Foresters

Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2014

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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 Professional 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.

Anthony Garcia
President and Chief Executive Officer

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

Toronto, Canada
February 18, 2015

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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, 2014, 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, 2014, 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 18, 2015
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, 2014 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 18, 2015

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statement of Comprehensive Income
For the years ended December 31
(in thousands of Canadian dollars)

	Note	2014	2013
REVENUE			
Gross premiums	15	$ 832,412	$ 692,870
Ceded premiums	15	(75,544)	(70,443)
Net Premiums		756,868	622,427
Net Investment Income			
Interest and dividends (net)	4	262,706	240,577
Net realized gains	4	63,362	126,686
Net unrealized gains (losses) on fair value through profit and loss investments	4	368,020	(461,035)
Net foreign currency gains on available-for-sale assets	4	13,185	5,437
Total Investment Income		707,273	(88,335)
Fee revenue	16	257,245	200,310
Other operating income	16	21,636	14,420
TOTAL REVENUE		**1,743,022**	**748,822**
BENEFITS & EXPENSES			
Gross benefits	17	639,519	532,640
Ceded benefits	17	(35,286)	(33,975)
Gross change in insurance contract liabilities	12	425,547	(477,259)
Ceded change in insurance contract liabilities	12	(24,088)	32,325
Policy dividends		40,893	37,459
Commissions		249,102	226,884
Operating expenses	18	337,831	298,167
Ceded commissions and operating expenses	18	(13,688)	(17,622)
Fraternal investment		18,012	18,321
TOTAL BENEFITS & EXPENSES		**1,637,842**	**616,940**
Income before income taxes		105,180	131,882
Income Taxes			
Current	19	1,376	12,766
Deferred	19	1,031	4,255
Total Income Taxes		2,407	17,021
NET INCOME		**102,773**	**114,861**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to net income			
Remeasurement gains (losses) on employee benefit plans, net of income tax recovery (expense) of $57 (($47) in 2013)	8	(30,890)	21,907
Net unrealized gains on property	7	4,744	580
Total items that will not be reclassified to net income		**(26,146)**	**22,487**
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 ($1,409) ($1,685 in 2013)		45,725	(57,621)
Reclassification of net realized losses (gains) on available-for -sale assets, net of income tax recovery of $293 ($95 in 2013), to net income		(3,150)	5,756
Net unrealized foreign currency translation gains (losses)		104,653	86,585
Total items that are or may be reclassified subsequently to net income		**147,228**	**34,720**
TOTAL OTHER COMPREHENSIVE INCOME		**121,082**	**57,207**
TOTAL COMPREHENSIVE INCOME		**$ 223,855**	**$ 172,068**

(See accompanying notes)

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

	Note	Dec 31, 2014	Dec 31, 2013
ASSETS			
Invested Assets			
Cash, cash equivalents and short-term securities	4	$ 321,823	$ 190,653
Bonds	4	6,449,686	5,657,066
Equities	4	759,689	727,441
Mortgages	4	756	826
Derivative financial instruments	4	20,584	50,848
Other invested assets	4	119,218	116,061
Loans to certificateholders	4	317,007	287,002
Total Invested Assets		7,988,763	7,029,897
Reinsurance assets	12	216,678	187,307
Accrued investment income		68,507	64,577
Deferred acquistion costs on investment contracts		44,298	32,559
Other assets	6	164,082	153,220
Property and equipment	7	52,822	45,976
Employee benefit assets	8	8,589	34,387
Goodwill and intangible assets	9	254,118	260,204
		8,797,857	7,808,127
Net investments for accounts of segregated fund unit holders	5	3,183,899	2,720,258
TOTAL ASSETS		**$ 11,981,756**	**$ 10,528,385**
LIABILITIES			
Insurance contract liabilities	12	$ 6,362,202	$ 5,647,538
Investment contract liabilities	13	160,545	157,105
Benefits payable and provision for unreported claims		133,961	125,596
Other liabilities	11	171,956	145,716
Employee benefit obligations	8	63,647	50,481
		6,892,311	6,126,436
Investment contract liabilities for accounts of segregated fund unit holders	5	3,183,899	2,720,258
TOTAL LIABILITIES		10,076,210	8,846,694
SURPLUS			
Retained earnings		1,686,740	1,583,967
Accumulated other comprehensive income		218,806	97,724
		1,905,546	1,681,691
TOTAL LIABILITIES AND SURPLUS		**$ 11,981,756**	**$ 10,528,385**

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

(See accompanying notes)

On behalf of the Board:

Director

Director

THE INDEPENDENT ORDER OF FORESTERS
Consolidated Statement of Changes in Surplus
For the 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, 2013	**$ 1,583,967**	**$ 30,083**	**$ 49,339**	**$ 3,569**	**$ 14,733**	**$ 97,724**	**$ 1,681,691**
Net income	102,773	-	-	-	-	-	102,773
Other comprehensive income (loss):							
Pre-tax balance	-	47,134	104,653	4,744	(30,947)	125,584	125,584
Reclassification of net realized losses on available-for-sale assets	-	(3,443)	-	-		(3,443)	(3,443)
Income tax recovery (expense)	-	(1,116)	-	-	57	(1,059)	(1,059)
Total other comprehensive income (loss)	-	42,575	104,653	4,744	(30,890)	121,082	121,082
Total comprehensive income for the period	102,773	42,575	104,653	4,744	(30,890)	121,082	223,855
Balance as at December 31, 2014	**$ 1,686,740**	**$ 72,658**	**$ 153,992**	**$ 8,313**	**$ (16,157)**	**$218,806**	**$ 1,905,546**
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
Recognition of pre-tax net actuarial losses on employee benefit plans in retained earnings	-	-	-	-	-	-	
Reclassification of net realized gains on available-for-sale assets	-	5,661	-	-	-	5,661	5,661
Income tax recovery	-	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**

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statement of Cash Flows
For the years ended December 31
(in thousands of Canadian dollars)

	2014	2013
Cash flow from operating activities		
Net income per statements of comprehensive income	$ 102,773	$ 114,861
Items disclosed separately:		
Interest paid on benefits	10,194	5,422
Income tax paid	26,406	20,247
Income tax refunds received including interest	(38,612)	(7,290)
Interest received	(227,358)	(204,847)
	(126,597)	**(71,607)**
Items not affecting cash:		
Depreciation, amortization and impairment	41,434	15,488
Net increase (decrease) in insurance contract liabilities	425,547	(477,259)
Net decrease (increase) in reinsurance assets	(24,088)	32,325
Net realized and unrealized (gains) losses on invested assets	(425,219)	342,124
Net foreign currency gains on available-for-sale assets	(13,185)	(5,437)
Net foreign currency (gains) on other assets and other liabilities	(466)	(4,240)
Employee benefit provision	9,400	10,018
Amortization of premium and discount on bonds	3,352	2,668
Deferred income tax expense	1,031	4,255
Impairment losses (gains) on property and equipment	-	(994)
Net change in other assets and other liabilities	(16,912)	(123,144)
Other items resulting from operations:		
Interest paid on benefits	(10,194)	(5,422)
Income tax paid	(26,406)	(20,247)
Income tax refunds received including interest	38,612	7,290
Interest received	227,358	204,847
Increase (decrease) due to operating activities	**103,667**	**(89,335)**
Cash flow from investing activities		
Investments sold or matured:		
Bonds	1,660,923	2,315,600
Equities	339,526	688,374
Mortgages	138	6,144
Investments acquired:		
Bonds	(1,669,080)	(2,650,192)
Equities	(326,563)	(332,874)
Other items, net	6,580	(7,015)
Acquisitions, net	-	9,728
Increase (decrease) due to investing activities	**11,524**	**29,765**
Foreign exchange gains (losses) on cash held in foreign currencies	15,979	12,735
Net increase (decrease) in cash and cash equivalents for the year	**131,170**	**(46,835)**
Cash and cash equivalents, beginning of year	**190,653**	**237,488**
Cash and cash equivalents, end of year	**$ 321,823**	**$ 190,653**

(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 18, 2015.

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, buildings and investment properties are measured at fair value.

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

1.2 Basis of consolidation

The consolidated financial statements include the results of operations and the financial position of all entities controlled by either Foresters 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. In 2014, Foresters restructured its operational management forming a North America life insurance management team. North America life insurance operations include two operating segments – US & Canada.

The five operating segments are:

- Foresters U.S. branch sells insurance and annuities;

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

- First Investors ("FICC") in the U.S. which provides investment management services and distributes mutual funds and insurance products;

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

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

Monetary and non-monetary assets

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

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

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

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

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

Changes in the fair value of AFS equities are recorded as Net unrealized gains (losses) on 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 as 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 as 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 as Net realized gains (losses), a component of net income on the consolidated statement of comprehensive income.

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters 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 as Net unrealized gains (losses) on fair value through profit and loss investments and realized gains or losses on sale are recorded as Net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

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 as 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 as 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 Deferred acquisition costs on investment contracts

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

1.7 Property and equipment

Property

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

Land is carried at fair value and is not depreciated. The buildings are carried at fair value. The fair value of property is appraised annually by external independent appraisers and is based on an income approach combining the discounted cash flow method and the direct capitalization method using as inputs rental income from current leases, expenses incurred and other assumptions that market participants would use when pricing property under current market conditions. The changes in fair value are recognized 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, repair and maintenance costs are expensed during the period in which they are incurred, and are included in operating expenses on the consolidated statement of comprehensive income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits, in excess of the most recently assessed standard of performance of the existing asset, will flow to Foresters 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 and, annuity lines of business. 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 Actuarial Standards Board and the requirements of OSFI. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations, including the provision of fraternal benefits, and involves a significant amount of judgment.

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, manage capital and reduce volatility of financial results. Maximum limits have been established for the retention of risks associated with life insurance certificates by line of business. Risks in excess of these limits are reinsured with well-established, highly rated reinsurers. Foresters 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 either as an amount receivable from or payable to reinsurers and included in other assets or other liabilities, respectively, on the consolidated statement of financial position.

c) Investment contract liabilities

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

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.

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.

Deposits to and withdrawals from, segregated funds increase or decrease the liability, respectively. 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 fee revenue on the consolidated statement of comprehensive income.

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

Net investments for account of segregated fund unit holders

These investments are carried at fair value. Fair value is determined using quoted market values unless quoted market values are not available, in which case estimated fair values are determined by Foresters, 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 operating expense. Where the claims are fully insured, there is no obligation to recognize and the premiums paid under the insurance policy are recognized as an operating expense.

1.13 Revenue recognition

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

a) Insurance contracts

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

b) Fees

Fees primarily include fees earned from the management of segregated fund 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 as fee revenue.

c) Net investment income

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

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

1.14 Leases

Leases are classified as operating leases when a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under operating leases are expensed on a straight-line basis over the period of the lease. Where Foresters 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 a future expense and the amount can be reliably measured. If the event resulting in a future obligation is less than probable but greater than remote or, the amount cannot be reliably estimated, the contingency is disclosed in the notes to the financial statements.

1.16 Fraternal investment

Fraternal investment represents the contribution made by Foresters 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 2014

a) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to offset 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 has assessed the application of these new standards and concluded that there is no effect on Foresters current accounting policies.

b) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments were issued to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. Foresters has assessed the application of these new standards and concluded that there is no material effect on Foresters financial statements.

c) IFRIC 21 Levies
This new guidance provides more clarity as to when a liability for a levy should be recognized. It addresses when to recognize a liability to pay the government an amount that is imposed by legislation that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Interpretation was intended to address mixed practice for when to recognize levies with minimum thresholds or which arise unevenly during the year, and clarifies that the liability should be recognized when the triggering event specified in the legislation occurs. Foresters has assessed the application of these new standards and concluded that there is no material effect on Foresters current accounting policies.

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 and show the movement in the insurance contract liability due to a change in the discount rate in OCI. This proposal could materially affect the measurement of insurance contract liabilities. There were a number of tentative decisions and announcements made in 2014 in the areas of recognition and measurement of insurance contract liability which are to be finalized in 2015.

The IASB is expected to publish a final standard in 2015, with a likely effective date of January 1, 2019. Foresters continues to actively monitor developments in this area.

b) IFRS 9 - Financial instruments
In July 2014, the IASB issued the complete IFRS 9 ("IFRS 9 (2014)"). It introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The mandatory effective date of IFRS9 is for annual periods beginning on or after January 1, 2018.

Foresters is continuing to assess the impact of these changes on its consolidated financial statements and intends to adopt the standard for the annual period beginning January 1, 2018.

c) IFRS 15 - Revenue Recognition

In May 2014, IFRS 15 Revenue from Contracts with Customers ("IFRS 15") was issued, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations. IFRS 15 establishes a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Foresters intends to adopt the standard in its financial statements for the annual period beginning January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

d) Clarifications to accounting for investment entities (Amendments to IFRS 10, IFRS 12 and IAS 28)

These amendments introduce clarifications to the requirements when accounting for investment entities whereby: all investment entity subsidiaries will be measured at fair value through profit or loss, even if they also provide investment-related services; an intermediate parent (holding) in an investment entity group can be exempt from preparing consolidated financial statements; and when a non-investment entity investor applies the equity method, it will be permitted to retain the fair value accounting applied by its investment entity associate or joint venture for their subsidiaries.

The amendments are effective for annual periods beginning on or after January 1, 2016. Foresters intends to adopt the amendments in its financial statements for the annual period beginning January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

e) Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments introduce a relief (practical expedient) that will reduce the complexity of accounting for certain contributions from employees or third parties to defined benefit plans. When contributions are eligible for the practical expedient, they can be recognized as a reduction of the service cost in the period in which the related service is rendered. For companies that cannot (or decide not to) apply the practical expedient, the amendments clarify how service-linked contributions from employees or third parties should be included in determining net current service cost and the defined benefit obligation.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. Foresters intends to adopt the amendments in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of adoption of the amendments is not expected to be material.

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 consistent with Foresters strategy of growth by acquisition and organically. The business of TWEFS is conducted through a ring fenced fund (the TW Fund) with fixed charges, and policyholders will benefit from the acquisition with 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 in 2013.

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

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	$	-

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

The fair value of assets and liabilities acquired was 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, 2014 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, 2014					
Cash, cash equivalents and short-term securities	$ 178,598	$ 143,225	$ -	$ 321,823	$ 321,823
Bonds	5,342,480	1,107,206	-	6,449,686	6,449,686
Equities	659,534	100,155	-	759,689	759,689
Mortgages	-	-	756	756	794
Derivative financial instruments	20,584	-	-	20,584	20,584
Other invested assets	58,746	60,472	-	119,218	119,218
Loans to certificateholders	-	-	317,007	317,007	317,007
Total invested assets	6,259,942	1,411,058	317,763	7,988,763	7,988,801
Net investments for account of segregated fund unit holders	3,183,899			3,183,899	3,183,899
Total investments	$ 9,443,841	$ 1,411,058	$ 317,763	$ 11,172,662	$ 11,172,700
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	59,063	56,998	-	116,061	116,061
Loans to certificateholders	-	-	287,002	287,002	287,002
Total invested assets	5,609,767	1,132,302	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	$ 8,330,025	$ 1,132,302	$ 287,828	$ 9,750,155	$ 9,750,196

b) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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.

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.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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, 2014	$	$	$	$
Cash, cash equivalents and short-term securities	100,859	220,964	-	321,823
FVTPL assets:				
Bonds	461,141	4,718,136	163,203	5,342,480
Equities	619,409	40,125	-	659,534
Derivative financial instruments	1,515	19,069	-	20,584
Other invested assets	-	5,922	54,462	60,384
Net investments for account of segregated fund unit holders	2,641,892	542,007	-	3,183,899
AFS assets:				
Bonds	4,055	1,103,151	-	1,107,206
Equities	46,920	53,135	100	100,155
Other invested assets	-	19,704	39,130	58,834
	3,875,791	6,722,213	256,895	10,854,899

	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, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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

	FVTPL		AFS		
	Bonds	Equities and other invested assets	Bonds	Equities and other invested assets	Total
	$	$	$	$	$
2014					
Balance, beginning of year	35,560	56,330	5,599	37,652	135,141
Changes during the year:					
Purchases	113,201	-	-	331	113,532
Sales and redemptions	(154)	(1,046)	(6,192)	(3,424)	(10,816)
Realized gains/losses	-	(822)	-	-	(822)
Change in unrealized gains (losses) included in:					
Other comprehensive income	-	-	593	4,671	5,264
Net Income	14,596	-	-	-	14,596
Balance, end of year	163,203	54,462	-	39,230	256,895
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

There were no material transfers between Level 1, 2 and 3 during 2014 or 2013. 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. The analysis was based on a 1% increase and a 1% decrease in the relevant sensitivity. The following table shows the impact of this analysis on the fair value of the related assets at December 31:

	2014		2013	
	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
FVTPL assets:				
Interest rate sensitivity	(11,757)	11,757	(2,343)	2,343
Real estate capitalization rates	(10,191)	14,637	(11,167)	16,172
AFS assets:				
Global infrastructure index sensitivity	57	(57)	198	(198)

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

c) Cash, cash equivalents and short-term securities

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

	2014 $	2013 $
Cash	100,859	55,922
Cash equivalents	78,917	74,663
	179,776	130,585
Short-term securities	142,047	60,068
	321,823	190,653

Short-term securities are comprised of notes and commercial paper with a maturity date not later than March 2015.

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 Risk and Investment Committee.

Foresters exposure to loss on derivative financial instruments is limited to the amount of 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, 2014 and 2013. The largest single counterparty exposure was $10,215 (2013: $25,391).

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, 2014 with an estimated market value of $4,710 (2013: $36,974) against net outstanding position of $20,584 (2013: $50,848). Foresters has the right to sell, pledge, invest, or use any posted collateral. During the year, Foresters did not sell or pledge any collateral.

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

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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, 2014							
Foreign exchange forward contracts	$ 25,531	$ 88,648	$ 222,697	$ 336,876	$ 32,970	$ 13,901	$ 19,069
Property futures purchased	-	-	-	-	-	-	-
Options purchased	-	-	-	-	4,614	-	4,614
Options written	-	-	-	-	-	3,099	(3,099)
	$ 25,531	$ 88,648	$ 222,697	$ 336,876	$ 37,584	$ 17,000	$ 20,584
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

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 movement in investment property carrying values during the year:

	2014 $	2013 $
Net carrying value at January 1	1,322	3,713
Disposals	(1,046)	(2,409)
Change in fair value	(64)	(369)
Effect of change in foreign exchange rates	41	387
Net carrying value at December 31	253	1,322

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

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

f) Impairments

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

	2014		2013	
	Bonds $	Equities $	Bonds $	Equities $
Balance, beginning of year	3,443	779	3,221	841
Provisions in year	-	339	-	203
Recoveries in year	(3,576)	(351)	-	(327)
Foreign exchange movement	133	21	222	62
Balance, end of year	**-**	**788**	**3,443**	**779**

During 2014, Foresters reversed $3,576 of impairment losses previously taken on AFS bonds that were sold during the year.

g) Net investment income

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

	2014				2013			
	FVTPL $	AFS $	Other $	Total $	FVTPL $	AFS $	Other $	Total $
Interest income from:								
Cash, cash equivalents and short-term securities	600	197	-	797	190	255	-	445
Bonds	196,642	30,725	-	227,367	177,135	27,716	-	204,851
Mortgages			53	53	-	-	291	291
Loans to certificateholders	-	-	16,241	16,241	-	-	14,865	14,865
	197,242	30,922	16,294	244,458	177,325	27,971	15,156	220,452
Dividend income from equities	20,308	2,666		22,974	20,031	2,036	-	22,067
Income from other invested assets	1,505	1,573	-	3,078	4,159	1,058	-	5,217
Less: Investment expenses	(6,593)	(1,211)	-	(7,804)	(6,002)	(1,157)	-	(7,159)
Total interest and dividends (net)	212,462	33,950	16,294	262,706	195,513	29,908	15,156	240,577

No interest income was accrued on impaired invested assets in 2014 or 2013.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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

	2014			2013		
	FVTPL $	AFS $	Total $	FVTPL $	AFS $	Total $
Bonds	16,547	6,826	23,373	65,362	12,967	78,329
Equities	27,571	6,145	33,716	27,706	8,479	36,185
Derivative financial instruments	6,163	-	6,163	7,775	-	7,775
Other invested assets	80	30	110	1,639	2,758	4,397
Net realized gains	50,361	13,001	63,362	102,482	24,204	126,686

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

	2014 $	2013 $
Bonds	408,517	(463,076)
Equities	(9,550)	22,740
Derivative financial instruments	(30,085)	(20,692)
Other invested assets	(862)	(7)
Net unrealized gains on FVTPL investments	368,020	(461,035)

The net foreign currency gains (losses) on AFS assets, recognized in net investment income was $13,185 (2013: $5,437).

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

5. INVESTMENTS FOR ACCOUNT OF SEGREGATED FUND UNIT HOLDERS

a) Segregated fund net assets

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

	U.S. separate accounts	Canadian segregated funds	U.K. unit linked contracts	Total
	$	$	$	$
December 31, 2014				
Cash, cash equivalents and short-term securities	11,574	3,923	37,973	53,470
Bonds	247,634	27,238	715,698	990,570
Equities	1,206,493	99,405	859,515	2,165,413
Other assets net of liabilities	(6,559)	(82)	6,713	72
Total net assets	1,459,142	130,484	1,619,899	3,209,525
Less: Segregated fund seed money investment	4,283	21,343	-	25,626
Net investments for account of segregated fund unit holders	1,454,859	109,141	1,619,899	3,183,899
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, 2014 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 by country:

	U.S. separate accounts $	Canadian segregated funds $	U.K. unit linked contracts $	Total $
Balance as at December 31, 2013	1,248,289	109,555	1,362,414	2,720,258
Additions to the account of the unit holders:				
Deposits received from unit holders	111,276	7,211	307,788	426,275
Investment income	67,151	2,825	48,527	118,503
Net realized gains on sale of investments	15,232	9,359	21,481	46,072
Net change in unrealized gains on investments	-	826	2,736	3,562
	193,659	20,221	380,532	594,412
Deductions to the account of the unit holders:				
Amounts withdrawn or transferred by unit holders	80,727	16,256	134,169	231,152
Net change in unrealized losses on investments	2,976	-	-	2,976
Management fees and other operating costs	20,982	2,483	21,724	45,189
	104,685	18,739	155,893	279,317
Less: Income earned on segregated fund seed money investment	135	1,896	-	2,031
Effect of change in foreign exchange rates	117,731	-	32,846	150,577
Balance as at December 31, 2014	1,454,859	109,141	1,619,899	3,183,899
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	292,157	396,517
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	381,457	741,124
Deductions to the account of the unit holders:				
Amounts withdrawn or transferred by unit holders	77,639	12,354	135,475	225,468
Management fees and other operating costs	17,125	2,228	17,263	36,616
	94,764	14,582	152,738	262,084
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

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, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

6. OTHER ASSETS

a) Other assets

Other assets were comprised of the following:

	2014 $	2013 $
Prepaid commissions	45,614	37,217
Accounts receivable	23,755	25,381
Deferred tax assets	50,040	48,624
Amounts due from reinsurers	25,263	17,349
Income taxes recoverable	5,398	5,968
Other	14,012	18,681
	164,082	153,220

The fair value of these assets approximates their carrying value and vice versa. $63,985 (2013: $63,846) 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:

	2014 $	2013 $
Deferred acquisition costs, beginning of year	32,559	14,942
Additions	14,210	19,051
Amortization	(4,847)	(3,448)
Effect of change in foreign exchange rates	2,376	2,014
Deferred acquisition costs, end of year	44,298	32,559

(December 31, 2014 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, 2013	12,099	24,063	5,538	4,276	45,976
Additions	-	838	2,662	1,648	5,148
Gains included in "other comprehensive income" changes in fair value (unrealized)	1,789	2,951	-	-	4,740
Disposals	-	-	(126)	(195)	(321)
Depreciation expense	-	(836)	(2,041)	(744)	(3,621)
Gains recognized in "other operating income" Impairment loss Reversal from previous year	-	-	-	-	-
Effect of change in foreign exchange rates	67	81	339	413	900
Net carrying value as at December 31, 2014	13,955	27,097	6,372	5,398	52,822
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 included in "other comprehensive income" changes in fair value (unrealized)	1,427	(847)	-	-	580
Disposals	-	-	(2)	-	(2)
Depreciation expense	-	(687)	(1,298)	(463)	(2,448)
Gains recognized in "other operating income" Impairment loss Reversal from previous year	-	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

(December 31, 2014 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, 2014			
Land	13,955	-	13,955
Buildings	27,097	-	27,097
Furniture and equipment	13,271	6,899	6,372
Leasehold improvements	8,838	3,440	5,398
	63,161	10,339	52,822
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

The land and buildings were revalued at December 31, 2014 by an independent appraiser. The fair value of land and buildings was $13,953 and $27,101 respectively ($12,099 and $24,063 respectively on December 31, 2013). When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount. The net amount is restated to the revalued amount of the asset.

The land and buildings are situated in Canada and the U.K. The appraisal on the land and building in Canada was based on an income approach combining the discounted cash flow method and the direct capitalization method. The key assumptions for rental rates were based on existing market rates and a discount and capitalization rate of 7.50% and 7.40% (2013: 7.25% and 7.75%). A 1% increase in the discount and capitalization rate would result in a $5,000 decrease (2013: $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, 2014 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 of the opening balances to the closing balances for Level 3 land and buildings:

	Canada $	U.K. $	Total $
Balance at December 31, 2013	30,148	6,014	36,162
Building and garage addition	467	371	838
Reclassification entry, accumulated depreciation	(734)	(102)	(836)
Effect of change in foreign exchange rates	-	148	148
Gain/Loss Included:			
Market value adjustment, changes in fair value unrealized (OCI)	4,262	478	4,740
Balance at December 31, 2014	34,143	6,909	41,052

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:

	2014 $	2013 $
Cost	36,788	35,748
Less: Accumulated depreciation	(2,979)	(2,422)
Net book value	33,809	33,326

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. Foresters 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, 2013 for the U.S. plan, December 31, 2012 for the Canadian plan and April 1, 2014 and July 1, 2014 for the U.K. plans. The effective date of the next required valuation is December 31, 2014 for the U.S. plan, December 31, 2015 for the Canadian plan and April 1, 2017 and July 1, 2017 for the U.K. plans.

a) Defined benefit pension plans

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

(December 31, 2014 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:

	2014 $	2013 $
Change in plan assets:		
Fair value of plan assets at January 1	273,514	230,967
Acquisitions through business combinations	-	35,705
Interest income	13,066	10,506
Return on plan assets excluding interest income	18,515	634
Employer contributions	1,441	819
Employee contributions	663	148
Benefits paid	(13,770)	(10,679)
Settlement payments	(12,082)	-
Effect of change in foreign exchange rates	2,760	5,414
Fair value of plan assets at December 31	284,107	273,514
Change in projected benefit obligations:		
Accrued benefit obligations at January 1	253,440	212,778
Acquisitions through business combinations	-	45,423
Current service cost	7,911	8,281
Employee contributions	663	148
Interest cost	11,982	9,931
Benefits paid	(13,770)	(10,679)
Settlement payments	(12,082)	-
Remeasurements		
- experience adjustments	(330)	(4,489)
- actuarial (gains) losses from changes in financial assumptions	41,049	(17,795)
- actuarial (gains) losses from changes in demographic assumptions	2,872	3,422
Effect of change in foreign exchange rates	2,756	6,420
Accrued benefit obligations at December 31	294,491	253,440
Balance as at December 31	**(10,384)**	**20,074**
Amounts recognized on statements of financial position		
Employee benefit assets	**8,589**	**34,387**
Employee benefit obligations (note 8b)	**18,973**	**14,313**

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 $18,973 (2013: $14,313) 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.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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

	2014 %	2013 %
Cash and cash equivalents		
Canada	1	1
U.K.	3	3
Bonds and other fixed income securities		
U.S.	2	5
Canada	45	41
U.K.	12	12
Equities		
U.S.	-	1
Canada	30	30
U.K.	3	3
Real Estate		
Canada	3	3
U.K.	1	1
	100	100

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

(December 31, 2014 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

	2014		2013	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	23,834	12,334	23,655	12,493
Current service cost	1,098	3	1,340	4
Employee contributions	-	-	-	-
Interest cost	1,174	552	1,024	479
Benefits paid	(689)	(860)	(664)	(789)
Remeasurements				
- experience adjustments	(579)	(52)	(212)	218
- actuarial (gains) losses from changes in financial assumptions	3,514	1,361	(2,005)	(819)
- actuarial (gains) losses from changes in demographic assumptions	585	1,551	694	202
Effect of change in foreign exchange rates	4	844	2	546
Accrued benefit obligations at December 31	28,941	15,733	23,834	12,334
Net obligation for defined benefit pension plans (note 8a)	18,973	-	14,313	-
Amounts recognized on statements of financial position	**47,914**	**15,733**	**38,147**	**12,334**

The weighted average duration of all the defined benefit obligations is 16 years (2013: 15 years).

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

	2014 $	2013 $
Within 1 year or less	11,228	11,203
2-5 years	45,970	46,892
6-15 years	152,589	151,329
Over 15 years	512,808	390,176
Total	722,595	599,600

(December 31, 2014 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:

	2014 $	2013 $
As at December 31		
Fair value of defined benefit plan assets (note 8a)	284,107	273,514
Present value of defined benefit obligations	339,165	289,608
Funded status - surplus (deficit)	(55,058)	(16,094)

Additionally, long-term disability obligations amounted to $2,464 (2013: $2,795) 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:

	2014		2013	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Defined benefit pension and post retirement plan expenses:				
Current service cost	9,520	-	10,096	4
Net interest (income) cost	13,156	552	10,957	479
Administration costs	(13,066)	-	(10,506)	-
	9,610	552	10,547	483
Defined contribution pension plans:				
Employer contributions	3,475		2,948	

Long-term disability benefit income amounted to $326 and $436 during December 31, 2014 and December 31, 2013 respectively and is included in benefits and payments on the consolidated statement of comprehensive income.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

d) Actuarial gains (losses) on employee benefit plans

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

	2014 $	2013 $
Accumulated net actuarial losses as at January 1	(44,816)	(55,619)
Acquisitions through business combinations	-	(9,718)
Changes during the year recorded in OCI:		
Experience adjustments on plan liabilities	958	4,484
Experience adjustments on plan assets	19,025	1,129
Changes due to financial assumptions	(46,143)	20,531
Changes due to demographic assumptions	(5,008)	(4,320)
Limiting a net defined benefit asset to its asset ceiling	221	130
	(30,947)	21,954
Effects of change in foreign exchange rate	(222)	(1,433)
Accumulated net actuarial losses as at December 31	(75,985)	(44,816)

(December 31, 2014 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:

	2014		2013	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit obligations				
Discount rate	4.0	3.6	4.9	4.5
Future pension growth	2.2	7.2	2.2	7.2
Rate of compensation increase	3.5	-	3.5	-
Inflation rate	2.1	-	2.2	-
Assumptions used to calculate benefit expenses				
Discount rate	4.9	4.5	4.4	3.9
Future pension growth	2.2	7.4	2.0	7.4
Rate of compensation increase	4.0	-	3.5	-
Inflation rate	2.2	-	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	
	Increase $	Decrease $
Discount rate (1% movement)	(52,321)	65,039
Future pension growth (0.25% movement)	2,138	(8,551)
Future compensation growth (0.25% movement)	2,862	(2,752)
Inflation rate (0.25% movement)	1,492	(8,633)
Life expectancy (movement by 1 year)	9,951	(9,903)

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 11 years (2013: 11 years) and for other retirement benefit plans was 4 years (2013: 5 years).

(December 31, 2014 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:

	2014			2013		
	U.S.	Canada	U.K.	U.S.	Canada	U.K.
Longevity at age 65 for current pensioners						
Males	20	24	24	19	22	24
Females	22	24	25	21	24	24
Longevity at age 65 for current members aged 45						
Males	19	25	25	18	23	25
Females	20	25	27	20	25	27

The Medicare (post 65 years of age) inflation assumption for the U.S. benefits is 7.5% for 2015 (2014: 7.8%) decreasing to 4.5% by 2029 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 6.8% for 2015 (2014: 7.0%), decreasing to 4.5% in 2030 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2014:

	1.0% increase $	1.0% decrease $
Effect on service cost plus interest cost	55	(48)
Effect on accrued benefit obligations	1,703	(1,459)

9. GOODWILL AND INTANGIBLE ASSETS

a) Goodwill

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

	2014 $	2013 $
Carrying value as at January 1	24,806	23,204
Effect of change in foreign exchange rates	2,251	1,602
Carrying value as at December 31	27,057	24,806

(December 31, 2014 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, 2013	120,079	4,372	2,734	54,364	53,849	235,398
Additions - Internally developed	-	-	-	-	8,474	8,474
Amortization and impairment	-	(546)	(709)	(658)	(31,053)	(32,966)
Effect of change in foreign exchange rates	10,895	114	212	1,374	3,560	16,155
Net carrying value as at December 31, 2014	**130,974**	**3,940**	**2,237**	**55,080**	**34,830**	**227,061**
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**

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

	Gross carrying value $	Accumulated amortization $	Net carrying value $
December 31, 2014			
Unit cost reductions	5,792	1,852	3,940
Distribution network	4,889	2,652	2,237
Management contract	56,393	1,313	55,080
Software	65,593	30,763	34,830
	132,667	36,580	96,087
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

Included in software was $4,145 (2013: $29,029) that is still under development and has not been amortized. For the remaining software, the useful life is between 1-4 years (2013: 1-4 years). During 2014, Foresters expensed research and development costs amounting to $1,414 (2013: $458). Amortization and impairment is included under operating expenses on the consolidated statement of comprehensive income and includes $19,471 due to the impairment of internally developed software for the year ended December 31, 2014 (2013: nil).

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

In the U.K., 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.

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

In the U.S., FICC's asset management operation is classified as a cash-generating unit (CGU). Goodwill and the intangible assets consisting of asset management contracts, distribution network and software 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 on a 5 year medium term plan and applying a terminal value multiple based on the last year of the projection. The terminal value multiple is determined using the discount rate and the terminal growth rate.

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

	2014 %	2013 %
Growth rate for assets under mangement	3.0%-8.0%	4.5%-12.5%
Terminal period growth rate	2.0%	2.0%
Discount rate (after-tax)	14.0%	14.5%

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

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

	2014 %	2013 %
Growth rate in assets under management decreases by	2.2%	4.0%
Growth rate in terminal period decreases to	0.0%	-1.0%
Discount rate increases by	1.0%	2.0%

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 sheet 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 which are 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. Management regularly monitors the creditworthiness of reinsurers to ensure compliance with Foresters guidelines.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

i) Maximum exposure to credit risk

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

Foresters maximum credit exposure is as follows:

	2014 $	2013 $
Cash, cash equivalents and short-term securities	321,823	190,653
Bonds	6,449,686	5,657,066
Mortgages	756	826
Derivative financial instruments	20,584	50,848
Loans to certificateholders	317,007	287,002
Reinsurance assets	216,678	187,307
Accrued investment income	68,507	64,577
Amounts due from reinsurers	25,263	17,349
Accounts receivable and other receivables	26,320	33,670
Maximum exposure to credit risk	7,446,624	6,489,298

ii) Concentration of credit risk

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

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

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

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

Bonds and other fixed-term securities

Investment concentration in any one investee or its related group of companies, except for securities issued by or guaranteed by the U.S., Canadian, U.K. and certain foreign governments and government agencies, is limited to 3.5% of the bond portfolio for the U.S., 4.0% of the bond portfolio for Canada and 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.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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

	2014			2013		
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	$ 947,158	$ 249,641	$ 1,196,799	$ 780,907	$ 174,658	$ 955,565
Canadian federal government	88,172	3,476	91,648	96,964	3,498	100,462
Canadian provincial and municipal government	741,676	21,277	762,953	647,314	28,842	676,156
U.K. government	520,622	36,857	557,479	554,947	28,693	583,640
Other foreign governments	140,957	7,622	148,579	119,805	8,781	128,586
Total government bonds	2,438,585	318,873	2,757,458	2,199,937	244,472	2,444,409
By industry sector						
Financial	1,196,526	394,275	1,590,801	1,099,538	344,738	1,444,276
Industrial	300,715	76,704	377,419	262,141	58,907	321,048
Utilities	310,000	49,622	359,622	263,765	60,865	324,630
Energy	224,875	30,789	255,664	189,250	31,611	220,861
Consumer	211,801	32,728	244,529	153,626	33,605	187,231
Consumer Staples	178,104	54,137	232,241	150,944	50,608	201,552
Communications	154,525	71,727	226,252	148,415	58,025	206,440
Health Care	137,439	18,266	155,705	85,800	24,279	110,079
Basic materials	115,341	22,539	137,880	85,488	19,960	105,448
Technology	15,370	27,702	43,072	19,682	15,379	35,061
Other	59,199	9,844	69,043	47,774	8,257	56,031
Total corporate bonds	2,903,895	788,333	3,692,228	2,506,423	706,234	3,212,657
	$ 5,342,480	$ 1,107,206	$ 6,449,686	$ 4,706,360	$ 950,706	5,657,066
Allocation by country of issuer:						
United States	$ 2,642,905	$ 810,895	$ 3,453,800	$ 2,139,224	$ 698,885	$ 2,838,109
Canada	1,637,474	179,298	$ 1,816,772	1,523,562	157,186	1,680,748
U.K.	666,570	57,599	$ 724,169	704,055	47,566	751,621
Other	395,531	59,414	$ 454,945	339,519	47,069	386,588
	$ 5,342,480	$ 1,107,206	$ 6,449,686	$ 4,706,360	$ 950,706	5,657,066

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

The credit rating of the bond portfolio was as follows:

	2014		2013	
Bond quality	**$**	**%**	**$**	**%**
Investment grade:				
AAA	1,073,763		1,062,873	
AA	1,950,160		1,700,040	
A	2,307,842		2,035,997	
BBB	1,093,484		844,648	
	6,425,249	99.6	5,643,558	99.8
BB and lower	24,437	0.4	13,508	0.2
Total bonds	6,449,686	100.0	5,657,066	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 AFS assets and loans and receivables established when the asset becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the asset and related investment income. The carrying value of an impaired asset is reduced to its estimated net realizable value at the time of recognition of impairment. No allowances for losses have been taken in 2014 or in 2013.

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

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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 $2,918 (2013: $3,468). A 10.0% decrease in the U.S. dollar against the Canadian dollar would be expected to increase U.S. branch insurance contract liabilities by $3,170 (2013: $3,750).

Foreign operations

A substantial portion of Foresters operations is denominated in currencies other than Canadian dollars. If the Canadian dollar strengthened relative to non-Canadian currencies, the translated value of reported earnings and surplus from the non-Canadian denominated operations would decline. Foresters 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	
	2014 $	2013 $	2014 $	2013 $
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	(24)	(467)	(14,251)	(13,067)
U.K. pound	(39)	4	(1,688)	(1,562)

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. Asset depreciation assumptions are made when projecting future asset cash flows appropriate to each asset class. Testing is performed under several prescribed interest rate scenarios (including increasing and decreasing rates) to make appropriate provision for reinvestment or disinvestment risk.

Many annuity and universal life insurance certificates have minimum credited interest rate guarantees, ranging from 0.25% to 4.5% (2013: 0.25% to 4.5%). Other products have implicit guarantees. Dividend paying products are sensitive to a sustained decline in interest rates to the extent dividends cannot be reduced below zero. The profitability of non-dividend paying products depends in part on the relationship between interest rates assumed in pricing compared to investment returns currently available.

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

A 1.0% reduction in interest rates would result in an increase in insurance contract liabilities and a decrease in surplus of approximately $71,000 (2013: $62,700) 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 $56,400 (2013: $47,400).

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, 2014 would result in an estimated after-tax decrease in OCI of $47,800 (2013: $60,500). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $43,457 (2013: $68,000).

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 $14,900 (2013: $11,200). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities and decrease surplus by approximately $16,700 (2013: $12,400).

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, 2014, would result in an estimated after-tax increase in OCI of $16,000 (2013: $4,900). 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.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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.

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:

	2014		2013	
	Immediate scenario	**Ongoing scenario**	**Immediate scenario**	**Ongoing scenario**
Allowable liquid assets	$ 6,965,303	$ 7,180,880	$ 6,127,333	$ 6,315,531
Risk-adjusted liquidity of liabilities	2,550,644	3,182,250	2,306,036	2,896,365
Liquidity ratio	273.1%	225.7%	265.7%	218.1%

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

Contractual maturities

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

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

2014	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	321,823	-	-	-	321,823
Bonds	109,767	1,272,999	2,457,783	2,609,137	6,449,686
Mortgages					
Derivative financial instruments	6,022	14,619	7,982	(8,039)	20,584
Reinsurance assets	(3,349)	7,726	79,543	132,758	216,678
Insurance contract liabilities	(194,007)	(1,097,654)	(2,500,983)	(2,569,558)	(6,362,202)
Investment contract liabilities	(160,545)				(160,545)
Benefits payable	(80,589)	(53,372)	-	-	(133,961)
Net investments for account of segregated fund unit holders	3,183,899	-	-	-	3,183,899
Investment contract liabilities for account of segregated fund unit holders	(3,183,899)	-	-	-	(3,183,899)
	(878)	144,318	44,325	164,298	352,063
2013					
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

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.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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.

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

11. OTHER LIABILITIES

Other liabilities were comprised of the following:

	2014 $	2013 $
Accounts payable and accrued liabilities	70,276	61,824
Payroll, other compensation and benefits	52,871	48,430
Deferred tax liabilities	6,281	4,952
Current income tax payable	7,291	4,117
Due to reinsurers	4,274	3,882
Other liabilities	30,963	22,511
	171,956	145,716

The fair value of these liabilities approximates their carrying value. Within 12 months from the reporting date, $113,364 (2013: $90,861) will be realized.

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 operation. With the passage of time, and resulting reduction in estimation risk, these margins will be included in future income to the extent they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a certificate, the effect of those changes is recognized in income immediately.

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

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

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

	2014 $	2013 $
Insurance contract liabilities (gross)	6,362,202	5,647,538
Reinsurance assets	216,678	187,307
Net insurance contract liabilities	6,145,524	5,460,231

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

	2014 **Net insurance contract liabilities** **$**
Beginning of year	5,460,231
New business	79,091
Refinement of assumptions	9,761
Refinement of methods and models	(101,815)
Change in inforce due to changes in Interest Rates	484,026
Change in inforce from other movements	(69,604)
Change in contract liability	401,459
Effect of change in foreign exchange rates	283,834
End of year	6,145,524

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

	2013 Net insurance contract liabilities $
Beginning of year	4,893,344
Acquisitions	692,757
	5,586,101
New business	38,053
Refinement of assumptions	(71,601)
Refinement of methods and models	21,107
Impact of fair value movement and in-force business	(444,133)
Change in contract liability	(456,574)
Effect of change in foreign exchange rates	330,704
End of year	5,460,231

The amounts presented above are net of reinsurance assets. This presentation is consistent with the method used in valuing actuarial liabilities. The significant movements during the year resulted from the decline in interest rates and the change in foreign exchange rates relative to the Canadian dollar. Refinements of methods and models include enhancements to the asset model, for example, projecting future cash flows and returns and changes to actuarial Standards of Practice related to reinvestment assumptions.

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

	2014 $
Refinement of assumptions:	
Updated maintenance expense assumptions	(49,045)
Updated mortality and lapse assumptions for recent experience	59,513
Updated dividend assumptions	(2,721)
Updated future asset return assumptions	8,704
Release UL guarantee provision	(14,190)
Provision for asset and scenario enhancements	7,500
	9,761
Refinement of methods and models:	
Asset Model Enhancements	(59,684)
Changes in applicable actuarial standards related to investment rate assumptions	(45,992)
Other model improvements	3,861
	(101,815)

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

	2013 $
Refinement of assumptions:	
Updated maintenance expense assumptions	(17,443)
Updated mortality and lapse assumptions for recent experience	785
Updated dividend assumptions	5,268
Updated future asset return assumptions	(8,957)
Updated fraternal incidence rates	(27,593)
Release UL guarantee provision	(20,598)
Other	(3,063)
	(71,601)
Refinement of methods and models:	
Other model improvements	21,107

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:

	2014 $	2013 $
Balance, beginning of year *	94,364	110,648
Net strengthening (release) of provision	24,184	(19,098)
Effect of change in foreign exchange rates	1,856	2,814
Balance, end of year *	120,404	94,364

* 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:

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division

	December 31, 2014					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North America Life Insurance						
United States Branch						
Insurance	$ -	$ 1,710,927	$ 81,613	$ 176,418	$ 122,649	$ 2,091,607
Annuities	-	346,156	2,175	2,468	4,036	354,835
Investment contracts	-	16,248	-	-	-	16,248
Surplus	76,029	773,202	-	25,106	108,596	982,933
Canada						
Insurance	13,382	1,194,440	126,580	66,343	166,540	1,567,285
Annuities	-	302,162	-	(6,456)	4,221	299,927
Investment contracts	-	29,170	-	-	-	29,170
Surplus	50,670	70,321	133	56,040	124,715	301,879
FICC						
Insurance	1,667	214,069	-	103,406	36,619	355,761
Annuities	31,917	311,025	-	-	22,220	365,162
Asset management	95,976	-	15,586	4,283	39,163	155,008
Investment contracts	-	7,635	-	-	-	7,635
Surplus	2,195	18,953	-	-	1,197	22,345
United Kingdom						
Insurance	11,121	787,438	391,694	2,998	70,148	1,263,399
Annuities	3,499	145,815	37,045	8,114	(1,692)	192,781
Asset management	10,534	-	-	-	32,120	42,654
Investment contracts	-	2,306	-	-	-	2,306
Surplus	17,269	-	17,743	-	49,261	84,273
Fraternal **	1,917	265,731	4,841	2,861	5,071	280,421
Corporate	5,647	254,088	82,279	15,984	24,230	382,228
	$ 321,823	$ 6,449,686	$ 759,689	$ 457,565	$ 809,094	$ 8,797,857

* 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 statement of comprehensive income. 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, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

Insurance contract liabilities and supporting assets by division - continued

	December 31, 2013					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North America Life Insurance						
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
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
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
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 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 statement of comprehensive income. 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.

Mortality and morbidity

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

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

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

Lapse rates

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

Investment returns

Foresters segments assets supporting insurance contract liabilities by geographic market and by line of business. Foresters 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). Changes to actuarial Standards of Practice related to reinvestment assumptions in the calculation of actuarial liabilities were implemented in 2014.

(December 31, 2014 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	2014 $	2013 $
Mortality Rates			
adversely impacted by increase	+ 2%	(45,041)	(33,648)
adversely impacted by decrease	- 2%	(1,345)	(1,598)
Lapse Rates	10% Adverse	(70,528)	(60,260)
Maintenance Expense Level	+ 10%	(50,412)	(45,170)

(December 31, 2014 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 $
2014				
Balance, beginning of year	22,750	30,664	103,691	157,105
Deposits received during the year	2,346	2,743	462	5,551
Surrenders and withdrawals	(4,085)	(5,058)	(3,456)	(12,599)
Interest credited and other	854	821	43	1,718
Effect of change in foreign exchange rates	2,018	-	6,752	8,770
Balance, end of year	**23,883**	**29,170**	**107,492**	**160,545**
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**

(December 31, 2014 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 shown below, were above the levels that would require any regulatory or corrective action.

		2014	2013
Capital available	A	$ 1,828,697	$ 1,601,466
Capital required:			
Asset default and market risk		156,928	144,007
Insurance risks		182,018	158,574
Interest rate and foreign exchange risks		108,341	88,531
Total capital required	B	$ 447,287	$ 391,112
MCCSR ratio (A / B)		409%	409%

(December 31, 2014 amounts in thousands of Canadian dollars except where otherwise stated)

15. PREMIUMS

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

	2014			2013		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life and health	692,689	(75,538)	617,151	595,756	(70,487)	525,269
Annuities	139,723	(6)	139,717	97,114	44	97,158
	832,412	(75,544)	756,868	692,870	(70,443)	622,427

16. FEE REVENUE AND OTHER OPERATING INCOME

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

	2014	2013
	$	$
Fee revenue:		
Management fees on segregated fund assets	93,101	61,839
Management fees on proprietary mutual funds	74,959	61,847
Brokerage fees	11,701	9,536
Distribution and service fees	77,484	67,088
Total fee revenue	257,245	200,310
Other operating income:		
Net rental expense	(2,815)	(2,934)
Supplementary contract deposits (with life contingency)	1,042	1,232
Reversal of revaluation loss	-	994
Foreign currency gains	466	4,240
Interest received on tax recovery	10,671	-
Other	12,272	10,888
Total other operating income	21,636	14,420

(December 31, 2014 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:

	2014			2013		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
Life & health	549,576	(34,966)	514,610	453,576	(33,525)	420,051
Fraternal	4,600	-	4,600	4,507	-	4,507
Annuities	85,343	(320)	85,023	74,557	(450)	74,107
	639,519	(35,286)	604,233	532,640	(33,975)	498,665

18. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2014 $	2013 $
Employee benefits:		
Salaries and benefits	148,282	143,744
Defined benefit pension and post retirement plan expenses (note 8)	10,162	11,030
Defined contribution plan expenses (note 8)	3,475	2,948
	161,919	157,722
Professional and consulting fees	17,497	20,575
Technology related fees	32,783	33,603
Service fees	37,814	29,961
Software costs expensed during the year	6,236	5,693
Operating lease costs	11,198	9,887
Depreciation, amortization and impariment of property, equipment and intangibles	41,434	15,488
Other expenses	28,950	25,238
Total operating expenses	337,831	298,167

Foresters recovered commissions and operating expenses from reinsurers in the amount of $12,905 (2013: $16,870) and $783 (2013: $752) respectively.

(December 31, 2014 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 $
2014				
Current income tax expense (recovery):				
Current year	14,579	(22,265)	9,062	1,376
Deferred income tax expense (benefit):				
Relating to the origination and reversal of temporary differences	1,630	35,704	2,223	39,557
Change in unrecognized deductible temporary differences	-	(35,876)	(2,650)	(38,526)
	1,630	(172)	(427)	1,031
Total income taxes	16,209	(22,437)	8,635	2,407
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	(596)	(573)	3,890
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

Cash taxes paid were $26,406 (2013: $20,247). Cash tax refunds received during the year were $38,612 including $10,671 of interest. (2013: Tax refunds of $7,290 including $66 of interest).

(December 31, 2014 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:

	2014 $	2013 $
Income tax recovery (expense) on net unrealized gains on AFS assets	(1,409)	1,685
Income tax recovery on reclassification of realized gains on AFS assets	293	95
Income tax recovery (expense) on net actuarial gains (losses) on employee benefit plans	57	(47)
Total income tax recovery (expense)	(1,059)	1,733

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:

	2014 %	2014 $	2013 %	2013 $
Net income after taxes		102,773		114,861
Income taxes		2,407		17,021
Income before income taxes		105,180		131,882
Combined federal and provincial statutory income tax rate for the current year	26.4%	27,791	26.5%	34,922
Effect of tax rates in foreign jurisdictions	(9.1%)	(9,551)	1.4%	1,807
Canadian tax refunds as a result of reassessments	(25.4%)	(26,739)	0.0%	-
Tax exempt income	6.0%	6,332	(16.9%)	(22,288)
Capital tax and investment income tax	4.4%	4,660	0.8%	1,108
Other taxes	0.6%	577	1.7%	2,276
Under (over) provided in prior years	(0.6%)	(663)	(0.6%)	(804)
Effective tax rate	2.3%	2,407	12.9%	17,021

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, 2014 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. The following table shows net deferred tax assets at December 31:

	2014 $	2013 $
Deferred tax assets	50,040	48,624
Deferred tax liabilities	6,281	4,952
Net deferred tax assets	43,759	43,672

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 the underlying assets and liabilities corresponding to net deferred income tax assets and liabilities:

	December 31, 2014			December 31, 2013		
	Asset $	Liability $	Net $	Asset $	Liability $	Net $
Bonds	-	18,575	(18,575)	-	16,692	(16,692)
Loans to certificateholders	-	10,780	(10,780)	-	10,621	(10,621)
Other invested assets	-	1,379	(1,379)	-	1,327	(1,327)
Property and equipment	2	1,678	(1,676)	763	1,084	(321)
Employee benefit assets and obligations	2,628	1,811	817	2,401	1,820	581
Insurance contract liabilities	23,865	-	23,865	19,454	-	19,454
Other liabilities	15,450	-	15,450	15,812	-	15,812
Tax loss carry-forwards	36,037	-	36,037	36,786	-	36,786
Recognized deferred tax assets (liabilities)	77,982	34,223	43,759	75,216	31,544	43,672

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

	2014 $	2013 $
Beginning of year	43,672	13,638
Deferred taxes on subsidiaries acquired during the year	-	32,648
(Charges) credits included in net income	(1,116)	(4,255)
(Charges) credits included in OCI	(298)	1,033
Exchange rate differences	1,501	608
End of year	43,759	43,672

(December 31, 2014 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:

	2014			2013		
	Canada $	U.K. $	Total $	Canada $	U.K. $	Total $
Tax losses and unclaimed deductions	11,359	3,359	14,718	47,235	6,009	53,244

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 $16,693 (2013: $30,269). 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 $46,835 (2013: $183,730) 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 surplus assets, provides certain administrative services for the operating divisions and is responsible for capital management. The primary sources of revenue from the operating segments in the 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.

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

Segmented statement of comprehensive income

	2014						
	North America Life Insurance						
	United States Division	Canada	FICC	United Kingdom	Fraternal	Corporate	Total
REVENUE							
Gross written premiums	$ 413,106	$ 172,068	$ 155,597	$ 90,708	$ 933	$ -	$ 832,412
Ceded premiums	(30,695)	(36,970)	(6,509)	(1,370)	-	-	(75,544)
Net Written Premiums	382,411	135,098	149,088	89,338	933	-	756,868
Net Investment Income							
Interest and dividends (net)	103,389	74,371	24,226	43,745	7,293	9,682	262,706
Net realized gains (losses)	33,441	9,673	2,216	7,160	1,380	9,492	63,362
Unrealized gains (losses) on fair value through profit and loss investments	158,510	135,494	7,449	55,681	10,886	-	368,020
Net unrealized foreign currency gains (losses) on available-for-sale assets	-	-	-	-	-	13,185	13,185
Total Investment Income	295,340	219,538	33,891	106,586	19,559	32,359	707,273
Fee revenue	6,205	1,443	185,939	63,658	-	-	257,245
Other operating income	(153)	8,965	11,263	1,088	7	466	21,636
TOTAL REVENUE	683,803	365,044	380,181	260,670	20,499	32,825	1,743,022
Benefits and expenses							
Gross benefits	286,454	147,398	29,549	171,517	4,601	-	639,519
Ceded benefits	(9,570)	(22,136)	(3,580)	-	-	-	(35,286)
Gross change in insurance contract liabilities	193,171	85,097	135,397	(1,819)	13,701	-	425,547
Ceded change in insurance contract liabilities	(18,873)	7,233	(317)	(12,131)	-	-	(24,088)
Dividends	22,964	11,139	1,029	5,761	-	-	40,893
Commissions	115,460	42,194	77,074	14,374	-	-	249,102
Operating expenses	109,489	32,803	90,296	59,304	16,221	29,718	337,831
Ceded commissions and operating expenses	(10,723)	(2,732)	(233)	-	-	-	(13,688)
Fraternal investment	-	-	-	-	18,012	-	18,012
	688,372	300,996	329,215	237,006	52,535	29,718	1,637,842
Net income (loss) before income taxes	(4,569)	64,048	50,966	23,664	(32,036)	3,107	105,180
Income taxes	(403)	(22,437)	16,612	8,635	-	-	2,407
Net income (loss)	(4,166)	86,485	34,354	15,029	(32,036)	3,107	102,773
Other comprehensive income (loss)	90,385	1,815	22,605	(4,003)	3,999	6,281	121,082
Total comprehensive income (loss)	$ 86,219	$ 88,300	$ 56,959	$ 11,026	$ (28,037)	$ 9,388	$ 223,855

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

Segmented statement of comprehensive income - continued

	2013						
	North America Life Insurance						
	United States Division	Canada	FICC	United Kingdom	Fraternal	Corporate	Total
REVENUE							
Gross premiums	$ 353,466	$ 179,568	$ 89,642	$ 69,266	$ 928	$ -	$ 692,870
Ceded premiums	(28,860)	(34,890)	(5,451)	(1,242)	-	-	(70,443)
Net Premiums	324,606	144,678	84,191	68,024	928	-	622,427
Net Investment Income							
Interest and dividends (net)	102,734	74,156	19,229	33,469	8,932	2,057	240,577
Net realized gains (losses)	76,512	10,197	812	21,595	4,535	13,035	126,686
Unrealized gains (losses) on fair value through profit and loss investments	(269,709)	(120,299)	(9,882)	(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)	(35,946)	10,159	18,805	(11,419)	20,529	(88,335)
Fee revenue	4,349	1,816	156,652	37,493	-	-	200,310
Other operating income	(155)	(964)	11,064	233	2	4,240	14,420
TOTAL REVENUE	238,337	109,584	262,066	124,555	(10,489)	24,769	748,822
Benefits and expenses							
Gross benefits	244,813	134,777	26,217	122,328	4,505	-	532,640
Ceded benefits	(12,670)	(18,638)	(2,667)	-	-	-	(33,975)
Gross change in insurance contract liabilities	(279,973)	(141,345)	56,050	(60,147)	(51,844)	-	(477,259)
Ceded change in insurance contract liabilities	(152)	33,072	(595)	-	-	-	32,325
Dividends	20,833	11,136	833	4,657	-	-	37,459
Commissions	109,928	50,109	60,735	6,112	-	-	226,884
Operating expenses	108,364	37,115	79,612	48,132	15,169	9,775	298,167
Ceded commissions and operating expenses	(10,879)	(6,561)	(182)	-	-	-	(17,622)
Fraternal investment	-	-	-	-	18,321	-	18,321
	180,264	99,665	220,003	121,082	(13,849)	9,775	616,940
Net income (loss) before income taxes	58,073	9,919	42,063	3,473	3,360	14,994	131,882
Income taxes	(45)	3,987	14,447	(1,368)	-	-	17,021
Net income (loss)	58,118	5,932	27,616	4,841	3,360	14,994	114,861
Other comprehensive income (loss)	20,590	7,551	13,301	(4,469)	15,855	4,379	57,207
Total comprehensive income (loss)	$ 78,708	$ 13,483	$ 40,917	$ 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 financial position

	2014						
	North America Life Insurance						
	United States Division	Canada	FICC	United Kingdom	Fraternal**	Corporate	Total
ASSETS							
Invested Assets							
Cash, cash equivalents and short-term securities	$ 85,799	$ 65,411	$ 131,755	$ 42,423	$ (9,212)	$ 5,647	$ 321,823
Bonds	2,846,533	1,596,093	551,682	935,559	265,731	254,088	6,449,686
Equities	83,788	126,713	15,586	446,482	4,841	82,279	759,689
Mortgages	756	-	-	-	-	-	756
Derivative financial instruments	17,723	-	-	-	2,861	-	20,584
Other invested assets*	23,145	75,553	4,283	253	-	15,984	119,218
Loans to certificateholders	162,368	40,374	103,406	10,859	-	-	317,007
Total invested assets	3,220,112	1,904,144	806,712	1,435,576	264,221	357,998	7,988,763
Reinsurance assets	59,223	131,638	13,765	12,052	-	-	216,678
Other assets	8,268	123,467	76,079	67,923	5,070	(3,920)	276,887
Property and equipment	62	35,451	9,355	7,953	1	-	52,822
Employee benefit assets	3,669	4,920	-	-	-	-	8,589
Goodwill and intangible assets	164,059	-	-	61,909	-	28,150	254,118
	3,455,393	2,199,620	905,911	1,585,413	269,292	382,228	8,797,857
Net investments for accounts of segregated fund unit holders	-	109,141	1,454,859	1,619,899	-	-	3,183,899
TOTAL ASSETS	$ 3,455,393	$ 2,308,761	$ 2,360,770	$ 3,205,312	$ 269,292	$ 382,228	$ 11,981,756
LIABILITIES							
Insurance contract liabilities	$ 2,413,496	$ 1,770,796	$ 634,949	$ 1,286,232	$ 256,729	$ -	$ 6,362,202
Investment contract liabilities	16,248	29,170	7,635	107,492	-	-	160,545
Benefits payable and provision for unreported claims	86,723	30,296	2,026	14,916	-	-	133,961
Other liabilities	19,579	46,152	76,536	25,355	259	4,075	171,956
Employee benefit obligations	11,137	33,537	-	18,973	-	-	63,647
	2,547,183	1,909,951	721,146	1,452,968	256,988	4,075	6,892,311
Net investment contract liablities for accounts of segregated fund unit holders	-	109,141	1,454,859	1,619,899	-	-	3,183,899
TOTAL LIABILITIES	2,547,183	2,019,092	2,176,005	3,072,867	256,988	4,075	10,076,210
SURPLUS							
Retained earnings	779,724	268,415	148,721	129,854	2,265	357,761	1,686,740
Accumulated other comprehensive income	128,486	21,254	36,044	2,591	10,039	20,392	218,806
TOTAL SURPLUS	908,210	289,669	184,765	132,445	12,304	378,153	1,905,546
TOTAL LIABILITIES AND SURPLUS	$ 3,455,393	$ 2,308,761	$ 2,360,770	$ 3,205,312	$ 269,292	$ 382,228	$ 11,981,756

* 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 statement 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

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

	2014 $	2013 $
Salaries and other short-term employee benefits	16,652	15,038
Post employment benefits	1,603	1,709
Other long-term benefits	1,505	2,160
Termination benefits	2,299	859
Total compensation of key management personnel	22,059	19,766

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 $248 (2013: $1), $1,415 (2013: $1,410) and $2,435 (2013: $1,707) 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, 2014, Foresters contractual obligations and commitments were as follows:

	1 year or less	1- 5 years	Over 5 years	Total
	$	$	$	$
Obligations under service contracts	34,246	80,680	55,048	169,974
Lease obligations	7,382	21,947	30,434	59,763
Investment commitment	5,852	-	-	5,852
Total contractual obligations	47,480	102,627	85,482	235,589

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 (%)	
			2014	2013
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

Certain comparative amounts have been reclassified to conform to the financial statements presentation adopted in 2014. Premiums and claims amounts for the year ended December 31, 2013 have been increased by $19.3 million to reflect an appropriate presentation of these amounts with no impact on net income.