

Foresters Financial has reviewed both the terms and conditions of the defined benefit plans and the statutory requirements (such as minimum funding requirements) in each jurisdiction, and whether the employee benefit asset exceeded the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. For the U.K. plan, Foresters Financial has a liability for $15,699 (2016: $15,068) in respect of future contributions where there will be no economic benefit to Foresters Financial. For the plans in Canada and the U.S., no decrease in the employee benefit assets was necessary as the economic benefits available were not lower than the assets recognized.

8. Employee benefit plans (continued)

The breakdown of defined benefit plan assets is shown in the following table:

	2017 %	2016 %
Cash and cash equivalents		
Canada	3	3
U.K.	1	4
Bonds and other fixed income securities		
U.S.	1	2
Canada	41	41
U.K.	8	12
Equities		
Canada	34	33
U.K.	5	2
Real Estate		
Canada	3	3
U.K.	1	-
Other		
U.K.	3	-
	100	100

All bonds and other fixed income securities and equities have quoted prices in active markets.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Employee benefit plans (continued)

b) Employee benefit obligations

The following table shows changes in unfunded post retirement benefit obligations during the year and the total employee benefit obligations recognized in the consolidated statement of financial position:

	2017		2016	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	31,727	15,674	29,602	17,717
Current service cost	1,194	-	1,038	-
Interest cost	1,232	545	1,220	647
Benefits paid	(1,935)	(1,091)	(1,054)	(991)
Remeasurements				
- experience adjustments	220	667	218	(406)
- actuarial (gains) losses from changes in financial assumptions	1,843	(335)	706	773
- actuarial (gains) losses from changes in demographic assumptions	-	(194)	-	(1,665)
Effect of change in foreign exchange rates	(5)	(760)	(3)	(401)
Accrued benefit obligations at December 31	34,276	14,506	31,727	15,674
Net obligation for defined benefit pension plans (note 8a)	35,793	-	22,038	-
Amounts recognized on statements of financial position	**70,069**	**14,506**	**53,765**	**15,674**

The weighted average duration of all the defined benefit obligations was 16 years (2016: 15 years).

The maturity analysis of benefit payments as at December 31 is shown in the following table:

	2017 $	2016 $
Within 1 year or less	12,309	12,448
2-5 years	51,613	48,626
6-15 years	168,732	165,854
Over 15 years	497,267	534,700
Total	729,921	761,628

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Employee benefit plans (continued)

The table below provides the funded status of the combined defined benefit pension and post retirement plans:

	2017 $	2016 $
As at December 31		
Fair value of defined benefit plan assets (note 8a)	309,561	293,877
Present value of obligations	391,116	360,146
Funded status - Deficit	(81,555)	(66,269)

Additionally, long-term disability obligations amounted to $1,906 (2016: $2,093) and are recorded in other liabilities on the consolidated statement of financial position. The benefits provided under the long-term disability plan are income replacement based on a percentage of base wages and a continuation of existing dental and medical coverage. In providing these benefits, Foresters Financial has in certain cases insured the benefit with a third party provider, while in other cases the benefits are paid by Foresters Financial. The obligation relates to claims under the non-insured component of the benefits payable.

c) Employee benefit expenses

The following amounts were charged to operating expenses on the consolidated statement of comprehensive income for expenses related to employee benefit plans:

	2017		2016	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Defined benefit pension and post retirement plan expenses:				
Current service cost (income)	7,994	(20)	7,892	(4)
Net interest cost	1,676	545	1,426	647
	9,670	525	9,318	643
Defined contribution pension plans:				
Employer contributions	4,289		3,995	

Long-term disability benefit income amounted to $103 and $377 during December 31, 2017 and December 31, 2016 respectively and was included in gross benefits on the consolidated statement of comprehensive income.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Employee benefit plans (continued)

d) Actuarial gains (losses) on employee benefit plans

The movements in accumulated net actuarial gains and losses included in employee benefit assets and obligations during the year due to differences between actual and expected experience on the plan assets and accrued benefit obligations, together with changes in actuarial assumptions to reflect economic conditions at year-end are summarized below:

	2017 $	2016 $
Accumulated net actuarial losses as at January 1	(85,205)	(80,322)
Changes during the year recorded in OCI:		
Experience adjustments on plan liabilities	1,108	700
Experience adjustments on plan assets	6,350	4,898
Changes due to financial assumptions	(24,250)	(27,411)
Changes due to demographic assumptions	280	9,395
Limiting a net defined benefit asset to its asset ceiling	-	2,416
	(16,512)	(10,002)
Effects of change in foreign exchange rate	(7,420)	5,119
Accumulated net actuarial losses as at December 31	(109,137)	(85,205)

e) Overview of assumptions

The weighted average actuarial assumptions used in the measurement of Foresters Financial's benefit obligations and expenses were as follows:

	2017		2016	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit obligations				
Discount rate	3.4	3.3	3.8	3.7
Future pension growth	2.2	7.2	2.2	7.2
Rate of compensation increase	3.5	-	3.5	-
Inflation rate	2.1	-	2.1	-
Assumptions used to calculate benefit expenses				
Discount rate	3.8	3.7	4.1	3.9
Future pension growth	2.2	7.4	2.2	7.4
Rate of compensation increase	3.9	-	3.8	-
Inflation rate	2.1	-	2.1	-

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Employee benefit plans (continued)

The discount rate is based on current market interest rates of high-quality bonds for a term to reflect the duration of expected future cash outflows for pension benefit payments.

Reasonable possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

December 31, 2017	Defined benefit obligation	
	Increase	Decrease
	$	$
Discount rate (1% movement)	(55,993)	76,119
Future pension growth (0.25% movement)	3,896	(11,896)
Future compensation growth (0.25% movement)	3,274	(3,160)
Inflation rate (0.25% movement)	844	(9,383)
Life expectancy (movement by 1 year)	12,363	(12,178)

December 31, 2016	Defined benefit obligation	
	Increase	Decrease
	$	$
Discount rate (1% movement)	(50,978)	66,239
Future pension growth (0.25% movement)	446	(6,898)
Future compensation growth (0.25% movement)	2,614	(2,525)
Inflation rate (0.25% movement)	1,516	(8,932)
Life expectancy (movement by 1 year)	11,080	(11,153)

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 12 years (2016: 11 years) and for other retirement benefit plans was 0 years (2016: 2 years).

Assumptions regarding future mortality were based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the report date were as follows:

	2017			2016		
	U.S.	Canada	U.K.	U.S.	Canada	U.K.
Longevity at age 65 for current pensioners						
Males	21	24	23	21	24	23
Females	22	24	24	22	24	25
Longevity at age 65 for current members aged 45						
Males	21	25	25	20	25	25
Females	22	25	26	21	25	26

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Employee benefit plans (continued)

The Medicare (post 65 years of age) inflation assumption for U.S. benefits is 7.0% for 2018 (2017: 7.3%) decreasing to 4.5% by 2037 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 5.7% for 2018 (2017: 5.7%), decreasing to 4.5% in 2036 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2017:

December 31, 2017	1.0% increase $	1.0% decrease $
Effect on service cost plus interest cost	61	(53)
Effect on accrued benefit obligations	1,386	(1,194)

December 31, 2016	1.0% increase $	1.0% decrease $
Effect on service cost plus interest cost	75	(64)
Effect on accrued benefit obligations	1,628	(1,401)

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

9. GOODWILL AND INTANGIBLE ASSETS

a) Reconciliation of carrying amount

		Indefinite useful life	Finite useful life				
	Goodwill $	Asset management contracts $	Unit cost reductions $	Distribution network $	Management contracts and customer relationships	Software $	Total $
Net carrying value as at December 31, 2016	37,877	156,630	2,617	863	48,848	21,601	268,436
Additions - internally developed	-	-	-	-	-	2,716	2,716
Amortization	-	-	(502)	(863)	(4,648)	(10,476)	(16,489)
Effect of change in foreign exchange rates	(1,997)	(9,669)	59	-	1,095	476	(10,036)
Net carrying value as at December 31, 2017	35,880	146,961	2,174	-	45,295	14,317	244,627
Net carrying value as at December 31, 2015	32,280	156,254	3,836	1,779	60,725	30,942	285,816
Acquisitions through business combinations	6,561	5,035	-	-	3,791	-	15,387
Additions - internally developed	-	-	-	-	-	7,247	7,247
Amortization	-	-	(538)	(851)	(4,552)	(14,822)	(20,763)
Effect of change in foreign exchange rates	(964)	(4,659)	(681)	(65)	(11,116)	(1,766)	(19,251)
Net carrying value as at December 31, 2016	37,877	156,630	2,617	863	48,848	21,601	268,436

The following table shows the gross and net carrying values of intangibles with a finite useful life:

	Gross carrying value $	Accumulated depreciation $	Net carrying value $
December 31, 2017			
Unit cost reductions	5,605	3,431	2,174
Distribution network	5,657	5,657	-
Management contracts and customer relationships	56,469	11,174	45,295
Software	80,619	66,302	14,317
	148,350	86,564	61,786
December 31, 2016			
Unit cost reductions	5,594	2,977	2,617
Distribution network	4,367	3,504	863
Management contracts and customer relationships	56,123	7,275	48,848
Software	82,526	60,925	21,601
	148,610	74,681	73,929

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

9. Goodwill and intangible assets (continued)

Included in software was $1,835 (2016: $Nil) that was still under development and had not been amortized. During the year, software costs amounting to $9,660 (2016: $8,535) were expensed and recorded in operating expenses.

b) Recoverable amount of goodwill and intangible assets with an indefinite life

For the purposes of impairment testing, goodwill has been allocated to Foresters Financial's CGUs as follows:

	2017 $	2016 $
U.S. asset management	29,319	31,316
Canadian asset management	6,561	6,561
	35,880	37,877

In the U.S., Foresters Financial Holding Company, Inc.'s ("FFHC") asset management operation is classified as a cash-generating unit ("CGU"). In Canada, FAM and FFIMCO's asset management operation is classified as a CGU. Goodwill and the intangible assets consisting of asset management contracts, distribution network and software are allocated to these cash-generating units. These CGUs are tested for impairment at least annually. The recoverable amounts are based on the value in use which is determined by using discounted cash flow projections based on a 5 year medium term plan and applying a terminal value multiple based on the last year of the projection. The terminal value multiple is determined using the discount rate and the terminal growth rate.

The recoverable amount exceeds the carrying amount of the assets and as a result an impairment loss did not need to be recognized. In determining the key assumptions management completed an extensive review and the key assumptions identified were:

	2017		2016	
	US %	Canada %	US %	Canada %
Growth rate for revenue	5.84%-11.37%	0.20% - 11.40%	5.25%-7.95%	-
Terminal period growth rate	2.00%	2.00%	2.00%	-
Discount rate (after-tax)	16.60%	16.80%	13.46%	-

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

9. Goodwill and intangible assets (continued)

The increase in the portfolio of assets under management for the next five years is in line with the growth experienced in recent years. The growth rate is a lower rate than used for growth during the initial forecast period in accordance with IAS 36. The discount rate is the cost of capital based on the Capital Asset Pricing Model specific to the activity of the CGU and the industry. The discount rate is based on a 20 year treasuries yield and includes factors for specific risks such as transaction size and forecasting risk.

If all other assumptions remain the same, the recoverable amount and the carrying amount of the CGU would be equal if any one of the following occurs:

	2017		2016	
	US	Canada	US	Canada
	%	%	%	%
Growth rate for EBITA decreases by	3.78%	1.70%	0.10%	-
Growth rate for terminal period decreases by	2.50%	0.70%	0.04%	-
Discount rate (after-tax) increases by	1.18%	0.44%	0.10%	-

10. FINANCIAL RISK MANAGEMENT

Foresters Financial offers insurance, wealth and asset management products and services, which subject the organization to a broad range of financial risks. Foresters Financial has specific policies in place to manage these risks such as the enterprise-wide Risk Management Policy, Change Management Policy, Investment Policy, Pricing Policy, Dividend Policy, Policy on the Criteria for Changing Adjustable Certificates, Reinsurance Risk Management Policy and Capital Management Policy, all of which are annually approved by the Board. Foresters Financial's goal in managing financial risk is to ensure that the outcomes of activities involving elements of risk are consistent with Foresters Financial's objectives and risk appetite, and to maintain an appropriate risk/reward balance while protecting Foresters Financial's balance sheet from events that have the potential to impair its financial strength.

Foresters Financial's Risk Management Policy sets out the standards of practice related to the governance, identification, measurement, monitoring, control and mitigation of risks. Foresters Financial manages risk taking activities against an overall risk appetite, which defines the amount and type of risks it is willing to assume. The risk appetite reflects Foresters Financial's financial condition, risk tolerance and business strategies. Financial risk appetite measures are defined in relation to internal and regulatory capital requirements, liquidity and earnings sensitivities.

The key financial risks related to financial instruments, including derivative financial instruments are credit risk, market risk (currency risk, interest rate risk and equity market risk), insurance risk and liquidity risk. The following sections describe how Foresters Financial manages each of these risks.

a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfill its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to Foresters Financial's general fund invested assets and an increase in provisions for future credit impairments which are included in insurance contract liabilities.

The Board approved Investment Policy sets out the policies and procedures to manage credit risk. Specific guidelines have been established to minimize undue concentration of exposure to a single debtor or a group of related debtors; to limit the purchase of fixed income securities to investment-grade assets; and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

Asset portfolios are monitored continuously and reviewed regularly with the Risk and Investment Committee of the Board.

Credit risk also arises from reinsurance activities. The inability or unwillingness of reinsurance counterparties to fulfill their contractual obligations related to the liabilities ceded to them could lead to an increase in insurance contract liabilities. The Reinsurance Risk Management Policy sets out the minimum risk rating criteria that all reinsurance counterparties are required to meet. Reinsurance is placed with counterparties that have an AM Best financial strength rating of A- (excellent) or better and concentration of credit

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

risk is managed by following guidelines approved each year by the Board of Directors. Management regularly monitors the creditworthiness of reinsurers to ensure compliance with Foresters Financial guidelines.

i) Maximum exposure to credit risk

Foresters Financial's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses.

Foresters Financial's maximum credit exposure was as follows:

	2017 $	2016 $
Cash, cash equivalents and short-term securities	296,724	359,702
Bonds	7,208,479	7,114,582
Derivative financial instruments	16,100	1,986
Other invested assets	161,173	155,295
Loans to certificateholders	359,254	368,721
Reinsurance assets	348,658	315,808
Accrued investment income	69,627	70,392
Amounts due from reinsurers	26,245	12,855
Accounts receivable and other receivables	47,078	47,921
Maximum exposure to credit risk	8,533,338	8,447,262

ii) Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics.

Foresters Financial establishes enterprise-wide investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Foresters Financial limits its exposure to a single issuer, including total exposure to a parent company, its subsidiaries and any other entity for which the parent acts as a guarantor. Total exposure includes the sum of Foresters Financial's investment in bonds, equities, money market instruments and derivative financial instruments. Limits are based on the senior consolidated debt ratings of the parent company and range from 5% of total assets for AAA rated companies to 1% of total assets for BBB rated companies. Segment specific guidelines further restrict Foresters Financial investments in a single issuer.

Foresters Financial had no exposure in excess of the limits specified above to any single investee or its related group of companies.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

Bonds and other fixed-term securities

Investment concentration in any one investee or its related group of companies, except for securities issued by or guaranteed by the U.S., Canadian, U.K. and certain foreign governments and government agencies, is limited to 3.5% of the bond portfolio for the U.S., 5.0% of the bond portfolio for Canada and 5.0% of the bond portfolio for the U.K. These limits apply to AAA rated bonds and other fixed-term securities, and are further constrained for lower rated bonds in all three countries of operation.

The following table provides details of the carrying value of bonds by industry sector and country of residence of the issuer:

	2017			2016		
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	$ 1,345,386	$ 136,509	$ 1,481,895	$ 1,331,420	$ 88,882	$ 1,420,302
Canadian federal government	53,328	41,916	95,244	110,302	53,789	164,091
Canadian provincial and municipal government	544,083	64,138	608,221	665,854	49,734	715,588
U.K. government	406,342	55,766	462,108	436,473	44,566	481,039
Other foreign governments	131,511	11,422	142,933	133,590	10,041	143,631
Total government bonds	2,480,650	309,751	2,790,401	2,677,639	247,012	2,924,651
By industry sector						
Financial	1,357,461	405,764	1,763,225	1,219,591	379,954	1,599,545
Industrial	439,896	67,403	507,299	371,278	84,749	456,027
Utilities	411,383	75,172	486,555	355,828	64,360	420,188
Energy	250,032	40,755	290,787	256,232	31,060	287,292
Consumer Staples	231,945	58,328	290,273	261,705	67,483	329,188
Consumer	221,838	48,735	270,573	281,039	37,626	318,665
Communications	182,382	63,507	245,889	187,875	72,966	260,841
Technology	199,221	30,593	229,814	146,998	25,055	172,053
Health Care	166,831	1,283	168,114	149,458	10,579	160,037
Basic materials	71,279	11,880	83,159	98,396	24,812	123,208
Other	74,922	7,468	82,390	58,802	4,085	62,887
Total corporate bonds	3,607,190	810,888	4,418,078	3,387,202	802,729	4,189,931
	$ 6,087,840	$ 1,120,639	$ 7,208,479	$ 6,064,841	$ 1,049,741	$ 7,114,582
Allocation by country of issuer:						
United States	$ 3,615,277	$ 681,970	$ 4,297,247	$ 3,632,976	$ 633,372	$ 4,266,348
Canada	1,483,742	329,764	1,813,506	1,517,407	269,834	$ 1,787,241
U.K.	520,242	71,182	591,424	573,111	60,574	$ 633,685
Other	468,579	37,723	506,302	341,347	85,961	$ 427,308
	$ 6,087,840	$ 1,120,639	$ 7,208,479	$ 6,064,841	$ 1,049,741	$ 7,114,582

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

The credit rating of the bond portfolio was as follows:

	2017		2016	
Bond quality	**$**	**%**	**$**	**%**
Investment grade:				
AAA	906,625		1,076,382	
AA	2,254,813		2,167,761	
A	2,549,161		2,383,831	
BBB	1,416,063		1,370,245	
	7,126,662	98.9	6,998,219	98.4
BB and lower	81,817	1.1	116,363	1.6
Total bonds	7,208,479	100.0	7,114,582	100.0

Mortgages

Mortgages are secured by first recourse on the underlying property and carry a fixed interest rate. Foresters Financial is not currently entering into any new mortgage agreements.

Foresters Financial limits its concentration in mortgages, including mortgage backed securities, collateralized mortgage obligations and collateralized mortgage backed securities to 25.0% of Foresters Financial's total assets.

Equities

Investments in common and preferred stocks are limited to 22.0% and 3.0% respectively of Foresters Financial's total assets. 100.0% of Foresters Financial's equity portfolio is invested in publicly listed corporations.

Own–use and investment property

Investments in real estate are limited to 15.0% of Foresters Financial's total assets.

iii) Impairments

An allowance for losses on AFS assets and loans and receivables is established when the asset becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the asset and related investment income. The carrying value of an impaired asset is reduced to its estimated net realizable value at the time of recognition of impairment. Impairment losses on invested assets are shown in note 4e.

Insurance contract liabilities include an asset default provision for credit losses for future asset defaults as outlined in note 12.

10. Financial risk management (continued)

b) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in future cash flows. Market risk comprises at least three types of risk:

- Currency risk
- Interest rate risk
- Equity market risk

i) Currency risk

Currency risk for financial instruments arises from a mismatch between the currency of the insurance and investment contract liabilities and the currency of the assets designated to support those liabilities. Foresters Financial matches the currency of its assets with the currency of the liabilities they support to mitigate economic exposure to changes in exchange rates.

Administrative expenses

Foresters Financial incurs the majority of its U.S. branch administrative expenses in Canadian dollars and is therefore exposed to foreign exchange rate fluctuations between the Canadian and U.S. dollars. Foresters Financial enters into foreign exchange forward contracts (see note 4d) to reduce a portion of the impact of foreign exchange rate fluctuations on the calculation of U.S. branch insurance contract liabilities. This calculation includes a provision for future certificate maintenance expenses, which are incurred in Canadian dollars. The exchange rate assumed in this calculation is based on exchange rates implicit in these contracts. While these foreign exchange forward contracts effectively offset the impact of foreign exchange rate fluctuations on a significant portion of U.S. branch insurance contract liabilities, Foresters Financial is exposed to foreign exchange rate fluctuations on expenses in excess of those covered by the foreign exchange forward contracts. A 10.0% increase in the U.S. dollar against the Canadian dollar would be expected to reduce U.S. branch insurance contract liabilities by $6,991 (2016: $2,867). A 10.0% decrease in the U.S. dollar against the Canadian dollar would be expected to increase U.S. branch insurance contract liabilities by $7,620 (2016: $3,150).

Foreign operations

A substantial portion of Foresters Financial's operations is denominated in currencies other than Canadian dollars. If the Canadian dollar strengthened relative to non-Canadian currencies, the translated value of reported earnings and surplus from the non-Canadian denominated operations would decline. Foresters Financial uses financial measures such as constant currency calculations to monitor the effect of such currency fluctuations.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

The following table shows the impact on net income and surplus of a 1.0% strengthening in the Canadian dollar relative to the U.S. dollar and the U.K. pound:

	Change in total comprehensive income		Change in surplus	
	2017 $	2016 $	2017 $	2016 $
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	221	392	(14,525)	(15,892)
U.K. pound	(282)	357	(1,730)	(1,369)

A 1.0% weakening in rates would have an equal and opposite impact to that displayed above.

ii) Interest rate risk

Interest rate risk exists if asset and liability cash flows are not matched and interest rates change, causing a change in the projected asset cash flows or, in some cases, a change in liability cash flows. Foresters Financial mitigates its exposure to interest rate risk by utilizing a formal process for managing the matching of assets and liabilities which involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in that segment.

For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the product liability cash flows or durations. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.

For products with less predictable timing of benefit payments, investments may be made in equities or fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments as described below.

The risks associated with the mismatch in portfolio duration, cash flow and asset prepayment exposure are quantified and reviewed regularly.

Under CALM, projected cash flows from current assets and liabilities, along with future reinvestment rate assumptions, are used to determine insurance contract liabilities. Asset depreciation assumptions are made when projecting future asset cash flows appropriate to each asset class. Testing is performed under several prescribed interest rate scenarios (including increasing and decreasing rates) to make appropriate provision for reinvestment or disinvestment risk.

Many annuity and universal life insurance certificates have minimum credited interest rate guarantees ranging from 0.25% to 4.5% (2016: 0.25% to 4.5%). Other products have implicit guarantees. Dividend paying products are sensitive to a sustained decline in interest rates to the extent dividends cannot be reduced below zero. The profitability of non-dividend

10. Financial risk management (continued)

paying products depends in part on the relationship between interest rates assumed in pricing compared to investment returns currently available.

One method of measuring interest rate risk is to determine the effect on insurance contract liabilities and surplus of an immediate increase or decrease in the level of interest rates.

A 1.0% reduction in interest rates would result in an increase in insurance contract liabilities and a decrease in surplus of approximately $83,846 (2016: $55,091) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities and an increase in surplus of approximately $60,506 (2016: $41,980).

Bonds designated as AFS generally do not support insurance contract liabilities or investment contract liabilities. Changes in the fair value of AFS bonds are recorded in OCI and cause a corresponding change in surplus. For Foresters Financial AFS bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2017 would result in an estimated after-tax decrease in OCI of $25,407 (2016: $24,511). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $17,467 (2016: $14,518).

iii) Equity market risk

Some insurance contract liabilities and investment contract liabilities such as products with long duration are supported in part by equities. There will be impacts on these liabilities, with related changes in surplus, as equity market values fluctuate. A 10.0% increase in equity markets would be expected to decrease insurance contract liabilities and increase surplus by approximately $30,000 (2016: $20,827). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities and decrease surplus by approximately $35,015 (2016: $24,464).

Equities designated as AFS generally do not support insurance contract liabilities or investment contract liabilities. Changes in the fair value of AFS equities are recorded in OCI and cause a corresponding change in surplus. For AFS equities, an immediate 10.0% increase in stock prices at December 31, 2017, would result in an estimated after-tax increase in OCI of $16,516 (2016: $18,212). Conversely, an immediate 10.0% decrease in stock prices would have an equal and opposite effect.

c) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, certificate holder behavior and expenses.

Foresters Financial sells participating and non-participating insurance and financial investment products. The types of products include life, health and annuity. Each product can have a number of contingencies associated with it, including mortality, lapse and expense risk. Assumptions are made based on company and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information as outlined in the Pricing Policy.

10. Financial risk management (continued)

These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

To the extent that emerging experience is more favorable than assumed in the measurement of insurance contract liabilities, income will emerge. If emerging experience is less favorable, losses will result. Foresters Financial's objective is to ensure that sufficient insurance contract liabilities have been set up to cover these obligations.

The following risk factors are components of insurance risk:

Mortality risk – is the risk that death claims are different than assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by certificate holders or agents, or improper claims adjudication.

Lapse risk – is the risk that withdrawals and lapse rates are different than assumed. This risk can occur on both insurance and investment contracts. Lapses that are higher than assumed are often detrimental to profit especially if they occur prior to recovering costs to issue a certificate. Lapses that are lower than assumed can also reduce profits on certificates that have generous interest rate guarantees or on certificates where the increasing cost of insurance benefits exceeds the level contractual charges.

Expense risk – is the risk that maintenance expense levels will be higher than assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions. This risk can occur on insurance and investment contracts.

Foresters Financial manages insurance risk at an enterprise-wide level by establishing Board approved polices and guidelines for product development and product pricing which require that all material risks be provided for at the time of product design and pricing of new products. Additionally, experience studies are performed annually, the outcome of which is used to update the valuation of insurance contract liabilities and the pricing of new and existing products. Foresters Financial also uses reinsurance to transfer risks as specified in its Reinsurance Risk Management Policy.

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed in note 12d. Annually, as part of Dynamic Capital Adequacy Testing ("DCAT"), Foresters Financial measures the effects of large and sustained adverse movements in insurance risk factors on the calculation of insurance contract liabilities. Sensitivities to changes in actuarial assumptions are provided in note 12d.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

d) Liquidity risk

Liquidity risk is the risk that Foresters Financial will not be able to meet all cash outflow obligations as they come due. Foresters Financial liquidity requirements are closely managed through approximate cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between certificate holder requirements and asset yields.

Operating and strategic liquidity levels are managed against established guidelines.

Foresters Financial ensures adequate liquidity on a day-to-day operational basis by maintaining a specified minimum level of highly liquid assets (defined as all short-term investments issued by major banks and the governments of the U.S., Canada and the U.K.). Strategic liquidity is measured under both immediate (within one month) and ongoing (within one year) stress scenarios. Foresters Financial's target liquidity ratio under both scenarios is 200.0%, a ratio that would more than support the highest claims-paying ratings for Foresters Financial, in addition to providing a significant margin above management's expected liquidity requirements. Foresters Financial's liquidity ratio is defined as allowable liquid assets divided by the risk-adjusted liquidity of liabilities. The risk-adjusted liquidity of liabilities is calculated by assessing the probability of a certificate holder surrendering a certificate for cash under each of the two scenarios, adjusted for the ability of the certificate holder to surrender under its contractual provisions.

The following chart shows Foresters Financial's strategic liquidity ratio:

	2017		2016	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Allowable liquid assets	$ 7,625,111	$ 7,874,465	$ 7,594,640	$ 7,834,528
Risk-adjusted liquidity of liabilities	2,628,313	3,158,925	2,740,683	3,389,678
Liquidity ratio	290.1%	249.3%	277.1%	231.1%

Based on Foresters Financial's historical cash flows and current financial performance, management believe that the cash flow from Foresters operating activities will continue to provide sufficient liquidity for Foresters Financial to satisfy debt service obligations and to pay other expenses.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

Contractual maturities

The contractual maturities of Foresters Financial's significant financial assets and liabilities, insurance contract liabilities, investment contract liabilities and net investments for account of segregated fund unit holders as at December 31 are shown in the following table:

2017	On demand or within 1 year or less $	2-5 years $	6-15 years $	Over 15 years $	Total $
Cash, cash equivalents and short-term securities	296,724	-	-	-	296,724
Bonds	208,801	1,194,628	2,839,533	2,965,527	7,208,489
Derivative financial instruments	18,872	9,193	(10,466)	(6,795)	10,804
Reinsurance assets	646	26,067	108,435	213,510	348,658
Insurance contract liabilities	(231,733)	(1,016,762)	(2,476,552)	(3,403,736)	(7,128,783)
Investment contract liabilities	(162,189)	-	-	-	(162,189)
Benefits payable	(104,909)	(70,867)	-	-	(175,776)
Net investments for account of segregated fund unit holders	7,832,864	-	-	-	7,832,864
Investment contract liabilities for account of segregated fund unit holders	(7,832,864)	-	-	-	(7,832,864)
	26,212	142,259	460,950	(231,494)	397,927
2016					
Cash, cash equivalents and short-term securities	359,702	-	-	-	359,702
Bonds	155,654	1,455,705	2,644,592	2,858,631	7,114,582
Derivative financial instruments	3,114	4,813	(11,684)	(11,046)	(14,803)
Reinsurance assets	(673)	20,858	104,917	190,706	315,808
Insurance contract liabilities	(203,899)	(1,068,949)	(2,592,597)	(3,129,257)	(6,994,702)
Investment contract liabilities	(161,805)	-	-	-	(161,805)
Benefits payable	(90,404)	(66,937)	-	-	(157,341)
Net investments for account of segregated fund unit holders	3,673,561	-	-	-	3,673,561
Investment contract liabilities for account of segregated fund unit holders	(3,673,561)	-	-	-	(3,673,561)
	61,689	345,490	145,228	(90,966)	461,441

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

10. Financial risk management (continued)

Almost all investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date and the surrender amount would be approximately equal to the liability shown on the current statement of financial position. The cash flows are shown in the “On demand or within 1 year or less” column.

Investment contract liabilities for the account of segregated fund unit holders are payable or transferable on demand. The offsetting net investments for the account of segregated fund unit holders is shown on the same basis as these assets would be liquidated when necessary to settle the liability. These cash flows are shown in the “On demand or within 1 year or less” column.

Actual maturities for bonds may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. Both contractual and operating lease commitments are disclosed in note 22.

11. OTHER LIABILITIES

Other liabilities were comprised of the following:

	2017 $	2016 $
Accounts payable and accrued liabilities	111,248	119,646
Payroll, other compensation and benefits	57,803	60,145
Current income tax payable	23,374	19,102
Deferred tax liabilities	21,745	5,484
Premiums paid in advance	16,145	14,371
Reinsurance financing provision	13,851	17,444
Due to reinsurers	6,135	4,881
Other liabilities	13,197	12,138
	263,498	253,211

The carrying value of these liabilities approximates their fair value. Within 12 months from the reporting date, $187,381 (2016: $189,388) will be realized.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

12. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

a) Nature and composition of insurance contract liabilities and related reinsurance assets

Insurance contract liabilities include life, health and annuity lines of business. Insurance contract liabilities have been calculated using CALM and are reported gross of ceded reinsurance which is recorded as Reinsurance assets. CALM requires assumptions to be made about future cash flows, thus there is risk that actual results will vary from those estimates. The risk varies in proportion to the length of the estimation period and the potential volatility of each assumption. To recognize uncertainty in establishing these estimates and to allow for possible deviation in experience, the Appointed Actuary is required to include a margin in each assumption, which has the effect of increasing the insurance contract liabilities. A range of allowable margins is prescribed by the Canadian Institute of Actuaries (“CIA”) Standards of Practice. For interest rate risk, the Appointed Actuary projects multiple cash flow scenarios for each material product line to determine the appropriate margin for adverse deviation. In general, in setting these margins for adverse deviation, the Appointed Actuary has aimed for a level of conservatism in keeping with the risk profile of the organization and its operation. With the passage of time, and resulting reduction in estimation risk, these margins will be included in future income to the extent they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a certificate, the effect of those changes is recognized in income immediately.

Foresters Financial limits the amount of loss on any one policy by reinsuring certain levels of risk with third party reinsurers. Maximum limits have been established for the retention of risks associated with life insurance certificates by line of business. Foresters Financial’s gross exposure to insurance contract liabilities is partially offset by reinsurance assets on account of certain risks ceded to reinsurers.

Foresters Financial’s net insurance contract liabilities as at December 31 were as follows:

	2017 $	2016 $
Insurance contract liabilities (gross)	7,128,783	6,994,702
Reinsurance assets	348,658	315,808
Net insurance contract liabilities	6,780,125	6,678,894

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

12. Insurance contract liabilities and reinsurance assets (continued)

b) Reconciliation of changes in insurance contract liabilities net of reinsurance assets

Reconciliation of changes in insurance contract liabilities net of reinsurance assets

	2017	2016
	Net insurance contract liabilities $	Net insurance contract liabilities $
Beginning of year	6,678,894	6,702,368
New business	136,976	165,070
Refinement of assumptions	72,334	50,467
Refinement of actuarial methods and models	(39,139)	36,435
Change in inforce due to changes in interest rates	169,396	85,027
Change in inforce from other movements	57	2,924
Change in contract liability	339,624	339,923
Effect of change in foreign exchange rates	(238,393)	(363,397)
End of year	6,780,125	6,678,894

The amounts presented above are net of reinsurance assets. This presentation is consistent with the method used in valuing actuarial liabilities. The significant movements during the year resulted from the change in interest rates and the change in foreign exchange rates relative to the Canadian dollar. Refinements of methods and models include reinsurance and other model enhancements.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

12. Insurance contract liabilities and reinsurance assets (continued)

Changes resulting from refinements of assumptions and refinement of methods and models in the above tables are shown in more detail as follows:

	2017 $	2016 $
Refinement of assumptions:		
Updated maintenance expense assumptions	(4,232)	14,109
Updated mortality and lapse assumptions for recent experience	70,549	23,620
Updated dividend assumptions	11,427	12,346
Updated fraternal experience assumptions	(1,726)	-
Updated credit spread assumptions	(2,525)	393
Updated investment expense assumptions	(1,666)	-
Other	507	-
	72,334	50,468
Refinement of methods and models:		
Dynamic dividend model enhancement	(2,401)	19,175
Liability model enhancements	(27,858)	9,359
Asset model enhancements	(7,293)	-
Refinement to reinsurance modeling	-	4,838
Regulation and standards changes	6,170	-
Other model improvements	(7,757)	3,063
	(39,139)	36,435

Asset default provisions made for anticipated future losses of principal and interest on investments and included as a component of actuarial liabilities are shown in the table below:

	2017 $	2016 $
Balance, beginning of year *	115,960	121,775
Net strengthening of provision	19,392	15,422
Effect of change in foreign exchange rates	(4,973)	(21,237)
Balance, end of year *	130,379	115,960

* Provisions are net of losses expected to be passed-through via credited interest rates and dividends.

12. Insurance contract liabilities and reinsurance assets (continued)

c) Composition of assets supporting liabilities and surplus

Foresters Financial segments its business taking into account the different liability profiles of its products. Based on these profiles, Foresters Financial has invested in fixed income securities, equities, mortgages and financial derivatives with characteristics that closely match the characteristics of the related liability. The liabilities are matched with assets denominated in the same currency in order to avoid unintended exposure to foreign currency fluctuations. The fair value of insurance contract liabilities is determined by reference to the value of assets supporting these liabilities. Therefore, changes in the fair value of insurance contract liabilities primarily offset changes in the fair value of the invested assets supporting these liabilities.

The following chart shows the details of assets supporting liabilities and surplus by segment and by line of business:

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

12. Insurance contract liabilities and reinsurance assets (continued)

Assets supporting liabilities and surplus

Composition of assets supporting all liabilities and surplus

	December 31, 2017					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North America Life Insurance and Annuity	$ 166,791	$ 5,918,180	$ 264,555	$ 476,007	$ 810,194	$ 7,635,727
North America Asset Management	108,925	-	14,436	-	56,042	179,403
U.K. Savings, Investments and Protection	16,566	723,668	460,362	8,784	152,363	1,361,743
Membership **	2,662	237,740	-	-	11,258	251,660
Corporate	1,780	328,891	32,882	51,736	6,873	422,162
	$ 296,724	$ 7,208,479	$ 772,235	$ 536,527	$ 1,036,730	$ 9,850,695

* Other invested assets includes mortgages, loans to certificateholders, limited partnership investments and investment properties.
Intersegment notes are also included in other invested assets. Intersegment transactions consist primarily of internal financing agreements.
They are measured at fair market values prevailing when the arrangements were negotiated. Intersegment notes and related interest eliminate on consolidation.
on the consolidated statements of comprehensive income. Intersegment notes and related interest eliminate on consolidation.

** Membership includes membership operations in the U.S., Canada and the U.K., as well as membership surplus.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

12. Insurance contract liabilities and reinsurance assets (continued)

Assets supporting liabilities and surplus by division- continued

Composition of assets supporting all liabilities and surplus

	December 31, 2016					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North America Life Insurance and Annuity	$ 212,773	$ 5,748,528	$ 260,997	$ 489,111	$ 756,231	$ 7,467,640
North America Asset Management	108,587	-	51,053	15,668	69,080	244,388
U.K. Savings, Investments and Protection	31,505	758,532	411,693	8,900	150,312	1,360,942
Membership **	577	218,049	5,328	-	5,806	229,760
Corporate	6,260	389,473	59,802	12,323	782	468,640
	$ 359,702	$ 7,114,582	$ 788,873	$ 526,002	$ 982,211	$ 9,771,370

* Other invested assets includes mortgages, loans to certificateholders, limited partnership investments and investment properties.
Intersegment notes are also included in other invested assets. Intersegment transactions consist primarily of internal financing agreements.
They are measured at fair market values prevailing when the arrangements were negotiated. Intersegment notes and related interest eliminate on consolidation.
on the consolidated statements of comprehensive income. Intersegment notes and related interest eliminate on consolidation.

** Membership includes membership operations in the U.S., Canada and the U.K., as well as membership surplus.

12. Insurance contract liabilities and reinsurance assets (continued)

d) Assumptions

The nature and method of determining the more significant assumptions made by Foresters Financial in valuing its insurance contract liabilities are described in the following paragraphs. These valuation assumptions are based on best estimates of future experience together with a margin for adverse deviation. Actual experience is monitored to assess whether the assumptions remain appropriate. Best estimates are reviewed at least annually and are changed as warranted. Margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins for adverse deviations are reviewed periodically for continued appropriateness.

Mortality and morbidity

Mortality relates to the occurrence of death. Mortality is a key assumption for life insurance and certain forms of annuities. Mortality assumptions are differentiated by factors such as gender, underwriting class, policy type and geographic market.

Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity is a key assumption for long-term care insurance, disability insurance, critical illness and other forms of health benefits. Morbidity assumptions are established for each type of morbidity risk and geographic market.

Mortality and morbidity assumptions are based on Foresters Financial's internal experience as well as industry past and emerging experience. Although the pattern of claims and benefit payments may be close to that indicated by past experience, some deviation in that pattern is probable. Annual studies are performed to examine mortality and morbidity experience where Foresters Financial's actual experience is compared to both its expected assumptions and industry expected values to confirm that appropriate assumptions are being made about the projected benefit patterns. Consistent with actuarial standards, projected improvements in mortality experience are reflected where appropriate.

Lapse rates

Certificate holders may either surrender their certificates for cash value, where applicable or allow their certificates to lapse by choosing to discontinue payment of their premiums. Foresters Financial performs annual studies to review lapse and surrender experience, and bases its estimate of future lapse rates on previous experience for each block of business.

Foresters Financial relies on industry experience where its own experience lacks statistical credibility. Selection of certain lapse rates, especially for long duration lapse supported business, are based on professional guidance.

Investment returns

Foresters Financial segments assets supporting insurance contract liabilities by geographic market and by line of business and establishes investment strategies for each liability segment. The computation of actuarial liabilities takes into account projected cash flows of net investment income on assets supporting these liabilities, as well as income expected

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

12. Insurance contract liabilities and reinsurance assets (continued)

to be earned (or foregone) on reinvestments (or financing) of mismatched cash flows. Uncertainties exist with respect to projections of risk-free interest rates, credit spreads and the magnitude of credit losses resulting from asset depreciation. Foresters Financial accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of invested assets).

Maintenance expenses

Amounts are included in actuarial liabilities to provide for the costs of administering inforce certificates, including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of certificate statements, and related indirect expenses and overhead. Annual expense studies are conducted to assess current cost structures by product and region. The process of forecasting expenses requires estimates to be made of factors such as inflation, salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future certificate maintenance expenses are based on Foresters Financial's experience.

Foreign currency

Currency risk is addressed in note 10b.

In note 10b market risk is addressed, and also includes the sensitivity of the insurance contract liabilities to changes in the types of market risk that most significantly impact Foresters Financial.

Dividends

Future certificate holder dividends are included in the determination of actuarial liabilities for participating certificates, with the assumption that certificate holder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the annual Board approved dividend policy.

The following table shows the increase (decrease) in after-tax net income which would result if there were changes in key assumptions relating to insurance contract liabilities net of reinsurance:

	Change	**2017 $**	**2016 $**
Mortality Rates			
adversely impacted by increase	+ 2%	(61,929)	(56,985)
adversely impacted by decrease	- 2%	(2,040)	(2,134)
Lapse Rates	10% Adverse	(96,574)	(91,785)
Maintenance Expense Level	+ 10%	(64,024)	(62,032)

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13. INVESTMENT CONTRACT LIABILITIES

Reconciliation of changes in investment contract liabilities

The reconciliation of changes in investment contract liabilities during the year is shown in the table below:

	2017 $	2016 $
Balance, beginning of year	161,805	172,064
Deposits received during the year	3,243	4,598
Surrenders and withdrawals	(9,634)	(11,091)
Interest credited and other	6,127	17,272
Effect of change in foreign exchange rates	648	(21,038)
Balance, end of year	**162,189**	**161,805**

14. CAPITAL MANAGEMENT

Foresters Financial's capital base consists of retained earnings and AOCI as shown on the consolidated statement of changes in surplus.

Foresters Financial's objective with respect to capital management is to maintain a consistently strong capital position, to comply with local solvency requirements in all jurisdictions in which Foresters Financial operates and to build on Foresters Financial's value by taking advantage of business and investment opportunities as they arise.

In accordance with the Board approved Capital Management Policy, Foresters Financial has established internal capital targets for capital adequacy at both a consolidated and a divisional level. These targets exceed local minimum statutory capital requirements in each jurisdiction in which Foresters Financial operates. Foresters Financial projects its capital requirements over a five year period. On a quarterly basis, management monitors performance against internal capital targets and its capital plans, and initiates action when appropriate.

Annually, as part of the DCAT, Foresters Financial assesses the strength of its capital position under plausible adverse scenarios including mitigating management actions. These scenarios reflect Foresters Financial's plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Act and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirement ("MCCSR") ratio. OSFI generally expects life insurance companies to maintain a minimum MCCSR ratio of 150% or greater, based on the risk profile of the company.

In 2017, OSFI released the final Life Insurance Capital Adequacy Test ("LICAT") guideline that will replace the MCCSR framework in 2018. Under the LICAT approach, OSFI will

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

14. CAPITAL MANAGEMENT (continued)

generally expect life insurance companies to maintain a minimum LICAT ratio of 100% or greater, based on the risk profile of the company.

The MCCSR ratios as at December 31 shown below, were above the levels that would require any regulatory or corrective action.

		2017	2016
Capital available	A	$ 1,993,353	$ 2,076,949
Capital required:			
Asset default and market risk		192,179	185,987
Insurance risks		239,840	218,412
Interest rate and foreign exchange risks		126,815	115,818
Total capital required	B	$ 558,834	$ 520,217
MCCSR ratio (A/B)		357%	399%

In 2016, Foresters entered into a 10 year reinsurance arrangement the objective of which is to enhance US statutory solvency levels. There is no risk transfer under the arrangement and this has been accounted for as such resulting in a financial liability included in other liabilities on the statement of financial position and a reinsurance financing fee included in operating expenses on the statement of comprehensive income.

In 2017, Foresters Financial entered into a number of forward contracts to hedge against currency fluctuations to minimize the impact of U.S. dollar foreign currency gains and losses on the MCCSR ratio. These instruments are accounted for as derivative financial instruments on the statement of financial position.

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15. PREMIUMS

The following table provides a breakdown of gross premiums and premiums ceded under reinsurance arrangements by line of business:

	2017			2016		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life and health	983,566	(94,640)	888,926	906,774	(87,791)	818,983
Annuities	166,235	-	166,235	179,683	-	179,683
	1,149,801	(94,640)	1,055,161	1,086,457	(87,791)	998,666

16. FEE REVENUE AND OTHER OPERATING INCOME

Fee revenue and other operating income were comprised of the following:

	2017	2016
	$	$
Fee revenue:		
Management fees on segregated fund assets	115,726	109,571
Management fees on proprietary mutual funds and institutional assets	119,186	105,913
Brokerage fees	14,405	14,284
Distribution and service fees	126,178	122,786
Total fee revenue	375,495	352,554
Other operating income:		
Net rental expense	(3,301)	(3,195)
Supplementary contract deposits (with life contingency)	1,541	1,443
Foreign currency gains	(322)	4,725
Other	14,409	8,329
Total other operating income	12,327	11,302

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17. BENEFITS

The following table provides a breakdown of gross and ceded benefits by line of business:

	2017			2016		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
Life & health	665,251	(59,367)	605,884	624,771	(44,496)	580,275
Fraternal	4,122	-	4,122	5,352	-	5,352
Annuities	91,582	(786)	90,796	86,685	(1,654)	85,031
	760,955	(60,153)	700,802	716,808	(46,150)	670,658

18. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2017 $	2016 $
Employee benefits:		
Salaries and benefits	220,853	193,829
Defined benefit pension and post retirement plan expenses (note 8)	10,195	9,961
Defined contribution plan expenses (note 8)	4,289	3,995
	235,337	207,785
Professional and consulting fees	39,001	27,939
Technology related fees	30,360	34,098
Service fees	36,790	48,922
Software costs expensed during the year	9,660	8,535
Operating lease costs	14,386	13,622
Depreciation, amortization and impairment of property, equipment and intangibles	24,872	32,779
Contract termination fee	-	36,316
Reinsurance financing fee	-	20,792
Other expenses	52,363	51,619
Total operating expenses	442,769	482,407

Foresters recovered commissions and operating expenses from reinsurers in the amount of $20,361 (2016: $16,812) and $904 (2016: $841) respectively.

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

19. INCOME TAXES

Current and deferred taxes, included in income taxes on the consolidated statement of comprehensive income, were as follows:

	2017 $	2016 $
Current income tax expense:		
Current year	32,539	27,790
Deferred income tax expense (benefit):		
Relating to the origination and reversal of temporary differences	11,861	(2,808)
Change in unrecognized deductible temporary differences	1,863	(887)
	13,724	(3,695)
Total income taxes	46,263	24,095

Cash taxes paid were $22,404 (2016: $22,237). Cash tax refunds received during the year were $2,658 including $9 in interest. (2016: Tax refunds of $3,994 including $35 in interest).

a) Income taxes included in OCI

Other comprehensive income (loss) is presented net of income taxes. The following current and deferred income tax amounts were included in each component of OCI:

	2017 $	2016 $
Income tax recovery on net unrealized gains and losses on AFS assets	870	149
Income tax (expense) recovery on reclassification of realized gains on AFS assets	(332)	706
Income tax recovery (expense) on remeasurement losses on employee benefit plans	63	(51)
Total income tax recovery	601	804

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

19. Income taxes (continued)

b) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates to income before taxes for the following reasons:

	2017		2016	
	%	$	%	$
Net income (loss) after taxes		38,077		(75,332)
Income taxes		46,263		24,095
Income (loss) before income taxes		84,340		(51,237)
Combined federal and provincial statutory income tax rate for the current year	26.6%	22,427	26.6%	(13,634)
Effect of tax rates in foreign jurisdictions	7.4%	6,250	(34.1%)	17,477
Tax exempt business	19.5%	16,472	(38.9%)	19,931
Capital tax and investment income tax	1.0%	818	(1.5%)	758
Other taxes	0.8%	633	(0.6%)	316
Under (over) provided in prior years	(0.4%)	(337)	1.5%	(753)
Effective tax rate	54.9%	46,263	(47.0%)	24,095

c) Deferred income taxes

In certain instances the tax basis of assets and liabilities differs from the carrying amount in the consolidated financial statements. These differences will give rise to deferred income tax assets and liabilities.

Deferred tax assets and liabilities, included in other liabilities, were shown on the consolidated statement of financial position. The following table shows net deferred tax assets at December 31:

	2017	2016
	$	$
Deferred tax assets	43,439	39,767
Deferred tax liabilities	21,745	5,484
Net deferred tax assets	21,694	34,283

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

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19. Income taxes (continued)

The following chart shows the underlying assets and liabilities corresponding to net deferred income tax assets and liabilities:

	2017			2016		
	Asset $	**Liability $**	**Net $**	**Asset $**	**Liability $**	**Net $**
Bonds	-	(14,910)	(14,910)	-	(10,523)	(10,523)
Loans to certificateholders	-	(10,752)	(10,752)	-	(10,690)	(10,690)
Other invested assets	-	(2,487)	(2,487)	-	(1,966)	(1,966)
Property and equipment	-	(2,655)	(2,655)	1	(3,727)	(3,726)
Goodwill and intangibles	-	(2,024)	(2,024)	-	(2,244)	(2,244)
Employee benefit assets and obligations	3,318	(1,725)	1,593	3,382	(1,732)	1,650
Insurance contract liabilities	9,879	-	9,879	11,421	(422)	10,999
Other liabilities	7,691	-	7,691	13,032	-	13,032
Tax loss carry-forwards	35,359	-	35,359	37,751	-	37,751
Recognized deferred tax assets (liabilities)	56,247	(34,553)	21,694	65,587	(31,304)	34,283

Deferred assets and liabilities in the U.S. operation were affected by U.S. tax reform in 2017 due to a change in tax rates on corporations. During 2017, the net U.S. deferred tax assets declined by $2,620 as a result of tax reform.

The net movement in the deferred tax assets and liabilities was as follows:

	2017 $	**2016 $**
Beginning of year	34,283	34,630
Deferred taxes on subsidiaries acquired during the year	-	2,022
(Charges) credits included in net income	(13,724)	3,695
Credits included in OCI	368	238
Exchange rate differences	767	(6,302)
End of year	21,694	34,283

For the year ended December 31, 2017 (amounts in thousands of Canadian dollars except where otherwise stated)

19. Income taxes (continued)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	2017 $	2016 $
Tax losses and unclaimed deductions	17,263	15,400

Deferred income tax assets are recognized for tax losses and unclaimed deductions carried forward to the extent that the realization of the future tax benefit through future taxable profits is probable.

There were accumulated tax losses in the U.K. amounting to $26,341 (2016: $29,108). The benefit of these losses has been recognized in these consolidated financial statements in the current year but a portion of these losses were not recognized in the prior year. These losses do not expire.

There were unclaimed tax deductions in Canada amounting to $65,582 (2016: $56,885) which have not been recognized in these consolidated financial statements as it is not probable that future taxable income will be available against which to apply these deductions. These unclaimed deductions do not expire.

20. SEGMENTED INFORMATION

Foresters Financial has five reportable segments - four operating segments and a corporate segment - which reflect Foresters Financial's internal management structure and basis for internal financial reporting. Each operating segment, includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets and is responsible for developing its own products. The Corporate segment manages surplus assets, provides certain administrative services for the operating divisions and is responsible for capital management. The primary sources of revenue from the operating segments in the NALIA, NAAM and UKSIP are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, as well as annuity products that provide asset accumulation or wealth management benefits,
- net investment income (note 4), and
- fee and other income derived primarily from investment management services (note 16).

The primary source of revenue in the Corporate segment is investment income derived from managing the surplus assets. In addition, Foresters Financial has a membership operation which works closely with the insurance operations in all three countries to develop and administer member benefits.

Segment profits are based on internal management statements and are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. All transactions between reporting segments are completed on an arm's length basis and consist of operational services provided. Consolidated segmented statements of comprehensive income and financial position are shown below.

There is a widely diversified certificate holder base and therefore no reliance on any individual customers.

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

20. Segmented information (continued)

Segmented statement of comprehensive income

	2017					
	North American Life Insurance and Annuity	North American Asset Management	U.K. Savings, Investments and Protection	Membership	Corporate	Total
REVENUE						
Gross written premiums	$ 1,088,712	$ -	$ 60,253	$ 836	$ -	$ 1,149,801
Ceded premiums	(93,465)	-	(1,175)	-	-	(94,640)
Net written premiums	995,247	-	59,078	836	-	1,055,161
Net investment income	442,621	5,760	52,818	13,961	26,497	541,657
Fee revenue	7,261	291,190	77,044	-	-	375,495
Other operating income	6,547	4,680	1,420	2	(322)	12,327
Total revenue	1,451,676	301,630	190,360	14,799	26,175	1,984,640
Total benefits and expenses	1,411,830	284,477	139,523	48,855	15,615	1,900,300
Net income (loss) before income taxes	39,846	17,153	50,837	(34,056)	10,560	84,340
Income taxes	19,697	12,947	13,619	-	-	46,263
Net income (loss)	20,149	4,206	37,218	(34,056)	10,560	38,077
Other comprehensive income (loss)	(108,329)	(13,452)	(6,797)	3,173	(862)	(126,267)
Total comprehensive income (loss)	$ (88,180)	$ (9,246)	$ 30,421	$ (30,883)	$ 9,698	$ (88,190)

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

20. Segmented information (continued)

	2016					
	North American Life Insurance and Annuity	North American Asset Management	U.K. Savings, Investments and Protection	Membership	Corporate	Total
REVENUE						
Gross written premiums	$ 1,015,093	$ -	$ 70,445	$ 919	$ -	$ 1,086,457
Ceded premiums	(86,464)	-	(1,327)	-	-	(87,791)
Net written premiums	928,629	-	69,118	919	-	998,666
Net investment income	302,775	2,705	134,862	6,230	20,274	466,846
Fee revenue	21,791	258,796	71,967	-	-	352,554
Other operating income	7,098	3,594	(4,119)	4	4,725	11,302
Total revenue	1,260,293	265,095	271,828	7,153	24,999	1,829,368
Total benefits and expenses	1,272,795	240,090	293,166	53,708	20,846	1,880,605
Net income (loss) before income taxes	(12,502)	25,005	(21,338)	(46,555)	4,153	(51,237)
Income taxes	8,524	9,809	5,762	-	-	24,095
Net income (loss)	(21,026)	15,196	(27,100)	(46,555)	4,153	(75,332)
Other comprehensive income (loss)	(43,996)	(4,253)	1,221	(34,395)	(15,224)	(96,647)
Total comprehensive income (loss)	$ (65,022)	$ 10,943	$ (25,879)	$ (80,950)	$ (11,071)	$ (171,979)

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

20. Segmented information (continued)

Segmented statement of financial position

	North American Life Insurance and Annuity	North American Asset Management	U.K. Savings, Investments and Protection	Membership	Corporate	Total
As at December 31, 2017						
Total general fund assets	7,635,727	179,403	1,361,743	251,660	422,162	9,850,695
Net investments for accounts of segregated fund unit holders	1,969,661	-	5,863,203	-	-	7,832,864
Total general fund liabilities	6,268,832	89,078	1,237,702	219,198	5,307	7,820,117
As at December 31, 2016						
Total general fund assets	7,467,634	244,388	1,360,948	229,760	468,640	9,771,370
Net investments for accounts of segregated fund unit holders	1,842,752	-	1,830,809	-	-	3,673,561
Total general fund liabilities	6,050,425	92,240	1,283,767	221,611	4,559	7,652,602

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

20. Segmented information (continued)

The following table shows revenue for Foresters Financial by country:

	2017 $	2016 $
U.S.	1,495,059	1,332,457
Canada	298,563	231,291
U.K.	191,018	265,620
Total	1,984,640	1,829,368

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

21. RELATED PARTY TRANSACTIONS

Foresters Financial's broker-dealer and insurance subsidiaries provide distribution services to Foresters Financial. Additionally, Foresters Financial provides certain administrative services to some of its subsidiaries in the normal course of business. All fees paid and costs incurred for the transactions are determined on an arm's length basis.

Transactions between Foresters Financial and its subsidiaries, which are related parties have been eliminated on consolidation and have not been disclosed in this note.

Management has established procedures to review and approve transactions with related parties and reports annually to various committees of the Board on the procedures followed and the results of the review.

There are no loans or guarantees provided by Foresters Financial to related parties.

a) Compensation of key management personnel

Foresters Financial's key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the organization. Key management personnel are comprised of directors and executive officers of Foresters Financial. The remuneration of key management personnel was as follows:

	2017 $	2016 $
Salaries and other short term employee benefits	24,134	27,048
Post-employment benefits	1,271	1,665
Other long-term benefits	1,157	1,970
Termination benefits	8,416	1,930
Total compensation of key management personnel	34,978	32,613

b) Interests in investment funds managed by Foresters Financial

Foresters Financial, through its subsidiary FFHC, manages a number of proprietary mutual funds originating in the U.S. FFHC is considered an agent in accordance with the guidance under IFRS 10 as there are substantive removal rights under the advisory agreement and the management fee received by FFHC is commensurate with the services provided.

The objective of these funds is to provide third party investors a return on investment based on capital appreciation and investment income through investments in various instruments such as stocks and bonds. The fees earned for managing these mutual funds are presented in other operating income on the consolidated statement of comprehensive income. Foresters Financial is not obligated contractually to provide financial support to these entities. Foresters Financial is an investor in these funds. The fair value of these

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

21. Related party transactions (continued)

investments presented in cash equivalents, bonds, and equities in the consolidated statement of financial position was $134 (2016: $144), $397 (2016: $9,148) and $864 (2016: $28,917) respectively.

c) Seed money in segregated funds
Foresters Financial manages and administers segregated funds established by The Independent Order of Foresters. As manager, Foresters Financial is responsible for the provision of all general management and administrative services required by the segregated funds in their day-to-day operations, including providing or arranging for the provision of investment advice, bookkeeping, recordkeeping and other administrative services.

In 2017, Foresters Financial redeemed seed investment units totaling $19,569 (2016: $2,298).

22. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, Foresters Financial enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. As at December 31, 2017, Foresters Financial's contractual obligations and commitments were as follows:

	1 year or less $	2- 5 years $	Over 5 years $	Total $
Obligations under service contracts	30,064	91,141	10,655	131,860
Purchase obligations	1,446	-	-	1,446
Lease obligations	11,641	36,227	22,242	70,110
Investment commitment	28,192	-	-	28,192
Total contractual obligations	71,343	127,368	32,897	231,608

23. CONTINGENT LIABILITIES

From time to time in connection with its operations, Foresters Financial and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is not possible to estimate the outcome of the various proceedings at this time. Based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on Foresters Financial's consolidated statement of financial position.

For the year ended December 31, 2016 (amounts in thousands of Canadian dollars except where otherwise stated)

24. PRINCIPAL SUBSIDIARIES

The table below provides a list of Foresters Financial's principal subsidiaries, all of which have been fully consolidated.

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)	
			2017	2016
Foresters Financial Holding Company, Inc.	U.S.	Insurance and asset management operations	100	100
Foresters Equity Services Inc.	U.S.	Investment broker	100	100
Foresters Life Insurance Company	Canada	Insurance and asset management operations	100	100
Sylvan Agency (Canada) Inc.	Canada	Insurance broker	100	100
Forester Holdings (Europe) Limited	U.K.	Insurance and asset management operations	100	100

There is no non-controlling interest in any of the subsidiaries and there are no significant restrictions that affect the ability to access or use the assets and settle the liabilities of any subsidiary. Foresters Financial is not obligated contractually to provide financial support to these entities.

25. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in 2017.