Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2011

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") within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Foresters. 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, Risk and Investment Committee, which comprises directors who are not officers or employees of Foresters, 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 and prepare a report for the Board of Directors. The analysis tests Foresters capital adequacy under adverse economic 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 Accountants ("Auditors"). The Appointed Actuary's Report outlines the scope of the valuation and the Actuary's opinion.

Foresters 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 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.

George Mohacsi
Chief Executive Officer

Sharon Giffen, F.S.A., F.C.I.A., M.A.A.A.
Chief Financial Officer

Toronto, Canada
February 14, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Independent Order of Foresters

We have audited the accompanying consolidated financial statements of The Independent Order of Foresters, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in surplus and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

February 14, 2012
Toronto, Canada

APPOINTED ACTUARY'S REPORT

To the Board of Directors for the Independent Order of Foresters

I have valued the actuarial liabilities for insurance contracts, investment contracts, reinsurance assets and other contract liabilities of The Independent Order of Foresters for its consolidated balance sheet as at January 1, 2010, December 31, 2010 and December 31, 2011 and their change in the consolidated statement of income for the years 2010 and 2011.

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

Terence M Mawhinney, F.S.A., F.C.I.A., M.A.A.A.
Fellow, Canadian Institute of Actuaries
Toronto, Canada

February 14, 2012

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

	Note	2011	2010
REVENUE			
Gross written premiums	15	$ 527,978	$ 462,756
Ceded premiums	15	(58,112)	(51,868)
Net Written Premiums		469,866	410,888
Net Investment Income			
Interest and dividends (net)	4	241,375	239,971
Net realized gains	4	161,186	101,777
Net unrealized gains on fair value through profit and loss investments	4	239,808	190,435
Net foreign currency losses on available-for-sale assets	4	(4,405)	(30,214)
Total Investment Income		637,964	501,969
Other operating income	16	148,802	10,272
TOTAL REVENUE		**1,256,632**	**923,129**
CERTIFICATEHOLDER BENEFITS & EXPENSES			
Gross certificateholder benefits and payments	17	398,114	345,307
Ceded certificateholder benefits and payments	17	(25,699)	(16,869)
Gross change in insurance contract liabilities	12	351,432	174,854
Ceded change in insurance contract liabilities	12	(40,085)	(10,481)
Dividends		37,964	38,682
Commissions		229,841	159,862
Operating expenses	18	255,787	168,213
Ceded commissions and operating expenses	18	(19,490)	(20,788)
Fraternal investment		17,240	18,469
TOTAL CERTIFICATEHOLDER BENEFITS & EXPENSES		**1,205,104**	**857,249**
Income before income taxes		51,528	65,880
Income Taxes			
Current	19	23,476	11,053
Deferred	19	(6,862)	1,335
Total Income Taxes		16,614	12,388
NET INCOME		**34,914**	**53,492**
OTHER COMPREHENSIVE INCOME			
Net unrealized gains on available-for-sale assets, net of income tax expense of $595 ($907 in 2010)		11,108	75,547
Reclassification of net realized gains on available-for-sale assets, net of income tax recovery of $347 ($389 in 2010), to net income		(21,327)	(40,364)
Net actuarial losses on employee benefit plans, net of income tax recovery of $214 (nil in 2010)	8	(23,188)	(23,172)
Net unrealized gains (losses) on property	7	(1,133)	2,872
Net unrealized foreign currency translation gains (losses)		31,629	(39,331)
		(2,911)	**(24,448)**
TOTAL COMPREHENSIVE INCOME		**$ 32,003**	**$ 29,044**

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	Note	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
ASSETS				
Invested Assets				
Cash, cash equivalents and short-term securities	4	$ 190,132	$ 274,040	$ 100,218
Bonds	4	5,092,954	4,152,080	4,079,109
Bonds on loan	10	-	226,798	358,955
Equities	4	571,537	564,066	642,422
Equities on loan	10	-	54,240	44,276
Mortgages	4	7,575	7,915	15,317
Derivative financial instruments	4	71,878	85,340	79,088
Other invested assets	4	78,619	52,846	52,412
Loans to certificateholders	4	269,336	185,794	194,496
Total Invested Assets		6,282,031	5,603,119	5,566,293
Reinsurance assets	12	186,033	137,255	127,062
Other assets	6	168,599	110,233	105,549
Property and equipment	7	34,058	28,962	21,723
Employee benefit assets	8	31,979	54,150	72,344
Goodwill and intangible assets	9	188,976	12,663	-
		6,891,676	5,946,382	5,892,971
Net investments for accounts of segregated fund unit holders	5	1,696,764	698,352	599,198
TOTAL ASSETS		**$ 8,588,440**	**$ 6,644,734**	**$ 6,492,169**
LIABILITIES				
Insurance contract liabilities	12	$ 5,023,250	$ 4,189,662	$ 4,178,570
Investment contract liabilities	13	158,399	156,232	162,976
Benefits payable and provision for unreported claims		94,499	62,006	52,814
Other liabilities	11	135,932	96,120	91,265
Employee benefit obligation	8	35,593	30,362	24,390
		5,447,673	4,534,382	4,510,015
Investment contract liabilities for accounts of segregated fund unit holders	5	1,696,764	698,352	599,198
TOTAL LIABILITIES		7,144,437	5,232,734	5,109,213
SURPLUS				
Retained earnings		1,389,872	1,378,146	1,347,826
Accumulated other comprehensive income		54,131	33,854	35,130
		1,444,003	1,412,000	1,382,956
TOTAL LIABILITIES AND SURPLUS		**$ 8,588,440**	**$ 6,644,734**	**$ 6,492,169**

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 Statements of Changes in Surplus
For the years ended December 31
(in thousands of Canadian dollars)

		Accumulated Other Comprehensive Income					
	Retained earnings	Unrealized gains (losses) on available-for-sale assets	Net unrealized gains (losses) on property	Net actuarial gains (losses) on employee benefit plans	Cumulative translation account	Total	Total surplus
Balance as at December 31, 2010	**$1,378,146**	**$ 74,812**	**$ 2,872**	**$ -**	**$ (43,830)**	**$ 33,854**	**$ 1,412,000**
Net income	34,914	-	-	-	-	-	34,914
Other comprehensive income (loss):							
Pre-tax balance	-	11,703	(1,133)	(23,402)	31,629	18,797	18,797
Reclassification of net realized gains on available for sale assets	-	(21,674)	-	-	-	(21,674)	(21,674)
Income tax recovery (expense)	-	(248)	-	214	-	(34)	(34)
Total other comprehensive income (loss)	-	(10,219)	(1,133)	(23,188)	31,629	(2,911)	(2,911)
Total comprehensive income for the period	34,914	(10,219)	(1,133)	(23,188)	31,629	(2,911)	32,003
Transfer to retained earnings	(23,188)	-	-	23,188	-	23,188	-
Balance as at December 31, 2011	**$1,389,872**	**$ 64,593**	**$ 1,739**	**$ -**	**$ (12,201)**	**$ 54,131**	**$ 1,444,003**
Balance as at January 1, 2010	**$ 1,347,826**	**$ 39,629**	**$ -**	**$ -**	**$ (4,499)**	**$ 35,130**	**$ 1,382,956**
Net income	53,492	-	-	-	-	-	53,492
Other comprehensive income (loss):							
Pre-tax balance	-	76,454	2,872	(23,172)	(39,331)	16,823	16,823
Reclassification of net realized gains on available for sale assets	-	(40,753)	-	-	-	(40,753)	(40,753)
Income tax recovery (expense)	-	(518)	-	-	-	(518)	(518)
Total other comprehensive income (loss)	-	35,183	2,872	(23,172)	(39,331)	(24,448)	(24,448)
Total comprehensive income for the period	53,492	35,183	2,872	(23,172)	(39,331)	(24,448)	29,044
Transfer to retained earnings	(23,172)	-	-	23,172	-	23,172	-
Balance as at December 31, 2010	**$ 1,378,146**	**$ 74,812**	**$ 2,872**	**$ -**	**$ (43,830)**	**$ 33,854**	**$ 1,412,000**

(See accompanying notes)

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

	2011	2010
Cash flow from operating activities		
Net income per statements of comprehensive income	$ 34,914	$ 53,492
Items disclosed separately:		
Interest paid on certificateholder benefits	8,780	$ 4,341
Income tax paid	29,459	$ 15,778
Interest received	(212,090)	(212,230)
Adjusted net income	(138,937)	(138,619)
Items not affecting cash:		
Depreciation and amortization	7,766	1,996
Net increase (decrease) in insurance contract liabilities	351,432	174,854
Net increase (decrease) in reinsurance assets	(40,085)	(10,481)
Net realized and unrealized gains (losses) on invested assets	(389,059)	(303,909)
Net foreign currency losses on available-for-sale assets	4,405	30,214
Amortization of premium and discount on bonds	(4,039)	(10,203)
Deferred income tax expense	(6,862)	1,335
Net change in other assets and other liabilities	(15,843)	17,910
Other items resulting from operations:		
Interest paid on certificateholder benefits	(8,780)	(4,341)
Income tax paid	(29,459)	(15,778)
Increase (decrease) due to operating activities	**(269,461)**	**(257,022)**
Cash flow from investing activities		
Interest received	212,090	212,230
Investments sold or matured:		
Bonds	2,861,861	2,224,127
Equities	315,366	416,249
Mortgages	504	6,814
Investments acquired:		
Bonds	(2,752,325)	(2,098,688)
Equities	(283,331)	(316,592)
Real estate	-	(4,505)
Other items, net	(11,099)	1,583
Acquisitions, net	(159,584)	-
Increase (decrease) due to investing activities	**183,482**	**441,218**
Foreign exchange gains (losses) on cash held in foreign currencies	2,071	(10,374)
Net increase (decrease) in cash and cash equivalents for the year	**(83,908)**	**173,822**
Cash and cash equivalents, beginning of year	**274,040**	**100,218**
Cash and cash equivalents, end of year	**190,132**	**274,040**

(See accompanying notes)

Notes to consolidated financial statements

(Amounts in thousands of Canadian dollars except where otherwise stated)

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Any reference to certificateholders in these financial statements includes holders of Foresters certificates or policies issued by any of its subsidiary companies.

DESCRIPTION OF BUSINESS

The Independent Order of Foresters ("Foresters") 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 also operates investment management businesses in all three countries and a mutual fund business in the U.S.

Foresters 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 foreign branch and subsidiary operations are regulated by statutory authorities in the U.S. and the U.K. Foresters 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 and in the opening IFRS consolidated statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, 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 are the first consolidated financial statements prepared using IFRS. Foresters has applied IFRS 1 - First-time Adoption of International Financial Reporting Standards to convert from Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition from GAAP to IFRS has affected the reported financial position, financial performance and cash flows is provided in note 27. 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 14, 2012.

b) Basis of measurement

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

- Financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and derivative financial instruments are measured at fair value;
- Employee benefit assets and liabilities 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;
- Insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM");
- Land is measured at fair value and buildings are carried at fair value less any accumulated depreciation and impairment loss.

c) Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, which is Foresters functional currency.

d) Use of estimates and judgments
The preparation of the consolidated financial statements requires management to make judgments, 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 area where the use of estimates and assumptions has 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 or its subsidiaries. Control exists when Foresters or one of its subsidiaries owns directly or indirectly the majority of voting shares of another entity and/or has the power to direct the financial and operating policies of an entity from which it derives benefit. Subsidiaries are fully consolidated from the date on which control is transferred to Foresters until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies of the group. Intra group transactions are eliminated on consolidation. Foresters subsidiaries are listed in note 25.

As part of its transition to IFRS, Foresters elected not to restate the accounting for any business combinations which closed prior to the transition date (January 1, 2010).

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 has four operating segments and a corporate segment:

- The U.S. division sells insurance, annuities, variable life and annuities (through its separate accounts), and mutual fund products through branch and subsidiary operations;

- The Canadian division sells insurance, annuities and segregated fund products through branch and subsidiary operations;

- The U.K. division sells protection and pension products as well as unit linked savings and investment products through subsidiary operations;

- The Fraternal division works closely with the other operating divisions to develop and administer member benefits through Foresters branch operations in each country. The Fraternal division has no external source of income and its operations are fully funded by the corporate division;

- The Corporate division holds surplus investments above those required to satisfy management's internal capital targets for each of the four operating segments.

1.4 Foreign currency

Foreign operations

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

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
Bonds	X	X	
Equities	X	X	
Mortgages			X
Derivative financial instruments	X		
Limited Partnerships and other invested assets		X	
Loans to certificateholders			X

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

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 bid 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 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.

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

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

Changes in the fair value of AFS bonds are recorded in net unrealized gains (losses) on AFS assets, a component of OCI on the consolidated statements 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 bid 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 in interest and dividends (net) on the ex-dividend date and realized gains and losses on the sale of equities are recorded in net realized gains (losses), both of which are components of net income on the consolidated statements of comprehensive income.

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

Changes in the fair value of AFS equities are recorded in net unrealized gains (losses) on AFS assets, a component of OCI on the consolidated statements of comprehensive income.

d) 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 in net realized gains (losses), a component of net income, on the consolidated statements of comprehensive income.

e) Derivative financial instruments

Foresters 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.

Foresters has presented derivative financial instruments on a net basis where Foresters 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 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 in net realized gains (losses) and changes in the fair value of these contracts are recorded in net unrealized gains (losses) on fair value through profit and loss investments, both of which are components of net income on the consolidated statements of comprehensive income.

f) Other Invested Assets

Limited partnerships

Limited partnerships classified as AFS assets are recorded at fair value. Foresters does not have any significant influence over these partnerships. Where fair values are not readily available, Foresters approximates fair value using cost plus Foresters pro-rated share of net income (loss) less any distributions received. Changes in fair value are recorded in net unrealized gains (losses) on AFS assets, a component of OCI on the consolidated statements of comprehensive income. Realized gains or losses on sale are recorded in net realized gains (losses), a component of net income on the consolidated statements of comprehensive income.

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters does not have any significant influence over these partnerships. Changes in fair value are recorded in net unrealized gains (losses) on fair value through profit and loss investments and realized gains or losses on sale are recorded in net realized gains (losses), both of which are components of net income on the consolidated statements of comprehensive income.

Investment Property

Investment properties are comprised of real estate investments held to earn rental income or for capital appreciation. Investment properties are initially recognized at the purchase price including transaction costs. These properties are subsequently measured at fair value with changes in value recorded in net unrealized gains (losses) on fair value through profit and loss investments. Investment properties are appraised annually.

Seed money investment in segregated funds

Seed money represents Foresters initial investment in its segregated funds and is measured at fair value. Changes in fair value are recorded in net unrealized gain (losses) on AFS assets, a component of OCI on the consolidated statements of comprehensive income.

g) Loans to certificateholders

Loans to certificateholders 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.

h) Derecognition

Foresters 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.

i) Invested asset impairments

Invested assets are assessed individually for impairment on a quarterly basis. Foresters 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 also 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.

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 an impaired AFS equity securities are recognized in OCI.

1.6 Other assets

Other assets consist primarily of prepayments, accrued investment income, accounts receivable and deferred acquisition costs.

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. DAC is amortized over the lesser of 10 years or the life of the contract and the rate of amortization is consistent with the pattern of emergence of future expected margins. 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 and equipment consists of land and buildings, which are predominantly occupied by Foresters or its subsidiaries.

Land is carried at fair value and is not depreciated. The buildings are carried at fair value less accumulated depreciation and impairment losses. The fair value of property is appraised annually by external independent appraisers. The changes in fair value are recognized in net unrealized gains (losses) on property, a component of OCI in the consolidated statements 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.

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 improvement	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, repairs and maintenance costs are expensed during the period in which they are incurred, and are included in operating expenses on the consolidated statements 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 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) Goodwill

Acquisitions of businesses where Foresters 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 identifiable net 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 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.

b) Intangible assets

Acquired intangibles

Intangible assets acquired through business combinations are comprised of mutual fund and separate account asset management contracts, a distribution network, computer software and unit cost reductions.

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.

The mutual fund and separate account asset management contracts have indefinite useful lives and are not amortized.
The distribution network and unit-cost reductions do not have indefinite useful lives and are amortized on a straight-line basis over their useful lives not exceeding 10 years. Computer software acquired on acquisition follows the accounting policy outlined below. The amortization of intangible assets is recorded in operating expenses on the consolidated statements of comprehensive income.

All intangibles are reviewed annually for impairment. Impairment losses are expensed immediately.

Computer software
Computer software is carried at cost less accumulated amortization and impairment losses. Computer software is amortized on a straight-line basis over a period not to exceed five years. The amortization period is reviewed at each year-end and adjusted if appropriate, with any changes in estimates accounted for in the current period. 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.

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 accepts from the certificateholder.

a) Insurance contract liabilities
Insurance contract liabilities include life, health, annuity, participating and non-participating insurance. Insurance contracts are those contracts that transfer significant insurance risk to Foresters. Significant insurance risk exists when Foresters agrees to compensate certificateholders or beneficiaries of an insurance contract for specified future events such as death or disability, that may adversely affect the certificateholder and whose amount and timing are uncertain. Insurance contracts are shown as insurance contract liabilities on the consolidated statements 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 Canadian Institute of Actuaries ("CIA") 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.

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. The carrying value of insurance contract liabilities is based on the present value of expected future cash flows plus provisions for adverse deviations, and any change is reflected in the gross change in insurance contract liabilities.

b) Reinsurance assets
Foresters enters into reinsurance arrangements with reinsurers in order to limit its exposure to significant losses, to manage capital and to 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 enters into two types of reinsurance arrangements:

- quota share reinsurance arrangements whereby Foresters 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.

Reinsurance transactions do not relieve Foresters of its primary obligation to certificateholders. 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 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 statements of comprehensive income.

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

c) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to Foresters. 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 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.

Deposits to and withdrawals from, segregated funds increase or decrease the liability, respectively. Fee income derived from segregated funds is reported in other operating income on the consolidated statements 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, 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 consist of accounts payable, accrued expenses and deferred and current income tax liabilities.

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 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 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 they 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 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 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 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 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.

Foresters recognizes all actuarial gains and losses arising from employee benefit plans immediately in OCI. At the end of each year these gains and losses are transferred from AOCI to retained earnings.

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.

The value of any employee benefit asset arising from a defined benefit pension plan is restricted to the sum of any past service cost and actuarial gains and losses not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foresters has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (such as minimum funding requirements) in each jurisdiction, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, no decrease in the employee benefit assets arising from defined benefit plans is necessary at December 31, 2011 or December 31, 2010.

b) Defined contribution plans

A defined contribution plan is a post employment benefit plan under which Foresters 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 statements of comprehensive income in the periods during which services are rendered by employees.

c) Long-term disability benefits

Foresters also provides health and dental benefits to eligible employees who are absent from work due to disability. The estimated present value of these benefits is charged to income in the year of disability. The obligation for these benefits has been included in other liabilities.

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 and proprietary mutual fund assets, brokerage fees on the sale of proprietary mutual funds and third party insurance and 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 under other operating income.

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 statements of comprehensive income.

Changes in the fair value of AFS assets are recognized in OCI within the consolidated statements 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 is the lessor, the income is recognized on a straight-line basis over the lease term.

1.15 Fraternal investment

Fraternal investment represents the contribution made by Foresters 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 statements of comprehensive income.

1.16 Contingent liabilities

Contingent liabilities are recognized as liabilities on the statement of financial position when it is probable that Foresters will incur an expense in the future 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.

2. FUTURE ACCOUNTING AND REPORTING CHANGES

a) Amendments to IAS 1 “Presentation of Financial Statements”

An amendment to IAS 1 was issued in June 2011 requiring changes to the presentation of items of OCI. Under the amendments, presentation of items within OCI will be separately presented based on whether or not the item will be subsequently reclassified into income. The amendments are effective for annual periods beginning on or after January 1, 2013. Foresters does not expect the adoption of these amendments to have a significant impact on its consolidated financial statements.

b) IFRS 4 – Insurance contracts

The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts. This proposal could materially affect the measurement of insurance contract liabilities.

A final standard is not expected to be implemented until 2015 at the earliest. Foresters continues to actively monitor developments in this area.

c) Amendments to IFRS 7 “Financial Instruments: Disclosures”

The amendments to IFRS 7 “Disclosures – Transfer of Financial Assets”, issued in October 2010, increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing involvement in the asset. The amendments also require disclosures where transfers of financial assets do not occur evenly throughout the period.

The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. Foresters does not expect that the adoption of these amendments will have a significant impact on its consolidated financial statements.

d) IFRS 10 “Consolidated Financial Statements” Amendments to IAS 27 “Separate Financial Statements” IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 10 “Consolidated Financial Statements”, amendments to IAS 27 “Separate Financial Statements” and IFRS 12 “Disclosure of Interests in Other Entities” were all issued in May 2011 to improve consolidation accounting and disclosures. Each standard has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted if the standards are adopted as a group.

IFRS 10 replaces the consolidation guidance in IAS 27 “Separate Financial Statements” and SIC-12 “Consolidation - Special Purpose Entities” by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders’ involvement in the activities of consolidated entities.

Foresters does not expect that the adoption of these changes will have a significant impact on its consolidated financial statements.

e) IFRS 9 – Financial instruments

Effective January 1, 2015, Foresters will adopt IFRS 9 for the recognition and measurement of financial instruments.

The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value. Under the new standard, the existing categories of AFS, held to maturity, and loans and receivables will be eliminated.

Equities can be designated as fair value through other comprehensive income, similar to the current AFS designation, except that realized gains and losses would remain in AOCI and impairment decisions would not be required.

A fair value option, similar to the current FVTPL, would continue to be available on the condition that accounting mis-matches are reduced.

The new standard also requires that embedded derivatives be assessed for classification together with their financial asset host and that a single impairment method be used for financial assets.

Foresters is currently assessing the impact of these changes on its consolidated financial statements.

f) Amendment to IAS 12 "Income Taxes"

An amendment to IAS 12 was issued in December 2010 that provides a practical approach to the measurement of deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under IAS 40 "Investment Property". Where entities measure deferred tax liabilities and deferred tax assets using a tax rate and tax base that are consistent with the expected manner of recovery or settlement, the amendment provides a rebuttable presumption for investment property measured using the fair value model that its carrying amount will be recovered through sale. This amendment is effective for annual periods beginning on or after January 1, 2012. Earlier application is permitted. Foresters does not expect that the adoption of this amendment will have a significant impact on its consolidated financial statements.

g) IFRS 13 – New Standard on Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement. IFRS 13 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and requires the fair value hierarchy, which was introduced by IFRS 7, Financial Instruments: Disclosures, to be applied to all fair value measurements, including non-financial assets and liabilities that are measured at or based on fair value in the statement of financial position as well as non-recurring fair value measurements such as assets held for sale. IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013.

Foresters is currently assessing the impact of these changes on its consolidated financial statements.

3. BUSINESS COMBINATIONS

a) First Investors Consolidated Corporation

On January 19, 2011, Foresters acquired 100% of the common shares of First Investors Consolidated Corporation ("FICC"). The acquired business contributed revenue of $209.9 million and net income of $12.5 million for the period from January 19, 2011 to December 31, 2011. If the acquisition had occurred on January 1, 2011, management estimates that FICC would have contributed revenue of $219.2 million and net income of $13.2 million.

FICC is engaged in providing investment management services throughout the U.S. as the investment advisor to, and the distributor for, certain mutual funds; the development and distribution of certain proprietary life insurance products; and providing transfer agent services ancillary to its other businesses.

(Amounts in thousands of Canadian dollars except where otherwise stated)

All costs related to the acquisition have been expensed. Details of the allocation of the purchase consideration, to net assets acquired and goodwill are as follows:

Cash consideration paid	$	212,402
Less value of identifiable net assets		181,945
Goodwill	$	30,457

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

	Fair value $
Assets	
Cash and short-term securities	47,910
Bonds	212,920
Equities	7,098
Loans to certificateholders	68,269
Reinsurance assets	7,995
Other assets	34,672
Property and equipment	2,745
Intangible assets acquired on acquisition:	
Asset management contracts with an indefinite life	112,290
Distribution network and computer software	7,957
Net investments for accounts of segregated fund unit holders	853,426
	1,355,282
Liabilities	
Insurance contract liabilities	251,138
Investment contract liabilities	6,518
Benefits payable and provision for unreported claims	1,012
Other liabilities	61,243
Investment contract liabilities for accounts of segregated fund unit holders	853,426
	1,173,337
Total net identifiable assets	181,945

This acquisition also increased Foresters assets under management by approximately $7.0 billion (unaudited).

b) Communication Workers Friendly Society

On August 1, 2011, Foresters purchased a closed block of business from the Communication Workers Friendly Society Ltd. (“CWFS”) in the U.K. CWFS mainly provided tax-exempt savings plans to employees of Royal Mail. This acquisition allowed Foresters to take advantage of economies of scale and provides future selling opportunities for Foresters savings and insurance products to a new member base. The acquired business contributed revenues of $640.8 and net income of $471.1 for the period from August 1, 2011 to December 31, 2011. If the acquisition had occurred on January 1, 2011, management estimates CWFS would have contributed revenue of $1,538.5 and net income of $713.7.

This transaction increased Foresters assets by $163.5 million.

(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 are shown as follows:

	Fair value through profit or loss	Available- for-sale	Other	Total carrying value	Total fair value
As at December 31, 2011					
Cash, cash equivalents and short-term securities	$ 135,132	$ 55,000	$ -	$ 190,132	$ 190,132
Bonds	4,347,118	745,836	-	5,092,954	5,092,954
Equities	378,962	192,575	-	571,537	571,537
Mortgages	-	-	7,575	7,575	7,954
Derivative financial instruments	71,878	-	-	71,878	71,878
Other invested assets	27,418	51,196	5	78,619	78,619
Loans to certificateholders	-	-	269,336	269,336	269,336
Total invested assets	4,960,508	1,044,607	276,916	6,282,031	6,282,410
Net investments for account of segregated fund unit holders	-	-	1,696,764	1,696,764	1,696,764
Total investments	$ 4,960,508	$ 1,044,607	$ 1,973,680	$ 7,978,795	$ 7,979,174
As at December 31, 2010					
Cash, cash equivalents and short-term securities	$ 250,822	$ 23,218	$ -	$ 274,040	$ 274,040
Bonds	3,693,072	685,806	-	4,378,878	4,378,878
Equities	386,831	231,475	-	618,306	618,306
Mortgages	-	-	7,915	7,915	8,311
Derivative financial instruments	85,340	-	-	85,340	85,340
Other invested assets	2,013	50,829	4	52,846	52,846
Loans to certificateholders	-	-	185,794	185,794	185,794
Total invested assets	4,418,078	991,328	193,713	5,603,119	5,603,515
Net investments for account of segregated fund unit holders	-	-	698,352	698,352	698,352
Total investments	$ 4,418,078	$ 991,328	$ 892,065	$ 6,301,471	$ 6,301,867
As at January 1, 2010					
Cash, cash equivalents and short-term securities	$ 82,156	$ 18,062	$ -	$ 100,218	$ 100,218
Bonds	3,696,995	741,069	-	4,438,064	4,438,064
Equities	390,960	295,738	-	686,698	686,698
Mortgages	-	-	15,317	15,317	16,083
Derivative financial instruments	79,088	-	-	79,088	79,088
Other invested assets	2,935	49,472	5	52,412	52,412
Loans to certificateholders	-	-	194,496	194,496	194,496
Total invested assets	4,252,134	1,104,341	209,818	5,566,293	5,567,059
Net investments for account of segregated fund unit holders	-	-	599,198	599,198	599,198
Total investments	$ 4,252,134	$ 1,104,341	$ 809,016	$ 6,165,491	$ 6,166,257

b) Fair value hierarchy

Foresters 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.

For certain financial assets which are of a short term nature, the carrying value approximates fair value and no hierarchy analysis is needed. 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 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.

(Amounts in thousands of Canadian dollars except where otherwise stated)

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 bid 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.

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, 2011	**$**	**$**	**$**	**$**
Cash, cash equivalents and short-term securities	54,270	135,862	-	190,132
FVTPL assets:				
Bonds	133,725	4,178,746	1,694	4,314,165
Equities	337,604	41,358	-	378,962
Derivative financial instruments	1,310	70,568	-	71,878
Other invested assets	-	1,866	25,553	27,419
Net investments for account of segregated fund unit holders	492,883	1,203,881	-	1,696,764
AFS assets:				
Bonds	5,604	768,526	4,659	778,789
Equities	67,390	125,085	100	192,575
Other invested assets	-	15,521	35,679	51,200
	1,092,786	6,541,413	67,685	7,701,884

(Amounts in thousands of Canadian dollars except where otherwise stated)

December 31, 2010	Level 1 $	Level 2 $	Level 3 $	Total fair value $
Cash, cash equivalents and short-term securities	233,373	40,667	-	274,040
FVTPL assets:				
Bonds	61,450	3,590,317	2,319	3,654,086
Equities	325,965	60,867	-	386,832
Derivative financial instruments	1,735	83,605	-	85,340
Other invested assets	-	1,904	-	1,904
Net investments for account of segregated fund unit holders	457,534	240,818	-	698,352
AFS assets:				
Bonds	6,178	715,416	3,198	724,792
Equities	101,581	129,793	100	231,474
Other invested assets	-	15,972	34,970	50,942
	1,187,816	4,879,359	40,587	6,107,762

January 1, 2010	Level 1 $	Level 2 $	Level 3 $	Total fair value $
Cash, cash equivalents and short-term securities	15,738	84,480	-	100,218
FVTPL assets:				
Bonds	61,272	3,586,795	1,990	3,650,057
Equities	330,091	56,419	-	386,510
Derivative financial instruments	1,523	77,565	-	79,088
Other invested assets	-	1,465	-	1,465
Net investments for account of segregated fund unit holders	400,853	198,345	-	599,198
AFS assets:				
Bonds	8,894	776,264	2,849	788,007
Equities	143,454	156,634	100	300,188
Other invested assets	-	16,381	34,566	50,947
	961,825	4,954,348	39,505	5,955,678

(Amounts in thousands of Canadian dollars except where otherwise stated)

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

	FVTPL		AFS		
	Bonds	Equities	Bonds	Equities and other invested assets	Total
	$	$	$	$	$
2011					
Balance, beginning of year	2,319	-	3,198	35,070	40,587
Acquisitions through business combinations	-	7,465	-	-	7,465
	2,319	7,465	3,198	35,070	48,052
Changes during the year:					
Purchases	-	20,000	846	102	20,948
Sales and redemptions	(846)	(1,991)	-	(2,944)	(5,781)
Gains (losses)	221	79	614	3,547	4,461
Balance, end of year	1,694	25,553	4,658	35,775	67,680
2010					
Balance, beginning of year	1,990	-	2,849	34,666	39,505
Changes during the year:					
Purchases	-	-	-	995	995
Sales and redemptions	-	-	-	(1,403)	(1,403)
Gains (losses)	329	-	349	812	1,490
Balance, end of year	2,319	-	3,198	35,070	40,587

There were no material transfers between Level 1, 2 and 3 during 2011 or 2010.

c) Cash, cash equivalents and short-term securities

Cash and short-term securities are comprised of:

	2011	2010
	$	$
Cash	54,270	256,591
Cash equivalents	83,689	17,449
	137,959	274,040
Short-term securities	52,173	-
	190,132	274,040

Short-term securities are comprised of notes and commercial paper with a maturity date not later than May 15, 2012.

d) Derivative financial instruments

Foresters 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 does not enter into these financial instruments for trading or speculative purposes. Foresters 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 Audit, Risk and Investment committee.

(Amounts in thousands of Canadian dollars except where otherwise stated)

Foresters exposure to loss on derivative financial instruments is limited to the amount of any net gains that may have accrued with a particular counterparty. Gross derivative counterparty exposure is measured as the total fair value (including accrued interest) of all outstanding contracts in a gain position (excluding any offsetting contracts in negative positions). Foresters 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 derivative financial instruments were held with counterparties rated "AA" or higher as at December 31, 2011 and 2010. The largest single counterparty exposure was $36,285 ($42,829 in 2010).

Foresters is exposed to credit risk resulting from the potential default of counterparties to the foreign exchange forward contracts. Foresters held collateral at December 31, 2011 with an estimated market value of $59,010 ($75,684 in 2010) against net outstanding position of $71,878 ($85,340 in 2010). Foresters has the right to sell, pledge, invest, or use any posted collateral. During the year, Foresters did not sell or pledge any collateral.

Credit quality of the collateral received is monitored regularly. 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, 2011							
Foreign exchange forward contracts	$ 33,297	$ 105,107	$ 277,007	$ 415,411	$ 73,520	$ 2,952	$ 70,568
Options purchased	-	-	-	-	3,837	-	3,837
Options written	-	-	-	-	-	2,527	(2,527)
	$ 33,297	$ 105,107	$ 277,007	$ 415,411	$ 77,357	$ 5,479	$ 71,878
As at December 31, 2010							
Foreign exchange forward contracts	$ 33,207	$ 114,266	$ 294,745	$ 442,218	$ 83,715	$ 108	$ 83,607
Options purchased	-	-	-	-	5,036	-	5,036
Options written	-	-	-	-	-	3,303	(3,303)
	$ 33,207	$ 114,266	$ 294,745	$ 442,218	$ 88,751	$ 3,411	$ 85,340
As at January 1, 2010							
Foreign exchange forward contracts	$ 33,905	$ 121,942	$ 312,476	$ 468,323	$ 79,036	$ 1,469	$ 77,567
Options purchased	-	-	-	-	3,864	-	3,864
Options written	-	-	-	-	-	2,343	(2,343)
	$ 33,905	$ 121,942	$ 312,476	$ 468,323	$ 82,900	$ 3,812	$ 79,088

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.

(Amounts in thousands of Canadian dollars except where otherwise stated)

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, is the maximum credit risk measured as of the balance sheet date if the counterparties were to default on their obligations to Foresters.

e) Impairments

The unrealized losses recognized in AOCI for AFS investments where cost exceeds fair value were as follows:

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Bonds	$ 3,622	$ 993	$ 3,197	$ 10,628	$ 8,067	$ 12,810
Equities	3,073	1,433	8,455	(741)	12,633	6,189
	$ 6,695	$ 2,426	$ 11,652	$ 9,887	$ 20,700	$ 18,999

When these assets are deemed to be impaired, Foresters reclassifies the unrealized loss on a cumulative basis from OCI and/or AOCI to net income. In 2011, Foresters recognized unrealized losses on AFS equities of $1,357 ($1,089 in 2010) by reclassifying the impaired portion of unrealized losses from OCI to net income.

At December 31, 2011, Foresters held bonds on which interest payments were in default. These bonds had a carrying value of $6,352 ($5,516 in 2010) on the consolidated balance sheets and amortized cost of $12,553 ($24,613 in 2010).

During 2011, Foresters did not sell any impaired AFS bonds. In 2010, Foresters reversed impairment losses on disposal of AFS bonds amounting to $3,413 and related foreign exchange losses of $370.

During 2011 and 2010, Foresters did not reverse previous impairment losses on AFS bonds that continue to be held at the end of the year.

(Amounts in thousands of Canadian dollars except where otherwise stated)

f) Net Investment income

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

	2011				2010			
	FVTPL $	AFS $	Other $	Total $	FVTPL $	AFS $	Other $	Total $
Interest income from:								
Cash, cash equivalent and short-term securities	405	-	-	405	367	-	-	367
Bonds	183,791	28,308	-	212,099	182,717	29,518	-	212,235
Mortgages	-	-	551	551	-	-	719	719
Loans to certificateholders	-	-	14,203	14,203	-	-	9,823	9,823
	184,196	28,308	14,754	227,258	183,084	29,518	10,542	223,144
Dividend income from equities	13,483	6,721	-	20,204	13,536	7,339	-	20,875
Income from other invested assets	(11)	(236)	-	(247)	1,697	69	-	1,766
Less: investment expense	(4,722)	(1,118)	-	(5,840)	(4,200)	(1,614)	-	(5,814)
Total interest and dividends (net)	192,946	33,675	14,754	241,375	194,117	35,312	10,542	239,971

No interest income was accrued on impaired invested assets in 2011 or 2010.

The following table shows the net realized gains (losses) on invested assets during the year.

	2011			2010		
	FVTPL $	AFS $	Total $	FVTPL $	AFS $	Total $
Bonds	82,346	36,605	118,951	46,066	23,083	69,149
Equities	7,015	18,580	25,595	8,730	12,681	21,411
Derivative financial insturments	11,935	-	11,935	10,735	-	10,735
Other invested assets	576	4,129	4,705	-	482	482
Net realized gains	101,872	59,314	161,186	65,531	36,246	101,777

The following table shows the net unrealized gains (losses) on FVTPL investments during the year.

	2011 $	2010 $
Bonds	271,737	150,662
Equities	(16,660)	29,208
Derivative financial instruments	(14,514)	10,565
Other invested assets	(755)	-
Net unrealized gains on FVTPL investments	239,808	190,435

The net foreign currency losses on AFS assets, recognized in net investment income were $4,405 ($30,214 in 2010).

(Amounts in thousands of Canadian dollars except where otherwise stated)

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:

	U.S. separate accounts $	Canadian segregated funds $	U.K. unit linked contracts $	Total $
December 31, 2011				
Cash, cash equivalents and short-term securities	-	4,657	5,678	10,335
Bonds	-	22,930	348,956	371,886
Equities	866,997	87,039	372,130	1,326,166
Other assets net of liabilities	-	75	3,823	3,898
Total net assets	866,997	114,701	730,587	1,712,285
Less: segregated fund seed money investment	-	15,521	-	15,521
Net investments for account of segregated fund unit holders	866,997	99,180	730,587	1,696,764
December 31, 2010				
Cash, cash equivalents and short-term securities	-	5,713	20,577	26,290
Bonds	-	21,341	250,350	271,691
Equities	-	101,053	311,783	412,836
Other assets net of liabilities	-	152	3,242	3,394
Total net assets	-	128,259	585,952	714,211
Less: segregated fund seed money investment	-	15,859	-	15,859
Net investments for account of segregated fund unit holders	-	112,400	585,952	698,352
January 1, 2010				
Cash, cash equivalents and short-term securities	-	5,793	27,762	33,555
Bonds	-	22,714	192,958	215,672
Equities	-	104,395	257,482	361,877
Other assets net of liabilities	-	(51)	3,050	2,999
Total net assets	-	132,851	481,252	614,103
Less: segregated fund seed money investment	-	14,905	-	14,905
Net investments for account of segregated fund unit holders	-	117,946	481,252	599,198

(Amounts in thousands of Canadian dollars except where otherwise stated)

b) Changes in segregated funds

The following table presents the change in investments for account of segregated fund unit holders.

	U.S. separate accounts $	Canadian segregated funds $	U.K. unit linked contracts $	Total $
Balance as at December 31, 2010	-	112,400	585,952	698,352
Acquisitions	853,426	-	-	853,426
	853,426	112,400	585,952	1,551,778
Additions to the account of the unit holders:				
Deposits received from unit holders	51,656	6,171	183,934	241,761
Investment income	19,382	2,664	21,179	43,225
Net realized gains on sale of investments	-	3,809	14,828	18,637
Net change in unrealized gains on investments	5,669	-	-	5,669
	76,707	12,644	219,941	309,292
Deductions to the account of the unit holders:				
Amounts withdrawn or transferred by unit holders	66,393	15,426	64,743	146,562
Net realized losses on sale of investments	2,649	-	10,175	12,824
Net change in unrealized losses on investments	-	8,661	9,429	18,090
Management fees and other operating costs	13,159	2,116	1,237	16,512
	82,201	26,203	85,584	193,988
Less: Income earned on segregated fund seed money investment	-	(339)	-	(339)
Effect of change in foreign exchange rates	19,065	-	10,278	29,343
Balance as at December 31, 2011	866,997	99,180	730,587	1,696,764
Balance as at January 1, 2010	-	117,946	481,252	599,198
Additions to the account of the unit holders:				
Deposits received from unit holders	-	10,518	154,874	165,392
Investment income	-	2,455	16,988	19,443
Net realized gains on sale of investments	-	3,897	10,585	14,482
Net change in unrealized gains on investments	-	4,619	28,792	33,411
	-	21,489	211,239	232,728
Deductions to the account of the unit holders:				
Amounts withdrawn or transferred by unit holders	-	23,807	53,563	77,370
Net realized losses on sale of investments	-	-	-	-
Net change in unrealized losses on investments	-	-	-	-
Management fees and other operating costs	-	2,173	7,419	9,592
	-	25,980	60,982	86,962
Less: Income earned on segregated fund seed money investment	-	1,055	-	1,055
Effect of change in foreign exchange rates	-	-	(45,557)	(45,557)
Balance as at December 31, 2010	-	112,400	585,952	698,352

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

(Amounts in thousands of Canadian dollars except where otherwise stated)

6. OTHER ASSETS

a) Other assets

Other assets were comprised of the following:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accrued investment income	55,907	46,025	48,516
Prepaid commissions	44,277	38,681	25,950
Deferred acquisition costs	7,689	6,624	4,026
Accounts receivable	26,741	6,427	13,985
Deferred tax assets	13,132	-	-
Amounts due from reinsurers	10,333	7,719	5,033
Income taxes recoverable	2,997	936	441
Other	7,523	3,821	7,598
	168,599	**110,233**	**105,549**

The fair value of these assets approximates their carrying value.

b) Deferred acquisition costs

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

	2011 $	2010 $
Deferred acquisition costs, beginning of year	6,624	4,026
Additions	5,101	4,303
Amortization	(4,186)	(1,278)
Effect of change in foreign exchange rates	150	(427)
Deferred acquisition costs, end of year	**7,689**	**6,624**

(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, 2010	9,745	17,298	1,118	801	28,962
Acquisitions through business combinations	-	-	885	1,860	2,745
Additions	-	3,382	2,096	113	5,591
Revaluation	(168)	(965)	-	-	(1,133)
Disposals	-	-	(30)	-	(30)
Depreciation expense	-	(576)	(1,128)	(520)	(2,224)
Impairment loss	-	-	-	-	-
Effect of change in foreign exchange rates	64	15	32	36	147
Net carrying value as at December 31, 2011	9,641	19,154	2,973	2,290	34,058
Net carrying value as at January 1, 2010	5,110	14,391	1,240	982	21,723
Acquisitions through business combinations	-	-	-	-	-
Additions	3,102	2,048	748	16	5,914
Revaluation	1,533	1,339	-	-	2,872
Disposals	-	-	(205)	-	(205)
Depreciation expense	-	(480)	(635)	(195)	(1,310)
Impairment loss	-	-	-	-	-
Effect of change in foreign exchange rates	-	-	(30)	(2)	(32)
Net carrying value as at December 31, 2010	9,745	17,298	1,118	801	28,962

(Amounts in thousands of Canadian dollars except where otherwise stated)

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

	Gross carrying value	Accumulated Depreciation	Net carrying value
	$	$	$
December 31, 2011			
Land	9,641	-	9,641
Buildings	19,154	-	19,154
Furniture and equipment	11,288	8,315	2,973
Leasehold improvements	4,580	2,290	2,290
	44,663	10,605	34,058
December 31, 2010			
Land	9,745	-	9,745
Buildings	17,298	-	17,298
Furniture and equipment	8,505	7,387	1,118
Leasehold improvements	2,536	1,735	801
	38,084	9,122	28,962
January 1, 2010			
Land	5,110	-	5,110
Buildings	14,391	-	14,391
Furniture and equipment	8,463	7,223	1,240
Leasehold improvements	2,658	1,676	982
	30,622	8,899	21,723

The land and buildings were last revalued at December 31, 2011 by an independent appraiser. The fair value of land and buildings was $9,641 and $19,154 respectively ($9,745 and $17,298 respectively on December 31, 2010, $5,110 and $14,391 respectively on January 1, 2010). When the 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.

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Cost	28,113	24,652	19,500
Less: accumulated depreciation	(1,056)	(480)	-
Net book value	27,057	24,172	19,500

(Amounts in thousands of Canadian dollars except where otherwise stated)

8. EMPLOYEE BENEFIT PLANS

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

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 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, 2010 for the U.S. plan, December 31, 2009 for the Canadian plan and April 1, 2011 for the U.K. plan. The effective date of the next required valuation is December 31, 2011 for the U.S. plan, December 31, 2012 for the Canadian plan and April 1, 2014 for the U.K. plan.

a) Employee benefit assets

Employee benefit assets represent the surplus position of defined benefit pension plans. The surplus position is calculated as the difference between plan assets and the accrued benefit obligation. The following table shows changes in employee benefit assets during the year.

	2011 $	2010 $
Change in plan assets:		
Fair value of plan assets at January 1	215,519	205,452
Actual return on plan assets	11,667	11,539
Actuarial losses included in OCI	5,660	8,284
Employer contributions	212	233
Employee contributions	-	4
Benefits paid	(7,203)	(7,929)
Effect of change in foreign exchange rates	588	(2,064)
Fair value of plan assets at December 31	226,443	215,519
Change in projected benefit obligation:		
Accrued benefit obligations at January 1	161,369	133,108
Current service cost	5,586	4,194
Employee contributions	-	4
Interest cost	8,913	8,420
Benefits paid	(7,203)	(7,929)
Actuarial losses included in OCI	25,285	25,341
Effect of change in foreign exchange rates	514	(1,769)
Accrued benefit obligations at December 31	194,464	161,369
Employee benefit asset as at December 31	**31,979**	**54,150**

The funded status of the defined benefit plans at January 1, 2010 was $72,344.

(Amounts in thousands of Canadian dollars except where otherwise stated)

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

	2011 %	2010 %
Bonds and other fixed income securities	65	58
Equities	34	41
Other	1	1
	100	100

b) Employee benefit obligations

The following table shows changes in unfunded post retirement benefit obligations during the year.

	2011		2010	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	17,283	13,079	10,832	13,558
Current service cost	1,110	(16)	438	(4)
Employee contributions	-	-	-	-
Curtailments	-	-	-	-
Interest cost	985	645	707	755
Benefits paid	(626)	(872)	(553)	(961)
Actuarial losses included in OCI	2,614	1,163	5,861	254
Effect of change in foreign exchange rates	12	216	(2)	(523)
Accrued benefit obligations at December 31	21,378	14,215	17,283	13,079

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

	2011 $	2010 $
As at December 31		
Fair value of defined benefit plan assets (note 8a)	226,443	215,519
Present value of defined benefit obligations	230,056	191,731
Funded status - surplus (deficit)	(3,613)	23,788

Additionally, long-term disability benefit obligations amounted to $3,481, $4,497 and $5,106 at December 31, 2011, December 31, 2010 and January 1, 2010 respectively. These benefits are recorded in other liabilities on the consolidated statements of financial position.

(Amounts in thousands of Canadian dollars except where otherwise stated)

c) Employee benefit expenses

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

	2011		2010	
	Pension benefits	Other benefits	Pension benefits	Other benefits
	$	$	$	$
Defined benefit pension and post-retirement plan expenses:				
Current service cost	6,696	(16)	4,632	(4)
Interest cost	9,898	645	9,127	755
Actual return on plan assets	(11,667)	-	(11,539)	-
	4,927	629	2,220	751
Defined contribution pension plans:				
Employer contributions	2,591		1,375	

Long-term disability benefit expenses (income) amounted to $1,065 and $(410) during December 31, 2011 and December 31, 2010 respectively and are included in gross certificateholder benefits and payments on the consolidated statement of comprehensive income.

d) Actuarial gains (losses) on employee benefit plans

The movements in actuarial gains and losses 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 the year-end are summarized below. These balances are transferred to retained earnings at the end of each year.

	2011	2010
	$	$
Net actuarial losses as at January 1	(23,194)	-
Changes during the year recorded in OCI:		
Experience adjustments on plan liabilities	169	(4,935)
Experience adjustments on plan assets	5,660	8,284
Changes due to discount rate assumptions	(28,573)	(24,339)
Changes due to other actuarial assumptions	(658)	(2,182)
	(23,402)	(23,172)
Effects of change in foreign exchange rate	(67)	(22)
Net actuarial losses as at December 31	**(46,663)**	**(23,194)**

(Amounts in thousands of Canadian dollars except where otherwise stated)

e) Overview of assumptions

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 12 years (12 years in 2010) and other retirement benefit plans was 6 years (6 years in 2010).

The weighted average actuarial assumptions used in the measurement of Foresters benefit obligation and expenses were as follows:

	2011		2010	
	Pension benefits %	**Other benefits %**	**Pension benefits %**	**Other benefits %**
Assumptions used to calculate benefit obligations				
Discount rate	4.3	4.5	5.5	5.2
Rate of compensation increase	3.5	-	3.5	-
Assumptions used to calculate benefit expense				
Discount rate	5.5	5.2	6.4	5.9
Expected long-term rate of return on plan assets	5.3	-	5.5	-
Rate of compensation increase	3.5	-	3.5	-

The discount rate was selected based on a review of current market interest rates of high-quality, corporate bonds adjusted to reflect the duration of expected future cash outflows for pension benefit payments. A 1.0% increase in this rate would reduce the defined benefit pension expense by approximately $31,583 and $28,353, respectively, in 2011 and 2010.

The expected return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected return is based on the current year return, adjusted for expected longer term changes. A 1.0% increase in the expected rate of return on assets would decrease defined benefit pension expense by approximately $2,006 and $2,071, respectively, in 2011 and 2010.

The Medicare (post 65 years of age) inflation assumption for the U.S. benefits is 8.1% for 2012 (8.4% for 2011) decreasing to 4.5% by 2028 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 7.2% for 2012 (7.3% for 2011), decreasing to 4.5% in 2030 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2011:

	1.0% increase $	**1.0% decrease $**
Effect on service cost plus interest cost	67	(59)
Effect on accrued benefit obligations	1,545	(1,319)

(Amounts in thousands of Canadian dollars except where otherwise stated)

9. GOODWILL AND INTANGIBLE ASSETS

a) Goodwill

The following table shows changes in the goodwill balance during the year.

	2011 $
Carrying value as at December 31, 2010	-
Acquisitions through business combinations	30,457
Effect of change in foreign exchange rates	687
Carrying value as at December 31, 2011	31,144

Goodwill has been allocated to FICC's asset management operations, which are included in the US division. Goodwill was reviewed at the end of the year and it was determined that no impairment write-down was required.

b) Intangible assets

The following table shows changes in the intangible asset balances during the year.

	Indefinite useful life	Finite useful life			
	Asset management contracts $	Unit cost reductions $	Distribution network $	Software * $	Total $
Net carrying value as at December 31, 2010	-	-	-	12,663	12,663
Acquisitions through business combinations	112,290	5,175	4,476	3,481	125,422
Additions	-	-	-	19,589	19,589
Amortization	-	(317)	(495)	(2,482)	(3,294)
Effect of change in foreign exchange rates	2,528	40	87	797	3,452
Net carrying value as at December 31, 2011	114,818	4,898	4,068	34,048	157,832
Net carrying value as of January 1, 2010	-	-	-	877	877
Additions	-	-	-	12,873	12,873
Amortization	-	-	-	(686)	(686)
Effect of change in foreign exchange rates	-	-	-	(401)	(401)
Net carrying value as of December 31, 2010	-	-	-	12,663	12,663

* At December 31, 2011, software includes software acquired through the acquisition of FICC of $2,848 ($3,481 at the date of acquisition)

(Amounts in thousands of Canadian dollars except where otherwise stated)

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, 2011			
Unit cost reductions	5,214	316	4,898
Distribution network	4,576	508	4,068
Software	37,642	3,594	34,048
	47,432	4,418	43,014
December 31, 2010			
Software	13,708	1,045	12,663
	13,708	1,045	12,663
January 1, 2010			
Software	1,246	369	877
	1,246	369	877

Included in software was $27,523 ($10,696 in 2010) that is still under development and has not been amortized. During 2011, Foresters expensed research and development costs amounting to $1,340 ($1,244 in 2010).

10. FINANCIAL RISK MANAGEMENT

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

Foresters Risk Management Policy sets out the standards of practice related to the governance, identification, measurement, monitoring, control and mitigation of risks. Foresters 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 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 manages each of these risks.

(Amounts in thousands of Canadian dollars except where otherwise stated)

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 general fund invested assets and an increase in provisions for future credit impairments to be included in insurance contract liabilities.

The Board approved Investment Policy sets out the policies and procedures to manage this risk. Specific guidelines have been established to minimize undue concentration of assets in any single geographic area, industry and company; 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 Audit, 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 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 guidelines.

i) Maximum exposure to credit risk

Foresters 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 maximum credit exposure is as follows:

	2011 $	2010 $
Cash, cash equivalents and short-term securities	190,132	274,040
Bonds	5,092,954	4,378,878
Equities	571,537	618,306
Mortgages	7,575	7,915
Derivatives	71,878	85,340
Other invested assets	78,619	52,846
Reinsurance assets	186,033	137,255
Accrued investment income	55,907	46,025
Amounts due from reinsurers	10,333	7,719
Accounts receivable, income tax recoverable and other	37,261	11,184
Maximum exposure to credit risk	6,302,229	5,619,508

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 in that they operate in the same geographic region or in similar industries.

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

Foresters 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 investment in bonds, equities, money market instruments, derivative financial instruments and mortgages. 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 investments in a single issuer.

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

<u>Bonds and other fixed-term securities</u>

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., 4.0% of the bond portfolio for Canada and 8.0% 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.

(Amounts in thousands of Canadian dollars except where otherwise stated)

The following table provides details of the carrying value of bonds by industry sector and geographic distribution.

	2011			2010		
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	$ 881,078	$ 184,354	$ 1,065,432	$ 784,044	$ 166,555	$ 950,599
Canadian federal government	112,068	7,806	119,874	131,687	23,911	155,598
Canadian provincial and municipal government	655,994	41,870	697,864	561,434	72,013	633,447
Other foreign governments	369,494	42,939	412,433	292,632	34,491	327,123
Total government bonds	2,018,634	276,969	2,295,603	1,769,797	296,970	2,066,767
Corporate bonds:						
Asset-backed securities	24,405	-	24,405	57,829	3,994	61,823
By industry sector						
Communications	136,969	30,529	167,498	48,219	6,824	55,043
Consumer staples and discretionary	247,191	91,889	339,080	191,305	107,390	298,695
Financials	1,043,737	216,598	1,260,335	1,104,067	155,795	1,259,862
Healthcare	82,789	9,950	92,739	37,440	16,726	54,166
Industrials	335,906	40,955	376,861	221,494	49,493	270,987
Utilities and energy	418,484	53,120	471,604	229,619	31,378	260,997
Other	39,002	25,827	64,829	33,302	17,236	50,538
Total corporate bonds	2,328,483	468,868	2,797,351	1,923,275	388,836	2,312,111
	$ 4,347,117	$ 745,837	$ 5,092,954	$ 3,693,072	$ 685,806	$ 4,378,878
Allocation by geographic region:						
United States	$ 2,420,801	$ 631,553	$ 3,052,354	$ 2,017,085	$ 600,197	$ 2,617,282
Canada	1,498,683	66,642	1,565,325	1,392,951	56,265	1,449,216
United Kingdom	427,633	47,642	475,275	283,036	29,344	312,380
	$ 4,347,117	$ 745,837	$ 5,092,954	$ 3,693,072	$ 685,806	$ 4,378,878

The credit rating of the bond portfolio was as follows:

	2011		2010	
Bond quality	**$**	**%**	**$**	**%**
Investment grade:				
AAA	1,235,038		1,894,105	
AA	1,601,529		938,988	
A	1,633,096		1,287,106	
BBB	610,991		232,948	
	5,080,654	99.8	4,353,147	99.4
BB and lower	12,300	0.2	25,731	0.6
Total bonds	5,092,954	100.0	4,378,878	100.0

Mortgages

Mortgages are secured by first recourse on the underlying property and carry a fixed interest rate. Foresters limits its concentration in mortgages, including mortgage backed securities, collateralized mortgage obligations and collateralized mortgage backed securities to 21.0% of Foresters total assets. Foresters is not currently entering into any new mortgage agreements.

<u>Equities</u>
Investments in common and preferred stocks are limited to 22.0% and 3.0% respectively of Foresters total assets. 100.0% of Foresters equity portfolio is invested in publicly listed corporations.

<u>Own–use and investment property</u>
Investments in real estate are limited to 15.0% of Foresters total assets.

<u>Securities lending</u>
Foresters discontinued its securities lending program in September 2011 and did not have any securities on loan or hold any collateral on behalf of such securities at December 31, 2011.

During 2010, Foresters lent its own securities for periods of time to other institutions on a fully collateralized basis in order to generate additional income. The value of the collateral received was at least 102.0% of the market value of the security loaned and the collateral was marked to market daily while Foresters securities were on loan. The securities lending program was managed by regulated financial institutions in the U.S. and Canada.

The market value of the loaned securities was monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuated. As at December 31, 2010, bonds and equities with an estimated market value of $226,798 and $54,240, respectively were on loan. For the same period Foresters received collateral with an estimated market value $287,617.

Foresters was exposed to credit risk resulting from potential asset defaults on the collateral pool supporting the securities lending program. Collateral was invested according to approved investment guidelines and the credit quality of the pool was monitored regularly. At December 31, 2010, 96.7% of the collateral pool was invested in investment grade assets (BBB or higher) and 3.3% was invested in assets with a BB or lower credit rating.

iii) Impairments
An allowance for losses on loans is established when a loan 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 loan and related investment income. The carrying value of an impaired loan is reduced to its estimated net realizable value at the time of recognition of impairment. No allowances for losses have been taken in 2011 or in 2010.

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

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises 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 matches the currency of its assets with the currency of the liabilities they support to mitigate economic exposure to changes in exchange rates.

<u>Administrative expenses</u>

Foresters 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. dollar. Foresters enters into foreign exchange forward contracts (see note 4e) 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 would still be 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 $1,723 ($1,459 in 2010). 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 $1,754 ($1,585 in 2010).

<u>Foreign operations</u>

A substantial portion of Foresters business 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 businesses would decline. Foresters uses financial measures such as constant currency calculations to monitor the effect of such currency fluctuations.

(Amounts in thousands of Canadian dollars except where otherwise stated)

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.

	Increase (decrease) in total comprehensive income		Decrease in surplus	
	2011 $	2010 $	2011 $	2010 $
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	(27)	(787)	(11,641)	(11,179)
U.K. pound	59	12	(534)	(536)

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 closely matched and interest rates change, causing a difference in value between assets and liabilities. Foresters 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 the current assets and liabilities are used to determine insurance contract liabilities. Cash flows from assets are reduced to provide for potential asset depreciation losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

Many annuity and universal life insurance certificates have minimum credited interest rate guarantees, ranging from 1.0% to 4.5% (1.0% to 4.0% in 2010). 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 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 1.0% increase or decrease in the level of interest rates.

A 1.0% reduction in interest rates would result in a decrease in surplus of approximately $119,200 ($72,300 in 2010), while the effect of a 1.0% increase in interest rates would result in an increase in surplus of approximately $108,500 ($69,200 in 2010).

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 AFS bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2011, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $50,200 ($38,000 in 2010). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $50,500 ($38,400 in 2010).

iii) Equity market risk

Some insurance contract liabilities and investment contract liabilities such as products with long duration are supported by equities. There will be additional 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 increase surplus by approximately $15,400 ($7,800 in 2010). A 10.0% decrease in equity markets would be expected to decrease surplus by approximately $17,900 ($9,400 in 2010).

Equities designated as AFS generally do not support insurance contract liabilities or investment contract liabilities. Changes in fair value of AFS equities are recorded in OCI and cause a corresponding change in surplus. For Foresters AFS equities, an immediate 10.0% increase in stock prices at December 31, 2011, would result in an estimated after-tax increase in OCI of $18,500 ($24,600 in 2010). Conversely, an immediate 10.0% decrease in stock prices would have an equal and opposite effect.

c) Insurance risk

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

Foresters sells insurance and financial investment products. The types of products include life, health, annuity, participating and non-participating insurance. A variety of assumptions are made when a product is designed and priced. The assumptions are 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. 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 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 certificateholders 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 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 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 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.

d) Liquidity risk

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

Operating and strategic liquidity levels are managed against established minimums.

Foresters 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 target liquidity ratio under both scenarios is 200.0%, a ratio that would more than support the highest claims-paying ratings for Foresters, in addition to providing a significant margin above management's expected liquidity requirements. Foresters 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 certificateholder surrendering a certificate for cash under each of the two scenarios, adjusted for the ability of the certificateholder to surrender under its contractual provisions.

(Amounts in thousands of Canadian dollars except where otherwise stated)

The following chart shows Foresters strategic liquidity ratio.

	2011		2010	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Allowable liquid assets	$ 5,468,443	$ 5,620,325	$ 4,920,907	$ 5,065,923
Risk-adjusted liquidity of liabilities	2,095,153	2,546,774	1,776,703	2,161,970
Liquidity ratio	261.0%	220.7%	277.0%	234.3%

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

Contractual maturities

For insurance contracts, the expected timing of cashflows payable under such contracts is shown in the table below.

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 cashflows are shown in the "within 1 year" column below.

Investment contract liabilities for the account of segregated fund unit holders are payable or transferable on demand. The offsetting net investment for the account of segregated fund unit holders is also shown on the same basis as these assets will be liquidated when necessary to settle the liability. These cashflows are also shown in the "within 1 year" column below.

(Amounts in thousands of Canadian dollars except where otherwise stated)

The contractual maturities of Foresters significant financial assets and liabilities as at December 31 are shown in the following table.

2011	On demand or within 1 year or less $	1-5 years $	6-15 years $	Over 15 years $	Total $
Cash, cash equivalents and short-term securities	190,132	-	-	-	190,132
Bonds	55,660	614,691	1,700,930	2,721,673	5,092,954
Mortgages	2,012	4,543	1,020	-	7,575
Derivative financial instrument	13,756	27,764	31,861	(1,503)	71,878
Reinsurance assets	6,435	54,023	49,759	75,816	186,033
Insurance contract liabilities	(180,448)	(643,042)	(1,831,077)	(2,368,683)	(5,023,250)
Investment contract liabilities	(158,399)	-	-	-	(158,399)
Net investments for account of segregated fund unit holders	1,696,764	-	-	-	1,696,764
Investment contract liabilities for account of segregated fund unit holders	(1,696,764)	-	-	-	(1,696,764)
	(70,852)	57,979	(47,507)	427,303	366,923
2010					
Cash, cash equivalents and short-term securities	274,040	-	-	-	274,040
Bonds	56,899	606,707	1,456,347	2,258,925	4,378,878
Mortgages	-	6,816	1,099	-	7,915
Derivative financial instrument	13,079	33,335	35,997	2,929	85,340
Reinsurance assets	4,512	12,162	20,904	99,677	137,255
Insurance contract liabilities	(173,803)	(619,810)	(1,557,941)	(1,838,108)	(4,189,662)
Investment contract liabilities	(156,232)	-	-	-	(156,232)
Net investments for account of segregated fund unit holders	698,352	-	-	-	698,352
Investment contract liabilities for account of segregated fund unit holders	(698,352)	-	-	-	(698,352)
	18,495	39,210	(43,594)	523,423	537,534

(Amounts in thousands of Canadian dollars except where otherwise stated)

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 are comprised of the following:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accounts payable and accrued liabilities	59,429	45,566	43,054
Payroll, other compensation and benefits	42,526	12,455	11,519
Deferred tax liabilities	7,284	9,242	8,372
Current income tax payable	6,164	9,006	8,139
Due to reinsurers	2,921	3,024	2,196
Other liabilities	17,608	16,827	17,985
	135,932	96,120	91,265

The fair value of these liabilities approximates their carrying value.

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, annuity, participating and non-participating insurance. Insurance contract liabilities have been calculated using CALM and are reported gross of ceded reinsurance. CALM requires assumptions to be made about future cash flows, thus there is significant 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 CIA. For interest rate risk, the Appointed Actuary projects multiple cash flow scenarios for each material product line in order 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 business. 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.

(Amounts in thousands of Canadian dollars except where otherwise stated)

Foresters 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 gross exposure to insurance contract liabilities is partially offset by reinsurance assets on account of certain risks ceded to reinsurers.

	2011 **$**	**2010** **$**
Insurance contract liabilities (gross)	5,023,250	4,189,662
Reinsurance assets	186,033	137,255
Net insurance contract liabilities	4,837,217	4,052,407

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

	2011	**2010**
	Net insurance contract liabilities $	**Net insurance contract liabilities $**
Beginning of year	4,052,407	4,051,508
Acquisitions	412,254	-
	4,464,661	4,051,508
New business	33,378	105,300
In-force business	(49,484)	(79,230)
Refinement of assumptions	17,838	(66,882)
Refinement of methods and models	(8,433)	(2,692)
Impact of fair value movement	318,048	207,877
Change in contract liabilities	311,347	164,373
Effect of change in foreign exchange rates	61,209	(163,474)
End of year	4,837,217	4,052,407

(Amounts in thousands of Canadian dollars except where otherwise stated)

Changes in insurance contract liabilities, net of reinsurance assets, resulting from refinements of assumptions, methods and models were as follows:

	2011 $	2010 $
Refinements of assumptions:		
Investment returns	123,880	22,996
Reduced unit costs for maintenance expenses	(44,458)	(62,802)
Updated mortality and lapse assumptions for recent experience	33,093	(428)
Implementation of a mortality improvement assumption	(10,506)	-
Updated dividend assumptions	(24,024)	(3,007)
Updated fraternal assumptions	(49,978)	7,577
Implementation of a dynamic inflation rate for expenses	-	(29,317)
Other	(10,169)	(1,901)
	17,838	(66,882)
Refinements of methods and models:		
Model improvements	(3,888)	(645)
Other	(4,545)	(2,047)
	(8,433)	(2,692)

c) Insurance contract liabilities and supporting assets

Foresters segments its business, taking into account the different liability profiles of its products. Based on these profiles, Foresters has invested in fixed income securities, equities and mortgages with characteristics that closely match the characteristics of the related insurance contract liability. In those cases where the characteristics of the invested assets do not fully reflect the needs of the liabilities, derivative financial instruments are used. The insurance contract 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 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 assets and liabilities by country of operation and by line of business for insurance contract liabilities.

Notes to consolidated financial statements

(Amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division

December 31, 2011

	United States					Canada				United Kingdom					
	Insurance	Annuities	Asset management	Surplus	Total	Insurance	Annuities	Surplus	Total	Insurance	Annuities	Surplus	Total	Fraternal**	Total
ASSETS															
Invested Assets															
Cash, cash equivalents and short-term securities	$ 1,613	$ 192	$ 51,013	$ 32,250	$ 85,068	$ 19,097	$ 20,063	$ 7,179	$ 46,339	$ 762	$ 13,401	$ 6,066	$ 20,229	$ 18,766	$ 170,402
Bonds	1,749,638	354,609	-	525,239	2,629,486	873,748	552,875	59,142	1,485,765	271,998	101,878	21,979	395,855	303,720	4,814,826
Equities	83,053	11,563	6,942	9,112	110,670	67,286	63,782	12,242	143,310	107,345	-	15,835	123,180	4,079	381,239
Mortgages	3,033	4,542	-	-	7,575	-	-	-	-	-	-	-	-	-	7,575
Derivative financial instruments	56,455	4,838	-	-	61,293	-	-	-	-	-	-	-	-	10,585	71,878
Other invested assets*	-	-	-	-	-	(6,245)	10,708	33,183	37,646	5,293	-	-	5,293	5	42,944
Loans to certificateholders	220,596	-	-	-	220,596	39,134	4	23	39,161	2,798	6,781	-	9,579	-	269,336
Total invested assets	2,114,388	375,744	57,955	566,601	3,114,688	993,020	647,432	111,769	1,752,221	388,196	122,060	43,880	554,136	337,155	5,758,200
Reinsurance assets	30,151	-	-	-	30,151	148,092	7,790	-	155,882	-	-	-	-	-	186,033
Other assets	102,720	3,816	21,646	(29,191)	98,991	17,336	4,869	32,639	54,844	15,500	(682)	2,937	17,755	6,955	178,545
Property and equipment	279	-	2,611	87	2,977	205	-	26,461	26,666	-	-	4,414	4,414	1	34,058
Employee benefit assets	-	-	-	3,861	3,861	-	-	28,118	28,118	-	-	-	-	-	31,979
Goodwill and intangible assets	-	-	-	131,440	131,440	-	-	124	124	-	-	7,231	7,231	-	138,795
TOTAL ASSETS	$ 2,247,538	$ 379,560	$ 82,212	$ 672,798	$3,382,108	$ 1,158,653	$ 660,091	$ 199,111	$ 2,017,855	$ 403,696	$ 121,378	$ 58,462	$ 583,536	$ 344,111	$ 6,327,610
LIABILITIES															
Insurance contract liabilities	$ 2,167,063	$ 383,761	$ -	$ -	$2,550,824	$ 1,091,666	$ 646,473	$ -	$ 1,738,139	$ 402,210	$ 60,250	$ -	$ 462,460	$ 271,827	$ 5,023,250
Benefits payable and provision for unreported claims	62,184	4,622	-	-	66,806	19,892	362	470	20,724	5,574	1,395	-	6,969	-	94,499
Other liabilities	14,121	(137)	47,743	7,292	69,019	31,288	(95)	16,379	47,572	5,151	4,259	5,457	14,867	336	131,794
Employee benefit obligation	-	-	-	9,857	9,857	1,639	-	24,097	25,736	-	-	-	-	-	35,593
TOTAL LIABILITIES	2,243,368	388,246	47,743	17,149	2,696,506	1,144,485	646,740	40,946	1,832,171	412,935	65,904	5,457	484,296	272,163	5,285,136
SURPLUS															
Retained earnings	4,170	(8,686)	34,469	631,737	661,690	14,168	13,351	146,892	174,411	(9,239)	55,474	50,673	96,908	69,980	1,002,989
Accumulated other comprehensive income	-	-	-	23,912	23,912	-	-	11,273	11,273	-	-	2,332	2,332	1,968	39,485
TOTAL SURPLUS	4,170	(8,686)	34,469	655,649	685,602	14,168	13,351	158,165	185,684	(9,239)	55,474	53,005	99,240	71,948	1,042,474
TOTAL LIABILITIES AND SURPLUS	$ 2,247,538	$ 379,560	$ 82,212	$ 672,798	$3,382,108	$ 1,158,653	$ 660,091	$ 199,111	$ 2,017,855	$ 403,696	$ 121,378	$ 58,462	$ 583,536	$ 344,111	$ 6,327,610

* Intersegment notes are 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. Interest is recorded in net investment income on the consolidated statements of comprehensive income. The intersegment notes and related interest eliminate on consolidation.

** Fraternal includes fraternal operations in the U.S., Canada and the U.K., as well as fraternal surplus

Notes to consolidated financial statements

(Amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division

December 31, 2010

	United States				Canada				United Kingdom					
	Insurance	Annuities	Surplus	Total	Insurance	Annuities	Surplus	Total	Insurance	Annuities	Surplus	Total	Fraternal**	Total
ASSETS														
Invested Assets														
Cash, cash equivalents and short-term securities	$ 626	$ 820	$ 2,872	$ 4,318	$ 7,558	$ 3,811	$ 3,698	$ 15,067	$ 3,666	$ 5,716	$ 532	$ 9,914	$ 13,891	$ 43,190
Bonds	1,428,878	346,035	407,181	2,182,094	830,388	506,063	38,720	1,375,171	100,463	89,294	44,236	233,993	259,290	4,050,548
Equities	90,588	10,786	51,707	153,081	75,280	62,282	12,883	150,445	102,744	-	19,499	122,243	4,335	430,104
Mortgages	3,148	4,767	-	7,915	-	-	-	-	-	-	-	-	-	7,915
Derivative financial instruments	66,887	5,913	-	72,800	-	-	-	-	-	-	-	-	12,540	85,340
Other invested assets*	85	7	15,685	15,777	(20,842)	5,643	32,961	17,762	-	-	-	-	22	33,561
Loans to certificateholders	140,167	-	-	140,167	39,082	-	-	39,082	-	6,545	-	6,545	-	185,794
Total invested assets	1,730,379	368,328	477,445	2,576,152	931,466	577,799	88,262	1,597,527	206,873	101,555	64,267	372,695	290,078	4,836,452
Reinsurance assets	7,453	-	-	7,453	119,518	10,284	-	129,802	-	-	-	-	-	137,255
Other assets	35,903	3,621	(13,744)	25,780	12,732	4,512	45,027	62,271	8,258	(1,911)	4,384	10,731	9,600	108,382
Property and equipment	-	-	81	81	437	-	24,092	24,529	-	-	4,352	4,352	-	28,962
Employee benefit assets	-	-	5,612	5,612	-	-	48,538	48,538	-	-	-	-	-	54,150
Goodwill and intangible assets	-	-	-	-	-	-	493	493	-	-	894	894	-	1,387
TOTAL ASSETS	$ 1,773,735	$ 371,949	$ 469,394	$2,615,078	$ 1,064,153	$ 592,595	$ 206,412	$ 1,863,160	$ 215,131	$ 99,644	$ 73,897	$ 388,672	$ 299,678	$ 5,166,588
LIABILITIES														
Insurance contract liabilities	$ 1,679,512	$ 370,911	$ -	$2,050,423	$ 980,283	$ 581,285	$ -	$ 1,561,568	$ 246,810	$ 44,854	$ -	$ 291,664	$ 286,007	$ 4,189,662
Benefits payable and provision for unreported claims	37,881	-	-	37,881	18,500	123	(5)	18,618	4,163	1,344	-	5,507	-	62,006
Other liabilities	8,314	152	5,672	14,138	37,346	75	21,449	58,870	3,238	3,198	5,242	11,678	1,457	86,143
Employee benefit obligation	-	-	9,016	9,016	1,544	-	19,802	21,346	-	-	-	-	-	30,362
TOTAL LIABILITIES	1,725,707	371,063	14,688	2,111,458	1,037,673	581,483	41,246	1,660,402	254,211	49,396	5,242	308,849	287,464	4,368,173
SURPLUS														
Retained earnings	48,028	886	446,998	495,912	26,480	11,112	152,762	190,354	(39,080)	50,248	65,207	76,375	11,262	773,903
Accumulated other comprehensive income	-	-	7,708	7,708	-	-	12,404	12,404	-	-	3,448	3,448	952	24,512
TOTAL SURPLUS	48,028	886	454,706	503,620	26,480	11,112	165,166	202,758	(39,080)	50,248	68,655	79,823	12,214	798,415
TOTAL LIABILITIES AND SURPLUS	$ 1,773,735	$ 371,949	$ 469,394	$2,615,078	$ 1,064,153	$ 592,595	$ 206,412	$ 1,863,160	$ 215,131	$ 99,644	$ 73,897	$ 388,672	$ 299,678	$ 5,166,588

* Intersegment notes are 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. Interest is recorded in net investment income on the consolidated statements of comprehensive income. The intersegment notes and related interest eliminate on consolidation.

** Fraternal includes fraternal operations in the U.S., Canada and the U.K., as well as fraternal surplus

Notes to consolidated financial statements

(Amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division

January 1, 2010	United States				Canada				United Kingdom					Total
	Insurance	Annuities	Surplus	Total	Insurance	Annuities	Surplus	Total	Insurance	Annuities	Surplus	Total	Fraternal**	
ASSETS														
Invested Assets														
Cash, cash equivalents and short-term securities	$ 6,859	$ 6,400	$ 9,476	$ 22,735	$ 12,349	$ 18,377	$ 1,887	$ 32,613	$ 4,828	$ 868	$ 545	$ 6,241	$ 10,608	$ 72,197
Bonds	1,564,395	366,040	314,674	2,245,109	820,843	401,753	48,990	1,271,586	104,725	91,930	64,716	261,371	300,677	4,078,743
Equities	89,437	10,946	88,981	189,364	61,235	65,468	10,382	137,085	110,337	-	24,159	134,496	3,915	464,860
Mortgages	6,964	8,353	-	15,317	-	-	-	-	-	-	-	-	-	15,317
Derivative financial instruments	58,176	1,523	-	59,699	-	-	-	-	-	-	-	-	19,389	79,088
Other invested assets*	1,101	-	12,354	13,455	(29,593)	7,160	38,805	16,372	-	-	-	-	376	30,203
Loans to certificateholders	148,541	-	763	149,304	38,020	-	151	38,171	-	7,022	-	7,022	-	194,497
Total invested assets	1,875,473	393,262	426,248	2,694,983	902,854	492,758	100,215	1,495,827	219,890	99,820	89,420	409,130	334,965	4,934,905
Reinsurance assets	1,262	-	-	1,262	112,009	13,791	-	125,800	-	-	-	-	-	127,062
Other assets	40,087	3,869	(1,905)	42,051	15,430	4,227	16,700	36,357	5,946	(209)	2,579	8,316	6,425	93,149
Property and equipment	-	-	8	8	924	-	20,444	21,368	-	-	344	344	3	21,723
Employee benefit assets	-	-	5,603	5,603	-	-	66,994	66,994	-	-	(253)	(253)	-	72,344
Goodwill and intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	$ 1,916,822	$ 397,131	$ 429,954	$2,743,907	$ 1,031,217	$ 510,776	$ 204,353	$ 1,746,346	$ 225,836	$ 99,611	$ 92,090	$ 417,537	$ 341,393	$ 5,249,183
LIABILITIES														
Insurance contract liabilities	$ 1,766,128	$ 382,958	$ -	$2,149,086	$ 941,974	$ 496,863	$ -	$ 1,438,837	$ 268,192	$ 41,880	$ -	$ 310,072	$ 280,575	$ 4,178,570
Benefits payable and provision for unreported claims	23,019	4,308	-	27,327	18,234	342	-	18,576	5,380	1,531	-	6,911	-	52,814
Other liabilities	9,745	619	3,796	14,160	40,149	1,024	15,340	56,513	(1,257)	5,348	3,530	7,621	1,256	79,550
Employee benefit obligation	-	-	10,222	10,222	-	-	14,168	14,168	-	-	-	-	-	24,390
TOTAL LIABILITIES	1,798,892	387,885	14,018	2,200,795	1,000,357	498,229	29,508	1,528,094	272,315	48,759	3,530	324,604	281,831	4,335,325
SURPLUS														
Retained earnings	117,930	9,246	386,636	513,812	30,860	12,547	168,639	212,046	(46,479)	50,852	80,022	84,395	59,562	869,814
Accumulated other comprehensive income	-	-	29,300	29,300	-	-	6,206	6,206	-	-	8,538	8,538	-	44,044
TOTAL SURPLUS	117,930	9,246	415,936	543,112	30,860	12,547	174,845	218,252	(46,479)	50,852	88,560	92,933	59,562	913,858
TOTAL LIABILITIES AND SURPLUS	$ 1,916,822	$ 397,131	$ 429,954	$2,743,907	$ 1,031,217	$ 510,776	$ 204,353	$ 1,746,346	$ 225,836	$ 99,611	$ 92,090	$ 417,537	$ 341,393	$ 5,249,183

* Intersegment notes are 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. Interest is recorded in net investment income on the consolidated statements of comprehensive income. The intersegment notes and related interest eliminate on consolidation.

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(Amounts in thousands of Canadian dollars except where otherwise stated)

Asset depreciation 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.

	2011 $	2010 $
Balance, beginning of year*	48,151	76,953
Net strengthening (release) of provision**	19,162	(26,942)
Effect of change in foreign exchange rates	945	(1,860)
Balance, end of year*	68,258	48,151

* Provisions are net of losses expected to be passed-through via credited interest rates and dividends.
** The provision decreased in 2010 to reflect a gradual return to historical default rates.
About $11,500 of the increase in 2011 is attributable to the acquisition of FICC's U.S. life insurance subsidiary.

d) Assumptions

The nature and method of determining the more significant assumptions made by Foresters 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 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 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 new actuarial standards in 2011, projected improvements in mortality experience are reflected where appropriate.

Lapse rates

Certificateholders 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 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.

(Amounts in thousands of Canadian dollars except where otherwise stated)

Investment returns
Foresters segments assets supporting insurance contract liabilities by geographic market and by line of business. Foresters 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 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 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 experience.

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

Foreign currency
Currency risk is addressed in note 10.

The following table shows the increase (decrease) in after-tax net income which would result if there were changes in key assumptions.

	Change	2011 $	2010 $
Mortality rates:			
Life products	+2%	(29,097)	(22,766)
Annuity products	-2%	(1,641)	(1,502)
Lapse rates	10% Adverse	(64,719)	(44,004)
Maintenance expense levels	+10%	(37,842)	(34,428)

(Amounts in thousands of Canadian dollars except where otherwise stated)

13. INVESTMENT CONTRACT LIABILITIES

a) Reconciliation of changes in investment contract liabilities

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

	U.S. $	Canada $	U.K. $	Total $
2011				
Balance, beginning of year	46,988	34,720	74,524	156,232
Acquisitions	6,518	-	-	6,518
	53,506	34,720	74,524	162,750
Deposits received during the year	12,199	1,908	2,260	16,367
Surrenders and withdrawals	(20,985)	(4,763)	(3,569)	(29,317)
Interest credited and other	848	1,018	4,394	6,260
Effect of change in foreign exchange rates	980	-	1,359	2,339
Balance, end of year	46,548	32,883	78,968	158,399
2010				
Balance, beginning of year	51,184	35,785	76,007	162,976
Acquisitions	-	-	-	-
	51,184	35,785	76,007	162,976
Deposits received during the year	37,237	3,313	3,454	44,004
Surrenders and withdrawals	(39,539)	(5,525)	(3,986)	(49,050)
Interest credited and other	801	1,147	5,773	7,721
Effect of change in foreign exchange rates	(2,695)	-	(6,724)	(9,419)
Balance, end of year	46,988	34,720	74,524	156,232

(Amounts in thousands of Canadian dollars except where otherwise stated)

b) Investment contract liabilities and supporting assets

The following chart shows assets and liabilities by country of operation and by line of business for investment contract liabilities.

	December 31, 2011				December 31, 2010				January 1, 2010
	United States	Canada	United Kingdom	Total	United States	Canada	United Kingdom	Total	Total
ASSETS									
Cash, cash equivalents and short-term securities	$ (1,246)	$ -	$ (4,167)	$ (5,413)	$ (800)	$ 769	$ (5,971)	$ (6,002)	$ 1,597
Bonds	47,806	32,883	47,797	128,486	48,702	33,954	39,292	121,948	120,469
Equities	-	-	34,912	34,912	-	-	40,816	40,816	44,539
Total invested assets	46,560	32,883	78,542	157,985	47,902	34,723	74,137	156,762	166,605
Other assets	269	-	426	695	225	113	389	727	576
TOTAL ASSETS	$ 46,829	$ 32,883	$ 78,968	$ 158,680	$ 48,127	$ 34,836	$ 74,526	$ 157,489	$ 167,181
LIABILITIES									
Liabilities									
Investment contract liabilities	$ 46,548	$ 32,883	$ 78,968	$ 158,399	$ 46,988	$ 34,720	$ 74,524	$ 156,232	$ 162,976
Other liabilities	-	-	-	-	-	-	-	-	(445)
TOTAL LIABILITIES	46,548	32,883	78,968	158,399	46,988	34,720	74,524	156,232	162,531
SURPLUS									
Retained earnings	281	-	-	281	1,139	116	2	1,257	4,650
TOTAL SURPLUS	281	-	-	281	1,139	116	2	1,257	4,650
TOTAL LIABILITIES AND SURPLUS	$ 46,829	$ 32,883	$ 78,968	$ 158,680	$ 48,127	$ 34,836	$ 74,526	$ 157,489	$ 167,181

(Amounts in thousands of Canadian dollars except where otherwise stated)

14. CAPITAL MANAGEMENT

Foresters capital base consists of retained earnings and AOCI as shown on the consolidated statements of changes in surplus.

Foresters 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 operates and to build on Foresters value by taking advantage of business and investment opportunities as they arise.

In accordance with the Board approved Capital Management Policy, Foresters 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 operates. Foresters 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 assesses the strength of its capital position under plausible adverse scenarios including mitigating management actions. These scenarios reflect Foresters business plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Insurance Companies Act (Canada) 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.

The MCCSR ratios as at December 31, 2011 and December 31, 2010, shown below, were above the levels that would require any regulatory or corrective action.

		2011	2010
Capital available	A	$ 1,270,664	$ 1,392,914
Capital required:			
Asset default and market risk		124,774	112,068
Insurance risks		155,894	123,825
Interest rate and foreign exchange risks		97,923	65,743
Total capital required	B	$ 378,591	$ 301,636
MCCSR ratio (A/B)		336%	462%

These ratios have been calculated on an IFRS basis. At December 31, 2010, MCCSR decreased from 474% under previous Canadian GAAP to 462% under IFRS mainly due to measurement differences in accounting for U.K. unit linked contracts and employee benefits. The drop in the ratio from 2010 to 2011 was mainly a result of the acquisitions of FICC and CWFS and the low interest rate environment.

(Amounts in thousands of Canadian dollars except where otherwise stated)

15. PREMIUMS

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

	2011			2010		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
Life and health	423,740	(63,795)	359,945	329,436	(50,751)	278,685
Annuities	104,238	(398)	103,840	133,320	(1,117)	132,203
Refund of ceded premiums *	-	6,081	6,081	-	-	-
	527,978	(58,112)	469,866	462,756	(51,868)	410,888

* In 2011, Foresters received refunds of premiums and expenses from one of its reinsurers as a result of group annuity plan conversions from monthly pay to single premium equivalents. Prior net settlements were reversed when these conversions were processed. Refunds of ceded commissions and expenses of $2.5 million and a decrease in the ceded change in insurance contract liabilities of $2.6 million were also recorded on the consolidated statements of comprehensive income. This resulted in an after-tax increase in net income of $0.6 million.

16. OTHER OPERATING INCOME

Other operating income is comprised of the following:

	2011 $	2010 $
Fees:		
Management fees on segregated fund assets	32,913	9,015
Management fees on proprietary mutual funds	47,821	-
Brokerage fees	6,562	4,163
Distribution and service fees	62,282	-
	149,578	13,178
Net rental expense	(3,504)	(3,229)
Supplementary contract deposits (with life contingency) and other	2,728	323
	148,802	10,272

(Amounts in thousands of Canadian dollars except where otherwise stated)

17. CERTIFICATEHOLDER BENEFITS AND PAYMENTS

The following table provides a breakdown of gross and ceded certificateholder benefits and payments by line of business.

	2011			2010		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life & health	299,476	(25,259)	274,217	248,283	(16,217)	232,066
Fraternal	5,306	-	5,306	4,284	-	4,284
Annuities	93,332	(440)	92,892	92,740	(652)	92,088
	398,114	(25,699)	372,415	345,307	(16,869)	328,438

18. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2011	2010
	$	$
Employee benefits:		
Salaries and benefits	125,203	83,281
Defined benefit pension and post retirement plan expenses (note 8)	5,563	2,971
Defined contribution plan expenses (note 8)	2,591	1,375
	133,357	87,627
Professional and consulting fees	21,560	19,736
Technology related service fees	44,937	31,091
Other service fees	14,720	9,407
Software costs expensed during the year	7,247	6,753
Operating lease costs	8,257	1,350
Depreciation and amortization of property, equipment and intangibles	9,704	2,425
Other expenses	16,005	9,824
Total operating expenses	255,787	168,213

Foresters recovered commissions and operating expenses from reinsurers in the amount of $18,904 ($20,221 in 2010) and $586 ($567 in 2010) respectively.

(Amounts in thousands of Canadian dollars except where otherwise stated)

19. INCOME TAXES

a) Income tax expenses

Current and deferred taxes are included in income taxes on the consolidated statements of comprehensive income as follows:

	United States $	Canada $	United Kingdom $	Total $
2011				
Current income tax expense (recovery):				
Current year	10,877	10,007	2,592	23,476
Deferred income tax expense (benefit):				
Relating to the origination and reversal of temporary differences	(5,009)	(6,444)	3,102	(8,351)
Change in unrecognized deductible temporary differences	-	3,955	(2,466)	1,489
	(5,009)	(2,489)	636	(6,862)
Income taxes	5,868	7,518	3,228	16,614
2010				
Current income tax expense (recovery):				
Current year	12	10,658	383	11,053
Deferred income tax expense (benefit):				
Relating to the origination and reversal of temporary differences	-	(735)	(4,174)	(4,909)
Change in unrecognized deductible temporary differences	-	(1,254)	7,498	6,244
	-	(1,989)	3,324	1,335
Income taxes	12	8,669	3,707	12,388

Cash taxes paid in 2011 were $29,459 ($15,778 in 2010).

(Amounts in thousands of Canadian dollars except where otherwise stated)

b) 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.

	2011 $	2010 $
Income tax expense on net unrealized gains on AFS assets	595	907
Income tax recovery on reclassification of realized gains on AFS assets	(347)	(389)
Income tax recovery on net actuarial (losses) on employee benefit plans	(214)	-
	34	518

c) 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:

	2011 %	2011 $	2010 %	2010 $
Net income after taxes		34,914		53,492
Income taxes		16,614		12,388
Income before income taxes		51,528		65,880
Combined federal and provincial statutory income tax rate for the current year	27.90%	14,377	30.08%	19,817
Effect of tax rates in foreign jurisdictions	9.11%	4,694	1.09%	718
Tax exempt income	(19.40%)	(9,997)	(22.57%)	(14,866)
Capital tax and investment income tax	10.22%	5,266	6.44%	4,243
Other taxes	4.29%	2,211	3.76%	2,477
Under (over) provided in prior years	0.12%	63	-	-
Effective tax rate	32.24%	16,614	18.80%	12,388

d) 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.

(Amounts in thousands of Canadian dollars except where otherwise stated)

Deferred tax assets and liabilities are shown in other assets and other liabilities, respectively, on the consolidated statements of financial position.

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred tax assets	13,132	-	-
Deferred tax liabilities	7,284	9,242	8,372
Net deferred tax assets (liabilities)	5,848	(9,242)	(8,372)

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.

The following chart shows deferred income tax assets and liabilities.

	December 31, 2011			December 31, 2010			January 1, 2010		
	Asset $	Liability $	Net $	Asset $	Liability $	Net $	Asset $	Liability $	Net $
Bonds	-	16,353	(16,353)	30	10,998	(10,968)	34	15,153	(15,119)
Loans to certificateholders	-	10,099	(10,099)	-	10,298	(10,298)	-	10,279	(10,279)
Other invested assets	-	921	(921)	-	4,811	(4,811)	-	8,415	(8,415)
Property and equipment	999	285	714	142	204	(62)	583	77	506
Employee benefit assets and obligations	1,567	1,373	194	2,348	3,468	(1,120)	904	2,787	(1,883)
Insurance contract liabilities	19,889	-	19,889	7,150	-	7,150	4,940	-	4,940
Investment contract liabilities	-	-	-	3,910	-	3,910	4,090	-	4,090
Other liabilities	11,227	-	11,227	-	-	-	-	-	-
Tax loss carry-forwards	541	-	541	73	-	73	4,236	-	4,236
Reserve transition amount	-	-	-	6,328	-	6,328	12,811	-	12,811
Other temporary differences	656	-	656	556	-	556	741	-	741
Recognized deferred tax assets (liabilities)	34,879	29,031	5,848	20,537	29,779	(9,242)	28,339	36,711	(8,372)

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

	2011 $	2010 $
Beginning of year	(9,242)	(8,372)
Deferred taxes on subsidiaries acquired during the year	8,160	-
Charges (credits) included in net income	6,862	(1,335)
Charges (credits) included in OCI	82	121
Exchange rate differences	(14)	344
End of year	5,848	(9,242)

(Amounts in thousands of Canadian dollars except where otherwise stated)

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

	2011			2010		
	Canada $	U.K. $	Total $	Canada $	U.K. $	Total $
Deductible temporary differences	-	-	-	-	6,233	6,233
Tax losses and unclaimed deductions	37,137	7,383	44,520	33,182	3,616	36,798
	37,137	7,383	44,520	33,182	9,849	43,031

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 $28,863 ($14,175 in 2010). The benefit of these losses has not been recognized in these consolidated financial statements. These losses will be recognized as a reduction of current income tax expense as they are utilized. These losses do not expire.

There were unclaimed tax deductions in Canada amounting to $145,180 ($130,074 in 2010) 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 has five reportable segments: four operating segments and a corporate segment, which reflect Foresters 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 invested 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 U.S., Canada and the U.K. 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).

In addition, Foresters has a fraternal 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. Consolidated segmented statements of comprehensive income and financial position are shown below.

Notes to consolidated financial statements

(Amounts in thousands of Canadian dollars except where otherwise stated)

Segmented statements of comprehensive income

	2011						2010					
	United States	Canada	United Kingdom	Fraternal	Corporate	Total	United States	Canada	United Kingdom	Fraternal	Corporate	Total
REVENUE												
Gross written premiums	$ 331,222	$ 173,207	$ 22,487	$ 1,062	$ -	$ 527,978	$ 227,474	$ 216,574	$ 17,487	$ 1,221	$ -	$ 462,756
Ceded premiums	(29,723)	(28,389)	-	-	-	(58,112)	(22,548)	(29,320)	-	-	-	(51,868)
Net Written Premiums	301,499	144,818	22,487	1,062	-	469,866	204,926	187,254	17,487	1,221	-	410,888
Net Investment Income												
Interest and dividends (net)	121,328	71,930	21,120	12,743	14,254	241,375	119,881	71,408	18,128	14,294	16,260	239,971
Net realized gains (losses)	87,992	38,608	11,796	8,813	13,977	161,186	60,750	11,734	12,210	4,883	12,200	101,777
Unrealized gains (losses) on fair value through profit and loss investments	122,780	97,969	6,617	12,442	-	239,808	91,414	76,154	13,822	9,045	-	190,435
Net unrealized foreign currency gains (losses) on available-for-sale	-	-	-	-	(4,405)	(4,405)	-	-	-	-	(30,214)	(30,214)
Total Investment Income	332,100	208,507	39,533	33,998	23,826	637,964	272,045	159,296	44,160	28,222	(1,754)	501,969
Other operating income	141,128	(1,688)	9,575	(213)	-	148,802	4,497	(1,693)	7,468	-	-	10,272
TOTAL REVENUE	774,727	351,637	71,595	34,847	23,826	1,256,632	481,468	344,857	69,115	29,443	(1,754)	923,129
Certificateholder benefits and expenses												
Gross certificateholder benefits and payments	230,877	121,010	40,922	5,305	-	398,114	202,708	113,238	25,077	4,284	-	345,307
Ceded certificateholder benefits and payments	(10,671)	(15,028)	-	-	-	(25,699)	(3,585)	(13,284)	-	-	-	(16,869)
Gross change in insurance contract liabilities	192,019	176,571	1,867	(19,025)	-	351,432	9,653	122,732	14,738	27,731	-	174,854
Ceded change in insurance contract liabilities	(14,004)	(26,081)	-	-	-	(40,085)	(6,481)	(4,000)	-	-	-	(10,481)
Dividends	22,319	12,492	3,153	-	-	37,964	22,402	13,045	3,235	-	-	38,682
Commissions	173,217	43,223	13,401	-	-	229,841	94,333	54,068	11,461	-	-	159,862
Operating expenses	189,571	36,629	11,691	13,349	4,547	255,787	97,923	40,361	10,439	12,188	7,302	168,213
Ceded commissions and operating expenses	(13,673)	(5,817)	-	-	-	(19,490)	(14,290)	(6,498)	-	-	-	(20,788)
Fraternal investment	-	-	-	17,240	-	17,240	-	-	-	18,469	-	18,469
	769,655	342,999	71,034	16,869	4,547	1,205,104	402,663	319,662	64,950	62,672	7,302	857,249
Net income (loss) before income taxes	5,072	8,638	561	17,978	19,279	51,528	78,805	25,195	4,165	(33,229)	(9,056)	65,880
Income taxes	5,868	7,518	3,228	-	-	16,614	12	8,669	3,707	-	-	12,388
Net income (loss)	(796)	1,120	(2,667)	17,978	19,279	34,914	78,793	16,526	458	(33,229)	(9,056)	53,492
Other comprehensive income (loss)	(1,595)	(6,256)	2,054	(2,418)	5,304	(2,911)	(38,576)	21	(5,101)	952	18,256	(24,448)
Total comprehensive income (loss)	$ (2,391)	$ (5,136)	$ (613)	$ 15,560	$ 24,583	$ 32,003	$ 40,217	$ 16,547	$ (4,643)	$ (32,277)	$ 9,200	$ 29,044

(Amounts in thousands of Canadian dollars except where otherwise stated)

Segmented statements of financial position

December 31, 2011

	2011						**2010**					
	United States	**Canada**	**United Kingdom**	**Fraternal****	**Corporate**	**Total**	**United States**	**Canada**	**United Kingdom**	**Fraternal****	**Corporate**	**Total**
ASSETS												
Invested Assets												
Cash, cash equivalents and short-term securities	$ 83,822	$ 46,339	$ 16,062	$ 18,766	$ 25,143	$ 190,132	$ 3,518	$ 15,837	$ 3,943	$ 13,891	$ 236,851	$ 274,040
Bonds	2,677,292	1,518,648	443,652	303,720	149,642	5,092,954	2,230,796	1,409,125	273,285	259,290	206,382	4,378,878
Equities	110,670	143,310	158,092	4,079	155,386	571,537	153,081	150,445	163,059	4,335	147,386	618,306
Mortgages	7,575	-	-	-	-	7,575	7,915	-	-	-	-	7,915
Derivative financial instruments	61,293	-	-	10,585	-	71,878	72,800	-	-	12,540	-	85,340
Other invested assets*	-	37,646	5,293	5	35,675	78,619	15,777	17,762	-	22	19,285	52,846
Loans to certificateholders	220,596	39,161	9,579	-	-	269,336	140,167	39,082	6,545	-	-	185,794
Total invested assets	3,161,248	1,785,104	632,678	337,155	365,846	6,282,031	2,624,054	1,632,251	446,832	290,078	609,904	5,603,119
Reinsurance assets	30,151	155,882	-	-	-	186,033	7,453	129,802	-	-	-	137,255
Other assets	99,260	54,844	18,181	6,955	11,443	190,683	26,005	62,384	11,120	9,600	1,124	110,233
Property and equipment	2,977	26,666	4,414	1	-	34,058	81	24,529	4,352	-	-	28,962
Employee benefit assets	3,861	28,118	-	-	-	31,979	5,612	48,538	-	-	-	54,150
Goodwill and intangible assets	131,440	124	7,231	-	28,097	166,892	-	493	894	-	11,276	12,663
	3,428,937	2,050,738	662,504	344,111	405,386	6,891,676	2,663,205	1,897,997	463,198	299,678	622,304	5,946,382
Net investments for accounts of segregated fund unit holders	866,997	99,180	730,587	-	-	1,696,764	-	112,401	585,951	-	-	698,352
TOTAL ASSETS	$4,295,934	$ 2,149,918	$ 1,393,091	$ 344,111	$405,386	$ 8,588,440	$2,663,205	$ 2,010,398	$1,049,149	$ 299,678	$ 622,304	$ 6,644,734
LIABILITIES												
Insurance contract liabilities	$2,550,824	$ 1,738,139	$ 462,460	$ 271,827	$ -	$ 5,023,250	$2,050,423	$ 1,561,568	$ 291,664	$ 286,007	$ -	$ 4,189,662
Investment contract liabilities	46,548	32,883	78,968	-	-	158,399	46,988	34,720	74,524	-	-	156,232
Benefits payable and provision for unreported claims	66,806	20,724	6,969	-	-	94,499	37,881	18,618	5,507	-	-	62,006
Other liabilities	69,019	47,572	14,867	336	4,138	135,932	14,138	58,870	11,678	1,457	9,977	96,120
Employee benefit obligation	9,857	25,736	-	-	-	35,593	9,016	21,346	-	-	-	30,362
	2,743,054	1,865,054	563,264	272,163	4,138	5,447,673	2,158,446	1,695,122	383,373	287,464	9,977	4,534,382
Net investment contract liablities for accounts of segregated fund unit holders	866,997	99,180	730,587	-	-	1,696,764	-	112,401	585,951	-	-	698,352
TOTAL LIABILITIES	3,610,051	1,964,234	1,293,851	272,163	4,138	7,144,437	2,158,446	1,807,523	969,324	287,464	9,977	5,232,734
SURPLUS												
Retained earnings	661,971	174,411	96,908	69,980	386,602	1,389,872	497,051	190,471	76,377	11,262	602,985	1,378,146
Accumulated other comprehensive income	23,912	11,273	2,332	1,968	14,646	54,131	7,708	12,404	3,448	952	9,342	33,854
TOTAL SURPLUS	685,883	185,684	99,240	71,948	401,248	1,444,003	504,759	202,875	79,825	12,214	612,327	1,412,000
TOTAL LIABILITIES AND SURPLUS	$4,295,934	$ 2,149,918	$ 1,393,091	$ 344,111	$405,386	$ 8,588,440	$2,663,205	$ 2,010,398	$1,049,149	$ 299,678	$ 622,304	$ 6,644,734

* Intersegment notes are 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. Interest is recorded in net investment income on the consolidated statements of comprehensive income. The intersegment notes and related interest eliminate on consolidation.

** Fraternal includes fraternal operations in the U.S., Canada and the U.K., as well as fraternal surplus

(Amounts in thousands of Canadian dollars except where otherwise stated)

21. RELATED PARTY TRANSACTIONS

Foresters broker-dealer and insurance subsidiaries provide distribution services to Foresters. Additionally, Foresters provides certain administrative services to some of its subsidiaries in the normal course of business. Fees paid and costs incurred for these services are not material.

Transactions between Foresters and its subsidiaries, which are related parties have been eliminated on consolidation and have not been disclosed in this note. All related party transactions have taken place at terms that would exist in arm's length transactions.

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 to related parties.

<u>Compensation of key management personnel</u>

Foresters 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. The remuneration of key management personnel was as follows:

	2011 **$**	**2010** **$**
Salaries and other short term employee benefits	13,652	10,268
Post-employment benefits	1,165	1,087
Other long-term benefits	1,624	1,285
Termination benefits	-	382
Total compensation of key management personnel	16,441	13,022

To the best of Foresters knowledge:

- Sales of insurance and investment contracts to key management personnel totaled $3.9 in 2011 and $43.4 in 2010. The terms and conditions of these transactions are substantially similar to the terms and conditions generally available to the public or to Foresters employees in general.
- There are no other transactions or commitments with related parties through key management personnel.

(Amounts in thousands of Canadian dollars except where otherwise stated)

22. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, Foresters enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. As at December 31, 2011, Foresters contractual obligations and commitments are as follows:

	1 year or less	1- 5 years	Over 5 years	Total
	$	$	$	$
Obligations under service contracts	14,579	36,597	6,264	57,440
Purchase obligations	508	-	-	508
Lease obligations	7,463	20,166	637	28,266
Total contractual obligations	22,550	56,763	6,901	86,214

23. CONTINGENT LIABILITIES

From time to time in connection with its operations, Foresters 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 consolidated statements of financial position.

(Amounts in thousands of Canadian dollars except where otherwise stated)

24. PRINCIPAL SUBSIDIARIES

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

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)		
			December 31, 2011	December 31, 2010	January 1, 2010
First Investors Consolidated Corporation	U.S.	Insurance and asset management operations	100	-	-
Foresters Equity Services Inc.	U.S.	Investment broker	100	100	100
Foresters Financial Partners Holdings, Inc.	U.S.	Insurance broker	95.3	95.3	95.8
Foresters Life Insurance Company *	Canada	Insurance operations	100	100	100
Sylvan Agency (Canada) Inc.	Canada	Insurance broker	100	100	100
Forester Holdings (Europe) Limited	U.K.	Insurance operations	100	100	100

* Unity Life of Canada changed its name to Foresters Life Insurance Company on January 23, 2012.

(Amounts in thousands of Canadian dollars except where otherwise stated)

25. CURRENT ASSETS AND LIABILITIES

The following table presents assets and liabilities expected to be recovered or settled within one year.

Due within 1 year	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
	$	$	$
Assets			
Cash, cash equivalents and short-term securities	190,132	274,040	100,218
Bonds maturing within 1 year	55,660	56,899	93,938
Accrued investment income	55,907	46,025	48,516
Accounts receivable	26,741	6,427	13,985
Amounts due from reinsurers	10,333	7,719	5,033
Income tax recoverable	2,997	936	441
Other assets	847	2,062	3,002
Total Assets	342,617	394,108	265,133
Liabilities			
Benefits payable	54,488	35,680	29,854
Accounts payable and accrued liabilities	52,862	34,180	31,627
Payroll, other compensation and benefits	918	1,152	1,047
Current income taxes payable	6,164	9,006	8,139
Due to reinsurers	2,921	3,024	2,196
Other liabilities	17,298	16,741	17,221
Total Liabilities	134,651	99,783	90,084
Net Current Assets	207,966	294,325	175,049

The following table presents assets and liabilities expected to be recovered or settled in more than one year.

Due after 1 year	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
	$	$	$
Assets			
Bonds maturing after 1 year	5,037,294	4,321,979	4,344,126
Deferred tax assets	13,132	-	-
Other assets	6,676	1,759	4,596
Total Assets	5,057,102	4,323,738	4,348,722
Liabilities			
Benefits payable	40,011	26,326	22,960
Accounts payable and accrued liabilities	6,567	11,386	11,427
Payroll, other compensation and benefits	41,608	11,303	10,472
Deferred tax liabilities	7,284	9,242	8,372
Other liabilities	310	86	764
Total Liabilities	95,780	58,343	53,995
Net Assets - Due after 1 year	4,961,322	4,265,395	4,294,727

26. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Foresters opening consolidated statement of financial position was prepared as at January 1, 2010, (the “transition date”), in accordance with the requirements of IFRS. IFRS requires retrospective application of IFRS standards on transition, with certain optional exemptions and mandatory exceptions granted to first-time adopters on the date of transition. The accounting policies described in note 1 have been applied consistently to all periods presented in these consolidated financial statements with the exception of the optional exemptions elected and the mandatory exceptions required – these are outlined below.

a) Optional exemptions from full retrospective application

i) Business combinations

Foresters elected not to restate business combinations completed prior to January 1, 2010. This had no impact on opening surplus at the transition date. Foresters applied IFRS 3, Business Combinations prospectively for business combinations occurring on or after January 1, 2010.

ii) Currency translation differences

Foresters elected the one-time option to reset cumulative currency translation gains and losses to nil with the exception of foreign exchange gains and losses related to non-monetary AFS assets held in corporate surplus. This resulted in a reduction in retained earnings of $135 million offset by an increase in AOCI by the same amount, with no net impact on opening surplus at the transition date. Future gains or losses on disposal of any foreign operation will exclude translation differences that arose before January 1, 2010.

iii) Employee benefits

Foresters elected to recognize all cumulative net actuarial gains and the transitional asset on its pension and post retirement benefit plans in opening retained earnings on the transition date. This resulted in an increase in retained earnings of $46.5 million at the transition date. Thereafter, actuarial gains and losses are recognized in OCI using the direct equity method.

iv) Property and equipment

Foresters elected to set the deemed cost of owner-occupied properties at fair value on the date of transition. This resulted in a decrease in retained earnings of $1.6 million at the transition date. Subsequent to this date, these properties are carried at fair value less accumulated depreciation using the revaluation model.

(Amounts in thousands of Canadian dollars except where otherwise stated)

v) Measurement of insurance contracts

Foresters elected to continue measuring insurance contract liabilities using the existing Canadian GAAP methodology until the new IFRS standard for insurance contracts is completed and becomes effective. Foresters reclassified those contracts which do not meet the definition of an insurance contract to investment contracts. Retained earnings increased by $12.2 million as at January 1, 2010 as a result of the reclassification of investment contracts.

vi) Designation of financial assets and liabilities

Foresters elected not to re-designate any financial assets or liabilities on the transition date.

b) Mandatory exceptions from full retrospective application

Estimates

IFRS does not allow the use of hindsight to revise or recalculate estimates previously made under Canadian GAAP. Consequently, there was no change to estimates under IFRS at the transition date, except where necessary to reflect any differences in accounting policy as outlined in the explanatory notes.

c) Reconciliations between previous Canadian GAAP and IFRS

The following table shows a reconciliation of surplus previously reported under Canadian GAAP to the amounts reported under IFRS at the transition date, January 1, 2010 and at December 31, 2010. Explanatory notes are provided below.

Reconciliation of Surplus	**Notes**	**January 1, 2010**	**December 31, 2010**
Total surplus as reported on a GAAP basis		**$ 1,357,316**	**$ 1,426,386**
Adjustments related IFRS 1 optional elections:			
Recognition of unamortized actuarial gains and transitional asset on employee benefit plans	d	46,519	43,935
Elimination of future profits calculated under CALM on unit linked contracts	e	(37,407)	(54,486)
Elimination of CALM actuarial liabilities on investment contracts	f	12,247	13,411
Owner occupied real estate adjustment to fair value, net of depreciation	c	(1,567)	862
Other adjustments:			
Recognition of actuarial losses on employee benefit plans	d	-	(23,172)
Transaction costs incurred on acquisition of FICC	b	-	(5,313)
Recognition of deferred acquisition costs on unit linked contracts	h	3,932	6,854
Derecognition of net deferred realized gains on real estate	g	1,916	1,301
Changes in foreign currency on conversion to IFRS	i	-	2,222
Total surplus on an IFRS basis		**$ 1,382,956**	**$ 1,412,000**

(Amounts in thousands of Canadian dollars except where otherwise stated)

The following table shows a reconciliation of total comprehensive income previously reported under Canadian GAAP to the amounts reported under IFRS for the year ended December 31, 2010. Explanatory notes are provided below.

Reconciliation of total comprehensive income	**Notes**	**December 31, 2010**
Total comprehensive income as reported on a GAAP basis		**$ 69,070**
Adjustments related IFRS 1 optional elections:		
Removal of amortization of actuarial gains and transitional asset on employee benefit plans	d	(2,584)
Elimination of future profits calculated under CALM on unit linked contracts	e	(17,079)
Elimination of CALM actuarial liabilities on investment contracts	f	1,164
Owner occupied real estate adjustment to fair value, net of depreciation	c	2,429
Other adjustments:		
Recognition of actuarial losses on employee benefit plans	d	(23,172)
Transaction costs incurred on acquisition of FICC	b	(5,313)
Recognition of deferred acquisition costs on unit linked contracts	h	2,922
Derecognition of net deferred realized gains on real estate	g	(615)
Changes in foreign currency on conversion to IFRS	i	2,222
Total comprehensive income on an IFRS basis		**$ 29,044**

The adoption of IFRS has not changed Foresters actual cash flows, however it has resulted in certain changes to Foresters reported financial position, results of operations and the statement of cash flows. IFRS has also resulted in a number of presentation changes on the face of Foresters consolidated financial statements.

The following 2 tables show how the transition from previous Canadian GAAP to IFRS affected Foresters consolidated statements of financial position as at January 1, 2010 and December 31, 2010.

The third table shows how the transition from previous Canadian GAAP to IFRS affected Foresters consolidated statement of comprehensive income for the year ended December 31, 2010.

Explanatory notes to these tables are provided below.

(Amounts in thousands of Canadian dollars except where otherwise stated)

Reconciliation of consolidated statement of financial position at January 1, 2010

	Notes	Canadian GAAP	Conversion adjustments	Conversion adjustments for unit linked contracts (e/h)	Reclassification (j)	IFRS
ASSETS						
Invested Assets						
Cash, cash equivalents and short-term securities		**$ 109,918**	$ -	$ (27,762)	$ 18,062	**$ 100,218**
Bonds [(1)]		**4,631,022**	-	(192,958)	-	**4,438,064**
Equities [(1)]		**962,242**	-	(257,482)	(18,062)	**686,698**
Mortgages		**15,317**	-	-	-	**15,317**
Derivative financial instruments		**79,088**	-	-	-	**79,088**
Other invested assets		**52,412**	-	-	-	**52,412**
Loans to certificateholders		**194,496**	-	-	-	**194,496**
Total Invested Assets		**6,044,495**	-	(478,202)	-	**5,566,293**
Reinsurance assets [(1)]	**a**	**-**	127,062	-	-	**127,062**
Other assets		**106,795**		975	(2,221)	**105,549**
Property and equipment [(1)]	**c**	**21,069**	(1,567)	-	2,221	**21,723**
Employee benefit assets [(1)]	**d**	**-**	72,344	-	-	**72,344**
		6,172,359	197,839	(477,227)	-	**5,892,971**
Net investments for accounts of segregated fund unit holders [(1)]	**e**	**-**	117,946	481,252	-	**599,198**
TOTAL ASSETS		**$ 6,172,359**	$ 315,785	$ 4,025	$ -	**$ 6,492,169**
LIABILITIES						
Insurance contract liabilities [(1)]	**f**	**$ 4,585,313**	$ 32,615	$ (439,358)	$ -	**$ 4,178,570**
Investment contract liabilities [(1)]	**f**	**-**	98,879	-	64,097	**162,976**
Benefits payable and provision for unreported claims		**53,889**	-	(1,075)	-	**52,814**
Other liabilities	**d**	**89,067**	1,426	(3,316)	4,088	**91,265**
Employee benefit obligation [(1)]	**d**	**-**	24,390	-	-	**24,390**
Certificateholders' amounts on deposit		**68,185**	-	-	(68,185)	**-**
Deferred net gains realized on disposal of real estate	**g**	**18,589**	(18,589)	-	-	**-**
		4,815,043	138,721	(443,749)	-	**4,510,015**
Investment contract liabilities for accounts of segregated fund unit holders [(1)]	**e**	**-**	117,946	481,252	-	**599,198**
TOTAL LIABILITIES		**4,815,043**	256,667	37,503	-	**5,109,213**
SURPLUS						
Retained earnings		**1,457,163**	(75,859)	(33,478)	-	**1,347,826**
Accumulated other comprehensive income (loss)	**i**	**(99,847)**	134,977	-	-	**35,130**
TOTAL SURPLUS		**1,357,316**	59,118	(33,478)	-	**1,382,956**
TOTAL LIABILITIES AND SURPLUS		**$ 6,172,359**	$ 315,785	$ 4,025	$ -	**$ 6,492,169**

(1) These descriptions are in a format consistent with the presentation under IFRS

(Amounts in thousands of Canadian dollars except where otherwise stated)

Reconciliation of consolidated statement of financial position at December 31, 2010

	Notes	Canadian GAAP	Conversion adjustments	Conversion adjustments for unit linked contracts (e/h)	Reclassification / Transfers (j/k)	IFRS
ASSETS						
Invested Assets						
Cash, cash equivalents and short-term securities		**$ 271,399**	$ -	$ (20,577)	$ 23,218	**$ 274,040**
Bonds [1]		**4,629,228**	-	(250,350)	-	**4,378,878**
Equities [1]		**953,307**	-	(311,783)	(23,218)	**618,306**
Mortgages		**7,915**	-	-	-	**7,915**
Derivative financial instruments		**85,340**	-	-	-	**85,340**
Other invested assets		**52,846**	-	-	-	**52,846**
Loans to certificateholders		**185,794**	-	-	-	**185,794**
Total Invested Assets		**6,185,829**	-	(582,710)	-	**5,603,119**
Reinsurance assets [1]	a	**-**	137,255	-	-	**137,255**
Other assets	b	**107,276**	(5,133)	3,382	4,708	**110,233**
Property and equipment [1]	c	**26,184**	862	-	1,916	**28,962**
Employee benefit assets [1]	d	**-**	54,150	-	-	**54,150**
Goodwill and intangible assets [1]		**19,287**	-	-	(6,624)	**12,663**
		6,338,576	187,134	(579,328)	-	**5,946,382**
Net investments for accounts of segregated fund unit holders [1]	e	**-**	112,400	585,952	-	**698,352**
TOTAL ASSETS		**$ 6,338,576**	$ 299,534	$ 6,624	$ -	**$ 6,644,734**
LIABILITIES						
Insurance contract liabilities [1]	f	**$ 4,675,536**	$ 44,653	$ (530,527)	$ -	**$ 4,189,662**
Investment contract liabilities [1]	f	**-**	94,623	-	61,609	**156,232**
Benefits payable and provision for unreported claims		**63,506**	-	(1,500)	-	**62,006**
Other liabilities	d	**92,412**	3,154	(2,933)	3,487	**96,120**
Employee benefit obligation [1]	d	**-**	30,362	-	-	**30,362**
Certificateholders' amounts on deposit		**65,096**	-	-	(65,096)	**-**
Deferred net gains realized on disposal of real estate	g	**15,640**	(15,640)	-	-	**-**
		4,912,190	157,152	(534,960)	-	**4,534,382**
Investment contract liabilities for accounts of segregated fund unit holders [1]	e	**-**	112,400	585,952	-	**698,352**
TOTAL LIABILITIES		**4,912,190**	269,552	50,992	-	**5,232,734**
SURPLUS						
Retained earnings		**1,562,988**	(117,302)	(44,368)	(23,172)	**1,378,146**
Accumulated other comprehensive income (loss)	c/d/i	**(136,602)**	147,284	-	23,172	**33,854**
TOTAL SURPLUS		**1,426,386**	29,982	(44,368)	-	**1,412,000**
TOTAL LIABILITIES AND SURPLUS		**$ 6,338,576**	$ 299,534	$ 6,624	$ -	**$ 6,644,734**

(1) These descriptions are in a format consistent with the presentation under IFRS

(Amounts in thousands of Canadian dollars except where otherwise stated)

Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010

	Notes	Canadian GAAP	Conversion adjustments	Conversion adjustments for unit linked contracts (e/h)	Reinsurance adjustments (a)	Reclassification (j)	IFRS
REVENUE							
Gross written premiums (1)	f	$ 569,686	$ (4,145)	$ (154,653)	$ 51,868	-	$ 462,756
Ceded premiums (1)		-	-	-	(51,868)	-	(51,868)
Net Written Premiums		569,686	(4,145)	(154,653)	-	-	410,888
Net Investment Income							
Interests and dvidiends (net) (1)		256,193	-	(16,212)	-	(10)	239,971
Net realized gains (losses) (1)	g	114,494	(2,093)	(10,624)	-	-	101,777
Unrealized gains (losses) on fair value through profit and loss investments(1)	c	219,942	38	(29,545)	-	-	190,435
Net foreign currency gains (losses) on available-for-sale assets (1)	i	-	(30,214)	-	-	-	(30,214)
Total Investment Income		590,629	(32,269)	(56,381)	-	(10)	501,969
Other operating income (1)	f	9,035	(2,799)	7,267	-	(3,231)	10,272
TOTAL REVENUE		1,169,350	(39,213)	(203,767)	-	(3,241)	923,129
CERTIFICATEHOLDER BENEFITS & EXPENSES							
Gross certificateholder benefits and payments (1)	f	391,120	(10,099)	(52,583)	16,869	-	345,307
Ceded certificateholder benefits and payments (1)		-	-	-	(16,869)	-	(16,869)
Gross change in insurance contract liabilities (1)	f/g	296,425	509	(132,561)	10,481	-	174,854
Ceded change in insurance contract liabilities (1)		-	-	-	(10,481)	-	(10,481)
Dividends		38,682	-	-	-	-	38,682
Commissions (1)		142,664	-	(3,024)	20,222	-	159,862
Operating expenses	b/c/d	162,336	8,552	-	566	(3,241)	168,213
Ceded commissions and operating expenses (1)		-		-	(20,788)	-	(20,788)
Fraternal investment		18,469	-	-	-	-	18,469
TOTAL CERTIFICATEHOLDER BENEFITS & EXPENSES		1,049,696	(1,038)	(188,168)	-	(3,241)	857,249
Income (loss) before income taxes		119,654	(38,175)	(15,599)	-	-	65,880
Income Taxes				-	-	-	
Current		12,595	-	(1,542)	-	-	11,053
Deferred		1,234	-	101	-	-	1,335
Total Income Taxes		13,829	-	(1,441)	-	-	12,388
NET INCOME		105,825	(38,175)	(14,158)	-	-	53,492
OTHER COMPREHENSIVE INCOME					-		
Change in unrealized gains (losses) on available for sale assets		35,183	-	-	-	-	35,183
Change in actuarial gains (losses) on employee benefit plans (1)	d	-	(23,172)	-	-	-	(23,172)
Change in fair value of property	c	-	2,872	-	-	-	2,872
Change in unrealized foreign currency translation gains (losses)	i	(71,938)	32,607	-	-	-	(39,331)
TOTAL COMPREHENSIVE INCOME		$ 69,070	$ (25,868)	$ (14,158)	$ -	$ -	$ 29,044

(1) These descriptions are in a format consistent with the presentation under IFRS

Explanatory notes to the reconciliations

References to net income in these explanatory notes refer to the consolidated statement of comprehensive income.

a) Reinsurance assets

Treatment under previous Canadian GAAP

Reinsurance assets were presented net of actuarial liabilities. Revenues and expenses were also presented on a net basis as applicable.

Treatment under IFRS

Reinsurance assets, liabilities, revenues and expenses are presented on a gross basis, net of impairments. There was no impact on surplus as a result of these reclassifications.

b) Other assets - transaction costs related to acquisitions completed after January 1, 2010

Treatment under previous Canadian GAAP

Transaction costs were capitalized as part of goodwill on an anticipated acquisition.

Treatment under IFRS

Transaction costs are required to be expensed as incurred. These costs can only be capitalized under limited circumstances.

c) Property and equipment - owner occupied real estate

Treatment under previous Canadian GAAP

These assets were shown as a separate line item and carried at the moving average market value, whereby unrealized gains and losses were deferred on the consolidated balance sheet and amortized to income at 3% per quarter.

Treatment under IFRS

These assets were written down to fair value on the transition date. After the transition date, these assets are measured at fair value and depreciated. Changes in fair value are recorded in net unrealized gains (losses) on property, a component of OCI. Depreciation expense is recorded as part of operating expenses in net income. The amortization of unrealized gains recorded in net income for the year ending December 31, 2010 under previous Canadian GAAP was reversed.

d) Employee benefit assets and obligations

Treatment under previous Canadian GAAP

Net unamortized actuarial gains and the transitional asset on employee benefit plans were amortized to income over the remaining service period of active employees. Net employee benefit assets and obligations were included in other liabilities.

Treatment under IFRS

Net unamortized actuarial gains and the transitional asset on employee benefit plans were recognized in retained earnings on the transition date. After the transition date, actuarial gains and losses on employee benefit plans are recognized in OCI. The amortization of actuarial gains and the transitional asset recorded in net income for the year ending December 31, 2010 under previous Canadian GAAP were reversed.

e) Investments for account of segregated fund unit holders – segregated funds and unit linked contracts

Treatment under previous Canadian GAAP

Segregated fund balances were shown on a separate statement in the consolidated financial statements.

Assets and liabilities related to unit linked contracts in the U.K. were consolidated on a line by line basis.

Treatment under IFRS

Net assets are reported as a one line item called net investments for accounts of segregated fund unit holders. Actuarial and other liabilities related to these contracts are reported as a one line item called investment contract liabilities for account of segregated fund unit holders.

Any differences in measurement between CALM and amortized cost were recognized in retained earnings on the transition date and subsequently in net income.

f) Investment contract liabilities

Treatment under previous Canadian GAAP

These liabilities were calculated using CALM and included in actuarial liabilities.

Treatment under IFRS

These liabilities are measured at amortized cost and reclassified from insurance contract liabilities to a separate line on the consolidated statement of financial position.

Additionally, differences in measurement between CALM and amortized cost were recognized in retained earnings on the transition date and subsequently in net income. Premiums and certificateholder benefits and payments were reclassified from net income to investment contract liabilities.

g) Deferred net gains realized on disposal of real estate

Treatment under previous Canadian GAAP

Realized gains and losses on the sale of real estate were deferred on the consolidated statements of financial position and amortized to income at 3% per quarter.

Treatment under IFRS

Gains and losses associated with the sale of real estate are recognized in income at the time of the sale. Consequently, deferred gains on past sales were recognized in surplus on the transition date and any related amortization was subsequently removed from net income.

h) Other assets - deferred acquisition costs (DAC) on investment contracts

Treatment under previous Canadian GAAP

Incremental acquisition costs were included in commissions as part of net income when they were paid.

Treatment under IFRS

Incremental acquisition costs, limited to the amount of future profits expected to be earned on the provision of investment management services related to non-participating investment contracts, were capitalized at the date of transition and subsequently amortized to net income over the term of the contract.

i) Foreign currency translation differences

Treatment under previous Canadian GAAP

There is no difference in the calculation of foreign currency translation differences under Canadian GAAP versus IFRS, except as noted below for AFS assets. Foreign currency translation amounts differ between previous Canadian GAAP and IFRS for a number of reasons:

- Foresters elected to reset foreign currency translation gains to nil on the date of transition.
- Differences in the carrying amount of assets and liabilities result in translation differences when converting foreign operations to Canadian dollars.

Treatment under IFRS

The calculation of foreign currency translation differs under IFRS in that foreign currency gains and losses attributable to:

- monetary AFS assets are recognized in net income and
- non-monetary AFS assets are recognized in net income on de-recognition.

j) Reclassifications

Certain balances have been reclassified to conform to the presentation adopted under IFRS.

k) Transfers

Actuarial losses of $23,172 on employee benefit plans were transferred from AOCI to retained earnings at the end of 2010.