Foresters Financial

Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2018

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MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Foresters Financial. 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 Financial, 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 certificate holders' 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 Financial and prepare a report for the Board of Directors. The analysis tests Foresters Financial's 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 Financial 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 Financial's 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 her report on the insurance and investment contract liabilities. The Auditors' report outlines the scope of their audit and their opinion.

James Boyle	Alvin Sharma
President and Chief Executive Officer	*Global Chief Financial Officer*

Toronto, Canada
February 12, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Independent Order of Foresters

Opinion

We have audited the consolidated financial statements of The Independent Order of Foresters (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in surplus for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 12, 2019

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, 2018 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with 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.

Trudy Engel
Fellow, Canadian Institute of Actuaries
Toronto, Canada

February 12, 2019

THE INDEPENDENT ORDER OF FORESTERS

Consolidated Statement of Comprehensive Income (Loss)

For the year ended December 31

(in thousands of Canadian dollars)

	Note	2018	2017
REVENUE			
Gross premiums	14	$ 1,280,817	$ 1,149,801
Ceded premiums	14	(112,206)	(94,640)
Net Premiums		1,168,611	1,055,161
Net Investment Income			
Interest and dividends (net)	3	294,627	273,752
Net realized gains	3	36,123	146,592
Net change in unrealized (losses) gains on fair value through profit and loss investments	3	(465,260)	124,682
Net foreign currency gains (losses) on available-for-sale assets	3	4,892	(3,369)
Total Investment (Loss) Income		(129,618)	541,657
Fee revenue	15	395,827	375,495
Other operating income	15	13,380	12,327
TOTAL REVENUE		**1,448,200**	**1,984,640**
BENEFITS & EXPENSES			
Gross benefits	16	817,679	760,955
Ceded benefits	16	(53,589)	(60,153)
Gross change in insurance contract liabilities	11	(117,380)	379,740
Ceded change in insurance contract liabilities	11	(38,636)	(40,116)
Policy dividends		48,666	47,349
Commissions		407,257	371,060
Operating expenses	17	518,164	442,769
Ceded commissions and operating expenses	17	(29,945)	(21,265)
Fraternal investment	1	19,195	19,961
TOTAL BENEFITS & EXPENSES		**1,571,411**	**1,900,300**
(Loss) Income before income taxes		(123,211)	84,340
Income Taxes			
Current	18	2,005	32,539
Deferred	18	(8,285)	13,724
Total Income Taxes		(6,280)	46,263
NET (LOSS) INCOME		**(116,931)**	**38,077**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to net income			
Remeasurement gains (losses) on employee benefit plans, net of income tax (expense) recovery of ($18) (2017: $63)	7	11,046	(16,575)
Net unrealized gains on property	6	1,489	1,669
Total items that will not be reclassified to net income		**12,535**	**(14,906)**
Items that are or may be reclassified subsequently to net income			
Net unrealized losses on available-for-sale assets, net of income tax (expense) recovery of ($115) (2017: $870)		(32,256)	(12,970)
Reclassification of net realized gains (losses) on available-for-sale assets, net of income tax expense of $457 (2017: $332), to net income		1,002	(1,563)
Net unrealized foreign currency translation gains (losses)		125,800	(96,828)
Total items that are or may be reclassified subsequently to net income		**94,546**	**(111,361)**
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**107,081**	**(126,267)**
TOTAL COMPREHENSIVE LOSS		**$ (9,850)**	**$ (88,190)**

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS
Consolidated Statement of Financial Position
(in thousands of Canadian dollars)
As at December 31

	Note	2018	2017
ASSETS			
Invested Assets			
Cash, cash equivalents and short-term securities	3	$ 278,170	$ 296,724
Bonds	3	7,528,999	7,208,479
Equities	3	748,341	772,235
Derivative financial instruments	3	190	16,100
Other invested assets	3	140,552	161,173
Loans to certificate holders	3	404,357	359,254
Total Invested Assets		9,100,609	8,813,965
Reinsurance assets	11	398,562	348,658
Accrued investment income		73,306	69,627
Deferred acquisition costs	5	73,546	75,132
Prepaid commissions		82,105	80,975
Deferred tax assets	18	32,512	43,439
Other assets	5	108,438	106,805
Property and equipment	6	69,340	64,446
Employee benefit assets	7	3,267	3,020
Goodwill and intangible assets	8	207,680	244,628
		10,149,365	9,850,695
Net investments for accounts of segregated fund unit holders	4	7,635,014	7,832,864
TOTAL ASSETS		**$ 17,784,379**	**$ 17,683,559**
LIABILITIES			
Insurance contract liabilities	11	$ 7,398,428	$ 7,128,783
Investment contract liabilities	12	161,109	162,189
Derivative financial instruments	3	34,669	5,296
Benefits payable and provision for unreported claims		184,086	175,776
Other liabilities	10	268,861	263,498
Employee benefit obligations	7	83,757	84,575
		8,130,910	7,820,117
Liabilities for accounts of segregated fund unit holders	4	7,635,014	7,832,864
TOTAL LIABILITIES		15,765,924	15,652,981
SURPLUS			
Retained earnings		1,654,394	1,773,598
Accumulated other comprehensive income		364,061	256,980
		2,018,455	2,030,578
TOTAL LIABILITIES AND SURPLUS		**$ 17,784,379**	**$ 17,683,559**

Contractual obligations and commitments (note 21)
Contingent liabilities (note 22)

(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 employee benefit plans	Total
Balance as at December 31, 2017	**$ 1,773,598**	**$ 37,265**	**$ 246,051**	**$ 15,101**	**$ (41,437)**	**$ 256,980**
Adoption of IFRS 15 (note 2a)	**(2,273)**	-	-	-	-	-
Net loss	(116,931)	-	-	-	-	-
Other comprehensive income (loss):						
Pre-tax balance	-	(32,141)	125,800	1,489	11,064	106,212
Reclassification of net realized losses on available-for-sale assets	-	1,459	-	-		1,459
Income tax expense	-	(572)	-	-	(18)	(590)
Total other comprehensive income (loss)	-	(31,254)	125,800	1,489	11,046	107,081
Total comprehensive income (loss) for the period	(116,931)	(31,254)	125,800	1,489	11,046	107,081
Balance as at December 31, 2018	**$ 1,654,394**	**$ 6,011**	**$ 371,851**	**$ 16,590**	**$ (30,391)**	**$ 364,061**
Balance as at December 31, 2016	**$ 1,735,521**	**$ 51,798**	**$ 342,879**	**$ 13,432**	**$ (24,862)**	**$ 383,247**
Net income	38,077	-	-	-	-	-
Other comprehensive income (loss):						
Pre-tax balance	-	(13,840)	(96,828)	1,669	(16,638)	(125,637)
Reclassification of net realized gains on available-for-sale assets	-	(1,231)	-	-		(1,231)
Income tax recovery	-	538	-	-	63	601
Total other comprehensive income (loss)	-	(14,533)	(96,828)	1,669	(16,575)	(126,267)
Total comprehensive income (loss) for the period	38,077	(14,533)	(96,828)	1,669	(16,575)	(126,267)
Balance as at December 31, 2017	**$ 1,773,598**	**$ 37,265**	**$ 246,051**	**$ 15,101**	**$ (41,437)**	**$ 256,980**

(See accompanying notes)

THE INDEPENDENT ORDER OF FORESTERS

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

	2018	2017
Cash flow from operating activities		
Net (loss) income per statements of comprehensive income	$ (116,931)	$ 38,077
Items disclosed separately:		
Interest paid on benefits	6,965	5,175
Income tax paid	41,745	22,404
Income tax refunds received including interest	23,801	2,658
Interest received	(260,978)	(244,798)
Adjusted net loss	**(305,398)**	**(176,484)**
Items not affecting cash:		
Depreciation and amortization	36,249	24,872
Impairment losses on goodwill and intangibles	40,765	-
Net increase (decrease) in insurance contract liabilities	(117,380)	379,740
Net increase in reinsurance assets	(38,636)	(40,116)
Net realized and unrealized losses (gains) on invested assets	421,531	(268,586)
Net foreign currency (losses) gains on available-for-sale assets	(4,892)	3,369
Net foreign currency losses on other assets and other liabilities	528	322
Employee benefit provision	19,070	10,455
Amortization of premium and discount on bonds	16,164	15,698
Deferred income tax expense (recovery)	(8,285)	13,724
Net change in other assets and other liabilities	(15,531)	(32,783)
Other items resulting from operations:		
Interest paid on benefits	(6,965)	(5,175)
Income tax paid	(41,745)	(22,404)
Income tax refunds received including interest	(23,801)	(2,658)
Interest received	260,978	244,798
Increase due to operating activities	**232,652**	**144,772**
Cash flow from investing activities		
Investments sold or matured:		
Bonds	2,558,461	2,314,588
Equities	493,687	403,155
Investments acquired:		
Bonds	(2,811,549)	(2,543,321)
Equities	(507,974)	(324,270)
Other items, net	(2,936)	(41,126)
Decrease due to investing activities	**(270,311)**	**(190,974)**
Foreign exchange gains (losses) on cash held in foreign currencies	19,105	(16,776)
Net decrease in cash, cash equivalents and short-term securities for the year	**(18,554)**	**(62,978)**
Cash, cash equivalents and short-term securities, beginning of year	**296,724**	**359,702**
Cash, cash equivalents and short-term securities, end of year	**278,170**	**296,724**

(See accompanying notes)

DESCRIPTION OF BUSINESS

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

Foresters Financial 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 Financial foreign branch and subsidiary operations are regulated by statutory authorities in the U.S. and the U.K. Foresters Financial's 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 12, 2019.

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;
- Reinsurance assets and insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM");
- Land and buildings are measured at fair value.

1. Significant accounting policies (continued)

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 Financial's functional currency.

d) Critial accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates, judgments 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 intangible assets and 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.

Some of these depend on assessment of the future economic environment and the U.K's future prospects and performance. Brexit is one of the most significant economic events for the U.K. and at the date of the financial statements its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible outcomes unknown.

The use of estimates, judgments 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 Financial or its subsidiaries. Control exists when Foresters Financial 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 Financial 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 Financial's principal subsidiaries are listed in note 23.

1. Significant accounting policies (continued)

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 Financial has four operating segments and a corporate segment.

The four operating segments are:

- North American Life Insurance and Annuity ("NALIA") sells insurance, annuities and segregated fund products;
- North American Asset Management ("NAAM") provides investment management services and distributes mutual funds;
- U.K. Savings, Investments and Protection ("UKSIP") sells protection, pension, unit linked savings and investment products through subsidiary operations;
- Membership works closely with the other operating segments to develop and administer member benefits through Foresters Financial's operations in each country. Membership has no external source of income and its operations are fully funded by the corporate segment;

The Corporate segment holds surplus investments above those required to satisfy management's internal capital targets for each of the five segments.

1.4 Foreign currency

Foreign operations

For Foresters Financial foreign operations, the local currency is the currency used to transact business and has been defined as the functional currency. Foresters Financial's 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 (loss).

1. Significant accounting policies (continued)

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
Short-term securities	X	X	
Bonds	X	X	
Equities	X	X	
Derivative financial instruments	X		
Other invested assets	X	X	X
Loans to certificate holders			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 comprised of notes and commercial paper, 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.

1. Significant accounting policies (continued)

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 mid 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 Financial 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 (loss) 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 (loss).

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 (loss).

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 (loss).

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 closing 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 (loss).

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 (loss). 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 (loss).

1. Significant accounting policies (continued)

d) Derivative financial instruments

Foresters Financial 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 Financial has presented derivative financial instruments on a net basis where Foresters Financial 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 Financial 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 (loss).

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 Financial 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.

e) Other Invested Assets

Limited partnerships

Limited partnerships classified as AFS assets are recorded at fair value. Foresters Financial 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 Financial 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 (loss). 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 (loss).

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters Financial 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 Financial 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

1. Significant accounting policies (continued)

are components of net income on the consolidated statement of comprehensive income (loss).

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 (loss).

Seed money investment in segregated funds

Seed money represents Foresters Financial's 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 (loss).

f) Loans to certificate holders

Loans to certificate holders 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.

g) Derecognition

Foresters Financial 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.

h) Invested asset impairments

Invested assets other than FVTPL assets are assessed individually for impairment on a quarterly basis. Foresters Financial 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 on the consolidated statement of comprehensive income (loss). 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.

1. Significant accounting policies (continued)

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 Property and equipment

Property

Property consists of land and buildings, which are predominantly occupied by Foresters Financial 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 (loss).

Equipment

Equipment includes leasehold improvements, furniture and computer equipment, which are carried at historical cost less accumulated depreciation and impairment losses.

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 (loss). 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

1. Significant accounting policies (continued)

Financial 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.

Impairment

At each reporting date, Foresters Financial reviews the carrying amounts of its property and equipment to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's value in use and its fair value less costs of disposal. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment loss on property 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. Impairment loss on equipment is recognized in net income.

1.7 Goodwill and intangible assets

a) Recognition and measurement

Goodwill

Acquisitions of businesses where Foresters Financial 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.

Intangible assets

i) Acquired intangibles

Intangible assets acquired through business combinations are comprised of mutual fund, separate accounts, and children's trust fund savings plan asset management contracts, a distribution network, computer software, unit cost reductions and customer relationships.

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.

ii) Computer software

Computer software is carried at cost less accumulated amortization and impairment losses.

1. Significant accounting policies (continued)

b) Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognized as Operating expenses on the consolidated statement of comprehensive income (loss).

The estimated useful lives for current and comparative periods are as follows:

Asset type	Useful life
Unit cost reductions	10 years
Management contracts and customer relationships	5 – 12 years
Software	1 – 5 years

The mutual fund and separate account asset management contracts in the U.S. have indefinite useful lives and are not amortized.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

c) Impairment

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.

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

Given the variability of future-oriented financial information, goodwill impairment tests are subjected to sensitivity analysis. The critical estimates pertain to those CGUs where there is little difference between the recoverable amount and the related carrying amount. Details of goodwill are presented in note 8.

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 recognized immediately in net income.

1.8 Insurance and investment contracts

Product contracts are classified as insurance or investment contracts based on the level of insurance and financial risk Foresters Financial accepts from the certificate holder.

1. Significant accounting policies (continued)

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 Financial. Significant insurance risk exists when Foresters Financial agrees to compensate certificate holders or beneficiaries of an insurance contract for specified future events such as death or disability, that may adversely affect the certificate holder 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 (loss).

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 Financial 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 Financial enters into two types of reinsurance arrangements:

- quota share reinsurance arrangements whereby Foresters Financial 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 Financial of its primary obligation to certificate holders. 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 Financial will not be able

1. Significant accounting policies (continued)

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 (loss).

Premiums for reinsurance ceded are presented as ceded premiums, reinsurance recoveries on claims incurred are recorded as ceded benefits 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 Financial. 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 Financial 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 Financial presents segregated fund net assets, which are in the legal name and title of Foresters Financial 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 Financial does not present these amounts as revenue on the consolidated statement of comprehensive income (loss); 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 Financial 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 (loss).

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

1. Significant accounting policies (continued)

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 Financial, based on dealer quotes or recent transactions of similar investments.

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.

1.9 Other liabilities

Other liabilities primarily consist of accounts payable, reinsurance financing provision, accrued expenses, and current and deferred income tax liabilities.

A provision for onerous contracts is recognized when the expected benefits to be derived from a contract are lower than the cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of completing the contract.

1.10 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 (loss), 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

1. Significant accounting policies (continued)

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.

1.11 Employee benefits

Foresters Financial 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 Financial 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 Financial 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 Financial 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 (loss).

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

1. Significant accounting policies (continued)

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 Financial 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 (loss) 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 Financial 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.

1.12 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.

1. Significant accounting policies (continued)

b) Fee revenue

Fee revenue is recognized when Foresters satisfies its performance obligations for the related service as follows:

Services	Nature, timing of satisfaction of performance obligations and significant payment terms
Investment management fees	Investment management fees are earned on the management of segregated fund, proprietary mutual fund and institutional assets. Foresters recognizes revenue in the amount it has the right to invoice, as services are provided. Investment services are billed and paid for on a monthly or quarterly basis.
Brokerage fees	Brokerage fees are earned on the sale of proprietary and third party mutual fund products. The performance obligation to execute the trade is satisfied on the trade date, at which point revenue is recognized.
Distribution fees	Distribution fees are earned on the distribution of mutual fund shares. Foresters recognizes revenue in the amount it has the right to invoice, as services are provided. The services are billed on a monthly basis.
Servicing and transfer agency fees	Service fees are earned for maintaining mutual fund shareholder accounts. Foresters recognizes revenue in the amount it has the right to invoice, as services are provided. The services are billed on a monthly or quarterly basis.

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 (loss).

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

1.13 Deferred acquisition costs

Deferred acquisition costs are contract costs on the acquisition of contracts with customers, excluding insurance contracts, consist mainly of incremental commissions and fees paid to intermediaries. These costs are capitalized to the extent that they can be recovered through future expected margins on these contracts, and are reviewed for impairment annually.

Contract costs on the acquisition of other contracts with customers are amortized over the estimated duration of the contracts on a straight-line basis. Foresters Financial recognizes contract costs as an expense when incurred if the amortization period of the assets that the Company would have recognized is one year or less.

1. Significant accounting policies (continued)

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 Financial 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 Financial 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 Financial 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 (loss).

2. ACCOUNTING AND REPORTING CHANGES

New and Amended International Financial Reporting Standards Adopted in 2018

a) IFRS 15 Revenue from Contracts with Customers

As of January 1, 2018, Foresters Financial adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as issued by the International Accounting Standards Board (“IASB”) in May 2014. In accordance with the transition provisions in IFRS 15, the new standard has been adopted using the cumulative effect method (without practical expedients) by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity (i.e. January 1, 2018). Therefore, the comparative information has not been restated and continues to be reported under IAS 18, Revenue ("IAS 18"). Accounting policies for comparative information reported using IAS 18 are not disclosed separately since they are not significantly different from those under IFRS 15. There is no impact on the timing of recognition of revenue.

Impact on financial statements

On transition to IFRS 15, Foresters Financial recognized an adjustment to opening retained earnings of $2.3 million. The following table summarizes the impacts of adopting IFRS 15 on the consolidated statement of financial position as at January 1, 2018. There was no material impact on the consolidated statement of comprehensive income (loss) and the consolidated statement of cash flows.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

2. Accounting and reporting changes (continued)

As at December 31, 2017	Balances without adoption of IFRS 15	IFRS 15 adjustments	Balances with adoption of IFRS 15
Deferred acquisition costs	75,132	(2,273)	72,859
All other assets	17,608,427	-	17,608,427
Total assets	**17,683,559**	**(2,273)**	**17,681,286**
Retained earnings	1,773,598	(2,273)	1,771,325
All other liabilities and surplus	15,909,961	-	15,909,961
Total liabilities and surplus	**17,683,559**	**(2,273)**	**17,681,286**

b) Amendments to IFRS 4 Insurance Contracts

As of January 1, 2018, Foresters Financial has adopted amendments to IFRS 4 Insurance Contracts ("IFRS 4") as issued by the IASB in September 2016. The amendments introduce two approaches to address concerns about the different effective dates of IFRS 9 Financial Instruments ("IFRS 9") and IFRS 17 Insurance Contracts ("IFRS 17"): The deferral approach provides companies whose activities are predominantly related to insurance, an optional temporary exemption from applying IFRS 9 until January 1, 2021. However, the IASB has tentatively decided to propose extending the date to January 1, 2022.

Foresters Financial has determined that it qualifies for, and has elected, to apply the temporary exemption from IFRS 9 as specified in IFRS 4. Foresters Financial's business activities are predominantly connected to insurance because insurance contract liabilities under IFRS 4 make up a significant part of the Company's total liabilities. They exceed the 90% threshold as of December 31, 2015, the required assessment date.

New and Amended International Financial Reporting Standards to be Adopted in 2019 or Later

c) IFRS 17 Insurance Contracts

In May 2017. The IASB issued IFRS 17 Insurance Contracts and is effective for years beginning on or after January 1, 2021. However, the IASB has tentatively decided to propose deferring the effective date to January 1, 2022. IFRS 17 is required to be applied retrospectively.

If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. IFRS 17 will replace IFRS 4 Insurance Contracts and will change the fundamental principles used by Foresters Financial for recognizing and measuring insurance contract liabilities. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the

2. Accounting and reporting changes (continued)

timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums. It will also change the presentation and disclosures of Foresters Financial's consolidated financial statements.

Foresters Financial intends to adopt IFRS 17 in its financial statements for the annual period beginning on its effective date. Foresters Financial is assessing the impact of this standard and expects that it will have a significant impact on the consolidated financial statements. However, Foresters Financial is not able at this time to estimate reasonably the quantitative impact that IFRS 17 will have on its financial statements.

d) IFRS 9 Financial Instruments

In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments* (IFRS 9), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. 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 an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

In September 2016, the IASB issued amendments to IFRS 4, to allow insurance entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until 2021 (the "deferral approach") to align with Foresters Financial's adoption of IFRS 17. Foresters Financial qualifies and intends to elect the deferral approach permitted under the amendments. Consequently, Foresters Financial will continue to apply IAS 39, the existing financial instrument standard until its expiry.

Foresters Financial is currently assessing the impact the adoption of these amendments will have on its consolidated financial statements.

2. Accounting and reporting changes (continued)

e) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases and related interpretations.

The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

Foresters Financial intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019.

As a lessee, Foresters Financial can either apply the standard using a:

- Retrospective approach (restating comparatives); or
- Modified retrospective approach with optional practical expedients

The lessee applies the election consistently to all of its leases.

Foresters Financial plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019 with no restatement of comparative information.

We have completed our identification of the contracts within the scope of this standard and are currently performing a detailed assessment of the new assets and liabilities that will be recognized as a result of this standard. As of December 31, 2018, Foresters Financial's future minimum lease payments under non-cancellable operating leases amounted to $66,907 on an undiscounted basis. The nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on capitalized lease liabilities. Foresters Financial is currently finalizing the impact the adoption of these amendments will have on its consolidated financials statements.

f) IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23"). The standard is effective for annual reporting periods beginning on or after January 1,

2. Accounting and reporting changes (continued)

2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements of IAS 12 Income Taxes when there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty.

Foresters Financial intends to adopt the standard in its financial statements for the annual period beginning January 1, 2019. Based on Foresters Financial's assessment completed to date, it does not expect the adoption of this standard to have a material impact on the consolidated financial statements. Foresters Financial continues to monitor interpretations and developments related to the standard.

g) Amendments to References to the Conceptual Framework for Financial Reporting in IFRS Standards

In March 2018, the IASB issued the revised version of the Conceptual Framework for Financial Reporting ("the Framework"), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards ("the Amendments") to update references in IFRS Standards to previous versions of the Conceptual Framework.

Both documents are effective from January 1, 2020 with earlier application permitted.

Some IFRS Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document which contains consequential amendments to affected standards so that they refer to the new Framework, with the execption of IFRS 3 Business Combinations which continues to refer to both the 1989 and 2010 Frameworks.

Foresters Financial does not intend to adopt the Amendments in its financial statements before the annual period beginning on January 1, 2020. The extent of the impact of the change has not yet been determined.

For the year ended December 31, 2018 (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, 2018					
Cash, cash equivalents and short-term securities	$ 208,203	$ 69,967	$ -	$ 278,170	$ 278,170
Bonds	6,333,476	1,195,523	-	7,528,999	7,528,999
Equities	594,584	153,757	-	748,341	748,341
Derivative financial instruments	190	-	-	190	190
Other invested assets	107,485	32,989	78	140,552	140,556
Loans to certificateholders	-	-	404,357	404,357	404,357
Total invested assets	7,243,938	1,452,236	404,435	9,100,609	9,100,613
Net investments for account of segregated fund unit holders	7,635,014	-	-	7,635,014	7,635,014
Total investments	$ 14,878,952	$ 1,452,236	$ 404,435	$ 16,735,623	$ 16,735,627
As at December 31, 2017					
Cash, cash equivalents and short-term securities	$ 187,023	$ 109,701	$ -	$ 296,724	$ 296,724
Bonds	6,087,840	1,120,639	-	7,208,479	7,208,479
Equities	704,699	67,536	-	772,235	772,235
Derivative financial instruments	16,100	-	-	16,100	16,100
Other invested assets	98,897	61,998	278	161,173	161,187
Loans to certificateholders	-	-	359,254	359,254	359,254
Total invested assets	7,094,559	1,359,874	359,532	8,813,965	8,813,979
Net investments for account of segregated fund unit holders	7,832,864	-	-	7,832,864	7,832,864
Total investments	$ 14,927,423	$ 1,359,874	$ 359,532	$ 16,646,829	$ 16,646,843

Also held are derivative financial liabilities recorded as FVTPL with a carrying value and fair value of $34,669 (2017: $5,296).

3. Invested assets (continued)

b) Fair value hierarchy

Foresters Financialfollows 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. 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, and therefore no separate 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

3. Invested assets (continued)

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 closing price.

Unlisted securities are treated as Level 2 within the fair value hierarchy and a valuation technique is used for these instruments with the inputs coming from observable market data.

Derivative financial instruments

Exchange traded futures and options are valued using prices sourced from the relevant exchange and are treated as Level 1 within the fair value hierarchy. The other derivative financial instruments are valued using valuation techniques based on observable market data and are classified as Level 2 within the fair value hierarchy.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Invested assets (continued)

The following tables present the invested assets measured at fair value and classified by the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
December 31, 2018	$	$	$	$
Cash, cash equivalents and short-term securities	169,521	108,649	-	278,170
Bonds	373,009	6,909,751	246,239	7,528,999
Equities	199,201	549,140	-	748,341
Derivative financial instruments	190	-	-	190
Other invested assets	-	1,956	138,518	140,474
Net investments for account of segregated fund unit holders	6,737,010	898,004	-	7,635,014
	7,478,931	8,467,500	384,757	16,331,188
December 31, 2017				
Cash, cash equivalents and short-term securities	121,045	175,679	-	296,724
Bonds	355,727	6,624,232	228,520	7,208,479
Equities	242,053	530,182	-	772,235
Derivative financial instruments	1,169	14,931	-	16,100
Other invested assets	-	30,482	130,413	160,895
Net investments for account of segregated fund unit holders	7,043,671	789,193	-	7,832,864
	7,763,665	8,164,699	358,933	16,287,297

Also held are derivative financial liabilities measured at fair value and classified as Level 2 on the fair value hierarchy of $34,669 (2017: $5,296).

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Invested assets (continued)

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

	FVTPL		AFS	
	Bonds	Equities and other invested assets	Equities and other invested assets	Total
	$	$	$	$
2018				
Balance, beginning of year	228,520	98,897	31,516	358,933
Changes during the year:				
Purchases	15,024	15,515	-	30,539
Sales and redemptions	(8,674)	(5,701)	-	(14,375)
Change in unrealized gains (losses) included in:				-
Other comprehensive income	-	-	(470)	(470)
Net income (loss)	11,369	(1,239)	-	10,130
Balance, end of year	246,239	107,472	31,046	384,757
2017				
Balance, beginning of year	242,903	81,526	36,592	361,021
Changes during the year:				
Purchases	-	17,328	-	17,328
Sales and redemptions	(7,220)	-	-	(7,220)
Other comprehensive income	-	-	(5,076)	(5,076)
Net income (loss)	(7,163)	43	-	(7,120)
Balance, end of year	228,520	98,897	31,516	358,933

There were no material transfers between Level 1, 2 and 3 during 2018 or 2017. 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:

	2018		2017	
	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
FVTPL assets:				
Interest rate sensitivity	(17,468)	17,468	(16,798)	16,798
Real estate capitalization rates	(9,997)	14,797	(10,048)	14,748
AFS assets:				
Global infrastructure index sensitivity	(342)	342	531	(531)

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Invested assets (continued)

c) Cash, cash equivalents and short-term securities

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

	2018 $	2017 $
Cash	169,521	121,045
Cash equivalents	13,824	45,229
	183,345	166,274
Short-term securities	94,825	130,450
	278,170	296,724

d) Derivative financial instruments

Foresters Financial 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 Financial does not enter into these financial instruments for trading or speculative purposes. Foresters Financial 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 Financial's 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 Financial 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 Financial's derivative financial instruments were held with counterparties rated AA or higher as at December 31, 2018 and 2017. At December 31, 2018, the largest single counterparty exposure was $3,521 (2017: $16,451).

Foresters Financial 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 Financial. As at December 31, 2018, Foresters Financial had received collateral with an estimated market value of 0 (2017: $10,245) against a net asset of $190 (2017: $14,931). For contracts in a net liability position, the counterparties are exposed to credit risk from the potential default by Foresters Financial. Foresters Financial may be required to post collateral to the counterparty for contracts in a net liability position. As at December 31, 2018, Foresters Financial posted collateral with an estimated market value of $23,880 (2017: $5,747) against a net liability of $34,669 (2017: net liability of $5,296). Foresters Financial and the counterparties have the right to sell, pledge, invest, or use any posted collateral. During 2018 and 2017, Foresters Financial did not sell, pledge, invest or use any posted collateral.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Invested assets (continued)

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.

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, 2018							
Foreign exchange forward contracts	266,563	128,752	183,695	579,010	5,642	(40,311)	(34,669)
Options purchased	-	-	-	-	480	-	480
Options written	-	-	-	-		(290)	(290)
	266,563	128,752	183,695	579,010	6,122	(40,601)	(34,479)
As at December 31, 2017							
Foreign exchange forward contracts	294,455	124,025	194,986	613,466	28,922	19,287	9,635
Options purchased	-	-	-	-	5,725	-	5,725
Options written	-	-	-	-	-	4,556	(4,556)
	294,455	124,025	194,986	613,466	34,647	23,843	10,804

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

e) Impairments

There were no invested assets classified as loans and receivables that were impaired and therefore required an impairment loss provision.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Invested assets (continued)

f) Net investment income

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

	2018				2017			
	FVTPL $	AFS $	Other $	Total $	FVTPL $	AFS $	Other $	Total $
Interest income from:								
Cash, cash equivalents and short-term securities	1,142	576	-	1,718	361	1,343	-	1,704
Bonds	217,392	43,579	-	260,971	211,077	33,723	-	244,800
Other invested assets	-	-	12	12	-	-	26	26
Loans to certificateholders	-	-	19,737	19,737	-	-	19,343	19,343
	218,534	44,155	19,749	282,438	211,438	35,066	19,369	265,873
Dividend income from equities	9,252	732	-	9,984	11,680	1,605	-	13,285
Income from other invested assets	11,448	4,539	-	15,987	5,493	5,377	-	10,870
Less: Investment expenses	(13,064)	(718)	-	(13,782)	(15,085)	(1,191)	-	(16,276)
Total interest and dividends (net)	226,170	48,708	19,749	294,627	213,526	40,857	19,369	273,752

No interest income was accrued on impaired invested assets in 2018 or 2017.

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

	2018			2017		
	FVTPL $	AFS $	Total $	FVTPL $	AFS $	Total $
Bonds	31,539	(7,329)	24,210	80,338	1,711	82,049
Equities	15,988	2,361	18,349	42,634	4,813	47,447
Derivative financial instruments	(7,606)	-	(7,606)	2,688	-	2,688
Other invested assets	-	1,170	1,170	-	14,408	14,408
Net realized gains (losses)	39,921	(3,798)	36,123	125,660	20,932	146,592

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Invested assets (continued)

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

	2018 $	2017 $
Bonds	(343,415)	99,340
Equities	(77,735)	(890)
Derivative financial instruments	(42,871)	26,190
Other invested assets	(1,239)	42
Net unrealized (losses) gains on FVTPL investments	(465,260)	124,682

The net foreign currency gains (losses) on AFS assets, recognized in net investment income was $4,892 (2017 loss: $3,369).

4. INVESTMENTS FOR ACCOUNTS OF SEGREGATED FUND UNIT HOLDERS

a) Segregated fund net assets

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

	2018 $	2017 $
Cash, cash equivalents and short-term securities	84,092	102,352
Bonds	1,170,104	1,070,596
Equities	6,391,133	6,660,879
Other assets net of liabilities	(8,371)	29,522
Total net assets	7,636,958	7,863,349
Less: Segregated fund seed money investment (note 20)	1,944	30,485
Net investments for account of segregated fund unit holders	7,635,014	7,832,864

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

4. Investments for account of segregated fund unit holders (continued)

b) Changes in segregated funds

The following table presents the change in investments for accounts of segregated fund unit holders:

	2018 $	2017 $
Balance, beginning of year	7,832,864	3,673,561
Investment contract transfer *	-	3,230,945
	7,832,864	6,904,506
Additions to the accounts of the unit holders:		
Deposits received from unit holders	652,533	611,886
Investment income	142,542	564,965
Net realized gains on sale of investments	22,786	30,232
Net change in unrealized gains on investments	-	197,717
	817,861	1,404,800
Deductions to the accounts of the unit holders:		
Amounts withdrawn or transferred by unit holders	430,052	383,031
Net realized losses on sale of investments	11,128	-
Net change in unrealized losses on investments	745,200	-
Management fees and other operating costs	118,856	113,430
	1,305,236	496,461
Less: (Losses) Income earned on segregated fund seed money investment	(190)	578
Effect of change in foreign exchange rates	289,335	20,597
Balance, end of year	7,635,014	7,832,864

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

*On January 2, 2017, the entire investment management business of Forester Fund Management Limited (“FFML”) comprising Child Trust Funds, Junior ISAs and Growing Up Bonds were transferred to Forester Life Limited (“FLL”), both subsidiaries of Forester Holdings (Europe) Limited. Investment contract liabilities for accounts of segregated fund unit holders increased by $3,230,945 relating to the 914,251 insurance policies issued in FLL.

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 Financial 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, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

5. OTHER ASSETS

a) Other assets

Other assets are comprised of the following:

	2018 $	2017 $
Accounts receivable	36,703	40,967
Income taxes recoverable	29,212	15,028
Amounts due from reinsurers	22,365	26,245
Prepaid expenses	17,609	18,461
Other	2,549	6,104
	108,438	106,805

The carrying value of these assets approximates their fair value. Other assets of $104,029 (2017: $104,287) will be realized within 12 months from the reporting date.

b) Deferred acquisition costs

The following table shows changes in costs related to contracts with customers, excluding insurance contracts, during the year:

	2018 $	2017 $
Beginning of year	75,132	64,084
Adoption of IFRS 15 (note 2a)	(2,273)	-
Additions	13,492	17,058
Amortization	(16,519)	(3,481)
Impairment	(827)	-
Effect of change in foreign exchange rates	4,541	(2,529)
End of year	73,546	75,132

Amortization consists of $1,214 relating to deferred sales charges included in commissions on the consolidated statement of comprehensive income (loss) and $15,259 relating to deferred acquisition costs included in operating expenses note 17.

For the year ended December 31, 2018 (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 $	Buildings $	Furniture and Equipment $	Leasehold Improvements $	Total
Net carrying value as at December 31, 2017	15,404	29,782	14,498	4,762	64,446
Additions	-	354	6,210	856	7,420
Gains (losses) included in OCI changes in fair value	342	1,147	-	-	1,489
Disposals	-	-	(180)	-	(180)
Depreciation expense	-	(1,072)	(4,022)	(521)	(5,615)
Effect of change in foreign exchange rates	76	164	1,117	423	1,780
Net carrying value as at December 31, 2018	15,822	30,375	17,623	5,520	69,340
Net carrying value as at December 31, 2016	14,982	29,090	13,392	5,577	63,041
Additions	-	225	5,985	-	6,210
Gains (losses) included in OCI changes in fair value (unrealized)	343	1,326	-	-	1,669
Disposals	-	-	(155)	-	(155)
Depreciation expense	-	(1,011)	(4,078)	(474)	(5,563)
Effect of change in foreign exchange rates	79	152	(646)	(341)	(756)
Net carrying value as at December 31, 2017	15,404	29,782	14,498	4,762	64,446

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

6. Property and equipment (continued)

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

	Gross carrying value	Accumulated depreciation	Net carrying value
	$	$	$
December 31, 2018			
Land	15,822	-	15,822
Buildings	30,375	-	30,375
Furniture and equipment	50,725	33,102	17,623
Leasehold improvements	10,973	5,453	5,520
	107,895	38,555	69,340
December 31, 2017			
Land	15,404	-	15,404
Buildings	29,782	-	29,782
Furniture and equipment	41,979	27,481	14,498
Leasehold improvements	9,287	4,525	4,762
	96,452	32,006	64,446

The land and buildings were revalued at December 31, 2018 by an independent appraiser. The fair value of land and buildings was $15,822 and $30,375 respectively ($15,404 and $29,782 on December 31, 2017). When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount. The net amount is restated to the revalued amount of the asset.

The land and buildings are situated in Canada and the U.K. The appraisal on the land and building in Canada was based on an income approach combining the discounted cash flow method and the direct capitalization method. The key assumptions for rental rates were based on existing market rates and a discount and capitalization rate of 7.25% and 7.00% (2017: 7.50% and 7.00%). A 1% increase in the discount and capitalization rate would result in a $5,420 decrease (2017: $5,400 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.

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.

7. EMPLOYEE BENEFIT PLANS

Foresters Financial 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 Financial 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 Financial. In the U.S. and Canada, the pension funds are governed by a Management Pension Committee ("MPC") made up of representatives from Foresters Financial. 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 Financial 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, 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. The effective date of the next required valuation is December 31, 2018 for the U.S. and the Canadian plan and April 1, 2020 and July 1, 2020 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, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Employee benefit plans (continued)

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

	2018 $	2017 $
Change in plan assets:		
Fair value of plan assets at January 1	309,561	293,877
Interest income	9,632	11,052
Return on plan assets excluding interest income	(8,430)	5,953
Employer contributions	8,419	8,554
Employee contributions	1,086	1,206
Benefits paid	(11,064)	(12,126)
Effect of change in foreign exchange rates	1,771	1,045
Fair value of plan assets at December 31	310,975	309,561
Change in projected benefit obligations:		
Accrued benefit obligations at January 1	342,334	312,745
Current service cost	7,314	6,665
Employee contributions	1,086	1,206
Interest cost	11,321	11,496
Benefits paid	(11,071)	(12,126)
Remeasurements		
- experience adjustments	68	(537)
- actuarial (gains) losses from changes in financial assumptions	(14,424)	21,722
- actuarial (gains) losses from changes in demographic assumptions	385	(474)
Effect of change in foreign exchange rates	1,907	1,637
Accrued benefit obligations at December 31	338,920	342,334
Balance as at December 31	**(27,945)**	**(32,773)**
Amounts recognized on statement of financial position		
Employee benefit assets	**3,267**	**3,020**
Employee benefit obligations (note 7b)	**31,212**	**35,793**

Foresters Financial 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 Financial has a liability for $16,703 (2017: $15,699) in respect of future contributions where there will be no economic benefit to Foresters Financial. 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.

7. Employee benefit plans (continued)

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

	2018 %	2017 %
Cash and cash equivalents		
Canada	4	3
U.K.	1	1
Bonds and other fixed income securities		
U.S.	1	1
Canada	40	41
U.K.	6	8
Equities		
Canada	35	34
U.K.	5	5
Real Estate		
Canada	3	3
U.K.	1	1
Other		
U.K.	4	3
	100	100

All bonds and other fixed income securities and equities have quoted prices in active markets.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Employee benefit plans (continued)

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:

	2018		2017	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	34,276	14,506	31,727	15,674
Current service cost	8,767	-	1,194	-
Interest cost	1,193	478	1,232	545
Benefits paid	(1,623)	(1,021)	(1,935)	(1,091)
Remeasurements				
- experience adjustments	(2,511)	(50)	220	667
- actuarial (gains) losses from changes in financial assumptions	(1,402)	(1,061)	1,843	(335)
- actuarial (gains) losses from changes in demographic assumptions	-	(47)	-	(194)
Effect of change in foreign exchange rates	271	769	(5)	(760)
Accrued benefit obligations at December 31	38,971	13,574	34,276	14,506
Net obligation for defined benefit pension plans (note 7a)	31,212	-	35,793	-
Amounts recognized on statements of financial position	**70,183**	**13,574**	**70,069**	**14,506**

The weighted average duration of all the defined benefit obligations was 15 years (2017: 16 years).

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

	2018 $	2017 $
Within 1 year or less	13,691	12,309
2-5 years	53,246	51,613
6-15 years	174,187	168,732
Over 15 years	476,716	497,267
Total	717,840	729,921

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Employee benefit plans (continued)

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

	2018 $	2017 $
As at December 31		
Fair value of defined benefit plan assets (note 7a)	310,975	309,561
Present value of obligations	391,549	391,116
Funded status - deficit	(80,574)	(81,555)

Additionally, long-term disability obligations amounted to $2,145 (2017: $1,906) 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 Financial has in certain cases insured the benefit with a third party provider, while in other cases the benefits are paid by Foresters Financial. 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 (loss) for expenses related to employee benefit plans:

	2018		2017	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Defined benefit pension and post retirement plan expenses:				
Current service cost (income)	8,694	478	7,994	(20)
Net interest cost	2,882	-	1,676	545
	11,576	478	9,670	525
Defined contribution pension plans:				
Employer contributions	5,299		4,289	

Long-term disability benefit expense amounted to $150 and income of $103 during December 31, 2018 and December 31, 2017 respectively and was included in gross benefits on the consolidated statement of comprehensive income (loss).

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Employee benefit plans (continued)

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:

	2018 $	2017 $
Accumulated net actuarial losses as at January 1	(109,137)	(85,205)
Changes during the year recorded in OCI:		
Experience adjustments on plan liabilities	2,494	1,108
Experience adjustments on plan assets	(7,979)	6,350
Changes due to financial assumptions	20,515	(24,250)
Changes due to demographic assumptions	(338)	280
Limiting a net defined benefit asset to its asset ceiling	(3,628)	-
	11,064	(16,512)
Effects of change in foreign exchange rate	8,950	(7,420)
Accumulated net actuarial losses as at December 31	(89,123)	(109,137)

e) Overview of assumptions

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

	2018		2017	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit obligations				
Discount rate	3.7	3.4	3.4	3.3
Future pension growth	2.2	7.4	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	3.3	3.3	3.8	3.7
Future pension growth	2.2	7.4	2.2	7.4
Rate of compensation increase	3.9	-	3.9	-
Inflation rate	2.1	-	2.1	-

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Employee benefit plans (continued)

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, 2018	**Defined benefit obligation**	
	Increase	**Decrease**
	$	**$**
Discount rate (1% movement)	(54,619)	71,922
Future pension growth (0.25% movement)	1,093	(9,538)
Future compensation growth (0.25% movement)	3,464	(3,343)
Inflation rate (0.25% movement)	822	(9,289)
Life expectancy (movement by 1 year)	12,423	(12,212)

December 31, 2017	**Defined benefit obligation**	
	Increase	**Decrease**
	$	**$**
Discount rate (1% movement)	(55,993)	76,119
Future pension growth (0.25% movement)	3,896	(11,896)
Future compensation growth (0.25% movement)	3,274	(3,160)
Inflation rate (0.25% movement)	844	(9,383)
Life expectancy (movement by 1 year)	12,363	(12,178)

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 11 years (2017: 12 years) and for other retirement benefit plans was 0 years (2017: 0 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:

	2018			**2017**		
	U.S.	**Canada**	**U.K.**	**U.S.**	**Canada**	**U.K.**
Longevity at age 65 for current pensioners						
Males	21	24	22	21	24	23
Females	22	24	24	22	24	24
Longevity at age 65 for current members aged 45						
Males	21	25	24	21	25	25
Females	22	25	26	22	25	26

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

7. Employee benefit plans (continued)

The Medicare (post 65 years of age) inflation assumption for U.S. benefits is 6.6% for 2019 (2017: 7.0%) decreasing to 4.5% by 2037 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 5.4% for 2019 (2017: 5.7%), decreasing to 4.0% in 2040 and thereafter.

A 1.0% change in the assumed healthcare trend rate would have the following effects for 2017:

December 31, 2018	**1.0% increase $**	**1.0% decrease $**
Effect on service cost plus interest cost	47	(41)
Effect on accrued benefit obligations	1,322	(1,145)

December 31, 2017	**1.0% increase $**	**1.0% decrease $**
Effect on service cost plus interest cost	61	(53)
Effect on accrued benefit obligations	1,386	(1,194)

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

8. GOODWILL AND INTANGIBLE ASSETS

a) Reconciliation of carrying amount

		Indefinite useful life	Finite useful life				
	Goodwill $	Asset management contracts $	Unit cost reductions $	Distribution network $	Management contracts and customer relationships $	Software $	Total $
Net carrying value as at December 31, 2017	35,880	146,961	2,174	-	45,295	14,317	244,627
Additions - internally developed		-	-	-	-	4,249	4,249
Amortization	-	-	(519)	-	(4,529)	(10,147)	(15,195)
Impairment losses	(33,771)	(5,035)	-	-	(1,959)	-	(40,765)
Effect of change in foreign exchange rates	1,059	12,036	51	-	1,028	590	14,764
Net carrying value as at December 31, 2018	3,168	153,962	1,706	-	39,835	9,009	207,680
Net carrying value as at December 31, 2016	37,877	156,630	2,617	863	48,848	21,601	268,436
Additions - internally developed	-	-	-	-	-	2,716	2,716
Amortization	-	-	(502)	(863)	(4,648)	(10,476)	(16,489)
Impairment losses	-	-	-	-	-	-	-
Effect of change in foreign exchange rates	(1,997)	(9,669)	59	-	1,095	476	(10,036)
Net carrying value as at December 31, 2017	35,880	146,961	2,174	-	45,295	14,317	244,627

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

	Gross carrying value $	Accumulated depreciation $	Impairment losses $	Net carrying value $
December 31, 2018				
Unit cost reductions	5,743	4,037	-	1,706
Management contracts and customer relationships	57,765	15,971	(1,959)	39,835
Software	91,002	81,993	-	9,009
	154,510	102,001	(1,959)	50,550
December 31, 2017				
Unit cost reductions	5,605	3,431	-	2,174
Management contracts and customer relationships	56,469	11,174	-	45,295
Software	80,619	66,302	-	14,317
	142,693	80,907	-	61,786

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

8. Goodwill and intangible assets (continued)

Included in software was $3,569 (2017: $1,835) that was still under development and had not been amortized. During the year, software costs amounting to $13,071 (2017: $9,660) were expensed and recorded in operating expenses.

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

In the U.S., Foresters Financial Holding Company, Inc.'s ("FFHC") asset management operation is classified as a cash-generating unit ("CGU"). In Canada, Foresters Asset Management Inc. ("FAM")'s asset management operation is classified as a CGU. Both of these CGUs are part of the NAAM reporting segment. Goodwill and the intangible assets consisting of asset management contracts, distribution network and software are allocated to these cash-generating units. These CGUs are tested for impairment at least annually.

The recoverable amounts are 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.

In the current year's impairment test, the growth rate is a lower rate than used during the initial forecast period due to changes in the business model and market conditions for both U.S. and Canadian asset management CGUs.

An impairment loss of $27.2 million and $13.6 million was recognized to write the carrying value of FFHC and FAM's goodwill down to its recoverable amount of $3.2 million and $0 respectively. The impairment losses were included in operating expenses (note 17). There was no impairment loss recognized in 2017.

In determining the key assumptions management completed an extensive review and the key assumptions identified were:

	2018		2017	
	US %	Canada %	US %	Canada %
Growth rate for revenue	-1.7% - 5.89%	-3.5% -19.4%	5.84%-11.37%	0.20% - 11.40%
Terminal period growth rate	2.00%	2.00%	2.00%	2.00%
Discount rate (after-tax)	14.67%	16.00%	16.60%	16.80%

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.

9. FINANCIAL RISK MANAGEMENT

Foresters Financial offers insurance, wealth and asset management products and services, which subject the organization to a broad range of financial risks. Foresters Financial 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 Financial's goal in managing financial risk is to ensure that the outcomes of activities involving elements of risk are consistent with Foresters Financial's objectives and risk appetite, and to maintain an appropriate risk/reward balance while protecting Foresters Financial's balance sheet from events that have the potential to impair its financial strength.

Foresters Financial's Risk Management Policy sets out the standards of practice related to the governance, identification, measurement, monitoring, control and mitigation of risks. Foresters Financial 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's 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 Financial 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 Financial's 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

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

9. Financial risk management (continued)

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 Financial guidelines.

i) Maximum exposure to credit risk

Foresters Financial's 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 Financial's maximum credit exposure was as follows:

	2018 $	2017 $
Short-term securities	94,825	130,450
Bonds	7,528,999	7,208,479
Derivative financial instruments	190	16,100
Other invested assets	140,552	161,173
Loans to certificateholders	404,357	359,254
Reinsurance assets	398,562	348,658
Accrued investment income	73,306	69,627
Amounts due from reinsurers	22,365	26,245
Accounts receivable and other receivables	39,249	47,078
Maximum exposure to credit risk	8,702,405	8,367,064

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

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

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

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9. Financial risk management (continued)

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

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

	2018			2017		
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
U.S. treasury and other U.S. agencies	$ 1,488,222	$ 189,727	$ 1,677,949	$ 1,345,386	$ 136,509	$ 1,481,895
Canadian federal government	69,161	56,422	125,583	53,328	41,916	95,244
Canadian provincial and municipal government	471,371	42,236	513,607	544,083	64,138	608,221
U.K. government	325,554		325,554	406,342	55,766	462,108
Other foreign governments	162,873	4,828	167,701	131,511	11,422	142,933
Total government bonds	2,517,181	293,213	2,810,394	2,480,650	309,751	2,790,401
By industry sector						
Financial	1,470,873	466,050	1,936,923	1,357,461	405,764	1,763,225
Industrial	487,576	54,031	541,607	439,896	67,403	507,299
Utilities	389,166	63,778	452,944	411,383	75,172	486,555
Energy	300,908	67,035	367,943	250,032	40,755	290,787
Consumer Staples	245,558	75,286	320,844	231,945	58,328	290,273
Consumer	208,794	43,518	252,312	221,838	48,735	270,573
Communications	182,567	71,116	253,683	182,382	63,507	245,889
Technology	206,883	31,300	238,183	199,221	30,593	229,814
Health Care	159,614	2,721	162,335	166,831	1,283	168,114
Basic materials	93,294	23,039	116,333	71,279	11,880	83,159
Other	71,062	4,436	75,498	74,922	7,468	82,390
Total corporate bonds	3,816,295	902,310	4,718,605	3,607,190	810,888	4,418,078
	$ 6,333,476	$ 1,195,523	$ 7,528,999	$ 6,087,840	$ 1,120,639	$ 7,208,479
Allocation by country of issuer:						
United States	$ 4,057,953	$ 843,732	$ 4,901,685	$ 3,615,277	$ 681,970	$ 4,297,247
Canada	1,417,883	311,690	1,729,573	1,483,742	329,764	$ 1,813,506
U.K.	430,732	10,389	441,121	520,242	71,182	$ 591,424
Other	426,908	29,712	456,620	468,579	37,723	$ 506,302
	$ 6,333,476	$ 1,195,523	$ 7,528,999	$ 6,087,840	$ 1,120,639	$ 7,208,479

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9. Financial risk management (continued)

The credit rating of the bond portfolio was as follows:

	2018		2017	
Bond quality	$	%	$	%
Investment grade:				
AAA	1,111,623	14.8	906,625	12.6
AA	2,217,215	29.4	2,254,813	31.3
A	2,519,987	33.5	2,549,161	35.4
BBB	1,614,755	21.4	1,416,063	19.6
	7,463,580	99.1	7,126,662	98.9
BB and lower	65,419	0.9	81,817	1.1
Total bonds	7,528,999	100.0	7,208,479	100.0

Equities

Investments in common and preferred stocks are limited to 22.0% and 3.0% respectively of Foresters Financial's total assets. 100.0% of Foresters Financial's equity portfolio is invested in publicly listed corporations.

Own–use and investment property

Investments in real estate are limited to 15.0% of Foresters Financial's 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 3e.

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 Financial matches the currency of its assets with the

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

9. Financial risk management (continued)

currency of the liabilities they support to mitigate economic exposure to changes in exchange rates.

Administrative expenses

Foresters Financial 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 Financial 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 Financial 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 $5,175 (2017: $6,991). 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 $5,740 (2017: $7,620).

Foreign operations

A substantial portion of Foresters Financial's 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 Financial 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:

	Change in net income		Change in surplus	
	2018	2017	2018	2017
	$	$	$	$
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	703	213	(14,670)	(14,525)
U.K. pound	8	(355)	(1,763)	(1,730)

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 Financial mitigates its exposure to interest rate risk by utilizing

9. Financial risk management (continued)

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% (2017: 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 of approximately $92,367 (2017: $83,846) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities of approximately $73,437 (2017: $60,506).

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 Financial AFS bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2018 would result in an estimated after-tax decrease in OCI of $44,938 (2017: $25,407). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $39,355 (2017: $17,467).

9. Financial risk management (continued)

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 by approximately $34,371 (2017: $30,000). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities by approximately $39,873 (2017: $35,015).

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, 2018, would result in an estimated after-tax increase in OCI of $ 14,130 (2017: $16,516). 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, certificate holder behavior and expenses.

Foresters Financial 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 Financial's 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 certificate holders or agents, or improper claims adjudication.

9. Financial risk management (continued)

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 Financial 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 Financial 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 Capital Adequacy Testing ("DCAT"), Foresters Financial 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 Financial will not be able to meet all cash outflow obligations as they come due. Foresters Financial liquidity requirements are closely managed through approximate cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between certificate holder requirements and asset yields.

Operating and strategic liquidity levels are managed against established guidelines.

Foresters Financial 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 Financial's target liquidity ratio under both scenarios is 200.0%, a ratio that would more than support the highest claims-paying ratings for Foresters Financial, in addition to providing a significant margin above management's expected liquidity requirements. Foresters Financial's 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 certificate holder surrendering a

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9. Financial risk management (continued)

certificate for cash under each of the two scenarios, adjusted for the ability of the certificate holder to surrender under its contractual provisions.

The following chart shows Foresters Financial's strategic liquidity ratio:

	2018		2017	
	Immediate scenario	**Ongoing scenario**	**Immediate scenario**	**Ongoing scenario**
Allowable liquid assets	$ 7,877,370	$ 8,135,604	$ 7,625,111	$ 7,874,465
Risk-adjusted liquidity of liabilities	2,705,883	3,292,057	2,628,313	3,158,925
Liquidity ratio	291.1%	247.1%	290.1%	249.3%

Based on Foresters Financial's 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 Financial to satisfy debt service obligations and to pay other expenses.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

9. Financial risk management (continued)

Contractual maturities

The contractual maturities of Foresters Financial's 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:

2018	**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	278,170				278,170
Bonds	301,127	1,299,853	2,817,702	3,110,317	7,528,999
Derivative financial instruments	(5,805)	378	(22,951)	(6,101)	(34,479)
Reinsurance assets	2,004	31,253	145,565	219,740	398,562
Insurance contract liabilities	(198,048)	(1,087,493)	(2,979,152)	(3,133,735)	(7,398,428)
Investment contract liabilities	(161,109)	-	-	-	(161,109)
Benefits payable	(110,194)	(73,892)	-	-	(184,086)
Net investments for account of segregated fund unit holders	7,635,014	-	-	-	7,635,014
Liabilities for account of segregated fund unit holders	(7,635,014)	-	-	-	(7,635,014)
	106,145	170,099	(38,836)	190,221	427,629
2017					
Cash, cash equivalents and short-term securities	296,724	-	-	-	296,724
Bonds	208,801	1,194,628	2,839,533	2,965,527	7,208,489
Derivative financial instruments	18,872	9,193	(10,466)	(6,795)	10,804
Reinsurance assets	646	26,067	108,435	213,510	348,658
Insurance contract liabilities	(231,733)	(1,016,762)	(2,476,552)	(3,403,736)	(7,128,783)
Investment contract liabilities	(162,189)	-	-	-	(162,189)
Benefits payable	(104,909)	(70,867)	-	-	(175,776)
Net investments for account of segregated fund unit holders	7,832,864	-	-	-	7,832,864
Liabilities for account of segregated fund unit holders	(7,832,864)	-	-	-	(7,832,864)
	26,212	142,259	460,950	(231,494)	397,927

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

9. Financial risk management (continued)

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.

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:

	2018 $	2017 $
Accounts payable and accrued liabilities	157,408	123,451
Payroll, other compensation and benefits	63,843	57,803
Premiums paid in advance	17,878	16,145
Reinsurance financing provision	12,435	13,851
Due to reinsurers	6,568	6,135
Current income tax payable	6,256	23,374
Deferred tax liabilities	2,603	21,745
Other liabilities	1,870	994
	268,861	263,498

The carrying value of these liabilities approximates their fair value. Within 12 months from the reporting date, $213,699 (2017: $187,381) 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.

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

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

11. Insurance contract liabilities and reinsurance assets (continued)

b) Reconciliation of changes in insurance contract liabilities

	2018	
	Gross insurance contract liabilities $	**Net insurance contract liabilities $**
Beginning of year - Insurance contract liabilities	7,128,783	6,780,125
New business	184,035	143,238
Refinement of actuarial assumptions	77,380	67,706
Refinement of actuarial methods and models	(19,727)	(26,291)
Change in inforce due to changes in interest rates	(342,634)	(316,648)
Change in inforce from other movements	(32,349)	(24,016)
Change in contract liability	(133,295)	(156,011)
Effect of change in foreign exchange rates	402,940	375,752
End of year - Insurance contract liabilities	7,398,428	6,999,866

	2017	
	Gross insurance contract liabilities $	**Net insurance contract liabilities $**
Beginning of year - Insurance contract liabilities	6,994,702	6,678,894
New business	164,344	136,976
Refinement of actuarial assumptions	80,962	72,334
Refinement of actuarial methods and models	(52,692)	(39,139)
Change in inforce due to changes in interest rates	195,358	169,396
Change in inforce from other movements	(8,356)	57
Change in contract liability	379,616	339,624
Effect of change in foreign exchange rates	(245,535)	(238,393)
End of year - Insurance contract liabilities	7,128,783	6,780,125

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.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

11. Insurance contract liabilities and reinsurance assets (continued)

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

	2018 Net $	2017 Net $
Refinement of assumptions:		
Maintenance expense assumptions	(34,610)	(4,232)
Mortality and lapse assumptions for recent experience	93,969	70,549
Dividend assumptions	5,364	11,427
Fraternal experience assumptions	-	(1,726)
Credit spread assumptions	1,673	(2,525)
Investment expense assumptions	2,335	(1,666)
Other	(1,025)	507
	67,706	72,334
Refinement of methods and models:		
Dynamic dividend model enhancement	-	(2,401)
Liability model enhancements	(24,062)	(27,858)
Asset model enhancements	-	(7,293)
Regulation and standards changes	-	6,170
Other model improvements	(2,229)	(7,757)
	(26,291)	(39,139)

The amounts presented above are net of reinsurance assets. This presentation is consistent with the method used in valuing actuarial liabilities. Refinements of methods and models include reinsurance and other model enhancements.

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:

	2018 $	2017 $
Balance, beginning of year *	130,379	115,960
Net (release) strengthening of provision	(2,617)	19,392
Effect of change in foreign exchange rates	6,455	(4,973)
Balance, end of year *	134,217	130,379

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

11. Insurance contract liabilities and reinsurance assets (continued)

c) Composition of assets supporting liabilities and surplus

Foresters Financial segments its business taking into account the different liability profiles of its products. Based on these profiles, Foresters Financial 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, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

11. Insurance contract liabilities and reinsurance assets (continued)

Assets supporting liabilities and surplus by segment

Composition of assets supporting all liabilities and surplus

	December 31, 2018					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North American Life Insurance and Annuity	$ 127,457	$ 6,637,444	$ 212,269	$ 535,862	$ 863,571	$ 8,376,603
North American Asset Management	115,069	-	12,591	13	67,409	195,082
U.K. Savings, Investments and Protection	27,969	690,228	500,212	9,018	113,202	1,340,629
Membership **	894	192,009	-	-	4,574	197,477
Corporate	6,781	9,318	23,269	206	-	39,574
	$ 278,170	$ 7,528,999	$ 748,341	$ 545,099	$ 1,048,756	$ 10,149,365

* 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.
on the consolidated statements of comprehensive income. Intersegment notes and related interest eliminate on consolidation.

** Membership includes membership operations in the U.S., Canada and the U.K., as well as membership surplus.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

11. Insurance contract liabilities and reinsurance assets (continued)

Assets supporting liabilities and surplus by segment- continued

Composition of assets supporting all liabilities and surplus

	December 31, 2017					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North American Life Insurance and Annuity	$ 166,791	$ 6,186,811	$ 264,555	$ 476,007	$ 810,194	$ 7,904,358
North American Asset Management	108,925	-	14,436	-	56,042	179,403
U.K. Savings, Investments and Protection	16,566	796,644	460,362	8,784	152,363	1,434,719
Membership **	2,662	180,014	-	-	11,258	193,934
Corporate	1,780	45,010	32,882	51,736	6,873	138,281
	$ 296,724	$ 7,208,479	$ 772,235	$ 536,527	$ 1,036,730	$ 9,850,695

* 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.
on the consolidated statements of comprehensive income. Intersegment notes and related interest eliminate on consolidation.
** Membership includes membership operations in the U.S., Canada and the U.K., as well as membership surplus.

11. Insurance contract liabilities and reinsurance assets (continued)

d) Assumptions

The nature and method of determining the more significant assumptions made by Foresters Financial 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 Financial's 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 Financial's 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

Certificate holders 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 Financial 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.

Foresters Financial relies on industry experience where its own experience lacks statistical credibility. Selection of certain lapse rates, especially for long duration lapse supported business, are based on professional guidance.

Investment returns

Foresters Financial segments assets supporting insurance contract liabilities by geographic market and by line of business and 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

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

11. Insurance contract liabilities and reinsurance assets (continued)

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 Financial accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of invested assets).

Maintenance expenses

Amounts are included in actuarial liabilities to provide for the costs of administering inforce certificates, including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of certificate statements, and related indirect expenses and overhead. Annual expense studies are conducted to assess current cost structures by product and region. The process of forecasting expenses requires estimates to be made of factors such as inflation, salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future certificate maintenance expenses are based on Foresters Financial's experience.

Foreign currency

Currency risk is addressed in note 9b.

In note 9b market risk is addressed, and also includes the sensitivity of the insurance contract liabilities to changes in the types of market risk that most significantly impact Foresters Financial.

Dividends

Future certificate holder dividends are included in the determination of actuarial liabilities for participating certificates, with the assumption that certificate holder 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 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	2018 $	2017 $
Mortality Rates			
Adversely impacted by increase	+ 2%	(73,592)	(61,929)
Adversely impacted by decrease	- 2%	(3,050)	(2,040)
Lapse Rates	10% Adverse	(104,315)	(96,574)
Maintenance Expense Level	+ 10%	(76,656)	(64,024)

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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:

	2018 $	2017 $
Balance, beginning of year	162,189	161,805
Deposits received during the year	4,125	3,243
Surrenders and withdrawals	(10,649)	(9,634)
Interest credited and other	476	6,127
Effect of change in foreign exchange rates	4,968	648
Balance, end of year	**161,109**	**162,189**

13. CAPITAL MANAGEMENT

Foresters Financial's capital base consists of retained earnings and AOCI as shown on the consolidated statement of changes in surplus.

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

In accordance with the Board approved Capital Management Policy, Foresters Financial has established internal capital targets for capital adequacy at both a consolidated and segment level. These targets exceed local minimum statutory capital requirements in each jurisdiction in which Foresters Financial operates. Foresters Financial 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 Dynamic Capital Adequacy Testing ("DCAT"), Foresters Financial assesses the strength of its capital position under plausible adverse scenarios including mitigating management actions. These scenarios reflect Foresters Financial's plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Act and their subsidiaries, known as the Life Insurance Capital Adequacy Test ("LICAT"). Prior to January 1, 2018, the former capital regulatory guideline was the Minimum Continuing Capital and Surplus Requirement ("MCCSR") ratio. OSFI

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

13. Capital management (continued)

requires life insurance companies to maintain a minimum Core ratio of 55% and a Total ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total Capital.

The LICAT ratios as at December 31 shown below, were above the levels that would require any regulatory or corrective action. Comparative figures and percentage of changes are not shown as LICAT is a new OSFI guidance and it is under prospectively application.

			2018
Available capital (A+B)		**$**	**1,738,085**
Tier 1 Capital	A		1,367,321
Tier 2 Capital	B		370,764
Surplus allowance and eligible deposits	C		936,363
Base solvency buffer	D		1,755,049
Total ratio (%)			
([A+B+C] / D) x 100			152.39%

Other capital management considerations

In 2016, Foresters entered into a 10 year reinsurance arrangement, the objective of which is to enhance US statutory solvency levels. There is no risk transfer under the arrangement and this has been accounted for as such resulting in a financial liability included in other liabilities on the statement of financial position and a reinsurance financing fee included in operating expenses on the statement of comprehensive income.

In 2017, Foresters Financial entered into a number of forward contracts to hedge against currency fluctuations to minimize the impact of U.S. dollar foreign currency gains and losses on the capital ratio. These instruments are accounted for as derivative financial instruments on the statement of financial position.

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14. PREMIUMS

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

	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life and health	1,047,565	(112,195)	935,370	983,566	(94,640)	888,926
Annuities	233,252	(11)	233,241	166,235	-	166,235
	1,280,817	(112,206)	1,168,611	1,149,801	(94,640)	1,055,161

15. FEE REVENUE AND OTHER OPERATING INCOME

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

	2018	2017
	$	$
Fee revenue:		
Distribution and service fees	132,018	126,178
Management fees on segregated fund assets	126,650	115,726
Management fees on proprietary mutual funds and institutional assets	124,467	119,186
Brokerage fees	12,692	14,405
Total fee revenue	395,827	375,495
Other operating income:		
Transfers from accounts of segregated fund unit holders	9,114	8,526
Supplementary contract deposits (with life contingency)	2,210	1,541
Net rental expense	(3,157)	(3,301)
Other	5,213	5,561
Total other operating income	13,380	12,327

For the year ended December 31, 2018 (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:

	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
	$	$	$	$	$	$
Life & health	697,294	(53,217)	644,077	665,251	(59,367)	605,884
Fraternal	4,033		4,033	4,122	-	4,122
Annuities	116,352	(372)	115,980	91,582	(786)	90,796
	817,679	(53,589)	764,090	760,955	(60,153)	700,802

17. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2018	2017
	$	$
Employee benefits:		
Salaries and benefits	240,564	220,853
Defined benefit pension and post retirement plan expenses (note 7)	12,054	10,195
Defined contribution plan expenses (note 7)	5,299	4,289
	257,917	235,337
Service fees	42,103	36,790
Technology related fees	36,306	35,156
Professional and consulting fees	26,227	34,205
Depreciation and amortization of property, equipment and intangibles	20,990	22,189
Amortization and impairment loss on contract costs	15,259	2,683
Operating lease costs	14,314	14,386
Software costs expensed during the year	13,069	9,660
Impairment losses (note 8)	40,765	-
Other expenses	51,214	52,363
Total operating expenses	518,164	442,769

Foresters Financial recovered commissions and operating expenses from reinsurers in the amount of $28,842 (2017: $20,361) and $1,103 (2017: $904) respectively.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

18. INCOME TAXES

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

	2018 $	2017 $
Current income tax expense:		
Current year	2,005	32,539
Deferred income tax expense (benefit):		
Relating to the origination and reversal of temporary differences	(24,248)	11,861
Change in unrecognized deductible temporary differences	11,931	1,863
De-recognition of previously recognized tax losses	4,032	-
	(8,285)	13,724
Total income taxes	(6,280)	46,263

Cash taxes paid were $41,745 (2017: $22,404). Cash tax refunds received during the year were $23,801 including $77 in interest. (2017: Tax refunds of $2,658 including $9 in interest).

a) 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:

	2018 $	2017 $
Income tax (expense) recovery on net unrealized gains and losses on AFS assets	(115)	870
Income tax expense on reclassification of realized gains on AFS assets	(457)	(332)
Income tax (expense) recovery on remeasurement losses on employee benefit plans	(18)	63
Total income tax (expense) recovery	(590)	601

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18. Income taxes (continued)

b) 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:

	2018		2017	
	$	%	$	%
Net (loss) income after taxes	(116,931)		38,077	
Income tax (recovery) expense	(6,280)		46,263	
(Loss) Income before income taxes	(123,211)		84,340	
Combined federal and provincial statutory income tax rate for the current year	(32,872)	26.7%	22,426	26.6%
Net losses not subject to tax	19,752	(16.0%)	15,572	18.4%
Unrecognized tax losses	5,099	(4.1%)	629	0.8%
Tax adjustments related to prior years	3,592	(2.9%)	(337)	(0.4%)
Difference between Canadian and foreign statutory rates	1,308	(1.1%)	2,062	2.4%
Policyholder taxes on U.K. Ring Fenced Funds	(8,473)	6.8%	4,492	5.3%
De-recognition of deferred taxes	4,032	(3.3%)	-	0.0%
Other taxes	1,282	(1.0%)	1,419	1.7%
Income tax (recovery) expense	(6,280)	5.1%	46,263	54.8%

For 2018, income tax recovery is equal to 5.1% of the loss before income taxes. For 2017, income tax expense is equal to 54.8% of income before income taxes.

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.

Deferred tax assets and liabilities, included in other liabilities, were shown on the consolidated statement of financial position. The following table shows net deferred tax assets at December 31:

	2018	2017
	$	$
Deferred tax assets	32,512	43,439
Deferred tax liabilities (note 10)	2,603	21,745
Net deferred tax assets	29,909	21,694

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.

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18. Income taxes (continued)

The following chart shows the underlying assets and liabilities corresponding to net deferred income tax assets and liabilities:

	2018 Asset $	2018 Liability $	2018 Net $	2017 Asset $	2017 Liability $	2017 Net $
Bonds	1,021	-	1,021	-	(14,910)	(14,910)
Loans to certificateholders	-	(10,790)	(10,790)	-	(10,752)	(10,752)
Other invested assets		(2,972)	(2,972)	-	(2,487)	(2,487)
Property and equipment	-	(2,896)	(2,896)	-	(2,655)	(2,655)
Goodwill and intangibles		-	-		(2,024)	(2,024)
Employee benefit assets and obligations	6,496	(2,684)	3,812	3,318	(1,725)	1,593
Insurance contract liabilities	8,119	-	8,119	9,879	-	9,879
Investment contract liabilities	-	-	-	-	-	-
Other liabilities	10,208	-	10,208	7,691	-	7,691
Tax loss carry-forwards	23,407	-	23,407	35,359	-	35,359
Recognized deferred tax assets (liabilities)	49,251	(19,342)	29,909	56,247	(34,553)	21,694

Deferred assets and liabilities in the U.S. operation were affected by U.S. tax reform in 2017 due to a change in tax rates on corporations. During 2017, the net U.S. deferred tax assets declined by $2,620 as a result of tax reform.

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

	2018 $	2017 $
Beginning of year	21,694	34,283
(Charges) credits included in net income	8,285	(13,724)
(Charges) credits included in OCI	(669)	368
Exchange rate differences	599	767
End of year	29,909	21,694

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18. Income taxes (continued)

Recognized deferred tax assets

There were accumulated tax losses in the U.K. amounting to $17,403 (2017: $26,341) which has been recognized in these consolidated financial statements. These losses do not expire.

Unrecognized deferred tax assets

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

	2018	2017
	$	$
Deductible temporary differences	369	-
Tax losses and unclaimed deductions	32,857	17,263
	33,226	17,263

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 unclaimed tax deductions and unclaimed tax losses in Canada amounting to $106,281 (2017: $65,582) and $14,278 (2017: $0) respectively 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 while the unclaimed tax losses expire beginning in 2024 through 2038.

19. SEGMENTED INFORMATION

Foresters Financial has five reportable segments - four operating segments and a corporate segment - which reflect Foresters Financial's 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 segments and is responsible for capital management. The primary sources of revenue from the operating segments in the NALIA, NAAM and UKSIP 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).

The primary source of revenue in the Corporate segment is investment income derived from managing the surplus assets. In addition, Foresters Financial has a membership 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 certificate holder base and therefore no reliance on any individual customers.

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

19. Segmented information (continued)

Segmented statement of comprehensive income

	2018					
	North American Life Insurance and Annuity	North American Asset Management	U.K. Savings, Investments and Protection	Membership	Corporate	Total
REVENUE						
Gross written premiums	$ 1,230,363	$ -	$ 49,659	$ 795	$ -	$ 1,280,817
Ceded premiums	(110,967)	-	(1,239)	-	-	(112,206)
Net written premiums	1,119,396	-	48,420	795	-	1,168,611
Net investment income	(84,453)	(904)	(26,594)	(2,742)	(14,925)	(129,618)
Fee revenue	13,801	297,414	84,701	-	(89)	395,827
Other operating income (loss)	11,247	1,057	1,604	-	(528)	13,380
Total revenue	1,059,991	297,567	108,131	(1,947)	(15,542)	1,448,200
Total benefits and expenses	1,175,096	281,095	84,038	21,996	9,186	1,571,411
Net income (loss) before income taxes	(115,105)	16,472	24,093	(23,943)	(24,728)	(123,211)
Income taxes	(12,590)	4,767	1,543	-	-	(6,280)
Net income (loss)	(102,515)	11,705	22,550	(23,943)	(24,728)	(116,931)
Other comprehensive income (loss)	100,411	11,005	(2,623)	5,219	(6,931)	107,081
Total comprehensive income (loss)	$ (2,104)	$ 22,710	$ 19,927	$ (18,724)	$ (31,659)	$ (9,850)

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

19. Segmented information (continued)

	2017					
	North American Life Insurance and Annuity	North American Asset Management	U.K. Savings, Investments and Protection	Membership	Corporate	Total
REVENUE						
Gross written premiums	$ 1,088,712	$ -	$ 60,253	$ 836	$ -	$ 1,149,801
Ceded premiums	(93,465)	-	(1,175)	-	-	(94,640)
Net written premiums	995,247	-	59,078	836	-	1,055,161
Net investment income	442,621	5,760	52,818	13,961	26,497	541,657
Fee revenue	7,261	291,190	77,044	-	-	375,495
Other operating income (loss)	6,547	4,680	1,420	2	(322)	12,327
Total revenue	1,451,676	301,630	190,360	14,799	26,175	1,984,640
Total benefits and expenses	1,411,830	284,477	139,523	48,855	15,615	1,900,300
Net income (loss) before income taxes	39,846	17,153	50,837	(34,056)	10,560	84,340
Income taxes	19,697	12,947	13,619	-	-	46,263
Net income (loss)	20,149	4,206	37,218	(34,056)	10,560	38,077
Other comprehensive income (loss)	(108,329)	(13,452)	(6,797)	3,173	(862)	(126,267)
Total comprehensive income (loss)	$ (88,180)	$ (9,246)	$ 30,421	$ (30,883)	$ 9,698	$ (88,190)

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

19. Segmented information (continued)

Segmented statement of financial position

	North American Life Insurance and Annuity	North American Asset Management	U.K. Savings, Investments and Protection	Membership	Corporate	Total
As at December 31, 2018						
Total general fund assets	8,376,603	195,082	1,340,629	197,477	39,574	10,149,365
Net investments for accounts of segregated fund unit holders	1,870,042	-	5,764,972	-	-	7,635,014
Total general fund liabilities	6,664,171	115,258	1,121,458	218,981	11,042	8,130,910
As at December 31, 2017						
Total general fund assets	7,904,358	179,403	1,434,719	193,934	138,281	9,850,695
Net investments for accounts of segregated fund unit holders	1,969,661	-	5,863,203	-	-	7,832,864
Total general fund liabilities	6,268,832	89,078	1,237,702	219,198	5,307	7,820,117

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

19. Segmented information (continued)

The following table shows revenue for Foresters Financial by country:

	2018 $	2017 $
U.S.	1,120,546	1,495,059
Canada	219,163	298,563
U.K.	108,491	191,018
Total	1,448,200	1,984,640

20. RELATED PARTY TRANSACTIONS

Foresters Financials' broker-dealer and insurance subsidiaries provide distribution services to Foresters Financial. Additionally, Foresters Financial 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 Financial and its subsidiaries, which are related parties have been eliminated on consolidation and have not been disclosed in this note.

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 Financial to related parties.

a) Compensation of key management personnel

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

	2018 $	2017 $
Salaries and other short term employee benefits	22,897	24,134
Post-employment benefits	1,318	1,271
Other long-term benefits	1,705	1,157
Termination benefits	4,279	8,416
Total compensation of key management personnel	30,199	34,978

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

20. Related Party Transactions (continued)

b) Interests in investment funds managed by Foresters Financial

Foresters Financial, 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 (loss). Foresters Financial is not obligated contractually to provide financial support to these entities. Foresters Financial 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 $579 (2017: $134), $118 (2017: $397) and $1,143 (2017: $864) respectively.

c) Seed money in segregated funds

Foresters Financial manages and administers segregated funds established by The Independent Order of Foresters. As manager, Foresters Financial is responsible for the provision of all general management and administrative services required by the segregated funds in their day-to-day operations, including providing or arranging for the provision of investment advice, bookkeeping, recordkeeping and other administrative services.

In 2018, Foresters Financial redeemed seed investment units totaling $29,403 (2017: $19,569).

21. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, Foresters Financial enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. As at December 31, 2018, Foresters Financial's contractual obligations and commitments were as follows:

	1 year or less $	2- 5 years $	Over 5 years $	Total $
Obligations under service contracts	32,162	80,852	6,298	119,312
Lease obligations	13,107	35,742	18,058	66,907
Investment commitment	12,372	-	-	12,372
Total contractual obligations	57,641	116,594	24,356	198,591

For the year ended December 31, 2018 (amounts in thousands of Canadian dollars except where otherwise stated)

22. CONTINGENT LIABILITIES

From time to time in connection with its operations, Foresters Financial and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. Based on information presently known, it is not expected that existing legal actions, either individually or in the aggregate, will have a material adverse effect on Foresters Financial's consolidated statement of financial position.

23. PRINCIPAL SUBSIDIARIES

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

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)	
			2018	2017
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 and asset management 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

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 Financial is not obligated contractually to provide financial support to these entities.

Foresters Financial intends to wind down the operations of Foresters Equity Services Inc. and dissolve the company. Any assets remaining after the settlement of liabilities and operating expenses will be distributed to Foresters Financial.

24. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in 2018.