Foresters

Consolidated Financial Statements of

# The Independent Order of Foresters

Year ended December 31, 2015

## Consolidated Financial Statements and Notes - Table of Contents


| | Page # |
|---|---|
| Management Statement On Responsibility For Financial Reporting | 2 |
| Independent Auditors' Report | 3 |
| Appointed Actuary's Report | 4 |
| Consolidated Statement of Comprehensive Income | 5 |
| Consolidated Statement of Financial Position | 6 |
| Consolidated Statement of Changes in Surplus | 7 |
| Consolidated Statement of Cash Flows | 8 |
| Description of business | 9 |
| Note 1 - Significant accounting policies | 9 |
| Note 2 - Accounting and reporting changes | 24 |
| Note 3 - Invested assets | 25 |
| Note 4 - Investments for account of segregated fund unit holders | 34 |
| Note 5 - Other assets | 36 |
| Note 6 - Property and equipment | 37 |
| Note 7 - Employee benefit plans | 40 |
| Note 8 - Goodwill and intangible assets | 48 |
| Note 9 - Financial risk management | 51 |
| Note 10 - Other liabilities | 60 |
| Note 11 - Insurance contract liabilities and reinsurance assets | 60 |
| Note 12 - Investment contract liabilities | 68 |
| Note 13 - Capital management | 69 |
| Note 14 - Premiums | 70 |
| Note 15 – Fee revenue and other operating income | 70 |
| Note 16 - Benefits | 71 |
| Note 17 – Operating expenses | 71 |
| Note 18 - Income taxes | 72 |
| Note 19 - Segmented information | 75 |
| Note 20 - Related party transactions | 81 |
| Note 21 - Contractual obligations and commitments | 82 |
| Note 22 - Contingent liabilities | 82 |
| Note 23 - Principal subsidiaries | 83 |
| Note 24 - Comparative information | 83 |

## 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 several adverse but plausible conditions using the relevant Standards of Practice of the Canadian Institute of Actuaries. In carrying out his work the Appointed Actuary makes use of the work of the internal audit department and KPMG LLP Chartered Professional Accountants ("Auditors"). The Appointed Actuary's Report outlines the scope of the valuation and the Actuary's opinion.

Foresters 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 17, 2016

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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, 2015, 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, 2015, 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 17, 2016
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, 2015 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 17, 2016**

## THE INDEPENDENT ORDER OF FORESTERS

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

| | Note | 2015 | 2014 |
|---|---|---|---|
| **REVENUE** | | | |
| Gross premiums | 14 | $ 973,470 | $ 832,412 |
| Ceded premiums | 14 | (85,143) | (75,544) |
| **Net Premiums** | | 888,327 | 756,868 |
| | | | |
| **Net Investment Income** | | | |
| Interest and dividends (net) | 3 | 290,558 | 262,706 |
| Net realized gains | 3 | 168,223 | 63,362 |
| Net change in unrealized gains (losses) on fair value through profit and loss investments | 3 | (377,860) | 368,020 |
| Net foreign currency gains on available-for-sale assets | 3 | 26,232 | 13,185 |
| **Total Investment Income** | | 107,153 | 707,273 |
| | | | |
| Fee revenue | 15 | 332,769 | 269,943 |
| Other operating income | 15 | 16,715 | 23,870 |
| **TOTAL REVENUE** | | **1,344,964** | **1,757,954** |
| | | | |
| **BENEFITS & EXPENSES** | | | |
| Gross benefits | 16 | 705,728 | 639,519 |
| Ceded benefits | 16 | (37,993) | (35,286) |
| Gross change in insurance contract liabilities | 11 | (143,634) | 425,547 |
| Ceded change in insurance contract liabilities | 11 | (68,584) | (24,088) |
| Policy dividends | | 44,697 | 40,893 |
| Commissions | | 297,833 | 249,102 |
| Operating expenses | 17 | 384,840 | 352,763 |
| Ceded commissions and operating expenses | 17 | (15,533) | (13,688) |
| Fraternal investment | | 18,783 | 18,012 |
| **TOTAL BENEFITS & EXPENSES** | | **1,186,137** | **1,652,774** |
| | | | |
| Income before income taxes | | 158,827 | 105,180 |
| | | | |
| **Income Taxes** | | | |
| Current | 18 | 19,298 | 1,818 |
| Deferred | 18 | 15,416 | 589 |
| **Total Income Taxes** | | 34,714 | 2,407 |
| | | | |
| **NET INCOME** | | **124,113** | **102,773** |
| | | | |
| **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 $3 ($57 in 2014) | 7 | 1,348 | (30,890) |
| Net unrealized gains on property | 6 | 4,432 | 4,744 |
| **Total items that will not be reclassified to net income** | | **5,780** | **(26,146)** |
| | | | |
| *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 $861 (($1,409) in 2014) | | (19,461) | 45,725 |
| Reclassification of net realized losses (gains) on available-for -sale assets, net of income tax recovery of $65 ($293 in 2014), to net income | | 1,431 | (3,150) |
| Net unrealized foreign currency translation gains (losses) | | 273,338 | 104,653 |
| **Total items that are or may be reclassified subsequently to net income** | | **255,308** | **147,228** |
| | | | |
| **TOTAL OTHER COMPREHENSIVE INCOME** | | **261,088** | **121,082** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **$ 385,201** | **$ 223,855** |

*(See accompanying notes)*

## THE INDEPENDENT ORDER OF FORESTERS

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

| | Note | 2015 | 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Invested Assets** | | | |
| Cash, cash equivalents and short-term securities | 3 | $ 393,865 | $ 321,823 |
| Bonds | 3 | 7,176,269 | 6,449,686 |
| Equities | 3 | 855,738 | 759,689 |
| Mortgages | 3 | 717 | 756 |
| Derivative financial instruments | 3 | 1,048 | 20,584 |
| Other invested assets | 3 | 143,408 | 119,218 |
| Loans to certificateholders | 3 | 370,888 | 317,007 |
| **Total Invested Assets** | | 8,941,933 | 7,988,763 |
| Reinsurance assets | 11 | 302,341 | 216,678 |
| Accrued investment income | | 78,313 | 68,507 |
| Deferred acquisition costs on investment contracts | | 56,608 | 44,298 |
| Other assets | 5 | 183,127 | 164,082 |
| Property and equipment | 6 | 61,881 | 52,822 |
| Employee benefit assets | 7 | 3,784 | 8,589 |
| Goodwill and intangible assets | 8 | 285,816 | 254,118 |
| | | 9,913,803 | 8,797,857 |
| Net investments for accounts of segregated fund unit holders | 4 | 3,746,007 | 3,183,899 |
| **TOTAL ASSETS** | | **$ 13,659,810** | **$ 11,981,756** |
| **LIABILITIES** | | | |
| Insurance contract liabilities | 11 | $ 7,004,709 | $ 6,362,202 |
| Investment contract liabilities | 12 | 172,064 | 160,545 |
| Derivative financial instruments | 3 | 24,005 | - |
| Benefits payable and provision for unreported claims | | 175,324 | 133,961 |
| Other liabilities | 10 | 183,507 | 171,956 |
| Employee benefit obligations | 7 | 63,447 | 63,647 |
| | | 7,623,056 | 6,892,311 |
| Investment contract liabilities for accounts of segregated fund unit holders | 4 | 3,746,007 | 3,183,899 |
| **TOTAL LIABILITIES** | | 11,369,063 | 10,076,210 |
| **SURPLUS** | | | |
| Retained earnings | | 1,810,853 | 1,686,740 |
| Accumulated other comprehensive income | | 479,894 | 218,806 |
| | | 2,290,747 | 1,905,546 |
| **TOTAL LIABILITIES AND SURPLUS** | | **$ 13,659,810** | **$ 11,981,756** |

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

*(See accompanying notes)*

On behalf of the Board:

Director

Director

## THE INDEPENDENT ORDER OF FORESTERS

### Consolidated Statement of Changes in Surplus
### For the year ended December 31
### (in thousands of Canadian dollars)

| | | Accumulated Other Comprehensive Income | | | | |
|---|---|---|---|---|---|---|
| | | Non-permanent | | Permanent | | |
| | Retained earnings | Unrealized gains (losses) on available-for-sale assets | Cumulative translation account | Net unrealized gains (losses) on property | Remeasurement gains (losses) on defined benefit plans | Total |
| **Balance as at December 31, 2014** | $ 1,686,740 | $ 72,658 | $ 153,992 | $ 8,313 | $ (16,157) | $218,806 |
| **Net income** | 124,113 | - | - | - | - | - |
| **Other comprehensive income (loss):** | | | | | | |
| Pre-tax balance | - | (20,452) | 273,338 | 4,432 | 1,345 | 258,663 |
| Reclassification of net realized losses on available-for-sale assets | - | 1,496 | - | - | - | 1,496 |
| Income tax recovery (expense) | - | 926 | - | - | 3 | 929 |
| **Total other comprehensive income (loss)** | - | (18,030) | 273,338 | 4,432 | 1,348 | 261,088 |
| **Total comprehensive income for the period** | 124,113 | (18,030) | 273,338 | 4,432 | 1,348 | 261,088 |
| **Balance as at December 31, 2015** | $ 1,810,853 | $ 54,628 | $ 427,330 | $ 12,745 | $ (14,809) | $479,894 |
| | | | | | | |
| **Balance as at December 31, 2013** | $ 1,583,967 | $ 30,083 | $ 49,339 | $ 3,569 | $ 14,733 | $ 97,724 |
| **Net income** | 102,773 | - | - | - | - | - |
| **Other comprehensive income (loss):** | | | | | | |
| Pre-tax balance | - | 47,134 | 104,653 | 4,744 | (30,947) | 125,584 |
| Recognition of pre-tax net actuarial losses on employee benefit plans in retained earnings | - | - | - | - | | - |
| Reclassification of net realized gains on available-for-sale assets | - | (3,443) | - | - | - | (3,443) |
| Income tax recovery | - | (1,116) | - | - | 57 | (1,059) |
| **Total other comprehensive income (loss)** | - | 42,575 | 104,653 | 4,744 | (30,890) | 121,082 |
| **Total comprehensive income for the period** | 102,773 | 42,575 | 104,653 | 4,744 | (30,890) | 121,082 |
| **Balance as at December 31, 2014** | $ 1,686,740 | $ 72,658 | $ 153,992 | $ 8,313 | $ (16,157) | $ 218,806 |

*(See accompanying notes)*

## THE INDEPENDENT ORDER OF FORESTERS

### Consolidated Statement of Cash Flows

### For the year ended December 31

### (in thousands of Canadian dollars)

| | 2015 | 2014 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net income per statement of comprehensive income | $ 124,113 | $ 102,773 |
| Items disclosed separately: | | |
| Interest paid on benefits | 5,504 | 10,194 |
| Income tax paid (received) | 25,676 | 26,440 |
| Income tax refunds received including interest | (4,258) | (38,612) |
| Interest received | (246,972) | (227,358) |
| Adjusted net income | **(95,937)** | **(126,563)** |
| Items not affecting cash: | | |
| Depreciation and amortization | 30,637 | 41,434 |
| Net increase (decrease) in insurance contract liabilities | (143,634) | 425,547 |
| Net decrease (increase) in reinsurance assets | (68,584) | (24,088) |
| Net realized and unrealized gains (losses) on invested assets | 212,126 | (425,219) |
| Net foreign currency gains on available-for-sale assets | (26,232) | (13,185) |
| Net foreign currency losses (gains) on other assets and other liabilities | (1,666) | (466) |
| Employee benefit provision | 10,578 | 9,763 |
| Amortization of premium and discount on bonds | 10,484 | 3,352 |
| Deferred income tax expense | 15,416 | 1,031 |
| Net change in other assets and other liabilities | (59,375) | (17,275) |
| Other items resulting from operations: | | |
| Interest paid on benefits | (5,504) | (10,194) |
| Income tax paid | (25,676) | (26,440) |
| Income tax refunds received including interest | 4,258 | 38,612 |
| Interest received | 246,972 | 227,358 |
| **Increase (decrease) due to operating activities** | **103,863** | **103,667** |
| **Cash flow from investing activities** | | |
| Investments sold or matured: | | |
| Bonds | 2,392,933 | 1,660,923 |
| Equities | 213,024 | 339,526 |
| Mortgages | 171 | 138 |
| Investments acquired: | | |
| Bonds | (2,446,859) | (1,669,080) |
| Equities | (228,911) | (326,563) |
| Other items, net | (12,673) | 6,580 |
| **Increase (decrease) due to investing activities** | **(82,315)** | **11,524** |
| Foreign exchange gains (losses) on cash held in foreign currencies | 50,494 | 15,979 |
| **Net increase (decrease) in cash and cash equivalents for the year** | **72,042** | **131,170** |
| **Cash and cash equivalents, beginning of year** | **321,823** | **190,653** |
| **Cash and cash equivalents, end of year** | **393,865** | **$ 321,823** |

*(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 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 17, 2016.

#### 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 amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This definition applies to all assets and liabilities measured at fair value except for impairment provisions using value in use to determine the recoverable amount of the asset.

### c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Foresters 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 with the policies of the group. Intra group transactions are eliminated on consolidation. Foresters principal subsidiaries are listed in note 23.

## 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 Foresters and subsidiary operations;
- Foresters Financial Holding Company, Inc (formerly First Investors Consolidated Corporation) ("FFHC") in the U.S. provides investment management services and distributes mutual funds and insurance products;
- The U.K. division sells protection, pension, 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 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 can be classified as FVTPL assets if they are acquired principally for the purpose of selling or repurchasing in the near term.

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

Invested assets supporting surplus are classified as AFS assets.

#### a) Cash, cash equivalents and short-term securities

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

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

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

#### b) Bonds

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

The fair value of publicly traded bonds is determined using quoted market 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 available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income.

### c) Equities

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

The fair value of publicly traded equities is determined using quoted market 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 as Net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

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

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

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

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Foresters 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 where Foresters is a limited partner. Changes in fair value are recorded as Net unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive income. Realized gains or losses on sale are recorded as Net realized gains (losses), a component of net income on the consolidated statement of comprehensive income.

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment where Foresters 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 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 available-for-sale 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 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 as Net unrealized gains (losses) on property, a component of OCI in the consolidated statement of comprehensive income.

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

Equipment

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

Depreciation

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

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

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

Depreciation and repair and maintenance costs are expensed during the period in which they are incurred, and are included in operating expenses on the consolidated statement of comprehensive income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits, in excess of the most recently assessed standard of performance of the existing asset, will flow to Foresters 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 as 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. Valuation assumptions are based on current best estimate assumptions plus a margin for uncertainty for each material contingency. Any change in insurance contact liabilities is recorded in the gross change in insurance contract liabilities on the consolidated statement of comprehensive income.

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

### b) Reinsurance assets

Foresters 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.

Foresters presents 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 4.

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 as Fee revenue on the consolidated statement of comprehensive income.

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

Net investments for account of segregated fund unit holders

These investments are carried at fair value. Fair value is determined using quoted market values unless quoted market values are not available, in which case estimated fair values are determined by Foresters, 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

### Future changes in accounting policy

**a) IFRS 9 Financial Instruments (“IFRS 9”):**
In July 2014, the International Accounting Standards Board (“IASB”) published an amended version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, and, impairment of financial assets. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces a single impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected credit losses at initial recognition of a financial instrument and the recognition of full lifetime expected credit losses if certain criteria are met. The financial reporting impact of adopting IFRS 9 is being assessed.

While the new standard is generally effective for years beginning on after January 1, 2018, in December 2015 the IASB published an Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, which proposes to allow some insurers optional transitional relief until the forthcoming insurance accounting standard is available for implementation. The proposed options would allow (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 to as late as January 1, 2021, which may allow alignment of the implementation of IFRS 9 with the forthcoming insurance accounting standard, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9.

**b) IFRS 4 Insurance Contracts (“IFRS 4”):**
In June 2013, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts, which would replace the existing IFRS 4 Insurance Contracts. Deliberations of the exposure draft continue and a final standard is expected to be issued in late 2016. The effective date of the final standard is not expected to be before 2020.

**c) IFRS 15 Revenue from Contracts with Customers (“IFRS 15”):**
In May 2014, the IASB issued a new standard that revises previous guidance on revenue recognition, from sources other than insurance premiums and investment income, which are unaffected. The financial reporting impact of adopting IFRS 15 is being assessed. The new standard is effective for years beginning on or after January 1, 2018.

**d) IFRS 16 Leases (“IFRS 16”):**
IFRS 16 was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The financial reporting impact of adopting IFRS 16 is being assessed. The new standard is effective for years beginning on or after January 1, 2019.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 3. 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, 2015 | | | | | |
| Cash, cash equivalents and short-term securities | $ 226,368 | $ 167,497 | $ - | $ 393,865 | $ 393,865 |
| Bonds | 5,962,499 | 1,213,770 | - | 7,176,269 | 7,176,269 |
| Equities | 731,149 | 124,589 | - | 855,738 | 855,738 |
| Mortgages | - | - | 717 | 717 | 753 |
| Derivative financial instruments | 1,048 | - | - | 1,048 | 1,048 |
| Other invested assets | 71,901 | 71,507 | - | 143,408 | 143,408 |
| Loans to certificateholders | - | - | 370,888 | 370,888 | 370,888 |
| Total invested assets | 6,992,965 | 1,577,363 | 371,605 | 8,941,933 | 8,941,969 |
| Net investments for account of segregated fund unit holders | 3,746,007 | - | - | 3,746,007 | 3,746,007 |
| Total investments | $ 10,738,972 | $ 1,577,363 | $ 371,605 | $ 12,687,940 | $ 12,687,976 |
| 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 |

Also held are derivative financial liabilities recorded as FVTPL with a carrying value and fair value of $24,005 (2014: $0).

### 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.

For the year ended December 31, 2015 (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:

| December 31, 2015 | Level 1 $ | Level 2 $ | Level 3 $ | Total fair value $ |
|---|---|---|---|---|
| Cash, cash equivalents and short-term securities | 143,128 | 250,737 | - | 393,865 |
| FVTPL assets: | | | | |
| Bonds | 473,320 | 5,264,751 | 224,428 | 5,962,499 |
| Equities | 690,255 | 40,894 | - | 731,149 |
| Derivative financial instruments | 1,048 | - | - | 1,048 |
| Other invested assets | - | - | 71,901 | 71,901 |
| Net investments for account of segregated fund unit holders | 3,132,119 | 613,888 | - | 3,746,007 |
| AFS assets: | | | | |
| Bonds | 7,203 | 1,206,567 | - | 1,213,770 |
| Equities | 65,728 | 58,761 | 100 | 124,589 |
| Other invested assets | - | 30,739 | 40,768 | 71,507 |
| | 4,512,801 | 7,466,337 | 337,197 | 12,316,335 |

| December 31, 2014 | Level 1 $ | Level 2 $ | Level 3 $ | Total fair value $ |
|---|---|---|---|---|
| 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 |

Also held are derivative financial liabilities measured at fair value and classified as Level 2 on the fair value hierarchy of $24,005 (2014: $0).

For the year ended December 31, 2015 (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 |
| | $ | $ | $ | $ | $ |
| **2015** | | | | | |
| **Balance, beginning of year** | 163,203 | 54,462 | - | 39,230 | 256,895 |
| Changes during the year: | | | | | |
| Purchases | 30,906 | 19,070 | - | 384 | 50,360 |
| Sales and redemptions | (318) | (425) | - | (4,680) | (5,423) |
| Realized gains/losses | - | 20 | - | - | 20 |
| Change in unrealized gains (losses) included in: | | | | | |
| Other comprehensive income | - | - | - | 5,934 | 5,934 |
| Net Income | 30,637 | (1,226) | - | - | 29,411 |
| **Balance, end of year** | 224,428 | 71,901 | - | 40,868 | 337,197 |
| **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 |

There were no material transfers between Level 1, 2 and 3 during 2015 or 2014. The fair value of level 3 assets includes a number of investments that are impacted by different market sensitivities. The significant assumptions used to assess the market sensitivity of these assets include: changes in interest rates, real estate capitalization rates, and in the global infrastructure index. The analysis was based on a 1% increase and a 1% decrease in the relevant sensitivity. The following table shows the impact of this analysis on the fair value of the related assets at December 31:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| | $ | $ | $ | $ |
| **FVTPL assets:** | | | | |
| Interest rate sensitivity | (17,511) | 17,511 | (11,757) | 11,757 |
| Real estate capitalization rates | (9,947) | 14,285 | (10,191) | 14,637 |
| **AFS assets:** | | | | |
| Global infrastructure index sensitivity | (3) | 3 | 57 | (57) |

For the year ended December 31, 2015 (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:

| | 2015 $ | 2014 $ |
|---|---|---|
| Cash | 143,128 | 100,859 |
| Cash equivalents | 99,874 | 78,917 |
| | 243,002 | 179,776 |
| Short-term securities | 150,863 | 142,047 |
| | 393,865 | 321,823 |

Short-term securities are comprised of notes and commercial paper with a maturity date not later than April 2016 (2014: 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.

The fair value of Foresters foreign exchange forward contracts can be positive or negative. Gross derivative counterparty exposure is measured as the total fair value of all outstanding contracts in a gain position (excluding any offsetting contracts in negative positions). Foresters 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, 2015 and 2014. At December 31, 2015, the largest single counterparty exposure was $8,583 (2014: $10,215).

Foresters is exposed to credit risk resulting from the potential default of counterparties to the foreign exchange forward contracts that are in a net gain position. For contracts in a net gain position, the counterparty may be required to post collateral to Foresters. For contracts in a net liability position, the counterparties are exposed to credit risk from the potential default by Foresters. Foresters may be required to post collateral to the counterparty for contracts in a net liability position. As at December 31, 2015, Foresters had posted collateral with an estimated market value of $18,910 against a net liability of $24,005. Foresters held collateral at December 31, 2014 with an estimated market value of $4,710 against net outstanding position of $19,069. Foresters and the counterparties have the right to sell, pledge, invest, or use any posted collateral. During 2015 and 2014, Foresters did not sell, pledge, invest or use any posted collateral.

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

For the year ended December 31, 2015 (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, 2015** | | | | | | | |
| Foreign exchange forward contracts | $ 24,137 | $ 83,953 | $ 211,154 | $ 319,244 | $ 8,583 | $ 32,588 | $ (24,005) |
| Property futures purchased | - | - | - | - | - | - | - |
| Options purchased | - | - | - | - | 1,999 | - | 1,999 |
| Options written | - | - | - | - | - | 951 | (951) |
| | $ 24,137 | $ 83,953 | $ 211,154 | $ 319,244 | $ 10,582 | $ 33,539 | $ (22,957) |
| **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 |

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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Net carrying value at January 1** | 253 | 1,322 |
| Disposals | (274) | (1,046) |
| Change in fair value | - | (64) |
| Effect of change in foreign exchange rates | 21 | 41 |
| **Net carrying value at December 31** | - | 253 |

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

**For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)**

### f) Impairments

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Bonds $ | Equities $ | Bonds $ | Equities $ |
| **Balance, beginning of year** | - | 788 | 3,443 | 779 |
| Provisions in year | - | 77 | - | 339 |
| Recoveries in year | - | (282) | (3,576) | (351) |
| Foreign exchange movement | - | 92 | 133 | 21 |
| **Balance, end of year** | **-** | **675** | **-** | **788** |

During 2015, Foresters did not reverse any impairment losses previously taken on AFS bonds that were sold during the year (2014: $3,576).

### g) Net investment income

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

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | FVTPL $ | AFS $ | Other $ | Total $ | FVTPL $ | AFS $ | Other $ | Total $ |
| Interest income from: | | | | | | | | |
| Cash, cash equivalents and short-term securities | 595 | 284 | - | 879 | 600 | 197 | - | 797 |
| Bonds | 213,920 | 33,053 | - | 246,973 | 196,642 | 30,725 | - | 227,367 |
| Mortgages | | | 50 | 50 | | | 53 | 53 |
| Loans to certificateholders | - | - | 17,492 | 17,492 | - | - | 16,241 | 16,241 |
| | 214,515 | 33,337 | 17,542 | 265,394 | 197,242 | 30,922 | 16,294 | 244,458 |
| Dividend income from equities | 25,128 | 3,234 | | 28,362 | 20,308 | 2,666 | | 22,974 |
| Income from other invested assets | 2,448 | 1,528 | - | 3,976 | 1,505 | 1,573 | - | 3,078 |
| Less: Investment expenses | (5,555) | (1,619) | - | (7,174) | (6,593) | (1,211) | - | (7,804) |
| **Total interest and dividends (net)** | 236,536 | 36,480 | 17,542 | 290,558 | 212,462 | 33,950 | 16,294 | 262,706 |

No interest income was accrued on impaired invested assets in 2015 or 2014.

**For the year ended December 31, 2015 (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:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **FVTPL** | **AFS** | **Total** | **FVTPL** | **AFS** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Bonds | 135,921 | 13,388 | 149,309 | 16,547 | 6,826 | 23,373 |
| Equities | 10,118 | 6,307 | 16,425 | 27,571 | 6,145 | 33,716 |
| Derivative financial instruments | 2,489 | - | 2,489 | 6,163 | - | 6,163 |
| Other invested assets | - | - | - | 80 | 30 | 110 |
| **Net realized gains** | 148,528 | 19,695 | 168,223 | 50,361 | 13,001 | 63,362 |

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

| | **2015** | **2014** |
|---|---|---|
| | **$** | **$** |
| Bonds | (298,342) | 408,517 |
| Equities | (35,098) | (9,550) |
| Derivative financial instruments | (43,196) | (30,085) |
| Other invested assets | (1,224) | (862) |
| **Net unrealized gains on FVTPL investments** | (377,860) | 368,020 |

The net foreign currency gains (losses) on AFS assets, recognized in net investment income was $26,232 (2014: $13,185).

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 4. 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<br>$ | Canadian segregated funds<br>$ | U.K. unit linked contracts<br>$ | Total<br>$ |
|---|---|---|---|---|
| **December 31, 2015** | | | | |
| Cash, cash equivalents and short-term securities | 19,318 | 3,880 | 85,759 | 108,957 |
| Bonds | 267,178 | 27,347 | 840,044 | 1,134,569 |
| Equities | 1,421,626 | 88,642 | 1,023,427 | 2,533,695 |
| Other assets net of liabilities | (7,863) | (36) | 7,424 | (475) |
| Total net assets | 1,700,259 | 119,833 | 1,956,654 | 3,776,746 |
| Less: segregated fund seed money investment | 9,637 | 21,102 | - | 30,739 |
| **Net investments for account of segregated fund unit holders** | 1,690,622 | 98,731 | 1,956,654 | 3,746,007 |
| **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 |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

### b) Changes in segregated funds

The following table presents the change in investments for accounts 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, 2014** | 1,454,859 | 109,140 | 1,619,901 | 3,183,900 |
| **Additions to the account of the unit holders:** | | | | |
| Deposits received from unit holders | 95,566 | 5,536 | 331,377 | 432,479 |
| Investment income | 79,718 | 3,271 | 54,554 | 137,543 |
| Net realized gains on sale of investments | 14,203 | 7,818 | 6,616 | 28,637 |
| Net change in unrealized gains on investments | - | (10,543) | (57,897) | (68,440) |
| | 189,487 | 6,082 | 334,650 | 530,219 |
| **Deductions to the account of the unit holders:** | | | | |
| Amounts withdrawn or transferred by unit holders | 93,495 | 14,296 | 187,422 | 295,213 |
| Net change in unrealized losses on investments | 111,285 | - | - | 111,285 |
| Management fees and other operating costs | 26,353 | 2,436 | 25,287 | 54,076 |
| | 231,133 | 16,732 | 212,709 | 460,574 |
| Less: Income earned on segregated fund seed money investment | (47) | (241) | - | (288) |
| **Effect of change in foreign exchange rates** | 277,362 | - | 214,812 | 492,174 |
| **Balance as at December 31, 2015** | 1,690,622 | 98,731 | 1,956,654 | 3,746,007 |

| | 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 |

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 9.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 5. OTHER ASSETS

### a) Other assets

Other assets were comprised of the following:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Prepaid commissions | 72,184 | 45,614 |
| Accounts receivable | 25,674 | 23,755 |
| Deferred tax assets | 40,364 | 50,040 |
| Amounts due from reinsurers | 18,849 | 25,263 |
| Income taxes recoverable | 9,060 | 5,398 |
| Other | 16,996 | 14,012 |
| | 183,127 | 164,082 |

The carrying value of these assets approximates their fair value. Other assets of $66,645 (2014: $63,985) 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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Deferred acquisition costs, beginning of year** | 44,298 | 32,559 |
| Additions | 12,458 | 14,210 |
| Amortization | (8,034) | (4,847) |
| Effect of change in foreign exchange rates | 7,886 | 2,376 |
| **Deferred acquisition costs, end of year** | 56,608 | 44,298 |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 6. PROPERTY AND EQUIPMENT

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

| | Property | | Equipment | | |
|---|---|---|---|---|---|
| | Land<br>$ | Buildings<br>$ | Furniture and Equipment<br>$ | Leasehold Improvements<br>$ | Total |
| **Net carrying value as at December 31, 2014** | 13,955 | 27,097 | 6,372 | 5,398 | 52,822 |
| Additions | - | 737 | 4,659 | 595 | 5,991 |
| Gains included in "other comprehensive income" | | | | | - |
| changes in fair value (unrealized) | 391 | 4,041 | - | - | 4,432 |
| Disposals | - | - | (16) | - | (16) |
| Depreciation expense | - | (1,094) | (2,631) | (722) | (4,447) |
| Gains recognized in "other operating income" | | | | | - |
| Impairment loss Reversal from previous year | - | - | - | - | - |
| Effect of change in foreign exchange rates | 367 | 597 | 1,104 | 1,031 | 3,099 |
| **Net carrying value as at December 31, 2015** | 14,713 | 31,378 | 9,488 | 6,302 | 61,881 |
| | | | | | |
| **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 |

For the year ended December 31, 2015 (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, 2015** | | | |
| Land | 14,713 | - | 14,713 |
| Buildings | 31,378 | - | 31,378 |
| Furniture and equipment | 32,396 | 22,908 | 9,488 |
| Leasehold improvements | 10,190 | 3,888 | 6,302 |
| | 88,677 | 26,796 | 61,881 |
| **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 |

The land and buildings were revalued at December 31, 2015 by an independent appraiser. The fair value of land and buildings was $14,713 and $31,378 respectively ($13,955 and $27,097 on December 31, 2014). 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 7.5% and 7.4% (2014: 7.50% and 7.40%). A 1% increase in the discount and capitalization rate would result in a $5,200 decrease (2014: $5,000 decrease) in the fair value. The U.K. land and building was appraised on the basis of existing use as defined in the practice statements set out in the Royal Institution of Chartered Surveyors (“RICS”) valuation standards. The U.K. land component was valued using an assumption that consent to a change of use for residential would be forthcoming.

For the year ended December 31, 2015 (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<br>$ | U.K.<br>$ | Total<br>$ |
|---|---|---|---|
| **Balance at December 31, 2014** | 34,143 | 6,909 | 41,052 |
| Building and garage addition | 737 | - | 737 |
| Reclassification entry, accumulated depreciation | (920) | (174) | (1,094) |
| Effect of change in foreign exchange rates | - | 964 | 964 |
| **Gain/Loss Included:** | | | |
| Market value adjustment, changes in fair value unrealized (OCI) | 2,783 | 1,649 | 4,432 |
| **Balance at December 31, 2015** | 36,743 | 9,348 | 46,091 |

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 at amortized historical cost, the amounts would be as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Cost | 38,650 | 36,788 |
| Less: Accumulated depreciation | (3,899) | (2,979) |
| **Net book value** | 34,751 | 33,809 |

## 7. EMPLOYEE BENEFIT PLANS

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

All registered pension plans are in funds that are legally separate from Foresters. 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, 2014 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, 2015 for the U.S. plan, December 31, 2015 for the Canadian plan and April 1, 2017 and July 1, 2017 for the U.K. plans.

### a) Defined benefit pension plans

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

**For the year ended December 31, 2015 (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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Change in plan assets:** | | |
| Fair value of plan assets at January 1 | 284,107 | 273,514 |
| Interest income | 11,450 | 13,066 |
| Return on plan assets excluding interest income | (4,080) | 18,515 |
| Employer contributions | 5,695 | 1,441 |
| Employee contributions | 1,020 | 663 |
| Benefits paid | (11,261) | (13,770) |
| Settlement payments | - | (12,082) |
| Effect of change in foreign exchange rates | 8,127 | 2,760 |
| Fair value of plan assets at December 31 | 295,058 | 284,107 |
| **Change in projected benefit obligations:** | | |
| Accrued benefit obligations at January 1 | 294,491 | 253,440 |
| Current service cost | 6,795 | 7,911 |
| Employee contributions | 1,020 | 663 |
| Interest cost | 11,708 | 11,982 |
| Benefits paid | (11,261) | (13,770) |
| Settlement payments | - | (12,082) |
| Remeasurements | | |
| - experience adjustments | 861 | (330) |
| - actuarial (gains) losses from changes in financial assumptions | (5,443) | 41,049 |
| - actuarial (gains) losses from changes in demographic assumptions | (378) | 2,872 |
| Effect of change in foreign exchange rates | 9,609 | 2,756 |
| Accrued benefit obligations at December 31 | 307,402 | 294,491 |
| **Balance as at December 31** | **(12,344)** | **(10,384)** |

| | | |
|---|---|---|
| **Amounts recognized on statement of financial position** | | |
| Employee benefit assets | **3,784** | **8,589** |
| Employee benefit obligations (note 7b) | **16,128** | **18,973** |

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 exceeded the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. For the U.K. plan, Foresters has a liability for $14,256 (2014: $18,973) 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 was necessary as the economic benefits available were not lower than the assets recognized.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

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

| | 2015 | 2014 |
|---|---|---|
| | % | % |
| Cash and cash equivalents | | |
| Canada | 2 | 1 |
| U.K. | 5 | 3 |
| Bonds and other fixed income securities | | |
| U.S. | 2 | 2 |
| Canada | 42 | 45 |
| U.K. | 15 | 12 |
| Equities | | |
| U.S. | - | - |
| Canada | 28 | 30 |
| U.K. | 3 | 3 |
| Real Estate | | |
| Canada | 3 | 3 |
| U.K. | - | 1 |
| | 100 | 100 |

Apart from cash and cash equivalents, the plan assets had quoted prices in active markets.

For the year ended December 31, 2015 (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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Pension $ | Other benefits $ | Pension $ | Other benefits $ |
| **Change in projected benefit obligation:** | | | | |
| Accrued benefit obligations at January 1 | 28,941 | 15,733 | 23,834 | 12,334 |
| Current service cost | 658 | - | 1,098 | 3 |
| Employee contributions | - | - | - | - |
| Interest cost | 1,171 | 589 | 1,174 | 552 |
| Benefits paid | (901) | (1,010) | (689) | (860) |
| Remeasurements | | | | |
| - experience adjustments | 153 | 22 | (579) | (52) |
| - actuarial (gains) losses from changes in financial assumptions | (431) | 249 | 3,514 | 1,361 |
| - actuarial (gains) losses from changes in demographic assumptions | - | - | 585 | 1,551 |
| Effect of change in foreign exchange rates | 11 | 2,134 | 4 | 844 |
| Accrued benefit obligations at December 31 | 29,602 | 17,717 | 28,941 | 15,733 |
| Net obligation for defined benefit pension plans (note 7a) | 16,128 | - | 18,973 | - |
| **Amounts recognized on statements of financial position** | **45,730** | **17,717** | **47,914** | **15,733** |

The weighted average duration of all the defined benefit obligations was 16 years (2014: 16 years).

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

| | 2015 $ | 2014 $ |
|---|---|---|
| Within 1 year or less | 12,536 | 11,228 |
| 2-5 years | 49,208 | 45,970 |
| 6-15 years | 162,222 | 152,589 |
| Over 15 years | 499,389 | 512,808 |
| **Total** | 723,355 | 722,595 |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **As at December 31** | | |
| Fair value of defined benefit plan assets (note 8a) | 295,058 | 284,107 |
| Present value of obligations | 354,721 | 339,165 |
| **Funded status - surplus (deficit)** | (59,663) | (55,058) |

Additionally, long-term disability obligations amounted to $2,536 (2014: $2,464) and are recorded in other liabilities on the consolidated statement of financial position. The benefits provided under the long-term disability plan are income replacement based on a percentage of base wages and a continuation of existing dental and medical coverage. In providing these benefits, Foresters 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Pension benefits<br>$ | Other benefits<br>$ | Pension benefits<br>$ | Other benefits<br>$ |
| **Defined benefit pension and post retirement plan expenses:** | | | | |
| Current service cost | 7,996 | (6) | 9,520 | - |
| Net interest (income) cost | 12,878 | 589 | 13,156 | 552 |
| Administration costs | (11,450) | - | (13,066) | - |
| | 9,424 | 583 | 9,610 | 552 |
| **Defined contribution pension plans:** | | | | |
| Employer contributions | 4,234 | | 3,475 | |

Long-term disability benefit expense/(income) amounted to ($280) and ($326) during December 31, 2015 and December 31, 2014 respectively and was included in Gross benefits on the consolidated statement of comprehensive income.

For the year ended December 31, 2015 (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 year-end are summarized below:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Accumulated net actuarial losses as at January 1** | (75,985) | (44,816) |
| Changes during the year recorded in OCI: | | |
| Experience adjustments on plan liabilities | (1,042) | 958 |
| Experience adjustments on plan assets | (3,537) | 19,025 |
| Changes due to financial assumptions | 8,053 | (46,143) |
| Changes due to demographic assumptions | 378 | (5,008) |
| Limiting a net defined benefit asset to its asset ceiling | (2,507) | 221 |
| | 1,345 | (30,947) |
| Effects of change in foreign exchange rate | (5,682) | (222) |
| **Accumulated net actuarial losses as at December 31** | (80,322) | (75,985) |

For the year ended December 31, 2015 (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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Pension benefits % | Other benefits % | Pension benefits % | Other benefits % |
| **Assumptions used to calculate benefit obligations** | | | | |
| Discount rate | 4.1 | 3.9 | 4.0 | 3.6 |
| Future pension growth | 2.2 | 7.2 | 2.2 | 7.2 |
| Rate of compensation increase | 3.5 | - | 3.5 | - |
| Inflation rate | 2.1 | - | 2.1 | - |
| **Assumptions used to calculate benefit expenses** | | | | |
| Discount rate | 4.0 | 3.6 | 4.9 | 4.5 |
| Future pension growth | 2.2 | 7.4 | 2.2 | 7.4 |
| Rate of compensation increase | 4.0 | - | 4.0 | - |
| Inflation rate | 2.1 | - | 2.2 | - |

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

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

| December 31, 2015 | Defined benefit obligation | |
|---|---|---|
| | Increase $ | Decrease $ |
| Discount rate (1% movement) | (50,409) | 65,756 |
| Future pension growth (0.25% movement) | 473 | (7,254) |
| Future compensation growth (0.25% movement) | 3,148 | (3,037) |
| Inflation rate (0.25% movement) | 1,744 | (9,226) |
| Life expectancy (movement by 1 year) | 10,495 | (10,523) |

| December 31, 2014 | 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) |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 11 years (2014: 11 years) and for other retirement benefit plans was 3 years (2014: 4 years).

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **U.S.** | **Canada** | **U.K.** | **U.S.** | **Canada** | **U.K.** |
| **Longevity at age 65 for current pensioners** | | | | | | |
| Males | 21 | 24 | 24 | 20 | 24 | 24 |
| Females | 22 | 24 | 25 | 22 | 24 | 25 |
| **Longevity at age 65 for current members aged 45** | | | | | | |
| Males | 21 | 25 | 25 | 19 | 25 | 25 |
| Females | 22 | 25 | 27 | 20 | 25 | 27 |

The Medicare (post 65 years of age) inflation assumption for U.S. benefits is 7.3% for 2016 (2015: 7.5%) decreasing to 4.5% by 2029 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 6.6% for 2016 (2015: 6.8%), decreasing to 4.5% in 2030 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2015:

| December 31, 2015 | **1.0% increase** $ | **1.0% decrease** $ |
|---|---|---|
| Effect on service cost plus interest cost | 69 | (57) |
| Effect on accrued benefit obligations | 1,973 | (1,684) |

| December 31, 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) |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 8. GOODWILL AND INTANGIBLE ASSETS

### a) Goodwill

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Carrying value as at January 1** | 27,057 | 24,806 |
| Effect of change in foreign exchange rates | 5,223 | 2,251 |
| **Carrying value as at December 31** | 32,280 | 27,057 |

### 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<br>$ | Unit cost reductions<br>$ | Distribution network<br>$ | Management Contract<br>$ | Software<br>$ | Total<br>$ |
| **Net carrying value as at December 31, 2014** | 130,974 | 3,940 | 2,237 | 55,080 | 34,830 | 227,061 |
| Additions - internally developed | - | - | - | - | 5,730 | 5,730 |
| Amortization | - | (586) | (822) | (1,409) | (15,350) | (18,167) |
| Effect of change in foreign exchange rates | 25,280 | 482 | 364 | 7,054 | 5,732 | 38,912 |
| **Net carrying value as at December 31, 2015** | 156,254 | 3,836 | 1,779 | 60,725 | 30,942 | 253,536 |
| **Net carrying value as at December 31, 2013** | 120,079 | 4,372 | 2,734 | 54,364 | 53,849 | 235,398 |
| Acquisitions through business combinations | - | - | - | - | 845 | 845 |
| Additions - internally developed | - | - | - | - | 7,629 | 7,629 |
| Amortization | - | (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 |

**For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)**

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

| | Gross carrying value $ | Accumulated depreciation $ | Net carrying value $ |
|---|---|---|---|
| **December 31, 2015** | | | |
| Unit cost reductions | 6,273 | 2,437 | 3,836 |
| Distribution network | 5,254 | 3,475 | 1,779 |
| Management contract | 63,447 | 2,722 | 60,725 |
| Software | 77,047 | 46,105 | 30,942 |
| | 152,021 | 54,739 | 97,282 |
| **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 |

Included in software was $434 (2014: $4,145) that was still under development and had not been amortized. For the remaining software, the useful life is between 1-4 years (2014: 1-4 years). During 2015, Foresters expensed research and development costs amounting to $7,854 (2014: $1,414). Amortization and impairment is included under operating expenses on the consolidated statement of comprehensive income. No impairment of internally developed software was recorded for the year ended December 31, 2015 (2014: $19,471).

The management contracts are the children's trust fund savings plan management contracts in the U.K. which 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 underlying policies. There was no indicator for impairment and as a result an impairment loss was not recognized.

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

In the U.S., FFHC'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 did not need to be recognized. In determining the key assumptions management completed an extensive review and the key assumptions identified were:

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

| | 2015 % | 2014 % |
|---|---|---|
| Growth rate for assets under mangement | 2.3%-14.2% | 3.0%-8.0% |
| Terminal period growth rate | 2.0% | 2.0% |
| Discount rate (after-tax) | 12.7% | 14.0% |

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

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:

| | 2015 % | 2014 % |
|---|---|---|
| Growth rate in assets under management decreases by | 7.7% | 2.2% |
| Growth rate in terminal period decreases to | -4.5% | 0.0% |
| Discount rate increases by | 3.4% | 1.0% |

## 9. 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, Change Management Policy, Investment Policy, Pricing Policy, Dividend Policy, Policy on the Criteria for Changing Adjustable Certificates, Reinsurance Risk Management Policy and Capital Management Policy, all of which are annually approved by the Board. Foresters 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 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 credit risk. Specific guidelines have been established to minimize undue concentration of exposure to a single debtor or a group of related debtors; to limit the purchase of fixed income securities to investment-grade assets; and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

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

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

For the year ended December 31, 2015 (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 was as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Cash, cash equivalents and short-term securities | 393,865 | 321,823 |
| Bonds | 7,176,269 | 6,449,686 |
| Mortgages | 717 | 756 |
| Derivative financial instruments | 1,048 | 20,584 |
| Loans to certificateholders | 370,888 | 317,007 |
| Reinsurance assets | 302,341 | 216,678 |
| Accrued investment income | 78,313 | 68,507 |
| Amounts due from reinsurers | 18,849 | 25,263 |
| Accounts receivable and other receivables | 27,347 | 26,320 |
| **Maximum exposure to credit risk** | 8,369,637 | 7,446,624 |

### 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 had 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.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

These limits apply to AAA rated bonds and other fixed-term securities, and are further constrained for lower rated bonds in all three countries of operation.
The following table provides details of the carrying value of bonds by industry sector and country of residence of the issuer:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | FVTPL | AFS | Total | FVTPL | AFS | Total |
| **Bonds issued or guaranteed by:** | | | | | | |
| U.S. treasury and other U.S. agencies | $ 1,171,507 | $ 177,301 | $ 1,348,808 | $ 947,158 | $ 249,641 | $ 1,196,799 |
| Canadian federal government | 121,252 | 24,446 | 145,698 | 88,172 | 3,476 | 91,648 |
| Canadian provincial and municipal government | 660,439 | 24,989 | 685,428 | 741,676 | 21,277 | 762,953 |
| U.K. government | 539,791 | 44,666 | 584,457 | 520,622 | 36,857 | 557,479 |
| Other foreign governments | 143,933 | 9,466 | 153,399 | 140,957 | 7,622 | 148,579 |
| Total government bonds | 2,636,922 | 280,868 | 2,917,790 | 2,438,585 | 318,873 | 2,757,458 |
| **By industry sector** | | | | | | |
| Financial | 1,313,808 | 473,490 | 1,787,298 | 1,196,526 | 394,275 | 1,590,801 |
| Industrial | 360,964 | 84,642 | 445,606 | 300,715 | 76,704 | 377,419 |
| Utilities | 322,935 | 63,025 | 385,960 | 310,000 | 49,622 | 359,622 |
| Energy | 244,539 | 34,547 | 279,086 | 224,875 | 30,789 | 255,664 |
| Consumer | 255,023 | 49,246 | 304,269 | 211,801 | 32,728 | 244,529 |
| Consumer Staples | 231,029 | 65,600 | 296,629 | 178,104 | 54,137 | 232,241 |
| Communications | 163,473 | 80,549 | 244,022 | 154,525 | 71,727 | 226,252 |
| Health Care | 147,082 | 19,653 | 166,735 | 137,439 | 18,266 | 155,705 |
| Basic materials | 125,776 | 24,830 | 150,606 | 115,341 | 22,539 | 137,880 |
| Technology | 97,177 | 25,691 | 122,868 | 15,370 | 27,702 | 43,072 |
| Other | 63,771 | 11,629 | 75,400 | 59,199 | 9,844 | 69,043 |
| **Total corporate bonds** | 3,325,577 | 932,902 | 4,258,479 | 2,903,895 | 788,333 | 3,692,228 |
| | $ 5,962,499 | $ 1,213,770 | $ 7,176,269 | $ 5,342,480 | $ 1,107,206 | 6,449,686 |
| **Allocation by country of issuer:** | | | | | | |
| United States | $ 3,339,147 | $ 835,980 | $ 4,175,127 | $ 2,642,905 | $ 810,895 | $ 3,453,800 |
| Canada | 1,536,091 | 218,566 | $ 1,754,657 | 1,637,474 | 179,298 | 1,816,772 |
| U.K. | 714,397 | 64,390 | $ 778,787 | 666,570 | 57,599 | 724,169 |
| Other | 372,864 | 94,834 | $ 467,698 | 395,531 | 59,414 | 454,945 |
| | $ 5,962,499 | $ 1,213,770 | $ 7,176,269 | $ 5,342,480 | $ 1,107,206 | 6,449,686 |

The credit rating of the bond portfolio was as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Bond quality** | **$** | **%** | **$** | **%** |
| Investment grade: | | | | |
| AAA | 1,128,186 | | 1,073,763 | |
| AA | 2,124,730 | | 1,950,160 | |
| A | 2,450,053 | | 2,307,842 | |
| BBB | 1,381,648 | | 1,093,484 | |
| | 7,084,617 | 98.7 | 6,425,249 | 99.6 |
| BB and lower | 91,652 | 1.3 | 24,437 | 0.4 |
| Total bonds | 7,176,269 | 100.0 | 6,449,686 | 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 is established when the asset becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the asset and related investment income. The carrying value of an impaired asset is reduced to its estimated net realizable value at the time of recognition of impairment. Impairment losses on invested assets are shown in Note 3 f.

Insurance contract liabilities include an asset default provision for credit losses for future asset defaults as outlined in note 11.

### b) Market risk

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

- Currency risk
- Interest rate risk
- Equity market risk

### i) Currency risk

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

Administrative expenses

Foresters incurs the majority of its U.S. branch administrative expenses in Canadian dollars and is therefore exposed to foreign exchange rate fluctuations between the Canadian and U.S. dollars. Foresters enters into foreign exchange forward contracts (see note 3d) 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 $6,458 (2014: $2,918). 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 $6,903 (2014: $3,170).

**For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)**

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 | | Increase/Decrease in surplus | |
|---|---|---|---|---|
| | 2015<br>$ | 2014<br>$ | 2015<br>$ | 2014<br>$ |
| Impact of 1.0% strengthening in the Canadian dollar | | | | |
| U.S. dollar | (487) | (24) | (17,452) | (14,251) |
| U.K. pound | (9) | (39) | (2,036) | (1,688) |

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

### ii) Interest rate risk

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

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

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

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

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

Many annuity and universal life insurance certificates have minimum credited interest rate guarantees ranging from 0.25% to 4.5% (2014: 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 $61,644 (2014: $71,000) 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 $49,946 (2014: $56,400).

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, 2015 would result in an estimated after-tax decrease in OCI of $39,540 (2014: $47,800). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $32,601 (2014: $43,457).

### iii) Equity market risk

Some insurance contract liabilities and investment contract liabilities such as products with long duration are supported in part by equities. There will be impacts on these liabilities, with related changes in surplus, as equity market values fluctuate. A 10.0% increase in equity markets would be expected to decrease insurance contract liabilities and increase surplus by approximately $21,762 (2014: $14,900). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities and decrease surplus by approximately $25,790 (2014: $16,700).

Equities designated as AFS generally do not support insurance contract liabilities or investment contract liabilities. Changes in the fair value of AFS equities are recorded in OCI and cause a corresponding change in surplus. For AFS equities, an immediate 10.0% increase in stock prices at December 31, 2015, would result in an estimated after-tax increase in OCI of $18,462 (2014: $16,000). Conversely, an immediate 10.0% decrease in stock prices would have an equal and opposite effect.

### c) Insurance risk

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

Foresters sells participating and non-participating insurance and financial investment products. The types of products include life, health and annuity. Each product can have a number of contingencies associated with it, including mortality, lapse and expense risk. Assumptions are made based on company and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information as outlined in the Pricing Policy. These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

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

The following risk factors are components of insurance risk:

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

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

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

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

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed in note 11d. Annually, as part of Dynamic

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

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 11d.

### 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Immediate scenario | Ongoing scenario | Immediate scenario | Ongoing scenario |
| Allowable liquid assets | $ 7,749,647 | $ 8,002,632 | $ 6,965,303 | $ 7,180,880 |
| Risk-adjusted liquidity of liabilities | 2,839,952 | 3,257,957 | 2,550,644 | 3,182,250 |
| Liquidity ratio | 272.9% | 226.8% | 273.1% | 225.7% |

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.

**For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)**

| 2015 | 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 | 393,865 | - | - | - | 393,865 |
| Bonds | 140,296 | 1,649,383 | 2,660,499 | 2,726,091 | 7,176,269 |
| Mortgages | - | 717 | - | - | 717 |
| Derivative financial instruments | 1,678 | 2,951 | (12,746) | (14,840) | (22,957) |
| Reinsurance assets | (1,879) | 14,914 | 104,968 | 184,338 | 302,341 |
| Insurance contract liabilities | (221,181) | (1,191,514) | (2,722,005) | (2,870,009) | (7,004,709) |
| Investment contract liabilities | (172,064) | | | | (172,064) |
| Benefits payable | (99,050) | (76,274) | - | - | (175,324) |
| Net investments for account of segregated fund unit holders | 3,746,007 | - | - | - | 3,746,007 |
| Investment contract liabilities for account of segregated fund unit holders | (3,746,007) | - | - | - | (3,746,007) |
| | 41,665 | 400,177 | 30,716 | 25,580 | 498,138 |
| **2014** | | | | | |
| 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 |

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.

**For the year ended December 31, 2015 (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 investments for the account of segregated fund unit holders is shown on the same basis as these assets would be liquidated when necessary to settle the liability. These cash flows are shown in the "On demand or within 1 year or less" column.

Actual maturities for bonds may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. Both contractual and operating lease commitments are disclosed in note 21.

## 10. OTHER LIABILITIES

Other liabilities were comprised of the following:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Accounts payable and accrued liabilities | 77,417 | 70,276 |
| Payroll, other compensation and benefits | 60,923 | 52,871 |
| Deferred tax liabilities | 5,734 | 6,281 |
| Current income tax payable | 5,887 | 7,291 |
| Due to reinsurers | 4,791 | 4,274 |
| Other liabilities | 28,755 | 30,963 |
| | 183,507 | 171,956 |

The fair value of these liabilities approximates their carrying value. Within 12 months from the reporting date, $119,705 (2014: $113,364) will be realized.

## 11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

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

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

For the year ended December 31, 2015 (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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Insurance contract liabilities (gross) | 7,004,709 | 6,362,202 |
| Reinsurance assets | 302,341 | 216,678 |
| **Net insurance contract liabilities** | 6,702,368 | 6,145,524 |

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

| | 2015<br>Net insurance contract liabilities<br>$ |
|---|---|
| **Beginning of year** | 6,145,524 |
| New business | 128,224 |
| Refinement of assumptions | 1,255 |
| Refinement of methods and models | (57,319) |
| Change in inforce due to changes in Interest Rates | (176,762) |
| Change in inforce from other movements | (107,623) |
| **Change in contract liability** | (212,225) |
| Effect of change in foreign exchange rates | 769,069 |
| **End of year** | 6,702,368 |

Reinsurance assets increased by $85,663 in 2015 (2014: $29,371) due to a change in the required scenario used to quantify interest rate risk.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

| | 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 |

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

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

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

| | 2015 $ | 2014 $ |
|---|---|---|
| **Refinement of assumptions:** | | |
| Updated maintenance expense assumptions | (3,934) | (49,045) |
| Updated mortality and lapse assumptions for recent experience | 47,716 | 59,513 |
| Updated dividend assumptions | 4,699 | (2,721) |
| Updated fraternal experience assumptions | (44,364) | - |
| Updated credited rates | (2,862) | - |
| Updated future asset return assumptions | - | 8,704 |
| Release UL guarantee provision | - | (14,190) |
| Provision for model and scenario review | - | 7,500 |
| | 1,255 | 9,761 |
| **Refinement of methods and models:** | | |
| Refinement to the treatment of policy loans | (35,804) | - |
| Refinement to reinsurance modeling | (7,281) | - |
| Refinement of investment income tax modeling | (8,906) | - |
| Asset model enhancements | - | (59,684) |
| Changes in applicable actuarial standards related to investment rate assumptions | - | (45,992) |
| Other model improvements | (5,328) | 3,861 |
| | (57,319) | (101,815) |

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:

| | 2015 $ | 2014 $ |
|---|---|---|
| **Balance, beginning of year *** | 120,404 | 94,364 |
| Net strengthening (release) of provision | (10,302) | 24,184 |
| Effect of change in foreign exchange rates | 11,673 | 1,856 |
| **Balance, end of year *** | 121,775 | 120,404 |

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

## c) Composition of assets supporting 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 value of assets supporting these liabilities. Therefore, changes in the fair value of insurance contract liabilities primarily offset changes in the fair value of the invested assets supporting these liabilities.

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

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## Assets supporting liabilities and surplus by division

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Cash, cash equivalents and short-term securities | Bonds | Equities | Other invested assets * | Other | Total |
| **North America Life Insurance** | | | | | | |
| **United States Branch** | | | | | | |
| Insurance | $ 6,191 | $ 2,146,845 | $ 133,607 | $ 2,261 | $ 167,821 | $ 2,456,725 |
| Annuities | 2,837 | 377,099 | 2,478 | 1,048 | 4,633 | 388,095 |
| Investment contracts | - | 20,117 | - | - | - | 20,117 |
| Surplus | 124,420 | 877,401 | 9,708 | 213,034 | 131,234 | 1,355,797 |
| **Canada** | | | | | | |
| Insurance | 7,792 | 1,128,465 | 109,309 | 76,997 | 229,539 | 1,552,102 |
| Annuities | - | 271,664 | - | 6,873 | 3,611 | 282,148 |
| Investment contracts | - | 29,009 | - | - | - | 29,009 |
| Surplus | 26,572 | 129,434 | 133 | 48,598 | 136,095 | 340,832 |
| **FFHC** | | | | | | |
| Insurance | 1,863 | 244,244 | - | 131,479 | 50,102 | 427,688 |
| Annuities | 26,455 | 519,836 | - | - | 30,164 | 576,455 |
| Asset management | 119,019 | - | 27,496 | 9,637 | 45,520 | 201,672 |
| Investment contracts | - | 9,233 | - | - | - | 9,233 |
| Surplus | 298 | 16,543 | - | - | - | 16,841 |
| **United Kingdom** | | | | | | |
| Insurance | 31,155 | 696,693 | 414,726 | 2,466 | 63,554 | 1,208,594 |
| Annuities | 14,021 | 168,407 | 39,265 | 8,862 | - | 230,555 |
| Asset management | 8,073 | - | - | - | 36,230 | 44,303 |
| Investment contracts | - | 98,496 | - | - | - | 98,496 |
| Surplus | 13,566 | - | 22,689 | - | 57,535 | 93,790 |
| **Fraternal **** | 2,922 | 201,750 | 4,268 | - | 6,197 | 215,137 |
| **Corporate** | 8,681 | 241,033 | 92,059 | 14,806 | 9,635 | 366,214 |
| | $ 393,865 | $ 7,176,269 | $ 855,738 | $ 516,061 | $ 971,870 | $ 9,913,803 |

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

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

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## Assets supporting liabilities and surplus by division- continued

| | 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. 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 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.

For the year ended December 31, 2015 (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 9b).

In note 9b) market risk is addressed. Note 9b) 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 | 2015<br>$ | 2014<br>$ |
|---|---|---|---|
| Mortality Rates | | | |
| adversely impacted by increase | + 2% | (51,558) | (45,041) |
| adversely impacted by decrease | - 2% | (1,550) | (1,345) |
| Lapse Rates | 10% Adverse | (72,696) | (70,528) |
| Maintenance Expense Level | + 10% | (57,904) | (50,412) |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 12. 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.<br>$ | Canada<br>$ | U.K.<br>$ | Total<br>$ |
|---|---|---|---|---|
| **2015** | | | | |
| **Balance, beginning of year** | 23,883 | 29,170 | 107,492 | 160,545 |
| Deposits received during the year | 3,003 | 2,278 | 501 | 5,782 |
| Surrenders and withdrawals | (3,119) | (3,289) | (9,284) | (15,692) |
| Interest credited and other | 890 | 850 | 1,427 | 3,167 |
| Effect of change in foreign exchange rates | 4,692 | - | 13,570 | 18,262 |
| **Balance, end of year** | **29,349** | **29,009** | **113,706** | **172,064** |
| | | | | |
| **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** |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 13. 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.

| | | 2015 | 2014 |
|---|---|---|---|
| **Capital available** | A | $ 2,209,897 | $ 1,828,697 |
| **Capital required:** | | | |
| Asset default and market risk | | 190,129 | 156,928 |
| Insurance risks | | 206,129 | 182,018 |
| Interest rate and foreign exchange risks | | 120,059 | 108,341 |
| Total capital required | B | $ 516,317 | $ 447,287 |
| **MCCSR ratio (A/B)** | | 428% | 409% |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 14. PREMIUMS

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross | Ceded | Net | Gross | Ceded | Net |
| | $ | $ | $ | $ | $ | $ |
| Life and health | 833,573 | (85,117) | 748,456 | 692,689 | (75,538) | 617,151 |
| Annuities | 139,897 | (26) | 139,871 | 139,723 | (6) | 139,717 |
| | 973,470 | (85,143) | 888,327 | 832,412 | (75,544) | 756,868 |

## 15. FEE REVENUE AND OTHER OPERATING INCOME

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

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Fee revenue: | | |
| Management fees on segregated fund assets | 113,106 | 93,101 |
| Management fees on proprietary mutual funds | 91,878 | 87,657 |
| Brokerage fees | 14,690 | 11,701 |
| Distribution and service fees | 113,095 | 77,484 |
| **Total fee revenue** | 332,769 | 269,943 |
| Other operating income: | | |
| Net rental expense | (3,236) | (2,815) |
| Supplementary contract deposits (with life contingency) | 872 | 1,042 |
| Foreign currency gains | 1,666 | 466 |
| Interest received on tax recovery | - | 10,671 |
| Other | 17,413 | 14,506 |
| **Total other operating income** | 16,715 | 23,870 |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 16. BENEFITS

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross | Ceded | Net | Gross | Ceded | Net |
| | $ | $ | $ | $ | $ | $ |
| Life & health | 612,122 | (37,572) | 574,550 | 549,576 | (34,966) | 514,610 |
| Fraternal | 4,441 | - | 4,441 | 4,600 | - | 4,600 |
| Annuities | 89,165 | (421) | 88,744 | 85,343 | (320) | 85,023 |
| | 705,728 | (37,993) | 667,735 | 639,519 | (35,286) | 604,233 |

## 17. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Employee benefits: | | |
| Salaries and benefits | 164,970 | 148,282 |
| Defined benefit pension and post retirement plan expenses (note 7) | 10,007 | 10,162 |
| Defined contribution plan expenses (note 7) | 4,234 | 3,475 |
| | 179,211 | 161,919 |
| Professional and consulting fees | 19,017 | 17,497 |
| Technology related fees | 32,739 | 32,783 |
| Service fees | 48,017 | 40,047 |
| Software costs expensed during the year | 8,705 | 6,236 |
| Operating lease costs | 11,571 | 11,198 |
| Depreciation, amortization and impariment of property, equipment and intangibles | 30,648 | 41,434 |
| Other expenses | 54,932 | 41,649 |
| **Total operating expenses** | 384,840 | 352,763 |

Foresters recovered commissions and operating expenses from reinsurers in the amount of $14,709 (2014: $12,905) and $824 (2014: $783) respectively.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 18. 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 $ |
|---|---|---|---|---|
| **2015** | | | | |
| **Current income tax expense (recovery):** | | | | |
| Current year | 12,803 | 6,669 | (174) | 19,298 |
| **Deferred income tax expense (benefit):** | | | | |
| Relating to the origination and reversal of temporary differences | 11,150 | (1,742) | 4,439 | 13,847 |
| Change in unrecognized deductible temporary differences | - | 1,569 | - | 1,569 |
| | 11,150 | (173) | 4,439 | 15,416 |
| **Total income taxes** | 23,953 | 6,496 | 4,265 | 34,714 |
| **2014** | | | | |
| **Current income tax expense (recovery):** | | | | |
| Current year | 15,021 | (22,265) | 9,062 | 1,818 |
| **Deferred income tax expense (benefit):** | | | | |
| Relating to the origination and reversal of temporary differences | 1,188 | 35,704 | 2,223 | 39,115 |
| Change in unrecognized deductible temporary differences | - | (35,876) | (2,650) | (38,526) |
| | 1,188 | (172) | (427) | 589 |
| **Total income taxes** | 16,209 | (22,437) | 8,635 | 2,407 |

Cash taxes paid were $25,676 (2014: $26,440). Cash tax refunds received during the year were $4,258 including $16 in interest. (2014: Tax refunds of $38,612 including interest of $10,671).

For the year ended December 31, 2015 (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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Income tax recovery (expense) on net unrealized gains on AFS assets | 861 | (1,409) |
| Income tax recovery on reclassification of realized gains on AFS assets | 65 | 293 |
| Income tax recovery (expense) on net actuarial gains (losses) on employee benefit plans | 3 | 57 |
| Total income tax recovery (expense) | 929 | (1,059) |

### 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:

| | 2015<br>% | 2015<br>$ | 2014<br>% | 2014<br>$ |
|---|---|---|---|---|
| Net income after taxes | | 124,113 | | 102,782 |
| Income taxes | | 34,714 | | 2,407 |
| **Income before income taxes** | | 158,827 | | 105,189 |
| Combined federal and provincial statutory income tax rate for the current year | 26.5% | 42,121 | 26.4% | 27,791 |
| Effect of tax rates in foreign jurisdictions | 7.0% | 11,038 | (9.5%) | (9,993) |
| Canadian tax refunds as a result of reassessments | 0.0% | - | (25.4%) | (26,739) |
| Tax exempt income | (12.0%) | (19,059) | 6.0% | 6,332 |
| Capital tax and investment income tax | 0.8% | 1,191 | 4.9% | 5,102 |
| Other taxes | 0.7% | 1,059 | 0.6% | 577 |
| Under (over) provided in prior years | (1.0%) | (1,636) | (0.6%) | (663) |
| **Effective tax rate** | 21.9% | 34,714 | 2.3% | 2,407 |

### 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.

For the year ended December 31, 2015 (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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Deferred tax assets | 40,364 | 50,504 |
| Deferred tax liabilities | 5,734 | 6,281 |
| **Net deferred tax assets** | 34,630 | 44,223 |

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, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Asset<br>$ | Liability<br>$ | Net<br>$ | Asset<br>$ | Liability<br>$ | Net<br>$ |
| Bonds | - | 10,581 | (10,581) | - | 18,575 | (18,575) |
| Loans to certificateholders | - | 10,518 | (10,518) | - | 10,780 | (10,780) |
| Other invested assets | - | 5,791 | (5,791) | - | 1,379 | (1,379) |
| Property and equipment | 1 | 3,093 | (3,092) | 2 | 1,678 | (1,676) |
| Employee benefit assets and obligations | 2,745 | 1,325 | 1,420 | 2,628 | 1,811 | 817 |
| Insurance contract liabilities | 10,900 | 3,245 | 7,655 | 23,865 | - | 23,865 |
| Other liabilities | 15,298 | - | 15,298 | 15,450 | - | 15,450 |
| Tax loss carry-forwards | 40,239 | - | 40,239 | 36,501 | - | 36,501 |
| **Recognized deferred tax assets (liabilities)** | 69,183 | 34,553 | 34,630 | 78,446 | 34,223 | 44,223 |

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Beginning of year** | 44,223 | 43,672 |
| (Charges) credits included in net income | (15,416) | (589) |
| (Charges) credits included in OCI | 156 | (298) |
| Exchange rate differences | 5,667 | 1,438 |
| **End of year** | 34,630 | 44,223 |

For the year ended December 31, 2015 (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:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Canada $ | U.K. $ | Total $ | Canada $ | U.K. $ | Total $ |
| Tax losses and unclaimed deductions | 12,928 | 3,359 | 16,287 | 11,359 | 3,359 | 14,718 |

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 $34,065 (2014: $30,166). 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 $50,784 (2014: $46,835) 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.

## 19. 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 3), and
- Fee and other income derived primarily from investment management services (note 15).

In addition, Foresters has a fraternal operation which works closely with the insurance operations in all three countries to develop and administer member benefits.

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

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

# Notes to consolidated financial statements

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## Segmented statement of comprehensive income

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | North America Life Insurance | | | | | | |
| | United States Division | Canada | FFHC | United Kingdom | Fraternal | Corporate | Total |
| **REVENUE** | | | | | | | |
| Gross written premiums | $ 540,068 | $ 181,020 | $ 166,161 | $ 85,257 | $ 964 | $ - | $ 973,470 |
| Ceded premiums | (36,769) | (38,131) | (8,514) | (1,729) | - | - | (85,143) |
| **Net Written Premiums** | 503,299 | 142,889 | 157,647 | 83,528 | 964 | - | 888,327 |
| **Net Investment Income** | | | | | | | |
| Interest and dividends (net) | 120,986 | 71,989 | 34,118 | 48,650 | 7,028 | 7,787 | 290,558 |
| Net realized gains (losses) | 100,103 | 50,607 | 1,574 | 5,629 | 4,829 | 5,481 | 168,223 |
| Unrealized gains (losses) on fair value through profit and loss investments | (223,481) | (68,814) | (27,110) | (39,717) | (18,738) | - | (377,860) |
| Net unrealized foreign currency gains (losses) on available-for-sale assets | - | - | - | - | - | 26,232 | 26,232 |
| **Total Investment Income** | (2,392) | 53,782 | 8,582 | 14,562 | (6,881) | 39,500 | 107,153 |
| **Fee revenue** | 5,526 | 1,564 | 250,507 | 75,172 | - | - | 332,769 |
| **Other operating income** | (70) | (2,743) | 16,549 | 1,303 | 10 | 1,666 | 16,715 |
| **TOTAL REVENUE** | 506,363 | 195,492 | 433,285 | 174,565 | (5,907) | 41,166 | 1,344,964 |
| **Benefits and expenses** | | | | | | | |
| Gross benefits | 335,167 | 146,445 | 40,407 | 179,270 | 4,439 | - | 705,728 |
| Ceded benefits | (15,851) | (17,964) | (4,178) | - | - | - | (37,993) |
| Gross change in insurance contract liabilities | (75,068) | 14,169 | 90,770 | (99,300) | (74,205) | - | (143,634) |
| Ceded change in insurance contract liabilities | (17,385) | (51,901) | (832) | 1,534 | - | - | (68,584) |
| Dividends | 27,617 | 11,532 | 995 | 4,553 | - | - | 44,697 |
| Commissions | 136,380 | 45,885 | 99,467 | 16,101 | - | - | 297,833 |
| Operating expenses | 109,878 | 32,904 | 135,930 | 63,900 | 18,594 | 23,634 | 384,840 |
| Ceded commissions and operating expenses | (12,945) | (2,272) | (316) | - | - | - | (15,533) |
| Fraternal investment | - | - | - | - | 18,783 | - | 18,783 |
| | 487,793 | 178,798 | 362,243 | 166,058 | (32,389) | 23,634 | 1,186,137 |
| **Net income (loss) before income taxes** | 18,570 | 16,694 | 71,042 | 8,507 | 26,482 | 17,532 | 158,827 |
| Income taxes | 292 | 6,496 | 23,661 | 4,265 | - | - | 34,714 |
| **Net income (loss)** | 18,278 | 10,198 | 47,381 | 4,242 | 26,482 | 17,532 | 124,113 |
| **Other comprehensive income (loss)** | 186,254 | 2,245 | 39,269 | 190 | 22,904 | 10,226 | 261,088 |
| **Total comprehensive income (loss)** | $ 204,532 | $ 12,443 | $ 86,650 | $ 4,432 | $ 49,386 | $ 27,758 | $ 385,201 |

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## Segmented statement of comprehensive income - continued

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | North America Life Insurance | | | | | | |
| | United States Division | Canada | FFHC | 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 | 198,637 | 63,658 | - | - | 269,943 |
| **Other operating income** | (153) | 8,965 | 13,497 | 1,088 | 7 | 466 | 23,870 |
| **TOTAL REVENUE** | 683,803 | 365,044 | 395,113 | 260,670 | 20,499 | 32,825 | 1,757,954 |
| **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 | 105,228 | 59,304 | 16,221 | 29,718 | 352,763 |
| Ceded commissions and operating expenses | (10,723) | (2,732) | (233) | - | - | - | (13,688) |
| Fraternal investment | - | - | - | - | 18,012 | - | 18,012 |
| | 688,372 | 300,996 | 344,147 | 237,006 | 52,535 | 29,718 | 1,652,774 |
| **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 |

# Notes to consolidated financial statements

**For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)**

## Segmented statement of financial position

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | North America Life Insurance | | | | | | |
| | United States Division | Canada | FFHC | United Kingdom | Fraternal* | Corporate | Total |
| **ASSETS** | | | | | | | |
| **Invested Assets** | | | | | | | |
| Cash, cash equivalents and short-term securities | $ 102,141 | $ 33,406 | $ 147,635 | $ 66,815 | $ 35,188 | $ 8,680 | $ 393,865 |
| Bonds | 3,421,461 | 1,558,572 | 789,856 | 963,596 | 201,750 | 241,034 | 7,176,269 |
| Equities | 145,793 | 109,441 | 27,499 | 476,679 | 4,268 | 92,058 | 855,738 |
| Mortgages | 717 | - | - | - | - | - | 717 |
| Derivative financial instruments | 1,048 | - | - | - | - | - | 1,048 |
| Other invested assets | 25,962 | 93,003 | 9,637 | - | - | 14,806 | 143,408 |
| Loans to certificateholders | 188,616 | 39,465 | 131,479 | 11,328 | - | - | 370,888 |
| **Total invested assets** | 3,885,738 | 1,833,887 | 1,106,106 | 1,518,418 | 241,206 | 356,578 | 8,941,933 |
| Reinsurance assets | 89,471 | 183,538 | 17,322 | 12,010 | - | - | 302,341 |
| Other assets | 16,513 | 147,861 | 93,668 | 66,866 | 6,195 | (13,055) | 318,048 |
| Property and equipment | 964 | 37,847 | 12,833 | 10,236 | 1 | - | 61,881 |
| Employee benefit assets | 3,784 | - | - | - | - | - | 3,784 |
| Goodwill and intangible assets | 192,957 | - | 1,960 | 68,208 | - | 22,691 | 285,816 |
| | 4,189,427 | 2,203,133 | 1,231,889 | 1,675,738 | 247,402 | 366,214 | 9,913,803 |
| Net investments for accounts of segregated fund unit holders | - | 98,731 | 1,690,622 | 1,956,654 | - | - | 3,746,007 |
| **TOTAL ASSETS** | $ 4,189,427 | $ 2,301,864 | $ 2,922,511 | $ 3,632,392 | $ 247,402 | $ 366,214 | $ 13,659,810 |
| **LIABILITIES** | | | | | | | |
| Insurance contract liabilities | $ 2,798,052 | $ 1,784,965 | $ 855,740 | $ 1,348,797 | $ 217,155 | $ - | $ 7,004,709 |
| Investment contract liabilities | 20,116 | 29,009 | 9,233 | 113,706 | - | - | 172,064 |
| Benefits payable and provision for unreported claims | 114,807 | 33,871 | 4,066 | 22,580 | - | - | 175,324 |
| Other liabilities | 41,375 | 44,754 | 91,435 | 20,081 | 4,214 | 5,653 | 207,512 |
| Employee benefit obligations | 13,217 | 35,974 | - | 14,256 | - | - | 63,447 |
| | 2,987,567 | 1,928,573 | 960,474 | 1,519,420 | 221,369 | 5,653 | 7,623,056 |
| Net investment contract liablities for accounts of segregated fund unit holders | - | 98,731 | 1,690,622 | 1,956,654 | - | - | 3,746,007 |
| **TOTAL LIABILITIES** | 2,987,567 | 2,027,304 | 2,651,096 | 3,476,074 | 221,369 | 5,653 | 11,369,063 |
| **SURPLUS** | | | | | | | |
| Retained earnings | 887,120 | 251,061 | 196,102 | 128,055 | 18,572 | 329,943 | 1,810,853 |
| Accumulated other comprehensive income | 314,740 | 23,499 | 75,313 | 28,263 | 7,461 | 30,618 | 479,894 |
| **TOTAL SURPLUS** | 1,201,860 | 274,560 | 271,415 | 156,318 | 26,033 | 360,561 | 2,290,747 |
| **TOTAL LIABILITIES AND SURPLUS** | $ 4,189,427 | $ 2,301,864 | $ 2,922,511 | $ 3,632,392 | $ 247,402 | $ 366,214 | $ 13,659,810 |

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

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## Segmented statement of financial position-continued

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | North America Life Insurance | | | | | | |
| | United States Division | Canada | FFHC | 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 |

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

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 20. 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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Salaries and other short term employee benefits | 19,093 | 16,652 |
| Post-employment benefits | 1,590 | 1,603 |
| Other long-term benefits | 1,502 | 1,505 |
| Termination benefits | 1,892 | 2,299 |
| **Total compensation of key management personnel** | 24,077 | 22,059 |

### b) Interests in investment funds managed by Foresters

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

The objective of these funds is to provide third party investors a return on investment based on capital appreciation and investment income through investments in various instruments such as stocks and bonds. The fees earned for managing these mutual funds are presented in other operating income on the consolidated statement of comprehensive income. Foresters 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 $295 (2014: $248), $1,181 (2014: $1,415) and $12,863 (2014: $2,435) respectively.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 21. 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, 2015, Foresters contractual obligations and commitments were as follows:

| | 1 year or less<br>$ | 2- 5 years<br>$ | Over 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|
| Obligations under service contracts | 24,825 | 77,452 | 36,620 | 138,897 |
| Lease obligations | 10,433 | 32,953 | 33,005 | 76,391 |
| Investment commitment | 55,652 | 15,000 | - | 70,652 |
| Other | 3,447 | 11,502 | 9,148 | 24,097 |
| Total contractual obligations | 94,357 | 136,907 | 78,773 | 310,037 |

## 22. 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.

For the year ended December 31, 2015 (amounts in thousands of Canadian dollars except where otherwise stated)

## 23. 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 (%) | |
|---|---|---|---|---|
| | | | 2015 | 2014 |
| Foresters Financial Holding Company, Inc. | U.S. | Insurance and asset management operations | 100 | 100 |
| Foresters Equity Services Inc. | U.S. | Investment broker | 100 | 100 |
| Foresters Life Insurance Company | Canada | Insurance 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 September 21, 2015, First Investors Financial Corporation was renamed Foresters Financial Holding Company, Inc.

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.

## 24. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in 2015. Primarily fee revenue and operating income, and, operating expenses for the year end December 31, 2014 has been increased by $14.9 million to reflect an appropriate presentation of these amounts with no impact on net income.