Foresters

Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2013

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MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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

Paul Reaburn, F.C.I.A., F.S.A., M.A.A.A.
Chief Financial Officer

Toronto, Canada
February 19, 2014

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 statement of financial position as at December 31, 2013, the consolidated statements of comprehensive income, changes in surplus and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 19, 2014
Toronto, Canada

APPOINTED ACTUARY'S REPORT

To the Board of Directors of the Independent Order of Foresters

I have valued the policy liabilities and reinsurance recoverables of The Independent Order of Foresters for its consolidated statement of financial position as at December 31, 2013 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with the accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

Ralph Ovsec, F.S.A., F.C.I.A., M.A.A.A.
Fellow, Canadian Institute of Actuaries
Toronto, Canada

February 19, 2014

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

	Note	2013	2012
REVENUE			
Gross written premiums	15	$ 673,612	$ 588,061
Ceded premiums	15	(70,443)	(68,858)
Net Written Premiums		603,169	519,203
Net Investment Income			
Interest and dividends (net)	4	240,577	242,684
Net realized gains	4	126,686	126,945
Net unrealized gains (losses) on fair value through profit and loss investments	4	(461,035)	73,835
Net foreign currency gains on available-for-sale assets	4	5,437	4,327
Total Investment Income		(88,335)	447,791
Other operating income	16	214,730	170,902
TOTAL REVENUE		**729,564**	**1,137,896**
BENEFITS & EXPENSES			
Gross benefits	17	513,382	431,851
Ceded benefits	17	(33,975)	(35,608)
Gross change in insurance contract liabilities	12	(477,259)	134,587
Ceded change in insurance contract liabilities	12	32,325	(31,222)
Policy dividends		37,459	36,762
Commissions		226,884	241,053
Operating expenses	18	298,167	271,125
Ceded commissions and operating expenses	18	(17,622)	(20,509)
Fraternal investment		18,321	16,595
TOTAL BENEFITS & EXPENSES		**597,682**	**1,044,634**
Income before income taxes		131,882	93,262
Income Taxes			
Current	19	12,766	14,393
Deferred	19	4,255	(365)
Total Income Taxes		17,021	14,028
NET INCOME		**114,861**	**79,234**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to net income			
Remeasurement gains (losses) on employee benefit plans, net of income tax expense of $47 ($0 in 2012)	8	21,907	(7,174)
Net unrealized gains on property	7	580	1,250
Total items that will not be reclassified to net income		**22,487**	(5,924)
Items that are or may be reclassified subsequently to net income			
Net unrealized gains (losses) on available-for-sale assets, net of income tax recovery (expense) of $1,685 (($39) in 2012)		(57,621)	32,283
Reclassification of net realized losses (gains) on available-for -sale assets, net of income tax recovery of $95 ($760 in 2012), to net income		5,756	(14,928)
Net unrealized foreign currency translation gains (losses)		86,585	(25,045)
Total items that are or may be reclassified subsequently to net income		**34,720**	**(7,690)**
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**57,207**	**(13,614)**
TOTAL COMPREHENSIVE INCOME		**$ 172,068**	**$ 65,620**

(See accompanying notes)

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

	Note	Dec 31, 2013	Dec 31, 2012
ASSETS			
Invested Assets			
Cash, cash equivalents and short-term securities	4	$ 190,653	$ 237,488
Bonds	4	5,657,066	5,235,325
Equities	4	727,441	498,621
Mortgages	4	826	6,708
Derivative financial instruments	4	50,848	64,453
Other invested assets	4	116,061	109,031
Loans to certificateholders	4	287,002	265,619
Total Invested Assets		7,029,897	6,417,245
Reinsurance assets	12	187,307	216,529
Other assets	6	250,356	181,442
Property and equipment	7	45,976	34,178
Employee benefit assets	8	34,387	20,473
Goodwill and intangible assets	9	260,204	189,843
		7,808,127	7,059,710
Net investments for accounts of segregated fund unit holders	5	2,720,258	1,960,002
TOTAL ASSETS		**$ 10,528,385**	**$ 9,019,712**
LIABILITIES			
Insurance contract liabilities	12	$ 5,647,538	$ 5,109,873
Investment contract liabilities	13	157,105	156,325
Benefits payable and provision for unreported claims		125,596	100,811
Other liabilities	11	145,716	144,646
Employee benefit obligations	8	50,481	38,432
		6,126,436	5,550,087
Investment contract liabilities for accounts of segregated fund unit holders	5	2,720,258	1,960,002
TOTAL LIABILITIES		8,846,694	7,510,089
SURPLUS			
Retained earnings		1,583,967	1,469,106
Accumulated other comprehensive income		97,724	40,517
		1,681,691	1,509,623
TOTAL LIABILITIES AND SURPLUS		**$ 10,528,385**	**$ 9,019,712**

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

(See accompanying notes)

On behalf of the Board:

Martha E. Marcon

Director

Director

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

		Accumulated Other Comprehensive Income					
		Non-permanent		Permanent			
	Retained earnings	Unrealized gains (losses) on available-for-sale assets	Cumulative translation account	Net unrealized gains (losses) on property	Remeasurement gains (losses) on defined benefit plans	Total	Total surplus
Balance as at December 31, 2012	**$1,469,106**	**$ 81,948**	**$ (37,246)**	**$ 2,989**	**$ (7,174)**	**$ 40,517**	**$ 1,509,623**
Net income	114,861	-	-	-	-	-	114,861
Other comprehensive income (loss):							
Pre-tax balance	-	(59,306)	86,585	580	21,954	49,813	49,813
Reclassification of net realized losses on available-for-sale assets	-	5,661	-	-		5,661	5,661
Income tax recovery (expense)	-	1,780	-	-	(47)	1,733	1,733
Total other comprehensive income (loss)	-	(51,865)	86,585	580	21,907	57,207	57,207
Total comprehensive income for the period	114,861	(51,865)	86,585	580	21,907	57,207	172,068
Balance as at December 31, 2013	**$1,583,967**	**$ 30,083**	**$ 49,339**	**$ 3,569**	**$ 14,733**	**$ 97,724**	**$ 1,681,691**
Balance as at December 31, 2011	**$ 1,389,872**	**$ 64,593**	**$ (12,201)**	**$ 1,739**	**$ -**	**$ 54,131**	**$ 1,444,003**
Net income	79,234	-	-	-	-	-	79,234
Other comprehensive income (loss):							
Pre-tax balance	-	32,321	(25,045)	1,250	(7,174)	1,352	1,352
Reclassification of net realized gains on available-for-sale assets	-	(15,687)	-	-	-	(15,687)	(15,687)
Income tax recovery	-	721	-	-	-	721	721
Total other comprehensive income (loss)	-	17,355	(25,045)	1,250	(7,174)	(13,614)	(13,614)
Total comprehensive income for the period	79,234	17,355	(25,045)	1,250	(7,174)	(13,614)	65,620
Balance as at December 31, 2012	**$ 1,469,106**	**$ 81,948**	**$ (37,246)**	**$ 2,989**	**$ (7,174)**	**$ 40,517**	**$ 1,509,623**

(See accompanying notes)

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

	2013	2012
Cash flow from operating activities		
Net income per statements of comprehensive income	$ 114,861	$ 79,234
Items disclosed separately:		
Interest paid on benefits	5,422	8,783
Income tax paid	20,247	28,384
Interest received	(204,847)	(207,114)
Adjusted net income	(64,317)	(90,713)
Items not affecting cash:		
Depreciation and amortization	15,488	8,710
Net increase (decrease) in insurance contract liabilities	(477,259)	134,587
Net decrease (increase) in reinsurance assets	32,325	(31,222)
Net realized and unrealized gains (losses) on invested assets	342,124	(187,677)
Net foreign currency gains on available-for-sale assets	(5,437)	(4,327)
Net foreign currency losses (gains) on other assets and other liabilities	(4,240)	4,312
Amortization of premium and discount on bonds	2,668	(3,835)
Deferred income tax expense	4,255	(365)
Gain on sale of a subsidiary	-	(1,047)
Impairment losses (gains) on property and equipment	(994)	1,555
Net change in other assets and other liabilities	(113,126)	(12,117)
Other items resulting from operations:		
Interest paid on benefits	(5,422)	(8,783)
Income tax paid	(20,247)	(28,384)
Increase (decrease) due to operating activities	**(294,182)**	**(219,306)**
Cash flow from investing activities		
Interest received	204,847	207,114
Investments sold or matured:		
Bonds	2,315,600	1,873,713
Equities	688,374	332,538
Mortgages	6,144	706
Investments acquired:		
Bonds	(2,650,192)	(1,919,790)
Equities	(332,874)	(207,718)
Other items, net	(7,015)	(17,360)
Acquisitions, net	9,728	-
Increase (decrease) due to investing activities	**234,612**	**269,203**
Foreign exchange gains (losses) on cash held in foreign currencies	12,735	(2,541)
Net increase (decrease) in cash and cash equivalents for the year	**(46,835)**	**47,356**
Cash and cash equivalents, beginning of year	**237,488**	**190,132**
Cash and cash equivalents, end of year	**$ 190,653**	**$ 237,488**

(See accompanying notes)

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 unless otherwise indicated.

1.1 Basis of Presentation

a) Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 19, 2014.

b) Basis of measurement

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

- Financial assets at fair value through profit and loss ("FVTPL"), available-for-sale ("AFS") financial assets and derivative financial instruments are measured at fair value;
- Employee benefit assets and obligations represent the funded status of these plans which is calculated as the difference between plan assets at fair value and the present value of defined benefit obligations;
- Insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM");
- Land and investment properties are measured at fair value and buildings are carried at fair value less any accumulated depreciation and impairment loss.

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

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Foresters 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 has power to direct the activities that significantly affect returns, exposure or rights to variable returns based on the subsidiary's performance and the ability to use its power to affect returns. Subsidiaries are fully consolidated from the date on which control is transferred to Foresters 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 24.

1.3 Segmented reporting

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

Foresters has five operating segments and a corporate segment:

- The U.S. division sells insurance, annuities, variable life and mutual fund products;
- First Investors ("FICC") provides investment management services and distributes mutual funds and insurance products;
- 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 five 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 the presentation currency are presented separately in the currency translation account, a separate component of accumulated other comprehensive income ("AOCI"). When a foreign operation has been sold, these unrealized foreign currency translation gains and losses are recognized in net income.

Monetary and non-monetary assets

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

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

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

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

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

c) Equities

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

The fair value of publicly traded equities is determined using quoted market 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 statement 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 statement 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 statement 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 statement 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 statement of comprehensive income.

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

f) Other Invested Assets

Limited partnerships

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

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment fund where Foresters is a limited partner. 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 statement of comprehensive income.

Investment Properties

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. The fair value of investment properties are appraised annually based on the current year's inputs such as rental income from current leases and other assumptions that market participants would use when pricing investment properties under current market conditions.

Seed money investment in segregated funds

Seed money represents Foresters initial investment in its segregated funds and is measured at fair value. Fair value is based on the net asset value of the segregated investment fund. Changes in fair value are recorded in net unrealized gains (losses) on

AFS assets, a component of OCI on the consolidated statement 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 other than FVTPL 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 impaired AFS equity securities is 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. Deferred acquisition costs are amortized at a rate consistent with the pattern of emergence of future expected margins on the underlying policies over a period not exceeding 30 years. DAC is reviewed by category of business at the end of each reporting period and is written down for the amount that is no longer considered to be recoverable.

1.7 Property and equipment

Property

Property consists of land and buildings, which are predominantly occupied by Foresters 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 and is based on an income approach combining the discounted cash flow method and the direct capitalization method using as inputs rental income from current leases, expenses incurred and other assumptions that market participants would use when pricing property under current market conditions. The changes in fair value are recognized in net unrealized gains (losses) on property, a component of OCI in the consolidated statement of comprehensive income.

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

Equipment

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

Depreciation

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

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

Under IFRS, componentization is required when parts of property and equipment have different useful lives and each component is accounted for as a separate item.

Depreciation methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate. Any changes in estimates are accounted for in the current period.

Depreciation, repairs and maintenance costs are expensed during the period in which they are incurred, and are included in operating expenses on the consolidated statement of comprehensive income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits, in excess of the most recently assessed standard of performance of the existing asset, will flow to Foresters 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 net identifiable assets acquired. After initial recognition, goodwill is carried at cost less any accumulated impairment losses. If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in net income for the year. All goodwill is considered to have an indefinite life and therefore, not amortized.

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

For the purpose of impairment testing, goodwill acquired in business combinations is allocated, from the acquisition date, to each of the cash-generating units ("CGUs") that are expected to benefit from the business combination. A CGU is the smallest identifiable group 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, separate account, and children's trust fund savings plan 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 have finite useful lives and are amortized on a straight-line basis over their useful lives. The children's trust fund savings plan management contracts have finite useful lives and are amortized over the remaining life of the policies acquired at a rate consistent with the pattern of emergence of future expected margins on the underlining policies. Computer software acquired on acquisition follows the accounting policy outlined below. The amortization of intangible assets is recorded in operating expenses on the consolidated statement of comprehensive income.

Intangibles with indefinite useful lives are reviewed annually for impairment. Intangibles with finite useful lives are reviewed only if there is an indicator for impairment. Impairment losses are expensed immediately.

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 statement of financial position.

Insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM") which is based on accepted actuarial practices according to standards established by the 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 statement 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 expenses related to reinsured contracts are recorded as ceded commissions and operating expenses on the consolidated statement of comprehensive income. The net amount due from reinsurers with respect to ceded premiums, paid claims and expenses is recorded as an amount receivable from or payable to reinsurers and included in other assets or other liabilities, respectively, on the consolidated statement of financial position.

c) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to Foresters. 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 statement of comprehensive income. Upon adoption of IFRS 10, Foresters continued to present segregated fund net assets as a single line item in the consolidated statement of financial position.

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 current and deferred 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 consolidated statement of comprehensive income, except when it relates to an item included in OCI or directly in surplus, in which case tax is recognized in other comprehensive income or surplus, respectively.

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

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

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

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

1.12 Employee benefits

Foresters 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.

Remeasurements arising from defined benefit plans are made up of actuarial gains, the return excluding interest on plan assets and adjustments for the effect of the asset ceiling.

All remeasurements are recognized immediately in OCI and all other expenses are reflected in employee benefits within operating expenses on the consolidated statement of comprehensive income.
Employee benefit assets arise from pension plans that are in a surplus position (plan assets are greater than the plan obligations). Employee benefit obligations arise from unfunded plans for supplementary pension and post retirement benefits and pension plans that are in a deficit position.

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

b) Defined contribution plans

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

c) Long-term disability benefits

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

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 statement of comprehensive income.

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

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

1.15 Contingent liabilities
Contingent liabilities are recognized as liabilities on the statement of financial position when it is probable that Foresters 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.

1.16 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 statement of comprehensive income.

2. ACCOUNTING AND REPORTING CHANGES

2.1 Changes in accounting policy effective from 2013

a) 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 and IFRS 12 - Disclosure of Interests in Other Entities were adopted by Foresters effective January 1, 2013. IFRS 10 introduced a new control model which links power and returns. Under IFRS 10, control results from an investor having: power over the investee; exposure or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of its return from the investee. Foresters has assessed the application of these new standards and concluded that there is no effect on Foresters current accounting policies.

Segregated Funds

Foresters offers segregated fund products, including variable annuities in Canada, the U.K. and the U.S. Under these arrangements, unit holders are provided the opportunity to invest in a variety of funds offered by Foresters. Upon adoption of IFRS 10, Foresters continues to present segregated fund net assets, which are in the legal name and title of Foresters but are held on behalf of unit holders, as a single line item in the consolidated statement of financial position. The obligation to pay the value of the net assets held under these contracts is considered a financial liability and is measured based on the value of the net segregated fund assets. Guarantees that may be offered as part of certain segregated funds contracts are recorded within the insurance contract liabilities.

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

For services provided to unit holders, Foresters receives investment management and guarantee fees which are directly charged by the segregated funds to unit holders. This revenue is recorded in other operating income on the consolidated statement of comprehensive income.

b) Amendments to IAS 19 - Employee Benefits

The amendments to IAS 19 were adopted by Foresters effective January 1, 2013. The most significant changes were around presentation and recognition of defined benefit plans and termination benefits. Foresters has elected to not transfer the actuarial gains and losses arising from employee benefit plans in AOCI to retained earnings, changes in the comparative information were retrospectively applied in accordance with IAS19R in the consolidated statement of changes in surplus. The adoption of the amended standard has no impact on the measurement of Foresters employee benefit assets and obligations.

c) IFRS 13 - Fair Value Measurement

IFRS 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. Foresters has assessed the changes and no changes are required in the measurement of assets and liabilities that use fair value.

2.2 Future changes in accounting policy

a) IFRS 4 - Insurance contracts

The International Accounting Standards Board ("IASB") issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010 and a re-exposure draft reflecting comments received on the initial exposure draft in June 2013. 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. Since the exposure draft was issued, a new proposal has been made to show the movement in the insurance contract liability due to a change in the discount rate in OCI.

A final standard is expected to be released in 2015 with an expected effective date not before 2018. Foresters continues to actively monitor developments in this area.

b) IFRS 9 - 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 amended.

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

In November 2012 the IASB issued an exposure draft whereby debt instruments based on certain criteria should be classified as FVTOCI so interacting with the proposal under IFRS 4 Phase II to show movements in the insurance contract liability due to changes in the discount rate under OCI.

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.

The standard addressing expected credit losses on financial assets is not yet finalized but the proposal is to use a 3 stage approach depending on whether credit deterioration has occurred yet. Under IAS 39 the methodology used was an incurred loss model but the proposal is also to include an impairment provision based on impairment in the next twelve months based on the probability.

The IASB amended IFRS 9 in November 2013 to remove the mandatory effective date of January 1, 2015 from IFRS 9. A new mandatory effective date will be determined once the impairment phase of the IFRS 9 project is complete. Foresters is continuing to assess the impact of these changes on its consolidated financial statements.

c) Amendments to IAS 32 - Offsetting financial assets and liabilities

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

Foresters intends to adopt the amendments to IAS 32 in its financial statement for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

3. BUSINESS COMBINATIONS

Tunbridge Wells Equitable Friendly Society
On April 3, 2013, Foresters acquired the business and undertaking of the Tunbridge Wells Equitable Friendly Society ("TWEFS"), a U.K. Fraternal Benefit Society undertaking savings, life and pension business, by way of a transfer of engagements. The transaction was an expression of Foresters strategy of growth organically and by acquisition. The business of TWEFS is being undertaken in a ring fenced fund (the TW Fund) with fixed charges, and policyholders will benefit from substantially lower policy charges.

The acquired business contributed revenue of $28.2 million and net income, excluding transition costs, of $3.0 million for the period from April 3, 2013 to December 31, 2013. If the acquisition had occurred on January 1, 2013, management estimates that TWEFS would have contributed revenue of $36.3 million and net income of $3.7 million.

TWEFS provides a range of insurance and savings products including a book of unit linked tax-efficient investment contracts for children (Child Trust Funds).

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	$ 81,311
Less value of net identifiable assets	81,311
Goodwill	$ -

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(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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

	Fair value $
Assets	
Cash and short-term securities	91,039
Bonds	252,809
Mutual funds	409,137
Loans to certificateholders	732
Deferred tax asset	28,416
Other assets	14,915
Intangible assets on acquisition:	
Asset management contracts with a finite useful life	47,939
Net investments for the account of segregated fund unit holders	95,710
	940,697
Liabilities	
Insurance contract liabilities	692,757
Reinsurance liability	39,917
Benefits payable and provision for unreported claims	2,418
Other liabilities	5,215
Deposit liabilities	14,116
Investment contract liabilities for the account of segregated fund unit holders	95,710
Pension fund liability	9,253
	859,386
Total net identifiable assets	81,311

The acquired Child Trust Fund policies will mature between 2020 and 2028. Policyholders may choose to reinvest the proceeds in another Foresters product, but as the reinvestment rate is difficult to estimate, the acquired intangible asset will be amortized over the expected remaining life of the acquired policies. The expected remaining life of the intangible asset is 7 – 15 years.

This acquisition also increased Foresters assets under management by approximately $3.1 billion (unaudited) in respect of the acquired policies.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

4. INVESTED ASSETS

a) Summary of invested assets

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

	Fair value through profit and loss	Available-for-sale	Other	Total carrying value	Total fair value
As at December 31, 2013					
Cash, cash equivalents and short-term securities	$ 139,792	$ 50,861	$ -	$ 190,653	$ 190,653
Bonds	4,706,360	950,706	-	5,657,066	5,657,066
Equities	653,704	73,737	-	727,441	727,441
Mortgages	-	-	826	826	867
Derivative financial instruments	50,848	-	-	50,848	50,848
Other invested assets	60,333	55,728	-	116,061	116,061
Loans to certificateholders	-	-	287,002	287,002	287,002
Total invested assets	5,611,037	1,131,032	287,828	7,029,897	7,029,938
Net investments for account of segregated fund unit holders	2,720,258			2,720,258	2,720,258
Total investments	$ 8,331,295	$ 1,131,032	$ 287,828	$ 9,750,155	$ 9,750,196
As at December 31, 2012					
Cash, cash equivalents and short-term securities	$ 119,971	$ 117,517	$ -	$ 237,488	$ 237,488
Bonds	4,354,265	881,060	-	5,235,325	5,235,325
Equities	398,733	99,888	-	498,621	498,621
Mortgages	-	-	6,708	6,708	7,043
Derivative financial instruments	64,453	-	-	64,453	64,453
Other invested assets	58,267	50,764	-	109,031	109,031
Loans to certificateholders	-	-	265,619	265,619	265,619
Total invested assets	4,995,689	1,149,229	272,327	6,417,245	6,417,580
Net investments for account of segregated fund unit holders	1,960,002	-	-	1,960,002	1,960,002
Total investments	$ 6,955,691	$ 1,149,229	$ 272,327	$ 8,377,247	$ 8,377,582

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:

<u>Level 1</u>

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

Level 2
Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, credit risks, and default rates.

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

Private placements are valued using a discounted cash flow analysis. The inputs to the valuation include the current credit rating for the bonds and credit spreads to treasury securities. No significant unobservable inputs are used in the valuation. Limited partnerships are valued using discounted cash flow methodologies, direct capitalization methods, comparable private company transactions and the income approach. Significant unobservable inputs include assumed future market conditions, projected income and expense scenarios, discount rates, terminal EBITDA and exit multiples used in the calculations.

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

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

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

(December 31, 2013 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.

Investment properties

Investment properties are treated as Level 3 within the fair value hierarchy and are valued using values provided by independent appraisers using assumptions based on rental income under current leases and what market participants use in pricing investment properties in the existing market conditions.

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, 2013	**$**	**$**	**$**	**$**
Cash, cash equivalents and short-term securities	55,922	134,731	-	190,653
FVTPL assets:				
Bonds	418,829	4,251,971	35,560	4,706,360
Equities	625,848	27,856	-	653,704
Derivative financial instruments	4,395	46,453	-	50,848
Other invested assets	-	4,003	56,330	60,333
Net investments for account of segregated fund unit holders	2,175,966	544,292	-	2,720,258
AFS assets:				
Bonds	5,478	939,629	5,599	950,706
Equities	27,757	45,880	100	73,737
Other invested assets	-	18,176	37,552	55,728
	3,314,195	6,012,991	135,141	9,462,327

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

	Level 1	Level 2	Level 3	Total fair value
December 31, 2012	$	$	$	$
Cash, cash equivalents and short-term securities	60,607	176,881	-	237,488
FVTPL assets:				
Bonds	146,957	4,207,308	-	4,354,265
Equities	376,010	22,723	-	398,733
Derivative financial instruments	1,013	63,440	-	64,453
Other invested assets (including investment properties)	-	1,199	57,068	58,267
Net investments for account of segregated fund unit holders	1,624,559	335,443	-	1,960,002
AFS assets:				
Bonds	5,944	869,501	5,615	881,060
Equities	40,035	59,753	100	99,888
Other invested assets	-	15,389	35,375	50,764
	2,255,125	5,751,637	98,158	8,104,920

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

	FVTPL		AFS		
	Bonds	Equities and other invested assets	Bonds	Equities and other invested assets	Total
	$	$	$	$	$
2013					
Balance, beginning of year	-	57,068	5,615	35,475	98,158
Changes during the year:					
Purchases	35,264	-	-	515	35,779
Sales and redemptions	-	(2,409)	(2,807)	(3,914)	(9,130)
Realized gains/losses	-	1,311	-	-	1,311
Change in unrealized gains (losses) included in:					
Other comprehensive income	-	-	2,791	5,576	8,367
Net Income	296	360	-	-	656
Balance, end of year	35,560	56,330	5,599	37,652	135,141
2012					
Balance, beginning of year	1,694	25,553	4,658	35,775	67,680
Changes during the year:					
Purchases	-	30,106	1,602	1,214	32,922
Sales and redemptions	(1,995)	(1,825)	(2,023)	(3,303)	(9,146)
Realized gains/losses	301	138	-	-	439
Change in unrealized gains (losses) included in:					
Other comprehensive income	-	-	1,378	1,789	3,167
Net Income	-	3,096	-	-	3,096
Balance, end of year	-	57,068	5,615	35,475	98,158

There were no material transfers between Level 1, 2 and 3 during 2013 or 2012. The fair value of level 3 assets includes a number of investments that are impacted by different market sensitivities. The significant assumptions we have used to assess the market sensitivity of these assets include: sensitivity to changes in interest rates, sensitivity to changes in real estate capitalization rates, and sensitivity to changes in the global infrastructure index. This analysis was based on a 1% increase and a 1% decrease in the relevant sensitivity. The following table shows the impact of this analysis on the fair value of the related assets at December 31, 2013:

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

	1% increase $	1% decrease $
FVTPL assets:		
Interest rate sensitivity	(2,343)	2,343
Real estate capitalization rates	(11,167)	16,172
AFS assets:		
Global infrastructure index sensitivity	198	(198)

c) Cash, cash equivalents and short-term securities

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

	2013 $	2012 $
Cash	55,922	60,607
Cash equivalents	74,663	164,094
	130,585	224,701
Short-term securities	60,068	12,787
	190,653	237,488

Short-term securities are comprised of notes and commercial paper with a maturity date not later than May 2014.

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.

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, 2013 and 2012. The largest single counterparty exposure was $25,391 ($34,292 in 2012).

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, 2013 with an estimated market value of $36,974 ($54,092 in 2012) against net outstanding position of $50,848 ($64,453 in 2012). Foresters has the right to sell, pledge, invest, or use any posted collateral. During the year, Foresters did not sell or pledge any collateral.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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, 2013							
Foreign exchange forward contracts	$ 27,117	$ 93,965	$ 242,910	$ 363,992	$ 48,905	$ 2,453	$ 46,452
Property futures purchased	-	-	-	-	$ 2,910	-	$ 2,910
Options purchased	-	-	-	-	5,486	-	5,486
Options written	-	-	-	-	-	4,000	(4,000)
	$ 27,117	$ 93,965	$ 242,910	$ 363,992	$ 57,301	$ 6,453	$ 50,848
As at December 31, 2012							
Foreign exchange forward contracts	$ 28,322	$ 99,727	$ 259,665	$ 387,714	$ 64,769	$ 1,329	$ 63,440
Options purchased	-	-	-	-	2,653	-	2,653
Options written	-	-	-	-	-	1,640	(1,640)
	$ 28,322	$ 99,727	$ 259,665	$ 387,714	$ 67,422	$ 2,969	$ 64,453

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

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

e) Other invested assets - Investment properties

The following table shows the movements in investment property carrying values during the year:

	2013 $	2012 $
Net carrying value at January 1	3,713	5,293
Acquisitions at cost	-	104
Disposals	(2,409)	(1,787)
Change in fair value	(369)	11
Effect of change in foreign exchange rates	387	92
Net carrying value at December 31	1,322	3,713

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

The group has freehold title to all its investment properties and they were valued by an independent qualified appraiser.

Amounts included in the consolidated statement of comprehensive income were as follows:

	2013 $	**2012** $
Rental income	384	883
Realized gains on disposal	346	20
Direct operating expenses – occupied premises	(71)	(63)
Direct operating expenses – unoccupied premises	(58)	(186)
Unrealized gains (losses) due to change in fair value	(369)	11
Net property income (expenses)	232	665

f) Impairments

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

	2013		**2012**	
	Bonds $	**Equities** $	**Bonds** $	**Equities** $
Balance, beginning of year	3,221	841	3,293	1,554
Provisions in year	-	203	-	248
Recoveries in year	-	(327)	-	(1,049)
Foreign exchange movement	222	62	(72)	88
Balance, end of year	**3,443**	**779**	**3,221**	**841**

During 2013 and 2012, Foresters did not reverse previous impairment losses on AFS bonds that continue to be held at the end of the year.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

g) Net investment income

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

	2013				2012			
	FVTPL $	AFS $	Other $	Total $	FVTPL $	AFS $	Other $	Total $
Interest income from:								
Cash, cash equivalents and short-term securities	190	255	-	445	176	309	-	485
Bonds	177,135	27,716	-	204,851	178,415	28,699	-	207,114
Mortgages	-	-	291	291	-	-	516	516
Loans to certificateholders	-	-	14,865	14,865	-	-	14,495	14,495
	177,325	27,971	15,156	220,452	178,591	29,008	15,011	222,610
Dividend income from equities	20,031	2,036	-	22,067	15,420	5,087		20,507
Income from other invested assets	4,159	1,058	-	5,217	4,465	1,031	-	5,496
Less: Investment expenses	(6,002)	(1,157)	-	(7,159)	(4,865)	(1,064)	-	(5,929)
Total interest and dividends (net)	195,513	29,908	15,156	240,577	193,611	34,062	15,011	242,684

No interest income was accrued on impaired invested assets in 2013 or 2012.

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

	2013			2012		
	FVTPL $	AFS $	Total $	FVTPL $	AFS $	Total $
Bonds	65,362	12,967	78,329	68,967	17,267	86,234
Equities	27,706	8,479	36,185	15,146	12,369	27,515
Derivative financial instruments	7,775	-	7,775	13,103	-	13,103
Other invested assets	1,639	2,758	4,397	93	-	93
Net realized gains	102,482	24,204	126,686	97,309	29,636	126,945

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

The following table shows the net unrealized gains (losses) on FVTPL investments recorded to net income for the years ended December 31.

	2013 $	2012 $
Bonds	(463,076)	59,220
Equities	22,740	16,870
Derivative financial instruments	(20,692)	(5,621)
Other invested assets	(7)	3,366
Net unrealized gains on FVTPL investments	(461,035)	73,835

The net foreign currency gains (losses) on AFS assets, recognized in net investment income was $5,437 ($4,327 in 2012).

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, 2013				
Cash, cash equivalents and short-term securities	11,649	2,756	(5,734)	8,671
Bonds	218,201	26,060	639,335	883,596
Equities	1,026,175	100,016	722,855	1,849,046
Other assets net of liabilities	(5,003)	169	5,958	1,124
Total net assets	1,251,022	129,001	1,362,414	2,742,437
Less: Segregated fund seed money investment	2,733	19,446	-	22,179
Net investments for account of segregated fund unit holders	1,248,289	109,555	1,362,414	2,720,258
December 31, 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

(December 31, 2013 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, 2012	938,426	99,978	921,598	1,960,002
Acquisitions	-	-	95,710	95,710
	938,426	99,978	1,017,308	2,055,712
Additions to the account of the unit holders:				
Deposits received from unit holders	98,428	5,932	272,899	377,259
Investment income	30,015	2,887	38,887	71,789
Net realized gains on sale of investments	12,223	4,095	23,206	39,524
Net change in unrealized gains on investments	191,983	14,104	27,207	233,294
	332,649	27,018	362,199	721,866
Deductions to the account of the unit holders:				
Amounts withdrawn or transferred by unit holders	77,639	12,354	116,217	206,210
Management fees and other operating costs	17,125	2,228	17,263	36,616
	94,764	14,582	133,480	242,826
Less: Income earned on segregated fund seed money investment	587	2,859	-	3,446
Effect of change in foreign exchange rates	72,565	-	116,387	188,952
Balance as at December 31, 2013	1,248,289	109,555	1,362,414	2,720,258
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 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

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

c) Investment risks associated with segregated funds

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

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

6. OTHER ASSETS

a) Other assets

Other assets were comprised of the following:

	2013 $	2012 $
Accrued investment income	64,577	54,084
Prepaid commissions	37,217	34,430
Deferred acquisition costs	32,559	14,942
Accounts receivable	25,381	20,659
Deferred tax assets	48,624	19,418
Amounts due from reinsurers	17,349	14,618
Income taxes recoverable	5,968	9,033
Other	18,681	14,258
	250,356	181,442

The fair value of these assets approximates their carrying value and vice versa. Excluding deferred acquisition costs, $128,423 (2012: $109,432) of other assets 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.

	2013 $	2012 $
Deferred acquisition costs, beginning of year	14,942	7,689
Additions	19,051	8,204
Amortization	(3,448)	(1,087)
Effect of change in foreign exchange rates	2,014	136
Deferred acquisition costs, end of year	32,559	14,942

(December 31, 2013 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, 2012	10,454	19,414	3,231	1,079	34,178
Additions	-	4,907	3,378	3,498	11,783
Gains (Losses) included in OCI in changes in fair value (unrealized)	1,427	(847)	-	-	580
Disposals	-	-	(2)	-	(2)
Depreciation expense	-	(687)	(1,298)	(463)	(2,448)
Gain recognized in other operating income Reversal of impairment allowance previously recognized	-	994	-	-	994
Effect of change in foreign exchange rates	218	282	229	162	891
Net carrying value as at December 31, 2013	12,099	24,063	5,538	4,276	45,976
Net carrying value as at December 31, 2011	9,641	19,154	2,973	2,290	34,058
Additions	-	1,951	1,409	-	3,360
Gains (Losses) included in OCI in changes in fair value (unrealized)	765	485	-	-	1,250
Disposals	-	-	(7)	(8)	(15)
Depreciation expense	-	(661)	(1,132)	(1,172)	(2,965)
Impairment loss included in other operating income	-	(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

(December 31, 2013 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, 2013			
Land	12,099	-	12,099
Buildings	24,063	-	24,063
Furniture and equipment	10,788	5,250	5,538
Leasehold improvements	6,801	2,525	4,276
	53,751	7,775	45,976
December 31, 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

The land and buildings were revalued at December 31, 2013 by an independent appraiser. The fair value of land and buildings was $12,099 and $24,063 respectively ($10,454 and $19,414 respectively on December 31, 2012). When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount. The net amount is restated to the revalued amount of the asset.

The land and buildings are situated in Canada and the U.K. The appraisal on the land and building in Canada was based on an income approach combining the discounted cash flow method and the direct capitalization method. The key assumptions for rental rates were based on existing market rates and a discount and capitalization rate of 7.25% and 7.75% (2012: 7.25% and 7.75%). A 1% increase in the discount and capitalization rate would result in a $4,100 decrease in the fair value. The land component was valued using an assumption that consent to a change of use for residential would be forthcoming.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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

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

	Canada	U.K.	Total
	$	$	$
Balance at December 31, 2012	26,146	3,722	29,868
Building and garage addition	1,684	3,223	4,907
Reclassification entry, accumulated depreciation	(627)	(60)	(687)
Effect of change in foreign exchange rates	-	500	500
Gain/Loss Included:			
Reversal of building impairment allowance previously recognized (other operating income)	1,555	-	1,555
Building impairment loss allowance (other operating income)	-	(561)	(561)
Market value adjustment, changes in fair value unrealized (OCI)	1,390	(810) *	580
Balance at December 31, 2013	30,148	6,014	36,162

*To reverse the accumulated gain previously reported

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:

	2013	2012
	$	$
Cost	35,748	30,161
Less: Accumulated depreciation	(2,422)	(1,719)
Net book value	33,326	28,442

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. The Canadian Pension Plan was amended in 2013 to include a defined contribution plan and for employee contributions of 3% of salary into the plan.

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

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

Foresters 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, 2012 for the U.S. plan, December 31, 2012 for the Canadian plan and April 1, 2011 for the U.K. plan. The effective date of the next required valuation is December 31, 2013 for the U.S. plan, December 31, 2015 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.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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

	2013 $	2012 $
Change in plan assets:		
Fair value of plan assets at January 1	230,967	226,443
Acquisitions through business combinations	35,705	-
Interest income	10,506	9,587
Return on plan assets excluding interest income	634	3,445
Employer contributions	819	-
Employee contributions	148	-
Benefits paid	(10,679)	(8,426)
Effect of change in foreign exchange rates	5,414	(82)
Fair value of plan assets at December 31	273,514	230,967
Change in projected benefit obligations:		
Accrued benefit obligations at January 1	212,778	194,464
Acquisitions through business combinations	45,423	-
Current service cost	8,281	7,129
Employee contributions	148	-
Interest cost	9,931	8,464
Benefits paid	(10,679)	(8,426)
Remeasurements		
- experience adjustments	(4,489)	1,125
- actuarial (gains) losses from changes in financial assumptions	(17,795)	7,515
- actuarial (gains) losses from changes in demographic assumptions	3,422	2,465
Effect of change in foreign exchange rates	6,420	42
Accrued benefit obligations at December 31	253,440	212,778
Balance as at December 31	**20,074**	**18,189**
Amounts recognized on statements of financial position		
Employee benefit assets	**34,387**	**20,473**
Employee benefit obligations (note 8b)	**(14,313)**	**(2,284)**

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, and 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 a liability for $14,313 ($2,284 in 2012) in respect of future contributions where there will be no economic benefit to Foresters. For the plans in Canada and the U.S., no decrease in the employee benefit assets is necessary as the economic benefits available are not lower than the assets recognized.

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

	2013 %	2012 %
Cash and cash equivalents		
Canada	1	1
U.K.	3	-
Bonds and other fixed income securities		
U.S.	5	5
Canada	41	52
U.K.	12	4
Equities		
U.S.	1	1
Canada	30	33
U.K.	3	-
Real Estate		
Canada	3	4
U.K.	1	-
	100	100

Apart from cash and cash equivalents, the plan assets have a quoted price in an active market.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

b) Employee benefit obligations

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

	2013		2012	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	23,655	12,493	21,378	14,215
Current service cost	1,340	4	1,056	4
Employee contributions	-	-	-	-
Interest cost	1,024	479	1,017	591
Benefits paid	(664)	(789)	(592)	(844)
Remeasurements				
- experience adjustments	(212)	218	105	(1,638)
- actuarial (gains) losses from changes in financial assumptions	(2,005)	(819)	696	624
- actuarial (gains) losses from changes in demographic assumptions	694	202	-	(254)
Effect of change in foreign exchange rates	2	546	(5)	(205)
Accrued benefit obligations at December 31	23,834	12,334	23,655	12,493
Net obligation for defined benefit pension plans (note 8a)	14,313	-	2,284	-
Amounts recognized on statements of financial position	**38,147**	**12,334**	**25,939**	**12,493**

The weighted average duration of all the defined benefit obligations is 15 years (2012: 17).

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

	2013 $	2012 $
Within 1 year or less	11,203	8,724
2-5 years	46,892	31,301
6-15 years	151,329	105,368
Over 15 years	390,176	331,391
Total	599,600	476,784

(December 31, 2013 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:

	2013 $	2012 $
As at December 31		
Fair value of defined benefit plan assets (note 8a)	273,514	230,967
Present value of defined benefit obligations	289,608	248,926
Funded status - surplus (deficit)	(16,094)	(17,959)

Additionally, long-term disability obligations amounted to $2,795 (2012: $3,092) and are recorded in other liabilities on the consolidated statement of financial position. The benefits provided under the long-term disability plan are income replacement based on a percentage of base wage and continuation of existing dental and medical coverage. In providing these benefits, Foresters has 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 statement of comprehensive income for expenses related to employee benefit plans:

	2013		2012	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Defined benefit pension and post retirement plan expenses:				
Current service cost	10,096	4	8,184	4
Net interest (income) cost	10,957	479	(106)	591
Administration costs	(10,506)	-	-	-
	10,547	483	8,078	595
Defined contribution pension plans:				
Employer contributions	2,948		2,573	

Long-term disability benefit income amounted to $436 and $37 during December 31, 2013 and December 31, 2012 respectively and is included in benefits and payments on the consolidated statement of comprehensive income.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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 included in employee benefit assets and obligations were as follows:

	2013 $	2012 $
Accumulated net actuarial losses as at January 1	(55,619)	(46,663)
Acquisitions through business combinations	(9,718)	-
Changes during the year recorded in OCI:		
Experience adjustments on plan liabilities	4,484	408
Experience adjustments on plan assets	1,129	3,445
Changes due to financial assumptions	20,531	(8,907)
Changes due to demographic assumptions	(4,320)	116
Limiting a net defined benefit asset to its asset ceiling	130	(2,236)
	21,954	(7,174)
Effects of change in foreign exchange rate	(1,433)	(1,782)
Accumulated net actuarial losses as at December 31	(44,816)	(55,619)

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

e) Overview of assumptions

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

	2013		2012	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit obligations				
Discount rate	4.9	4.5	4.3	3.4
Future pension growth	2.2	7.2	2.0	7.1
Rate of compensation increase	3.5	-	3.5	-
Inflation rate	2.2	-	2.0	-
Assumptions used to calculate benefit expenses				
Discount rate	4.4	3.9	4.6	3.8
Future pension growth	2.0	7.4	2.0	7.5
Rate of compensation increase	3.5	-	3.5	-
Inflation rate	2.0	-	2.0	-

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

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

	Defined benefit obligation $
Discount rate (1% increase)	(40,276)
Future pension growth (0.25% increase)	1,252
Future compensation growth (0.25% increase)	1,894
Inflation rate (0.25% increase)	1,521
Life expectancy (increase by 1 year)	7,960

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 11 years (12 years in 2012) and other retirement benefit plans was 5 years (6 years in 2012).

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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

	2013			2012		
	U.S.	Canada	U.K.	U.S.	Canada	U.K.
Longevity at age 65 for current pensioners						
Males	19	22	24	19	21	23
Females	21	24	24	21	23	25
Longevity at age 65 for current members aged 45						
Males	18	23	25	18	22	25
Females	20	25	27	19	24	27

The Medicare (post 65 years of age) inflation assumption for the U.S. benefits is 7.8% for 2014 (8.1% for 2013) decreasing to 4.5% by 2029 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 7.0% for 2014 (6.3% for 2013), decreasing to 4.5% in 2030 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2013:

	1.0% increase $	1.0% decrease $
Effect on service cost plus interest cost	55	(48)
Effect on accrued benefit obligations	1,190	(1,029)

9. GOODWILL AND INTANGIBLE ASSETS

a) Goodwill

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

	2013 $	2012 $
Carrying value as at January 1	23,204	23,720
Effect of change in foreign exchange rates	1,602	516
Carrying value as at December 31	24,806	23,204

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.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

b) Intangible assets

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

	Indefinite useful life	Finite useful life				
	Asset management contracts $	Unit cost reductions $	Distribution network $	Management Contract $	Software $	Total $
Net carrying value as at December 31, 2012	112,323	4,498	3,197	-	46,621	166,639
Acquisitions through business combinations	-	-	-	47,939	-	47,939
Additions - Internally developed	-	-	-	-	11,590	11,590
Amortization	-	(484)	(662)	(654)	(7,790)	(9,590)
Effect of change in foreign exchange rates	7,756	358	199	7,079	3,428	18,820
Net carrying value as at December 31, 2013	**120,079**	**4,372**	**2,734**	**54,364**	**53,849**	**235,398**
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**

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, 2013			
Unit cost reductions	5,678	1,306	4,372
Distribution network	4,677	1,943	2,734
Management contract	55,018	654	54,364
Software	71,190	17,341	53,849
	136,563	21,244	115,319
December 31, 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

Included in software was $29,029 ($25,877 in 2012) that is still under development and has not been amortized. For the remaining software, the useful life is between 1-4 years (1-4 years in 2012). During 2013, Foresters expensed research and development costs amounting to $458 ($793 in 2012). Amortization expense is included under operating expenses on the consolidated statement of comprehensive income.

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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 (added when FICC was acquired) 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 has completed an extensive review and the key assumptions identified were:

	2013 %	2012 %
Growth rate for assets under mangement	4.5%-12.5%	3.5%-8.5%
Terminal period growth rate	2.0%	2.0%
Discount rate (after-tax)	14.5%	14.0%

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

The recoverable amount exceeds the carrying amount by at least 16.0% (2012: 15.0%). If all other assumptions remain the same, the recoverable amount and the carrying amount of the CGU would be equal if any one of the following occurs:

	2013 %	2012 %
Growth rate in assets under management decreases by	4.0%	5.0%
Growth rate in terminal period decreases to	-1.0%	-1.0%
Discount rate increases by	2.0%	4.0%

The children's trust fund savings plan management contracts have finite useful lives and are amortized over the remaining life of the policies acquired at a rate consistent with the pattern of emergence of future expected margins on the underlining policies. There was no indicator for impairment and as a result an impairment loss does not need to be recognized.

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, Dividend Policy, Policy on the Criteria for Changing Adjustable Certificates, Reinsurance Risk Management Policy and Capital Management Policy, all of which are annually approved by the Board. Foresters 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 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.

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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:

	2013 $	2012 $
Cash, cash equivalents and short-term securities	190,653	237,488
Bonds	5,657,066	5,235,325
Mortgages	826	6,708
Derivative financial instruments	50,848	64,453
Loans to certificateholders	287,002	265,619
Reinsurance assets	187,307	216,529
Accrued investment income	64,577	54,084
Amounts due from reinsurers	17,349	14,618
Accounts receivable and other receivables	33,670	21,031
Maximum exposure to credit risk	6,489,298	6,115,855

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.

<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, the 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 5.0% of the bond portfolio for the U.K. These limits apply to AAA rated bonds and other fixed-term securities, and are further constrained for lower rated bonds in all three countries of operation.

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

	2013			2012		
	FVTPL	**AFS**	**Total**	**FVTPL**	**AFS**	**Total**
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	$ 780,907	$ 174,658	$ 955,565	$ 778,131	$ 241,343	$ 1,019,474
Canadian federal government	96,964	3,498	100,462	131,063	7,206	138,269
Canadian provincial and municipal government	647,314	28,842	676,156	663,563	46,733	710,296
U.K. government	554,947	28,693	583,640	260,831	32,051	292,882
Other foreign governments	119,805	8,781	128,586	98,360	9,517	107,877
Total government bonds	2,199,937	244,472	2,444,409	1,931,948	336,850	2,268,798
By industry sector						
Financial	1,099,538	344,738	1,444,276	1,041,228	249,635	1,290,863
Utilities	263,765	60,865	324,630	289,873	29,376	319,249
Industrial	262,141	58,907	321,048	259,800	50,633	310,433
Energy	189,250	31,611	220,861	176,707	34,948	211,655
Communictaions	148,415	58,025	206,440	124,582	40,658	165,240
Consumer Staples	150,944	50,608	201,552	138,432	54,025	192,457
Consumer	153,626	33,605	187,231	133,030	33,358	166,388
Health Care	85,800	24,279	110,079	97,725	7,969	105,694
Basic materials	85,488	19,960	105,448	87,940	12,908	100,848
Technology	19,682	15,379	35,061	28,341	2,531	30,872
Other	47,774	8,257	56,031	44,661	28,167	72,828
Total corporate bonds	2,506,423	706,234	3,212,657	2,422,319	544,208	2,966,527
	$ 4,706,360	$ 950,706	$ 5,657,066	$ 4,354,267	$ 881,058	$ 5,235,325
Allocation by country of issuer:						
United States	$ 2,139,224	$ 698,885	$ 2,838,109	$ 2,159,138	$ 570,106	$ 2,729,244
Canada	1,523,562	157,186	1,680,748	1,623,306	170,112	1,793,418
U.K.	704,055	47,566	751,621	338,132	52,226	390,358
Other	339,519	47,069	386,588	233,691	88,614	322,305
	$ 4,706,360	$ 950,706	$ 5,657,066	$ 4,354,267	$ 881,058	$ 5,235,325

The credit rating of the bond portfolio was as follows:

	2013		2012	
Bond quality	**$**	**%**	**$**	**%**
Investment grade:				
AAA	1,062,873		1,412,733	
AA	1,700,040		1,181,410	
A	2,035,997		1,928,509	
BBB	844,648		687,963	
	5,643,558	99.8	5,210,615	99.5
BB and lower	13,508	0.2	24,710	0.5
Total bonds	5,657,066	100.0	5,235,325	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.

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 2013 or in 2012.

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.

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 4d) to reduce a portion of the impact of foreign exchange rate fluctuations on the calculation of U.S. branch insurance contract liabilities. This calculation includes a provision for future certificate maintenance expenses, which are incurred in Canadian dollars. The exchange rate assumed in this calculation is based on exchange rates implicit in these contracts. While these foreign exchange forward contracts effectively offset the impact of foreign exchange rate fluctuations on a significant portion of U.S. branch insurance contract liabilities, Foresters is exposed to foreign exchange rate fluctuations on expenses in excess of those covered by the foreign exchange forward contracts. A 10.0% increase in the U.S. dollar against the Canadian dollar would be expected to reduce U.S. branch insurance contract liabilities by $3,468 ($1,847 in 2012). A 10.0% decrease in the

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U.S. dollar against the Canadian dollar would be expected to increase U.S. branch insurance contract liabilities by $3,750 ($2,060 in 2012).

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	
	2013 $	2012 $	2013 $	2012 $
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	(467)	(1,387)	(13,067)	(14,379)
U.K. pound	4	130	(1,562)	(1,319)

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 0.25% to 4.5% (0.25% to 4.5% in 2012). 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 an increase in insurance contract liabilities and a decrease in surplus of approximately $62,700 ($119,400 in 2012) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities and an increase in surplus of approximately $47,400 ($97,400 in 2012).

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, 2013, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $60,500 ($67,400 in 2012). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $68,000 ($77,300 in 2012).

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 decrease insurance contract liabilities and increase surplus by approximately $11,200 ($7,100 in 2012). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities and decrease surplus by approximately $12,400 ($9,400 in 2012).

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, 2013, would result in an estimated after-tax increase in OCI of $4,900 ($8,700 in 2012). 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 approximate cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between certificateholder requirements and asset yields.

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Operating and strategic liquidity levels are managed against established guidelines. 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.

The following chart shows Foresters strategic liquidity ratio.

	2013		2012	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Allowable liquid assets	$ 6,127,333	$ 6,315,531	$ 5,610,001	$ 5,753,621
Risk-adjusted liquidity of liabilities	2,306,036	2,896,365	2,120,349	2,568,893
Liquidity ratio	265.7%	218.1%	264.6%	224.0%

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 cash flows 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 cash flows are shown in the "On demand or within 1 year or less" 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 cash flows are also shown in the "On demand or within 1 year or less" column below.

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

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

2013	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	190,653	-	-	-	190,653
Bonds	195,558	940,178	2,263,475	2,257,855	5,657,066
Mortgages	-	-	826	-	826
Derivative financial instruments	11,232	20,994	19,844	(1,222)	50,848
Reinsurance assets	(5,065)	(3,798)	51,904	144,266	187,307
Insurance contract liabilities	(187,535)	(971,692)	(2,320,269)	(2,168,042)	(5,647,538)
Investment contract liabilities	(157,105)	-	-	-	(157,105)
Benefits payable	(76,904)	(48,692)	-	-	(125,596)
Net investments for account of segregated fund unit holders	2,720,258	-	-	-	2,720,258
Investment contract liabilities for account of segregated fund unit holders	(2,720,258)	-	-	-	(2,720,258)
	(29,166)	(63,010)	15,780	232,857	156,461
2012					
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 instruments	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

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.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

11. OTHER LIABILITIES

Other liabilities were comprised of the following:

	2013 $	2012 $
Accounts payable and accrued liabilities	61,824	65,844
Payroll, other compensation and benefits	48,430	42,627
Deferred tax liabilities	4,952	5,779
Current income tax payable	4,117	5,785
Due to reinsurers	3,882	3,984
Other liabilities	22,511	20,627
	145,716	144,646

The fair value of these liabilities approximates their carrying value and vice versa. $90,861 (2012: $93,700) 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 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.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

	2013 $	2012 $
Insurance contract liabilities (gross)	5,647,538	5,109,873
Reinsurance assets	187,307	216,529
Net insurance contract liabilities	5,460,231	4,893,344

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

	2013	2012
	Net insurance contract liabilities **$**	**Net insurance contract liabilities** **$**
Beginning of year	4,893,344	4,837,217
Acquisitions	692,757	-
	5,586,101	4,837,217
New business	38,053	70,444
Refinement of assumptions	(51,003)	(108,842)
Refinement of methods and models	509	(24,419)
Impact of fair value movement and in-force business	(444,133)	166,182
Change in contract liabilities	(456,574)	103,365
Effect of change in foreign exchange rates	330,704	(47,238)
End of year	5,460,231	4,893,344

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 movement which arose from normal business activity such as new business written and claims paid were not significant for the period.

(December 31, 2013 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:

	2013 $	2012 $
Refinements of assumptions:		
Reduced unit costs for maintenance expenses	(17,443)	(38,540)
Updated mortality and lapse assumptions for recent experience	785	(21,502)
Updated dividend assumptions	(8,723)	(31,614)
Updated fraternal assumptions		(8,690)
Reinvestment assumptions changes	(8,957)	(5,807)
Updated fraternal incidence rates	(27,593)	-
Stabilization reserves	13,991	-
Other	(3,063)	(2,689)
	(51,003)	(108,842)
Refinements of methods and models:		
Model improvements	(8,241)	(22,654)
Other	8,750	(1,765)
	509	(24,419)

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.

	2013 $	2012 $
Balance, beginning of year*	110,648	95,070
Net strengthening (release) of provision	(19,098)	16,466
Effect of change in foreign exchange rates	2,814	(888)
Balance, end of year*	94,364	110,648

* 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

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division

	December 31, 2013					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
United States Branch						
Insurance	$ 22,755	$ 1,382,244	$ 69,369	$ 230,996	$ 95,481	$ 1,800,845
Annuities	-	334,438	25,802	2,614	4,004	366,858
Investment contracts	-	15,850	-	-	-	15,850
Surplus	-	796,847	-	(21,283)	55,889	831,453
FICC						
Insurance	7,729	189,596	-	87,358	29,055	313,738
Annuities	12,173	168,201	-	-	13,755	194,129
Asset management	76,927	-	13,227	2,733	32,687	125,574
Investment contracts	-	6,900	-	-	-	6,900
Surplus	148	17,386	-	-	3,738	21,272
Canada						
Insurance	8,083	1,118,921	121,974	70,652	161,839	1,481,469
Annuities	-	289,706	-	(710)	4,908	293,904
Investment contracts	-	30,663	-	-	-	30,663
Surplus	19,838	94,210	132	44,223	84,340	242,743
United Kingdom						
Insurance	5,448	797,036	382,057	7,554	28,174	1,220,269
Annuities	2,408	95,725	-	31,695	2,042	131,870
Asset management	10,500	-	-	-	(6,303)	4,197
Investment contracts	-	54,429	36,020	(3,317)	504	87,636
Surplus	-	6,241	16,052	(20,671)	112,859	114,481
Fraternal **	13,224	214,357	5,255	6,968	7,242	247,046
Corporate	11,420	44,316	57,553	15,925	148,016	277,230
	$ 190,653	$ 5,657,066	$ 727,441	$ 454,737	$ 778,230	$ 7,808,127

* Other invested assets includes mortgages, loans to certificateholders, limited partnership investments, Investments in subsidiaries 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.

Notes to consolidated financial statements

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division - continued

	December 31, 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.

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.

<u>Mortality and morbidity</u>

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.

<u>Lapse rates</u>

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.

<u>Investment returns</u>

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).

(December 31, 2013 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	2013 $	2012 $
Mortality rates:			
Life products	+2%	(33,648)	(30,970)
Annuity products	-2%	(1,598)	(1,674)
Lapse rates	10% Adverse	(60,260)	(72,343)
Maintenance expense levels	+10%	(45,170)	(44,028)

(December 31, 2013 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 $
2013				
Balance, beginning of year	41,012	31,864	83,449	156,325
Acquisitions	-	-	14,116	14,116
	41,012	31,864	97,565	170,441
Deposits received during the year	14,207	1,815	594	16,616
Surrenders and withdrawals	(35,471)	(3,950)	(5,149)	(44,570)
Interest credited and other	837	935	1,400	3,172
Effect of change in foreign exchange rates	2,165	-	9,281	11,446
Balance, end of year	**22,750**	**30,664**	**103,691**	**157,105**
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**

(December 31, 2013 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 statement 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, 2013 and December 31, 2012, shown below, were above the levels that would require any regulatory or corrective action.

		2013	2012
Capital available	A	$ 1,601,466	$ 1,387,308
Capital required:			
Asset default and market risk		144,007	112,120
Insurance risks		158,574	170,979
Interest rate and foreign exchange risks		88,531	85,387
Total capital required	B	$ 391,112	$ 368,486
MCCSR ratio (A/B)		409%	376%

(December 31, 2013 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.

	2013			2012		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life and health	576,498	(70,487)	506,011	497,834	(68,785)	429,049
Annuities	97,114	44	97,158	90,227	(73)	90,154
	673,612	(70,443)	603,169	588,061	(68,858)	519,203

16. OTHER OPERATING INCOME
Other operating income was comprised of the following:

	2013	2012
	$	$
Fees:		
Management fees on segregated fund assets	61,839	34,238
Management fees on proprietary mutual funds	61,847	52,220
Brokerage fees	9,536	8,486
Distribution and service fees	67,088	59,879
	200,310	154,823
Net rental expense	(2,934)	(3,724)
Supplementary contract deposits (with life contingency)	1,232	12,008
Reversal of revaluation loss/(revaluation loss)	994	(1,555)
Gain on sale of a subsidiary	-	1,047
Foreign currency gain (loss)	4,240	(4,312)
Other	10,888	12,615
	214,730	170,902

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

(December 31, 2013 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.

	2013			2012		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life & health	434,318	(33,525)	400,793	358,876	(35,243)	323,633
Fraternal	4,507	-	4,507	4,362	-	4,362
Annuities	74,557	(450)	74,107	68,613	(365)	68,248
	513,382	(33,975)	479,407	431,851	(35,608)	396,243

18. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2013	2012
	$	$
Employee benefits:		
Salaries and benefits	143,744	138,194
Defined benefit pension and post retirement plan expenses (note 8)	11,030	8,673
Defined contribution plan expenses (note 8)	2,948	2,573
	157,722	149,440
Professional and consulting fees	20,575	31,600
Technology related service fees	33,603	36,855
Other service fees	29,961	14,701
Software costs expensed during the year	5,693	6,146
Operating lease costs	9,887	7,402
Depreciation and amortization of property, equipment and intangibles	15,488	8,710
Other expenses	25,238	16,271
Total operating expenses	298,167	271,125

Foresters recovered commissions and operating expenses from reinsurers in the amount of $16,870 ($19,723 in 2012) and $752 ($786 in 2012) respectively.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

19. INCOME TAXES

a) Income tax expenses

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

	United States $	Canada $	United Kingdom $	Total $
2013				
Current income tax expense (recovery):				
Current year	9,343	4,791	(1,368)	12,766
Deferred income tax expense (benefit):				
Relating to the origination and reversal of temporary differences	5,059	(1,012)	573	4,620
Change in unrecognized deductible temporary differences	-	208	(573)	(365)
	5,059	(804)	-	4,255
Total income taxes	14,402	3,987	(1,368)	17,021
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)
Total income taxes	11,796	156	2,076	14,028

Cash taxes paid in 2013 were $20,247 ($28,384 in 2012).

(December 31, 2013 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.

	2013 $	2012 $
Income tax recovery (expense) on net unrealized gains on AFS assets	1,685	(39)
Income tax recovery on reclassification of realized gains on AFS assets	95	760
Income tax expense on net actuarial gains on employee benefit plans	(47)	-
Total income tax recovery	1,733	721

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:

	2013 %	2013 $	2012 %	2012 $
Net income after taxes		114,861		79,234
Income taxes		17,021		14,028
Income before income taxes		131,882		93,262
Combined federal and provincial statutory income tax rate for the current year	26.48%	34,922	26.33%	24,556
Effect of tax rates in foreign jurisdictions	1.37%	1,807	8.89%	8,291
Tax exempt income	(16.90%)	(22,288)	(26.10%)	(24,341)
Capital tax and investment income tax	0.84%	1,108	5.98%	5,577
Other taxes	1.73%	2,276	0.03%	28
Under (over) provided in prior years	(0.61%)	(804)	(0.09%)	(83)
Effective tax rate	12.91%	17,021	15.04%	14,028

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.

(December 31, 2013 amounts in thousands of Canadian dollars except where otherwise stated)

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

	2013 $	2012 $
Deferred tax assets	48,624	19,417
Deferred tax liabilities	4,952	5,779
Net deferred tax assets	43,672	13,638

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, 2013			December 31, 2012		
	Asset $	Liability $	Net $	Asset $	Liability $	Net $
Bonds	-	16,692	(16,692)	-	20,370	(20,370)
Loans to certificateholders	-	10,621	(10,621)	-	10,550	(10,550)
Other invested assets	-	1,327	(1,327)	-	863	(863)
Property and equipment	763	1,084	(321)	1,378	163	1,215
Employee benefit assets and obligations	2,401	1,820	581	1,193	619	574
Insurance contract liabilities	19,454	-	19,454	22,722	-	22,722
Other liabilities	15,812	-	15,812	18,169	-	18,169
Tax loss carry-forwards	36,786	-	36,786	2,742	-	2,742
Recognized deferred tax assets (liabilities)	75,216	31,544	43,672	46,204	32,565	13,639

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

	2013 $	2012 $
Beginning of year	13,638	13,272
Deferred taxes on subsidiaries acquired during the year	32,648	-
(Charges) credits included in net income	(4,255)	365
(Charges) credits included in OCI	1,033	323
Exchange rate differences	608	(322)
End of year	43,672	13,638

(December 31, 2013 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:

	2013			2012		
	Canada $	U.K. $	Total $	Canada $	U.K. $	Total $
Tax losses and unclaimed deductions	47,235	6,009	53,244	47,443	5,436	52,879

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 $30,269 ($21,318 in 2012). 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 $183,730 ($180,186 in 2012) 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 certificateholder base and therefore no reliance on any individual customers.

Notes to consolidated financial statements
(Amounts in thousands of Canadian dollars except where otherwise stated)

Segmented statement of comprehensive income

	2013						
	United States Division	FICC	Canada	United Kingdom	Fraternal	Corporate	Total
REVENUE							
Gross written premiums	$ 353,466	$ 89,642	$ 179,568	$ 50,008	$ 928	$ -	$ 673,612
Ceded premiums	(28,860)	(5,451)	(34,890)	(1,242)	-	-	(70,443)
Net Written Premiums	324,606	84,191	144,678	48,766	928	-	603,169
Net Investment Income							
Interest and dividends (net)	102,734	19,229	74,156	33,469	8,932	2,057	240,577
Net realized gains (losses)	76,512	812	10,197	21,595	4,535	13,035	126,686
Unrealized gains (losses) on fair value through profit and loss investments	(269,709)	(9,882)	(120,299)	(36,259)	(24,886)	-	(461,035)
Net unrealized foreign currency gains (losses) on available-for-sale assets	-	-	-	-	-	5,437	5,437
Total Investment Income	(90,463)	10,159	(35,946)	18,805	(11,419)	20,529	(88,335)
Other operating income	4,194	167,716	852	37,726	2	4,240	214,730
TOTAL REVENUE	238,337	262,066	109,584	105,297	(10,489)	24,769	729,564
Benefits and expenses							
Gross benefits	244,813	26,217	134,777	103,070	4,505	-	513,382
Ceded benefits	(12,670)	(2,667)	(18,638)	-	-	-	(33,975)
Gross change in insurance contract liabilities	(279,973)	56,050	(141,345)	(60,147)	(51,844)	-	(477,259)
Ceded change in insurance contract liabilities	(152)	(595)	33,072	-	-	-	32,325
Dividends	20,833	833	11,136	4,657	-	-	37,459
Commissions	109,928	60,735	50,109	6,112	-	-	226,884
Operating expenses	108,364	79,612	37,115	48,132	15,169	9,775	298,167
Ceded commissions and operating expenses	(10,879)	(182)	(6,561)	-	-	-	(17,622)
Fraternal investment	-	-	-	-	18,321	-	18,321
	180,264	220,003	99,665	101,824	(13,849)	9,775	597,682
Net income (loss) before income taxes	58,073	42,063	9,919	3,473	3,360	14,994	131,882
Income taxes	(45)	14,447	3,987	(1,368)	-	-	17,021
Net income (loss)	58,118	27,616	5,932	4,841	3,360	14,994	114,861
Other comprehensive income (loss)	20,590	13,301	7,551	(4,469)	15,855	4,379	57,207
Total comprehensive income (loss)	$ 78,708	$ 40,917	$ 13,483	$ 372	$ 19,215	$ 19,373	$ 172,068

Notes to consolidated financial statements

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

Segmented statement of comprehensive income - continued

	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 assets	-	-	-	-	-	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
Benefits and expenses							
Gross benefits	216,011	26,373	136,819	48,285	4,363	-	431,851
Ceded benefits	(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 statement of financial position

	2013						
	United States Division	FICC	Canada	United Kingdom	Fraternal**	Corporate	Total
ASSETS							
Invested Assets							
Cash, cash equivalents and short-term securities	$ 22,752	$ 96,978	$ 27,921	$ 18,357	$ 13,225	$ 11,420	$ 190,653
Bonds	2,529,377	382,083	1,533,500	953,432	214,357	44,317	5,657,066
Equities	95,170	13,227	122,107	434,130	5,255	57,552	727,441
Mortgages	826	-	-	-	-	-	826
Derivative financial instruments	40,950	-	-	2,930	6,968	-	50,848
Other invested assets*	21,627	2,733	74,454	1,322	-	15,925	116,061
Loans to certificateholders	148,924	87,358	39,710	11,010	-	-	287,002
Total invested assets	2,859,626	582,379	1,797,692	1,421,181	239,805	129,214	7,029,897
Reinsurance assets	36,123	12,314	138,870	-	-	-	187,307
Other assets	(37,162)	60,453	50,037	67,651	7,241	102,136	250,356
Property and equipment	70	6,470	32,003	7,432	1	-	45,976
Employee benefit assets	4,219	-	30,168	-	-	-	34,387
Goodwill and intangible assets	152,122	-	9	62,192	-	45,881	260,204
	3,014,998	661,616	2,048,779	1,558,456	247,047	277,231	7,808,127
Net investments for accounts of segregated fund unit holders	-	1,248,289	109,555	1,362,414	-	-	2,720,258
TOTAL ASSETS	$ 3,014,998	$ 1,909,905	$ 2,158,334	$ 2,920,870	$ 247,047	$ 277,231	$ 10,528,385
LIABILITIES							
Insurance contract liabilities	$ 2,026,717	$ 451,750	$ 1,685,699	$ 1,256,393	$ 226,979	$ -	$ 5,647,538
Investment contract liabilities	15,850	6,900	30,664	103,691	-	-	157,105
Benefits payable and provision for unreported claims	79,519	2,061	26,967	17,049	-	-	125,596
Other liabilities	15,118	64,715	46,631	15,244	743	3,265	145,716
Employee benefit obligations	8,207	-	27,961	14,313	-	-	50,481
	2,145,411	525,426	1,817,922	1,406,690	227,722	3,265	6,126,436
Net investment contract liablities for accounts of segregated fund unit holders	-	1,248,289	109,555	1,362,414	-	-	2,720,258
TOTAL LIABILITIES	2,145,411	1,773,715	1,927,477	2,769,104	227,722	3,265	8,846,694
SURPLUS							
Retained earnings	831,988	122,249	211,418	149,623	8,834	259,855	1,583,967
Accumulated other comprehensive income	37,599	13,941	19,439	2,143	10,491	14,111	97,724
TOTAL SURPLUS	869,587	136,190	230,857	151,766	19,325	273,966	1,681,691
TOTAL LIABILITIES AND SURPLUS	$ 3,014,998	$ 1,909,905	$ 2,158,334	$ 2,920,870	$ 247,047	$ 277,231	$ 10,528,385

* 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 statement of financial position-continued

	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)	50,240	58,437	16,772	9,121	65,487	181,442
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	142,281	-	23	7,194	-	40,345	189,843
	3,028,969	539,015	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	$ 3,028,969	$ 1,477,441	$ 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 obligations	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	724,711	100,603	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	745,343	101,243	205,203	89,528	22,258	346,048	1,509,623
TOTAL LIABILITIES AND SURPLUS	$ 3,028,969	$ 1,477,441	$ 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.

(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.

a) 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:

	2013 $	2012 $
Salaries and other short-term employee benefits	15,038	13,998
Post employment benefits	1,709	1,361
Other long-term benefits	2,160	2,428
Termination benefits	859	-
Total compensation of key management personnel	19,766	17,787

b) Interests in investment funds managed by Foresters

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

The objective of these funds is to provide third party investors a return on investment based on capital appreciation and investment income through investments in various instruments such as stocks and bonds. The fees earned for managing these mutual funds are presented in other operating income on the consolidated statement of comprehensive income. Foresters is not obligated contractually to provide financial support to these entities. Foresters is an investor in these funds. The fair value of these investments presented in cash equivalents, bonds, and equities in the consolidated statement of financial position was $1 (2012:$0), $1,410 (2012: $1,473) and $1,707 (2012: $992) respectively.

(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, 2013, Foresters contractual obligations and commitments were as follows:

	1 year or less $	1- 5 years $	Over 5 years $	Total $
Obligations under service contracts	31,617	81,619	91,452	204,688
Capital expenditure	157	-	-	157
Lease obligations	7,400	12,652	2,731	22,783
Investment commitment	112,529	-	-	112,529
Total contractual obligations	151,703	94,271	94,183	340,157

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 statement 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 (%) 2013	Ownership and control interest (%) 2012
First Investors Consolidated Corporation	U.S.	Insurance and asset management operations	100	100
Foresters Equity Services Inc.	U.S.	Investment broker	100	100
Foresters Life Insurance Company	Canada	Insurance operations	100	100
Sylvan Agency (Canada) Inc.	Canada	Insurance broker	100	100
Forester Holdings (Europe) Limited *	U.K.	Insurance and asset management operations	100	100

*On April 3, 2013, Forester Holdings (Europe) Limited acquired the business and undertaking of the Tunbridge Wells Equitable Friendly Society ("TWEFS"), a U.K. Fraternal Benefit Society undertaking savings, life and pensions business.

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

25. COMPARATIVE INFORMATION

Comparative period amounts have been amended to increase deferred tax asset and decrease goodwill by $7,263 to reflect the appropriate deferred tax on temporary differences existing at the date of acquisition of a subsidiary.