Foresters

Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2012

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

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

	2012			2011		
	FVTPL $	AFS $	Total $	FVTPL $	AFS $	Total $
Bonds	68,967	17,267	86,234	82,346	36,605	118,951
Equities	15,146	12,369	27,515	7,015	18,580	25,595
Derivative financial insturments	13,103	-	13,103	11,935	-	11,935
Other invested assets	93	-	93	576	4,129	4,705
Net realized gains	97,309	29,636	126,945	101,872	59,314	161,186

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

	2012 $	2011 $
Bonds	59,220	271,737
Equities	16,870	(16,660)
Derivative financial instruments	(5,621)	(14,514)
Other invested assets	3,366	(755)
Net unrealized gains on FVTPL investments	73,835	239,808

The net foreign currency gains (losses) on AFS assets, recognized in net investment income were $4,327 ($(4,405) in 2011).

(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 $
2012				
Cash, cash equivalents and short-term securities	11,466	4,942	4,530	20,938
Bonds	197,748	26,361	414,081	638,190
Equities	733,744	85,295	499,122	1,318,161
Other assets net of liabilities	(4,532)	(32)	3,865	(699)
Total net assets	938,426	116,566	921,598	1,976,590
Less: segregated fund seed money investment	-	16,588	-	16,588
Net investments for account of segregated fund unit holders	938,426	99,978	921,598	1,960,002
2011				
Cash, cash equivalents and short-term securities	12,635	4,657	5,678	22,970
Bonds	179,269	22,930	348,956	551,155
Equities	679,197	87,039	372,130	1,138,366
Other assets net of liabilities	(4,104)	75	3,823	(206)
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

(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, 2011	866,997	99,180	730,587	1,696,764
Additions to the account of the unit holders:				
Deposits received from unit holders	61,532	7,076	199,975	268,583
Investment income	34,134	2,750	27,280	64,164
Net realized gains on sale of investments	4,884	9,098	7,278	21,260
Net change in unrealized gains on investments	78,734	-	29,472	108,206
	179,284	18,924	264,005	462,213
Deductions to the account of the unit holders:				
Amounts withdrawn or transferred by unit holders	74,496	13,224	81,847	169,567
Net realized losses on sale of investments	-	-	-	-
Net change in unrealized losses on investments	-	1,771	-	1,771
Management fees and other operating costs	14,092	2,063	12,298	28,453
	88,588	17,058	94,145	199,791
Less: Income earned on segregated fund seed money investment	-	1,068	-	1,068
Effect of change in foreign exchange rates	(19,267)	-	21,151	1,884
Balance as at December 31, 2012	938,426	99,978	921,598	1,960,002
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

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:

	2012 $	2011 $
Accrued investment income	54,084	55,907
Prepaid commissions	34,430	44,277
Deferred acquisition costs	14,942	7,689
Accounts receivable	20,659	26,741
Deferred tax assets	12,155	13,132
Amounts due from reinsurers	14,618	10,333
Income taxes recoverable	9,033	1,591
Other	14,258	8,929
	174,179	168,599

The fair value of these assets approximates their carrying value. Excluding deferred acquisition costs, $109,432 (2011: $96,825) will be realized within 12 months from the reporting date.

b) Deferred acquisition costs

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

	2012 $	2011 $
Deferred acquisition costs, beginning of year	7,689	6,624
Additions	8,204	5,101
Amortization	(1,087)	(4,186)
Effect of change in foreign exchange rates	136	150
Deferred acquisition costs, end of year	14,942	7,689

(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, 2011	9,641	19,154	2,973	2,290	34,058
Acquisitions through business combinations	-	-	-	-	-
Additions	-	1,951	1,409	-	3,360
Revaluation	765	485	-	-	1,250
Disposals	-	-	(7)	(8)	(15)
Depreciation expense	-	(661)	(1,132)	(1,172)	(2,965)
Impairment loss	-	(1,555)	-	-	(1,555)
Effect of change in foreign exchange rates	48	40	(12)	(31)	45
Net carrying value as at December 31, 2012	10,454	19,414	3,231	1,079	34,178
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

(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 $
2012			
Land	10,454	-	10,454
Buildings	19,414	-	19,414
Furniture and equipment	6,894	3,663	3,231
Leasehold improvements	4,565	3,486	1,079
	41,327	7,149	34,178
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

The land and buildings were revalued at December 31, 2012 by an independent appraiser. The fair value of land and buildings was $10,454 and $19,414 respectively ($9,641 and $19,154 respectively on December 31, 2011). 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.

The land and buildings are situated in Canada and the U.K. The appraisal on the land and building in Canada was based on an income approach combining the discounted cash flow method and the direct capitalization method. The key assumptions were rental rates were based on existing market rates and a discount and capitalization rate of 7.25% and 7.50-7.75% (2011: 7.75%). The U.K. land and building was appraised on the basis of existing use as defined in the Valuation Standards - Global and UK 7th Edition (the “Red Book”) published by the Royal Institution of Chartered Surveyors (RICS). The land component was valued using an assumption that consent to a change of use for residential would be forthcoming.

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

	2012 $	2011 $
Cost	30,161	28,113
Less: accumulated depreciation	(1,719)	(1,056)
Net book value	28,442	27,057

(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, 2011 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, 2012 for the U.S. plan, December 31, 2012 for the Canadian plan and April 1, 2014 for the U.K. plan.

a) Defined benefit pension plans

Employee benefit assets and obligations include any surplus or deficit positions on defined benefit pension plans. The position is calculated as the difference between plan assets and the accrued benefit obligation. The following table shows changes in defined benefit pensions plans during the year.

	2012 $	2011 $
Change in plan assets:		
Fair value of plan assets at January 1	226,443	215,519
Actual return on plan assets	9,587	11,667
Actuarial losses included in OCI	3,445	5,660
Employer contributions	-	212
Employee contributions	-	-
Benefits paid	(8,426)	(7,203)
Effect of change in foreign exchange rates	(82)	588
Fair value of plan assets at December 31	230,967	226,443
Change in projected benefit obligation:		
Accrued benefit obligations at January 1	194,464	161,369
Current service cost	7,129	5,586
Employee contributions	-	-
Interest cost	8,464	8,913
Benefits paid	(8,426)	(7,203)
Actuarial losses included in OCI	11,105	25,285
Effect of change in foreign exchange rates	42	514
Accrued benefit obligations at December 31	212,778	194,464
Balance as at December 31	**18,189**	**31,979**
Amounts recognized on statements of financial position		
Employee benefit asset	**20,473**	**31,979**
Employee benefit obligation (note 8b)	**(2,284)**	**-**

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

Foresters has reviewed both the terms and conditions of the defined benefit plans and the statutory requirements (such as minimum funding requirements) in each jurisdiction, whether the employee benefit asset exceeds the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. For the U.K plan, Foresters has created a liability for $2,284 in respect of future contributions where there will be no economic benefit. For the plans in Canada and U.S., no decrease in the employee benefit assets is necessary as the economic benefits available are not lower than the asset recognized.

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

	2012 %	2011 %
Bonds and other fixed income securities	61	65
Equities	34	34
Real estate	4	-
Other	1	1
	100	100

b) Employee benefit obligations

The following table shows changes in unfunded post retirement benefit obligations during the year and the total employee benefit obligation recognized in the statements of financial position.

	2012		2011	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	21,378	14,215	17,283	13,079
Current service cost	1,056	4	1,110	(16)
Employee contributions	-	-	-	-
Curtailments	-	-	-	-
Interest cost	1,017	591	985	645
Benefits paid	(592)	(844)	(626)	(872)
Actuarial losses/(gains) included in OCI	801	(1,268)	2,614	1,163
Effect of change in foreign exchange rates	(5)	(205)	12	216
Accrued benefit obligations at December 31	23,655	12,493	21,378	14,215
Net obligation for defined benefit pension plans (note 8a)	2,284	-	-	-
Amounts recognized on statements of financial position	**25,939**	**12,493**	**21,378**	**14,215**

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

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

	2012 $	2011 $
As at December 31		
Fair value of defined benefit plan assets (note 8a)	230,967	226,443
Present value of defined benefit obligations	248,926	230,056
Funded status - surplus (deficit)	(17,959)	(3,613)

Additionally, long-term disability obligations amounted to $3,092 (2011: $4,497) and are recorded in other liabilities on the consolidated statements of financial position. The benefits provided under the long-term disability plan are income replacement based on a percentage of base wage and continuation of existing dental and medical coverage. In providing these benefits, Foresters have in certain cases insured the benefit with a third party provider, while in other cases the benefits are paid by Foresters. The obligation relates to claims under the non-insured component of the benefits payable.

c) Employee benefit expenses

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

	2012		2011	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Defined benefit pension and post-retirement plan expenses:				
Current service cost	8,184	4	6,696	(16)
Interest cost	9,480	591	9,898	645
Expected return on plan assets	(9,586)	-	(11,667)	-
	8,078	595	4,927	629
Defined contribution pension plans:				
Employer contributions	2,573		2,591	

Long-term disability benefit income (expense) amounted to $37 and $(1,065) during December 31, 2012 and December 31, 2011 respectively and are included in benefits and payments on the consolidated statements 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. The accumulated net actuarial losses recognized in retained earnings at December 31, 2012 and December 31, 2011 is $53,534 and $46,360 respectively.

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

The accumulated net actuarial losses included in employee benefit assets and obligations were as follows:

	2012 $	2011 $
Accumulated net actuarial losses as at January 1	(46,663)	(23,194)
Changes during the year recorded in OCI:		
Experience adjustments on plan liabilities	408	169
Experience adjustments on plan assets	3,445	5,660
Changes due to discount rate assumptions	(8,907)	(28,573)
Changes due to other actuarial assumptions	116	(658)
Limiting a net defined benefit asset to it's asset ceiling	(2,236)	
	(7,174)	(23,402)
Effects of change in foreign exchange rate	(1,782)	(67)
Accumulated net actuarial losses as at December 31	(55,619)	(46,663)

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 2011) and other retirement benefit plans was 6 years (6 years in 2011).

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

	2012		2011	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit obligations				
Discount rate	4.3	3.4	4.3	4.5
Rate of compensation increase	3.5	-	3.5	-
Assumptions used to calculate benefit expense				
Discount rate	4.6	3.8	5.5	5.2
Expected long-term rate of return on plan assets	4.6	-	5.3	-
Rate of compensation increase	3.5	-	3.5	-

The discount rate is based on current market interest rates of high-quality AA rated corporate bonds for a term 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 $37,684 and $31,583, respectively, in 2012 and 2011.

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

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 $ 2,096 and $2,006, respectively, in 2012 and 2011.

The Medicare (post 65 years of age) inflation assumption for the U.S. benefits is 8.1% for 2013 (8.1% for 2012) decreasing to 4.5% by 2028 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 6.3% for 2013 (7.2% for 2012), decreasing to 4.4% in 2030 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2012:

	1.0% increase $	1.0% decrease $
Effect on service cost plus interest cost	68	(58)
Effect on accrued benefit obligations	1,400	(1,192)

f) Historical information for post retirement benefit plans

	2012 $	2011 $	2010 $
Fair value of plan assets	230,967	226,443	215,519
Accrued benefit obligations	248,926	230,056	191,731
(Deficit) / Surplus	(17,959)	(3,613)	23,788
Experience adjustments on plan assets	3,445	5,660	8,284
Experience adjustments on plan liabilities	408	169	(4,935)

(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.

	2012 $	2011 $
Carrying value as at January 1	31,144	-
Acquisitions through business combinations	-	30,457
Effect of change in foreign exchange rates	(677)	687
Carrying value as at December 31	30,467	31,144

All intangible assets including goodwill acquired on the acquisition of FICC have been allocated to FICC's asset management operations, which is part of the FICC reportable segment.

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, 2011	114,818	4,898	4,068	34,048	157,832
Additions - internally developed	-	-	-	18,371	18,371
Additions - acquired separately	-	-	-	846	846
Amortization	-	(507)	(786)	(5,959)	(7,252)
Effect of change in foreign exchange rates	(2,495)	107	(85)	(685)	(3,158)
Net carrying value as at December 31, 2012	**112,323**	**4,498**	**3,197**	**46,621**	**166,639**
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 - internally developed	-	-	-	18,160	18,160
Additions - acquired separately	-	-	-	1,429	1,429
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**

* Software includes software acquired through the acquisition of FICC of $2,089 (2011: $2,848)

(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 $
2012			
Unit cost reductions	5,320	822	4,498
Distribution network	4,478	1,281	3,197
Software	56,172	9,551	46,621
	65,970	11,654	54,316
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

Included in software was $25,877 ($27,523 in 2011) that is still under development and has not been amortized. For the remaining software, the useful life is between 1-4 years (1-4 in 2011). During 2012, Foresters expensed research and development costs amounting to $793 ($1,340 in 2011). Amortization expense is included under operating expenses on the statement of comprehensive income.

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

FICC's asset management operation is classified as a cash-generating unit (CGU). Goodwill and the intangible assets consisting of asset management contract, distribution network and software (acquired when acquiring FICC) are allocated to this cash-generating unit. This CGU is tested for impairment at least annually. The recoverable amount is based on the value in use which is determined by using discounted cash flow projections based upon a 5 year medium term plan and applying a terminal value multiple based on the last year of the projection. The terminal value multiple is determined using the discount rate and the terminal growth rate.

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

1) Growth rate for assets under management

The portfolio of assets under management will increase by at least 3.5% and not more than 8.5% on an annualized basis for the next 5 years. The level of increases is in line with the 8.5% growth experienced in recent years.

2) Terminal period growth rate

The growth rate for the terminal period of 2% is a lower rate than used for growth during the initial forecast period in accordance with IAS 36.

3) Discount rate

The discount rate is 14% which is an after tax rate. The discount rate is the cost of capital based on the Capital Asset Pricing Model specific to the activity of the CGU and the industry. The discount rate is based on a 20 year Treasuries yield and includes factors for specific risks such as transaction size and forecasting risk.

The recoverable amount exceeds the carrying amount by at least 15%. If all other assumptions remain the same, the recoverable amount and the carrying amount of the CGU would be equal if any one of the following occur:

- the growth rate for the portfolio of assets under management falls by 5%;
- there is a negative growth rate of 1% for the terminal period; or
- the discount rate increases by 4%.

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.

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 exposure to a single debtor or a group of related debtors; to limit the purchase of fixed income securities to investment-grade assets; and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

Asset portfolios are monitored continuously and reviewed regularly with the 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.

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

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:

	2012 $	2011 $
Cash, cash equivalents and short-term securities	237,488	190,132
Bonds	5,235,325	5,092,954
Mortgages	6,708	7,575
Derivatives financial instruments	64,453	71,878
Loans to certificateholders	265,619	269,336
Reinsurance assets	216,529	186,033
Accrued investment income	54,084	55,907
Amounts due from reinsurers	14,618	10,333
Accounts receivable and other receivables	21,031	27,942
Maximum exposure to credit risk	6,115,855	5,912,090

ii) Concentration of credit risk

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

Foresters 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.

Bonds and other fixed-term securities

Investment concentration in any one investee or its related group of companies, except for securities issued by or guaranteed by the U.S., Canadian, U.K. and certain foreign governments and government agencies, is limited to 3.5% of the bond portfolio for the U.S., 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.

	2012			2011		
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	$ 778,131	$ 241,343	$ 1,019,474	$ 881,078	$ 184,354	$ 1,065,432
Canadian federal government	131,063	7,206	138,269	112,068	7,806	119,874
Canadian provincial and municipal government	663,563	46,733	710,296	655,994	41,870	697,864
Other foreign governments	359,191	41,568	400,759	369,494	42,939	412,433
Total government bonds	$ 1,931,948	336,850	2,268,798	2,018,634	276,969	2,295,603
Corporate bonds:						
Asset-backed securities	10,735	-	10,735	24,405	-	24,405
By industry sector						
Communications	152,923	43,189	196,112	136,969	30,529	167,498
Consumer staples and discretionary	271,462	87,383	358,845	247,191	91,889	339,080
Financials	1,030,493	249,635	1,280,128	1,043,737	216,598	1,260,335
Healthcare	97,725	7,969	105,694	82,789	9,950	92,739
Industrials	347,740	63,541	411,281	335,906	40,955	376,861
Utilities and energy	466,580	64,324	530,904	418,484	53,120	471,604
Other	44,661	28,167	72,828	39,002	25,827	64,829
Total corporate bonds	2,422,319	544,208	2,966,527	2,328,483	468,868	2,797,351
	$ 4,354,267	$ 881,058	$ 5,235,325	$ 4,347,117	$ 745,837	$ 5,092,954
Allocation by geographic region:						
United States	$ 2,413,759	$ 724,618	$ 3,138,377	$ 2,420,801	$ 631,553	$ 3,052,354
Canada	1,554,748	118,452	1,673,200	1,498,683	66,642	1,565,325
United Kingdom	385,760	37,988	423,748	427,633	47,642	475,275
	$ 4,354,267	$ 881,058	$ 5,235,325	$ 4,347,117	$ 745,837	$ 5,092,954

The credit rating of the bond portfolio was as follows:

	2012		2011	
Bond quality	$	%	$	%
Investment grade:				
AAA	1,412,733		1,235,038	
AA	1,181,410		1,601,529	
A	1,928,509		1,633,096	
BBB	687,963		610,991	
	5,210,615	99.5	5,080,654	99.8
BB and lower	24,710	0.5	12,300	0.2
Total bonds	5,235,325	100.0	5,092,954	100.0

Mortgages

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

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.

Equities

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.

Own–use and investment property

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

Securities lending

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, 2012 or during 2012.

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 2012 or in 2011.

Insurance contract liabilities include an asset default 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 of a financial instrument will fluctuate because of changes in future cash flows. Market risk comprises at least three types of risk:

- Currency risk
- Interest rate risk
- Equity market risk

i) Currency risk

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

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

Administrative expenses

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 $1,847 ($1,723 in 2011). 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 $2,060 ($1,754 in 2011).

Foreign operations

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.

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	
	2012 $	2011 $	2012 $	2011 $
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	(1,387)	(27)	(14,379)	(11,641)
U.K. pound	130	59	(1,319)	(534)

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.

(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.

2012	On demand or within 1 year or less $	2-5 years $	6-15 years $	Over 15 years $	Total $
Cash, cash equivalents and short-term securities	237,488	-	-	-	237,488
Bonds	78,629	723,424	1,984,893	2,448,379	5,235,325
Mortgages	5,819	-	889	-	6,708
Derivative financial instrument	9,532	31,700	23,221	-	64,453
Reinsurance assets	(5,269)	(3,333)	53,874	171,257	216,529
Insurance contract liabilities	(156,819)	(701,111)	(1,896,255)	(2,355,688)	(5,109,873)
Investment contract liabilities	(156,325)	-	-	-	(156,325)
Benefits payable	(56,100)	(44,711)	-	-	(100,811)
Net investments for account of segregated fund unit holders	1,960,002	-	-	-	1,960,002
Investment contract liabilities for account of segregated fund unit holders	(1,960,002)	-	-	-	(1,960,002)
	(43,045)	5,969	166,622	263,948	393,494
2011					
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)
Benefits payable	(54,488)	(40,011)	-	-	(94,499)
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)
	(125,340)	17,968	(47,507)	427,303	272,424

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.

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

11. OTHER LIABILITIES

Other liabilities are comprised of the following:

	2012	2011
	$	$
Accounts payable and accrued liabilities	65,844	59,429
Payroll, other compensation and benefits	42,627	42,526
Deferred tax liabilities	5,779	7,284
Current income tax payable	5,785	6,164
Due to reinsurers	3,984	2,921
Other liabilities	20,627	17,608
	144,646	135,932

The fair value of these liabilities approximates their carrying value. $93,700 (2011: $80,163) will be realized within 12 months from the reporting date.

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.

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.

	2012 $	2011 $
Insurance contract liabilities (gross)	5,109,873	5,023,250
Reinsurance assets	216,529	186,033
Net insurance contract liabilities	4,893,344	4,837,217

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

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

	2012 Net insurance contract liabilities $	2011 Net insurance contract liabilities $
Beginning of year	4,837,217	4,052,407
Acquisitions	-	412,254
	4,837,217	4,464,661
New business	70,444	33,378
Refinement of assumptions	(108,842)	17,838
Refinement of methods and models	(24,419)	(8,433)
Impact of fair value movement and in-force business	166,182	268,564
Change in contract liabilities	103,365	311,347
Effect of change in foreign exchange rates	(47,238)	61,209
End of year	4,893,344	4,837,217

The amounts presented above are net of reinsurance assets. This presentation is consistent with the method used in valuing actuarial liabilities. The significant movements resulting in the increase in reinsurance assets are the fall in interest rates and the new business ceded during the year. Other movements arose from normal business activity such as new business written and claims paid were not significant for the period.

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

	2012 $	2011 $
Refinements of assumptions:		
Investment returns*	-	123,880
Reduced unit costs for maintenance expenses	(38,540)	(44,458)
Updated mortality and lapse assumptions for recent experience	(21,502)	33,093
Implementation of a mortality improvement assumption	-	(10,506)
Updated dividend assumptions	(31,614)	(24,024)
Updated fraternal assumptions	(8,690)	(49,978)
Reinvestment assumptions changes	(5,807)	-
Other	(2,689)	(10,169)
	(108,842)	17,838
Refinements of methods and models:		
Model improvements	(22,654)	(3,888)
Other	(1,765)	(4,545)
	(24,419)	(8,433)

* in 2012, investment returns are included under the impact of fair value movement and in-force business

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

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

	2012 $	2011 $
Balance, beginning of year*	95,070	48,151
Net strengthening (release) of provision	16,466	45,974
Effect of change in foreign exchange rates	(888)	945
Balance, end of year*	110,648	95,070

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

c) Composition of assets supporting all liabilities and surplus

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, mortgages and financial derivatives with characteristics that closely match the characteristics of the related liability. The liabilities are matched with assets denominated in the same currency in order to avoid unintended exposure to foreign currency fluctuations.

The fair value of insurance contract liabilities is determined by reference to the assets supporting these liabilities. Therefore, changes in the fair value of insurance contract liabilities primarily offset changes in the fair value of the invested assets supporting these liabilities.

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

Notes to consolidated financial statements

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

Insurance contract liabilities and supporting assets by division

	2012					
	Cash, cash equivalents and short term securities	Bonds	Equities	Other invested assets *	Other	Total
United States Branch						
Insurance	$ -	$ 1,551,817	$ 67,744	$ 182,525	$ 88,495	$ 1,890,581
Annuities	8,869	343,472	25,579	24,992	4,027	406,939
Investment contracts	-	34,652	-	-	-	34,652
Surplus	-	615,353	-	14,278	75,882	705,513
FICC						
Insurance	5,636	184,530	-	75,737	24,212	290,115
Annuities	4,048	111,653	-	-	5,173	120,874
Asset management	62,190	-	11,457	-	25,901	99,548
Investment contracts	-	6,361	-	-	-	6,361
Surplus	151	14,296	-	-	408	14,855
Canada						
Insurance	17,692	1,166,162	118,060	76,083	192,732	1,570,729
Annuities	-	318,492	-	1,303	4,879	324,674
Investment contracts	-	31,865	-	-	-	31,865
Surplus	-	127,983	249	32,188	77,139	237,559
United Kingdom						
Insurance	-	224,022	100,220	(7,178)	13,044	330,108
Annuities	22,296	113,114	35,679	42,875	2,767	216,731
Investment contracts	-	48,624	35,679	(1,229)	375	83,449
Surplus	-	49,099	17,783	(21,026)	12,530	58,386
Fraternal **	30,536	234,621	4,311	9,520	9,121	288,109
Corporate	86,070	59,209	81,860	15,743	105,780	348,662
	$ 237,488	$ 5,235,325	$ 498,621	$ 445,811	$ 642,465	$ 7,059,710

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

Insurance contract liabilities and supporting assets by division - continued

	2011					
	Cash, cash equivalents and short term securities	Bonds	Equities	Other invested assets *	Other	Total
United States Branch						
Insurance	$ 1,613	$ 1,531,968	$ 83,053	$ 206,030	$ 36,757	$ 1,859,421
Annuities	192	402,213	11,563	9,381	(8,661)	414,688
Investment contracts	(1,246)	39,963	-	-	1,246	39,963
Surplus	22,371	441,132	9,112	-	185,730	658,345
FICC						
Insurance	3,031	161,568	-	74,050	44,763	283,412
Annuities	6,593	81,253	-	-	1,046	88,892
Asset management	51,013	-	6,942	-	24,257	82,212
Investment contracts	-	6,585	-	-	-	6,585
Surplus	255	12,609	-	-	124	12,988
Canada						
Insurance	19,100	859,408	67,286	32,915	165,633	1,144,342
Annuities	20,063	567,215	63,782	10,709	12,659	674,428
Investment contracts	-	32,885	-	-	-	32,885
Surplus	7,179	59,136	12,242	33,183	85,904	197,644
United Kingdom						
Insurance	762	238,234	72,433	8,091	6,668	326,188
Annuities	13,402	108,642	34,912	6,781	35,576	199,313
Investment contracts	(4,167)	47,797	34,912	-	426	78,968
Surplus	6,066	48,981	15,835	-	(12,414)	58,468
Fraternal **	18,766	303,723	4,079	10,590	6,956	344,114
Corporate	25,139	149,642	155,386	35,678	22,975	388,820
	$ 190,132	$ 5,092,954	$ 571,537	$ 427,408	$ 609,645	$ 6,891,676

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

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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.

Investment returns

Foresters segments assets supporting insurance contract liabilities by geographic market and by line of business. Foresters established 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).

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

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.

Foreign currency

Currency risk is addressed in note 10.

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

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.

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

	Change	2012 $	2011 $
Mortality rates:			
Life products	+2%	(30,970)	(29,097)
Annuity products	-2%	(1,674)	(1,641)
Lapse rates	10% Adverse	(72,343)	(64,719)
Maintenance expense levels	+10%	(44,028)	(37,842)

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

13. INVESTMENT CONTRACT LIABILITIES

Reconciliation of changes in investment contract liabilities

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

	U.S. $	Canada $	U.K. $	Total $
2012				
Balance, beginning of year	46,548	32,883	78,968	158,399
Deposits received during the year	2,991	2,562	2,224	7,777
Surrenders and withdrawals	(8,352)	(4,539)	(3,609)	(16,500)
Interest credited and other	815	958	3,918	5,691
Effect of change in foreign exchange rates	(990)	-	1,948	958
Balance, end of year	**41,012**	**31,864**	**83,449**	**156,325**
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**

(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, 2012 and December 31, 2011, shown below, were above the levels that would require any regulatory or corrective action.

		2012	2011
Capital available	A	$ 1,387,308	$ 1,270,664
Capital required:			
Asset default and market risk		112,120	124,774
Insurance risks		170,979	155,894
Interest rate and foreign exchange risks		85,387	97,923
Total capital required	B	$ 368,486	$ 378,591
MCCSR ratio (A/B)		376%	336%

(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.

	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life and health	497,834	(68,785)	429,049	423,740	(63,795)	359,945
Annuities	90,227	(73)	90,154	104,238	(398)	103,840
Refund of ceded premiums *	-	-	-	-	6,081	6,081
	588,061	(68,858)	519,203	527,978	(58,112)	469,866

* 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.

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

16. OTHER OPERATING INCOME

Other operating income is comprised of the following:

	2012 $	2011 $
Fees:		
Management fees on segregated fund assets	34,238	32,913
Management fees on proprietary mutual funds	52,220	47,821
Brokerage fees	8,486	6,562
Distribution and service fees	59,879	62,282
	154,823	149,578
Net rental expense	(3,724)	(3,504)
Supplementary contract deposits (with life contingency)	12,008	2,728
Loss on property revaluation	(1,555)	-
Gain on sale of subsidiaries (Note 24)	1,047	-
Foreign currency (loss)	(4,312)	-
Other	12,615	-
	170,902	148,802

During 2012, Foresters reached a settlement with a third party to recover amounts held in escrow relating to a previous acquisition. Foresters have recognized the proceeds recovered of $13,007 in Other.

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

17. BENEFITS

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

	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life & health	358,876	(35,243)	323,633	299,476	(25,259)	274,217
Fraternal	4,362	-	4,362	5,306	-	5,306
Annuities	68,613	(365)	68,248	93,332	(440)	92,892
	431,851	(35,608)	396,243	398,114	(25,699)	372,415

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

18. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2012 $	2011 $
Employee benefits:		
Salaries and benefits	138,194	125,203
Defined benefit pension and post retirement plan expenses (note 8)	8,673	5,563
Defined contribution plan expenses (note 8)	2,573	2,591
	149,440	133,357
Professional and consulting fees	31,600	21,560
Technology related service fees	36,855	44,937
Other service fees	14,701	14,720
Software costs expensed during the year	6,146	7,247
Operating lease costs	7,402	8,257
Depreciation and amortization of property, equipment and intangibles	8,710	9,704
Other expenses	16,271	16,005
Total operating expenses	271,125	255,787

Foresters recovered commissions and operating expenses from reinsurers in the amount of $19,723 ($18,904 in 2011) and $786 ($586 in 2011) 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 $
2012				
Current income tax expense (recovery):				
Current year	10,354	1,215	2,824	14,393
Deferred income tax expense (benefit):				
Relating to the origination and reversal of temporary differences	1,442	9,247	(2,695)	7,994
Change in unrecognized deductible temporary differences	-	(10,306)	1,947	(8,359)
	1,442	(1,059)	(748)	(365)
Income taxes	11,796	156	2,076	14,028
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

Cash taxes paid in 2012 were $28,384 ($29,459 in 2011).

(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.

	2012 $	2011 $
Income tax expense on net unrealized gains on AFS assets	(39)	(595)
Income tax recovery on reclassification of realized gains on AFS assets	760	347
Income tax recovery on net actuarial (losses) on employee benefit plans	-	214
Total income tax recovery (expense)	721	(34)

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:

	2012 %	2012 $	2011 %	2011 $
Net income after taxes		79,234		34,914
Income taxes		14,028		16,614
Income before income taxes		93,262		51,528
Combined federal and provincial statutory income tax rate for the current year	26.33%	24,556	27.90%	14,377
Effect of tax rates in foreign jurisdictions	8.89%	8,291	9.11%	4,694
Tax exempt income	(26.10%)	(24,341)	(19.40%)	(9,997)
Capital tax and investment income tax	5.98%	5,577	10.22%	5,266
Other taxes	0.03%	28	4.29%	2,211
Under (over) provided in prior years	(0.09%)	(83)	0.12%	63
Effective tax rate	15.04%	14,028	32.24%	16,614

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.

	2012 $	2011 $
Deferred tax assets	12,155	13,132
Deferred tax liabilities	5,779	7,284
Net deferred tax assets (liabilities)	6,376	5,848

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.

	2012			2011		
	Asset $	Liability $	Net $	Asset $	Liability $	Net $
Bonds	-	20,370	(20,370)	-	16,353	(16,353)
Loans to certificateholders	-	10,550	(10,550)	-	10,099	(10,099)
Other invested assets	-	863	(863)	-	921	(921)
Property and equipment	1,378	163	1,215	999	285	714
Employee benefit assets and obligations	1,193	619	574	1,567	1,373	194
Insurance contract liabilities	22,722	-	22,722	19,889	-	19,889
Investment contract liabilities	-	-	-	-	-	-
Other liabilities	10,906	-	10,906	11,227	-	11,227
Tax loss carry-forwards	2,742	-	2,742	541	-	541
Other temporary differences	-	-	-	656	-	656
Recognized deferred tax assets (liabilities)	38,941	32,565	6,376	34,879	29,031	5,848

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

	2012 $	2011 $
Beginning of year	5,848	(9,242)
Deferred taxes on subsidiaries acquired during the year	-	8,160
Charges included in net income	365	6,862
Charges included in OCI	323	82
Exchange rate differences	(160)	(14)
End of year	6,376	5,848

(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:

	2012			2011		
	Canada $	U.K. $	Total $	Canada $	U.K. $	Total $
Tax losses and unclaimed deductions	47,443	5,436	52,879	37,137	7,383	44,520

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 $21,318 ($28,863 in 2011). 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 $180,186 ($145,180 in 2011) 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 six reportable segments: five 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. All transactions between reporting segments are completed on an arm's length basis and consist of operational services provided. Consolidated segmented statements of comprehensive income and financial position are shown below

There is a widely diversified policyholder base and therefore not reliant on any individual customers.

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

Segmented statements of comprehensive income

	2012						
	United States Division	FICC	Canada	United Kingdom	Fraternal	Corporate	Total
REVENUE							
Gross written premiums	$ 312,895	$ 63,021	$ 180,093	$ 31,073	$ 979	$ -	$ 588,061
Ceded premiums	(27,811)	(4,721)	(36,082)	(244)	-	-	(68,858)
Net Written Premiums	285,084	58,300	144,011	30,829	979	-	519,203
Net Investment Income							
Interest and dividends (net)	108,665	17,198	73,051	24,750	10,026	8,994	242,684
Net realized gains (losses)	53,761	810	25,837	16,423	13,000	17,114	126,945
Unrealized gains (losses) on fair value through profit and loss investments	45,677	13,773	14,184	4,993	(4,792)	-	73,835
Net unrealized foreign currency gains (losses) on available-for-sale	-	-	-	-	-	4,327	4,327
Total Investment Income	208,103	31,781	113,072	46,166	18,234	30,435	447,791
Other operating income	5,134	148,187	(3,341)	12,221	6	8,695	170,902
TOTAL REVENUE	498,321	238,268	253,742	89,216	19,219	39,130	1,137,896
Certificateholder benefits and expenses							
Gross certificateholder benefits and payments	216,011	26,373	136,819	48,285	4,363	-	431,851
Ceded certificateholder benefits and payments	(9,011)	(2,701)	(23,896)	-	-	-	(35,608)
Gross change in insurance contract liabilities	(20,071)	59,556	88,905	9,594	(3,397)	-	134,587
Ceded change in insurance contract liabilities	(13,357)	(1,805)	(16,060)	-	-	-	(31,222)
Dividends	20,244	816	11,007	4,695	-	-	36,762
Commissions	124,811	51,232	54,039	10,971	-	-	241,053
Operating expenses	122,181	69,675	37,297	16,794	16,129	9,049	271,125
Ceded commissions and operating expenses	(12,348)	(182)	(7,979)	-	-	-	(20,509)
Fraternal investment	-	-	-	-	16,595	-	16,595
	428,460	202,964	280,132	90,339	33,690	9,049	1,044,634
Net income (loss) before income taxes	69,861	35,304	(26,390)	(1,123)	(14,471)	30,081	93,262
Income taxes	117	11,679	156	2,076	-	-	14,028
Net income (loss)	69,744	23,625	(26,546)	(3,199)	(14,471)	30,081	79,234
Other comprehensive income (loss)	(3,390)	(3,348)	617	(4,704)	2,125	(4,914)	(13,614)
Total comprehensive income (loss)	$ 66,354	$ 20,277	$ (25,929)	$ (7,903)	$ (12,346)	$ 25,167	$ 65,620

Notes to consolidated financial statements

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

Segmented statements of comprehensive income - continued

	2011						
	United States Division	FICC	Canada	United Kingdom	Fraternal	Corporate	Total
REVENUE							
Gross written premiums	$ 275,712	$ 55,510	$ 173,207	$ 22,487	$ 1,062	$ -	$ 527,978
Ceded premiums	(25,507)	(4,216)	(28,389)	-	-	-	(58,112)
Net Written Premiums	250,205	51,294	144,818	22,487	1,062	-	469,866
Net Investment Income							
Interest and dividends (net)	106,499	14,829	71,930	21,120	12,743	14,254	241,375
Net realized gains (losses)	87,795	197	38,608	11,796	8,813	13,977	161,186
Unrealized gains (losses) on fair value through profit and loss investments	116,790	5,990	97,969	6,617	12,442	-	239,808
Net unrealized foreign currency gains (losses) on available-for-sale	-	-	-	-	-	(4,405)	(4,405)
Total Investment Income	311,084	21,016	208,507	39,533	33,998	23,826	637,964
Other operating income	3,499	137,629	(1,688)	9,575	(213)	-	148,802
TOTAL REVENUE	564,788	209,939	351,637	71,595	34,847	23,826	1,256,632
Certificateholder benefits and expenses							
Gross certificateholder benefits and payments	209,491	21,386	121,010	40,922	5,305	-	398,114
Ceded certificateholder benefits and payments	(7,080)	(3,591)	(15,028)	-	-	-	(25,699)
Gross change in insurance contract liabilities	134,414	57,605	176,571	1,867	(19,025)	-	351,432
Ceded change in insurance contract liabilities	(12,818)	(1,186)	(26,081)	-	-	-	(40,085)
Dividends	21,562	757	12,492	3,153	-	-	37,964
Commissions	121,287	51,930	43,223	13,401	-	-	229,841
Operating expenses	120,256	69,315	36,629	11,691	13,349	4,547	255,787
Ceded commissions and operating expenses	(13,482)	(191)	(5,817)	-	-	-	(19,490)
Fraternal investment	-	-	-	-	17,240	-	17,240
	573,630	196,025	342,999	71,034	16,869	4,547	1,205,104
Net income (loss) before income taxes	(8,842)	13,914	8,638	561	17,978	19,279	51,528
Income taxes	24	5,844	7,518	3,228	-	-	16,614
Net income (loss)	(8,866)	8,070	1,120	(2,667)	17,978	19,279	34,914
Other comprehensive income (loss)	(6,040)	4,445	(6,256)	2,054	(2,418)	5,304	(2,911)
Total comprehensive income (loss)	$ (14,906)	$ 12,515	$ (5,136)	$ (613)	$ 15,560	$ 24,583	$ 32,003

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

Segmented statements of financial position

	2012						
	United States Division	FICC	Canada	United Kingdom	Fraternal**	Corporate	Total
ASSETS							
Invested Assets							
Cash, cash equivalents and short-term securities	$ 8,869	$ 72,026	$ 17,688	$ 22,297	$ 30,537	$ 86,071	$ 237,488
Bonds	2,545,294	316,839	1,644,502	434,860	234,621	59,209	5,235,325
Equities	93,323	11,457	118,311	189,362	4,311	81,857	498,621
Mortgages	6,708	-	-	-	-	-	6,708
Derivative financial instruments	54,937	-	-	-	9,516	-	64,453
Other invested assets*	19,632	-	69,940	3,713	4	15,742	109,031
Loans to certificateholders	140,520	75,737	39,633	9,729	-	-	265,619
Total invested assets	2,869,283	476,059	1,890,074	659,961	278,989	242,879	6,417,245
Reinsurance assets	33,643	10,944	171,942	-	-	-	216,529
Other assets	(18,615)	42,977	58,437	16,772	9,121	65,487	174,179
Property and equipment	74	1,772	27,956	4,375	1	-	34,178
Employee benefit assets	2,303	-	18,170	-	-	-	20,473
Goodwill and intangible assets	149,544	-	23	7,194	-	40,345	197,106
	3,036,232	531,752	2,166,602	688,302	288,111	348,711	7,059,710
Net investments for accounts of segregated fund unit holders	-	938,426	99,978	921,598	-	-	1,960,002
TOTAL ASSETS	$ 3,036,232	$ 1,470,178	$ 2,266,580	$ 1,609,900	$ 288,111	$ 348,711	$ 9,019,712
LIABILITIES							
Insurance contract liabilities	$ 2,166,267	$ 368,427	$ 1,827,043	$ 483,352	$ 264,784	$ -	$ 5,109,873
Investment contract liabilities	34,652	6,360	31,864	83,449	-	-	156,325
Benefits payable and provision for unreported claims	59,424	2,275	25,814	13,298	-	-	100,811
Other liabilities	15,077	60,710	48,736	16,391	1,069	2,663	144,646
Employee benefit obligation	8,206	-	27,942	2,284	-	-	38,432
	2,283,626	437,772	1,961,399	598,774	265,853	2,663	5,550,087
Net investment contract liablities for accounts of segregated fund unit holders	-	938,426	99,978	921,598	-	-	1,960,002
TOTAL LIABILITIES	2,283,626	1,376,198	2,061,377	1,520,372	265,853	2,663	7,510,089
SURPLUS							
Retained earnings	731,974	93,340	191,455	87,788	21,059	336,316	1,461,932
Accumulated other comprehensive income	20,632	640	13,748	1,740	1,199	9,732	47,691
TOTAL SURPLUS	752,606	93,980	205,203	89,528	22,258	346,048	1,509,623
TOTAL LIABILITIES AND SURPLUS	$ 3,036,232	$ 1,470,178	$ 2,266,580	$ 1,609,900	$ 288,111	$ 348,711	$ 9,019,712

* 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)

Segmented statements of financial position-continued

	2011						
	United States Division	FICC	Canada	United Kingdom	Fraternal**	Corporate	Total
ASSETS							
Invested Assets							
Cash, cash equivalents and short-term securities	$ 22,930	$ 60,892	$ 46,339	$ 16,062	$ 18,766	$ 25,143	$ 190,132
Bonds	2,415,276	262,016	1,518,648	443,652	303,720	149,642	5,092,954
Equities	103,728	6,942	143,310	158,092	4,079	155,386	571,537
Mortgages	7,575	-	-	-	-	-	7,575
Derivative financial instruments	61,293	-	-	-	10,585	-	71,878
Other invested assets*	-	-	37,646	5,293	5	35,675	78,619
Loans to certificateholders	146,545	74,051	39,161	9,579	-	-	269,336
Total invested assets	2,757,347	403,901	1,785,104	632,678	337,155	365,846	6,282,031
Reinsurance assets	20,801	9,350	155,882	-	-	-	186,033
Other assets	63,392	35,868	54,844	18,181	6,955	11,443	190,683
Property and equipment	85	2,892	26,666	4,414	1	-	34,058
Employee benefit assets	3,861	-	28,118	-	-	-	31,979
Goodwill and intangible assets	131,440	-	124	7,231	-	28,097	166,892
	2,976,926	452,011	2,050,738	662,504	344,111	405,386	6,891,676
Net investments for accounts of segregated fund unit holders	-	866,997	99,180	730,587	-	-	1,696,764
TOTAL ASSETS	$ 2,976,926	$ 1,319,008	$ 2,149,918	$ 1,393,091	$ 344,111	$ 405,386	$ 8,588,440
LIABILITIES							
Insurance contract liabilities	$ 2,234,807	$ 316,017	$ 1,738,139	$ 462,460	$ 271,827	$ -	$ 5,023,250
Investment contract liabilities	39,963	6,585	32,883	78,968	-	-	158,399
Benefits payable and provision for unreported claims	63,480	3,326	20,724	6,969	-	-	94,499
Other liabilities	14,718	54,301	47,572	14,867	336	4,138	135,932
Employee benefit obligation	9,857	-	25,736	-	-	-	35,593
	2,362,825	380,229	1,865,054	563,264	272,163	4,138	5,447,673
Net investment contract liablities for accounts of segregated fund unit holders	-	866,997	99,180	730,587	-	-	1,696,764
TOTAL LIABILITIES	2,362,825	1,247,226	1,964,234	1,293,851	272,163	4,138	7,144,437
SURPLUS							
Retained earnings	594,177	67,794	174,411	96,908	69,980	386,602	1,389,872
Accumulated other comprehensive income	19,924	3,988	11,273	2,332	1,968	14,646	54,131
TOTAL SURPLUS	614,101	71,782	185,684	99,240	71,948	401,248	1,444,003
TOTAL LIABILITIES AND SURPLUS	$ 2,976,926	$ 1,319,008	$ 2,149,918	$ 1,393,091	$ 344,111	$ 405,386	$ 8,588,440

* 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. All fees paid and costs incurred for the transactions are determined on an arm's length basis.

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.

Compensation of key management personnel

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:

	2012 $	2011 $
Salaries and other short term employee benefits	13,998	13,652
Post-employment benefits	1,361	1,165
Other long-term benefits	2,428	1,624
Total compensation of key management personnel	17,787	16,441

To the best of Foresters knowledge:

- Sales of insurance and investment contracts to key management personnel totaled $47 in 2012 and $3.9 in 2011. 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, 2012, Foresters contractual obligations and commitments are as follows:

	1 year or less	1- 5 years	Over 5 years	Total
	$	$	$	$
Obligations under service contracts	23,260	82,755	42,776	148,791
Capital expenditure	1,320	562	-	1,882
Lease obligations	6,552	10,726	228	17,506
Total contractual obligations	31,132	94,043	43,004	168,179

On December 20, 2012, Foresters entered into a Transfer Agreement with a mutual organization (friendly society) based in the UK which specializes in the distribution of Child Trust Fund accounts as well as other life insurance products. Under the agreement, which is subject to approval by regulatory authorities and the members, Foresters will acquire all of the policies of the friendly society, under an arrangement in English law similar to an assumption reinsurance agreement for a consideration of approximately C$85m. If approved, the transaction is expected to be completed on April 2, 2013 and Foresters will fully recognize the transfer of liabilities and assets of the society.

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 (%)	
			2012	2011
First Investors Consolidated Corporation	U.S.	Insurance and asset management operations	100	100
Foresters Equity Services Inc.	U.S.	Investment broker	100	100
Foresters Financial Partners Holdings, Inc.	U.S.	Insurance broker	N/A	95.3
Foresters Life Insurance Company *	Canada	Insurance operations	100	100
Sylvan Agency (Canada) Inc.	Canada	Insurance broker	100	100
Forester Holdings (Europe) Limited	U.K.	Insurance operations	100	100

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

Foresters sold its entire interest in Foresters Financial Partners Holdings, Inc. (“FFPH”) effective December 17, 2012. As Foresters have no further financial interest or control, FFPH is no longer recognized as a subsidiary from that date. The sale realized a gain of $1,047 which is included under other operating income. FFPH contributed revenue of $1,855 (2011: $1,198) and net income of $223 (2011: loss of $574) for the period January 1, 2012 to December 17, 2012.