2018 Consolidated Financial Report

Foresters Life
Insurance Company

Foresters Financial

Consolidated Financial Statements and Notes
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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 judgment 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 Foresters Life Insurance Company (the "Company") within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. 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 the Company, 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 policyholders' 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 the Company and prepare a report for the Board of Directors. The analysis tests the Company'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.

The Company 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 the Company'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
President and Chief Executive Officer

Alvin Sharma
Chief Financial Officer

Toronto, Canada
February 12, 2019

Independent Auditors’ Report

To the Shareholder of Foresters Life Insurance Company

Opinion

We have audited the consolidated financial statements of Foresters Life Insurance Company (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 equity 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 policyholders and shareholder of Foresters Life Insurance Company

I have valued the policy liabilities and reinsurance recoverables of Foresters Life Insurance Company for its consolidated statement of financial position as at December 31, 2018 and their changes in the consolidated statement of comprehensive income (loss) 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

Consolidated Statement of Comprehensive Income (Loss)
For the year ended December 31

(in thousands of Canadian dollars)

	Note	2018	2017
Revenue			
Gross premiums	13	$ 182,311	$ 154,965
Ceded premiums	13	(44,398)	(37,197)
Net Premiums		**137,913**	**117,768**
Net Investment Income			
Interest and dividends (net)	3	48,703	48,958
Net realized gains	3	13,731	39,587
Net change in unrealized losses on investments measured at fair value through profit and loss	3	(52,681)	(15,325)
Total Investment Income		**9,753**	**73,220**
Fee revenue	14	11,646	11,229
Other operating income	14	2,966	1,203
Total Revenue		**162,278**	**203,420**
Policyholder Benefits & Expenses			
Gross benefits	15	132,337	131,119
Ceded benefits	15	(31,660)	(34,174)
Gross change in insurance contract liabilities	10	(22,717)	(43,911)
Ceded change in insurance contract liabilities	10	(24,625)	(17,563)
Dividends		2,890	3,164
Commissions		84,994	69,511
Operating expenses	16	64,235	48,499
Ceded commissions and operating expenses	16	(4,835)	(1,794)
Total Benefits & Expenses		**200,619**	**154,851**
Income (loss) before income taxes		**(38,341)**	**48,569**
Income Taxes (Recovery)			
Current	17	(6,064)	11,666
Deferred	17	(25)	481
Total Income Taxes (Recoveries)		**(6,089)**	**12,147**
Net (Loss) Income		**(32,252)**	**36,422**
Other Comprehensive Income (Loss)			
Net actuarial gains (losses) on employee benefit plans net of income tax (expense) recovery of ($18) (2017: $63)		52	(172)
Total items that will not be reclassified to net income		**52**	**(172)**
Net unrealized losses on available-for-sale assets net of income tax recovery of $536 (2017: $521)		(1,459)	(1,424)
Reclassification of realized gains on available-for-sale assets, net of income tax expense of $457 (2017: $288), to net income		1,244	787
Total items that are or may be reclassified subsequently to net income		**(215)**	**(637)**
Total other comprehensive loss		**(163)**	**(809)**
Total Comprehensive (Loss) Income		**$ (32,415)**	**$ 35,613**

(see accompanying notes)

Consolidated Statement of Financial Position
As at December 31

(in thousands of Canadian dollars)

	Note	2018	2017
Assets			
Invested assets	3		
Cash and short-term securities		$ 15,414	$ 19,055
Bonds		1,015,565	1,081,257
Equities		61,497	87,456
Other invested assets		92,298	83,510
Loans to policyholders		14,124	13,622
Total Invested Assets		1,198,898	1,284,900
Reinsurance assets	10	237,096	212,472
Accrued investment income		7,672	8,387
Prepaid commissions		29,932	31,648
Deferred tax assets	17	4,307	6,204
Other assets	5	35,286	20,788
Goodwill and intangible assets	7	2,130	15,056
		316,423	294,555
Net investments for accounts of segregated fund unit holders	4	14,976	20,912
Total Assets		**$ 1,530,297**	**$ 1,600,367**
Liabilities			
Insurance contract liabilities	10	$ 1,172,060	$ 1,194,776
Investment contract liabilities	11	15,417	15,582
Benefits payable and provision for unreported claims		37,048	31,066
Redeemable preferred shares	12	-	25,000
Other liabilities	9	33,911	43,651
Employee benefit obligations	6	767	847
		1,259,203	1,310,922
Liabilities for accounts of segregated fund unit holders	4	14,976	20,912
Total Liabilities		**$ 1,274,179**	**$ 1,331,834**
Equity			
Participating policyholders' equity		1,117	1,062
Shareholder's equity			
Common shares	12	50,000	50,000
Contributed surplus	12	117,964	97,964
Retained earnings		87,884	120,194
Accumulated other comprehensive income		(847)	(687)
		255,001	267,471
Total Equity		256,118	268,533
Total Liabilities and Equity		**$ 1,530,297**	**$ 1,600,367**

Contractual obligations and commitments (note 20)

Contingent liabilities (note 21)

(See accompanying notes)

On behalf of the Board:

Director

Director

Consolidated Statement of Changes in Equity
For the year ended December 31

(in thousands of Canadian dollars)

		Shareholder's equity						
	Participating policyholders	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income - Unrealized gains (losses) on available-for-sale assets	Remeasurement gains (losses) on employee benefit plans	Total shareholder's equity	Total equity
Balance as at December 31, 2017	$ 1,062	$ 50,000	$ 97,964	$ 120,194	$ 1,126	$ (1,813)	$ 267,471	$ 268,533
Net income (loss)	58	-	-	(32,310)	-	-	(32,310)	(32,252)
Other comprehensive income (loss):								
Pre-tax balance	(3)	-	-	-	(1,992)	70	(1,922)	(1,925)
Reclassification of net realized gains on available for sale assets	-	-	-	-	1,701	-	1,701	1,701
Income tax recovery (expense)	-	-	-	-	79	(18)	61	61
Total other comprehensive income (loss)	(3)	-	-	-	(212)	52	(160)	(163)
Total comprehensive income (loss) for the year	55	-	-	(32,310)	(212)	52	(32,470)	(32,415)
Contribution of capital	-	-	20,000	-	-	-	20,000	20,000
Balance as at December 31, 2018	$ 1,117	$ 50,000	$ 117,964	$ 87,884	$ 914	$ (1,761)	$ 255,001	$ 256,118
Balance as at December 31, 2016	$ 1,005	$ 50,000	$ 77,964	$ 83,832	$ 1,760	$ (1,641)	$ 211,915	$ 212,920
Net income	60	-	-	36,362	-	-	36,362	36,422
Other comprehensive income (loss):								
Pre-tax balance	(3)	-	-	-	(1,942)	(235)	(2,177)	(2,180)
Reclassification of net realized gains on available for sale assets	-	-	-	-	1,075	-	1,075	1,075
Income tax recovery	-	-	-		233	63	296	296
Total other comprehensive loss	(3)	-	-	-	(634)	(172)	(806)	(809)
Total comprehensive income (loss) for the year	57	-	-	36,362	(634)	(172)	35,556	35,613
Contribution of capital	-	-	20,000	-	-	-	20,000	20,000
Balance as at December 31, 2017	$ 1,062	$ 50,000	$ 97,964	$ 120,194	$ 1,126	$ (1,813)	$ 267,471	$ 268,533

(See accompanying notes)

Consolidated Statement of Cash Flows
For the year ended December 31

(in thousands of Canadian dollars)

		2018		2017
Cash flow from operating activities				
Net (loss) income per statement of comprehensive income	$	(32,252)	$	36,422
Items disclosed separately:				
Interest paid on benefits		450		474
Income tax paid		19,751		5,999
Income tax received		(1,829)		(2,649)
Interest received		(35,120)		(35,670)
		(49,000)		4,576
Items not affecting cash:				
Amortization of intangible assets		577		821
Net decrease in insurance contract liabilities		(22,716)		(43,911)
Net decrease in reinsurance assets		(24,624)		(17,563)
Net realized and unrealized losses (gains) on invested assets		39,095		(24,093)
Amortization of premiums and discounts on bonds		(3,819)		(5,545)
Deferred income tax expense		(146)		481
Impairment losses on goodwill and intangible assets		13,555		-
Net change in other assets and other liabilities		(16,131)		2,057
Other items resulting from operations:				
Interest paid on benefits		(450)		(474)
Income tax paid		(19,751)		(5,999)
Income tax received		1,829		2,649
Interest received		35,120		35,670
Decrease due to operating activities		**(46,461)**		**(51,331)**
Cash flow from investing activities				
Investments sold and matured:				
Bonds		703,145		688,482
Equities		33,302		13,664
Loans to policyholders		6,230		2,386
Investment acquired:				
Bonds and debentures		(664,158)		(650,891)
Equities		(14,919)		(7,462)
Other invested assets		(9,814)		(14,855)
Loans to policyholders		(5,966)		(1,640)
Increase due to investing activities		**47,820**		**29,684**
Cash flow from financing activities				
Contribution of capital		20,000		20,000
Redemption of preferred shares		(25,000)		-
(Decrease) Increase due to financing activities		**(5,000)**		**20,000**
Net decrease in cash and short-term securities for the year		**(3,641)**		**(1,647)**
Cash and short-term securities - Beginning of year		**19,055**		**20,702**
Cash and short-term securities - End of year	**$**	**15,414**	**$**	**19,055**
Cash and short-term securities consist of				
Cash	$	13,889	$	11,247
Short-term securities		1,525		7,808
	$	15,414	$	19,055

Description of business

Foresters Life Insurance Company (the "Company") is a stock life insurance company and a wholly owned subsidiary of The Independent Order of Foresters ("Foresters Financial") since demutualization on April 2, 2008. The Company, including its subsidiaries, offers products, including life insurance, accident and sickness insurance, and group annuities which are delivered across Canada and investment management services.

On January 23, 2012, the Company changed its legal name from Unity Life of Canada to Foresters Life Insurance Company. The Company commenced business in Canada in 1898. 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"). The Company'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 are measured at fair value;
- Reinsurance assets and insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM")

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 the Company's functional currency.

d) Critical 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 could 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, determination of employee benefit liabilities, income taxes, provisions for unreported claims, determining the key assumptions underlying recoverable amounts for purposes of impairment testing and the determination of contingencies. 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 the Company or its subsidiaries. Control exists when the Company 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 the Company 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. The Company's principal subsidiaries are listed in note 22.

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. The Company has two operating segments and a surplus segment.

The two operating segments are:

- The insurance operation sells insurance, accident and sickness insurance and group annuities;
- The asset management operation provides investment management services for institutional clients in Canada and manufactures and distributes a group of proprietary mutual funds in Canada.

The surplus segment holds surplus investments above those required to satisfy management's internal capital targets for each segment.

1.4 Foreign currency

Foreign currency transactions are converted to the appropriate functional currency on the date of the transaction. The Company's foreign currency transactions are minimal.

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		
Other invested assets	X	X	X
Loans to policyholders			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 and short-term securities

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

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

b) Bonds

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

The fair value of publicly traded bonds is determined using quoted market 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. The Company 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 on the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method and realized gains and losses on the sale of bonds are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

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

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

c) Equities

Equities are designated as FVTPL 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.

Dividend income is recorded as interest and dividends on the ex-dividend date and realized gains and losses on the sale of equities are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income.

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

d) Other Invested Assets

Limited partnerships

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

Seed money investment in segregated funds

Seed money represents the Company's initial investment in its segregated funds and is classified as AFS and 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.

e) Loans to policyholders

Loans to policyholders 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 policies on which the respective loans are made.

f) Derecognition

The Company 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.

g) Invested asset impairments

Invested assets other than FVTPL assets are assessed individually for impairment on a quarterly basis. The Company 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 asset impairments which will reduce future cash flows.

AFS assets are carried at fair value and unrealized gains and losses are recorded in OCI and accumulated in accumulated other comprehensive income ("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. 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.

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.

1.6 Other assets

Other assets consist primarily of prepayments, accounts receivable, deferred sales commissions, income tax recoverable and equipment.

Equipment

Equipment consists of computer equipment which is carried at historical cost less accumulated depreciation and impairment losses. When the carrying amount of the asset is greater than the recoverable amount, it is considered to be impaired and is written down through net income.

Depreciation

Depreciation is recognized in operating expenses on the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the asset as follows:

Asset type	Useful life
Computer equipment	3 - 5 years

Under IFRS, componentization is required when parts of 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.

Impairment

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than reinsurance assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment loss on equipment is recognized in net income.

1.7 Goodwill and intangible assets

a) Recognition and measurement

Goodwill

Acquisitions of businesses where the Company 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 asset management contracts 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.

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.

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

Asset type	Useful life
Customer relationship	5 years
Software	1 – 5 years

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 its 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 7.

Any potential goodwill impairment is identified by comparing the carrying value of the CGU to which goodwill has been allocated with its recoverable amount. If any potential impairment is identified, then it is quantified by comparing the carrying value of goodwill to its recoverable amount, calculated as the fair value of the CGU less the fair value of its assets and liabilities. The fair value of the CGU is determined using an internally developed valuation model which considers various factors including normalized earnings, projected earnings and price earnings multiples.

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 the Company accepts from the policyholder.

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 the Company. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of an insurance contract for specified future events, such as death or disability, that may adversely affect the policyholder 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 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 contract liabilities is recorded in the gross change in insurance contract liabilities on the consolidated statement of comprehensive income.

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

b) Reinsurance assets

The Company enters into reinsurance arrangements with reinsurers in order to limit its exposure to significant losses, to manage capital and to reduce volatility of financial results. Maximum limits have been established for the retention of risks associated with life insurance policies. Risks in excess of these limits are reinsured with well-established, highly rated reinsurers. The Company enters into two types of reinsurance arrangements:

- quota share reinsurance arrangements, whereby the Company retains a percentage of the risk associated with life insurance policies up to maximum retention limits; and
- excess of loss reinsurance arrangements, whereby risk in excess of established retention limits are ceded to reinsurers.

Reinsurance transactions do not relieve the Company of its primary obligation to policyholders. 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 the Company will not be able to collect amounts due under the terms of the contract. Any impairment loss is recorded in net income on the consolidated statement of comprehensive income.

Premiums for reinsurance ceded are presented as ceded premiums, reinsurance recoveries on claims incurred are recorded as ceded benefits, and commissions and expense 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 or payable from 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 the Company. Investment contracts comprise 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

The value of segregated fund 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.

The Company presents segregated fund net assets, which are in the legal name and title of the Company 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. The Company does not present these amounts as revenue on the consolidated statement of comprehensive income; however, they are disclosed in note 4.

Deposits to, and withdrawals from, segregated funds increase or decrease the liability, respectively. For services provided to unit holders, Foresters receives investment management and guarantee fees which are directly charged by the segregated funds to unit holders. This revenue is recorded as Fee revenue on the consolidated statement of comprehensive income.

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

Net investments for account of segregated fund unit holders

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

f) Participating policyholders

The amount recognized for participating policyholders' equity represents the amount belonging to policyholders relating to their ownership interest. The amounts relating to the contractual participation rights are recognized in insurance contract liabilities.

1.9 Other liabilities

Other liabilities consist of accounts payable, accrued expenses and income tax liabilities.

1.10 Income taxes

The tax expense for the year comprises current and deferred taxes. Tax is usually recognized as an expense or income in the statement of comprehensive income, except when it relates to an item included in OCI or directly in surplus, in which case, tax is recognized in OCI 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 they will not reverse in the foreseeable future. Temporary differences, tax losses and tax loss carryforwards are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which these tax assets can be utilized.

The carrying amount of recognized deferred tax assets is reviewed at each statement of financial position 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 statement of financial position date and are recognized to the extent that it becomes probable that future taxable income will allow the deferred tax asset 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

The Company accrues obligations for certain retirement and other post-employment benefit plans and the related costs.

The Company's net obligation in respect of defined benefit pension plans and post retirement benefits is calculated separately for each plan. The cost of pension and post retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and the obligations are determined annually by independent actuaries, using the projected benefit method and management's best estimates of salary projections, retirement ages of employees and other variables, except for the discount rate which is based on market rates.

These plans are not pre-funded. Benefit costs are charged to operating expenses and all actuarial gains and losses are recorded immediately in OCI and on the consolidated statement of changes in equity.

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 with the result that benefits and expenses are matched to premium revenue.

b) Fees revenue

Fees revenue primarily includes fees earned from the management of segregated fund, proprietary mutual fund assets, and institutional and mutual fund products. The Company 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.

c) Net investment income

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

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

1.13 Costs related to contracts with customers, excluding insurance contracts

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.

The Company 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.

1.14 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.

1.15 Contingent liabilities

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

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, the Company 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

The Company completed its identification of the contracts within the scope of this standard and performed a detailed assessment of the revenues and costs related to these contracts to determine the impact that the adoption of IFRS 15 has on the consolidated financial statements. Based on the assessments performed, the Company has determined that there is no material impact on transition to IFRS 15 on the consolidated financial statements. Therefore, no adjustment to opening retained earnings needs to be recognized.

b) Amendments to IFRS 4 Insurance Contracts

As of January 1, 2018, the Company 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 overlay approach and the deferral approach.

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.

The Company has determined that it qualifies, and has elected, to apply the temporary exemption from IFRS 9 as specified in IFRS 4. The Company'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

The following new standards were issued by the IASB and are expected 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 tentative 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 impracticable, 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 the Company for recognizing and measuring insurance contract liabilities. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize revenue as it delivers insurance services, rather than when it receives premiums. It will also change the presentation and disclosures of the Company's consolidated financial statements.

The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on its effective date. The Company is assessing the impact of this standard and expects that it will have a significant impact on the consolidated financial statements. However, the Company 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 the Company’s adoption of IFRS 17. The Company qualifies and intends to elect the deferral approach permitted under the amendments. Consequently, the Company will continue to apply IAS 39, the existing financial instrument standard until its expiry.

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

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

As a lessee, the Company 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.

The Company 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. The Company is currently finalizing the impact the adoption of these amendments will have on its consolidated financial 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, 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.

The Company intends to adopt the standard in its financial statements for the annual period beginning January 1, 2019. Based on the Company’s assessment completed to date, it does not expect the adoption of this standard to have a material impact on the consolidated financial statements. The Company 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 exception of IFRS 3 Business Combinations which continues to refer to both the 1989 and 2010 Frameworks.

The Company 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.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

3. Invested assets

a) Summary of invested assets

The carrying values and fair values of invested assets are shown as follows:

	FVTPL	AFS	Other	Total carrying value	Total fair value
As at December 31, 2018					
Cash and short-term securities	$ 5,627	$ 9,787	$ -	$ 15,414	$ 15,414
Bonds	756,320	259,245	-	1,015,565	1,015,565
Equities	61,497	-	-	61,497	61,497
Other invested assets	90,536	1,762	-	92,298	92,298
Loans to policyholders	14,124	-	-	14,124	14,124
Total invested assets	**928,104**	**270,794**	**-**	**1,198,898**	**1,198,898**
Net investments for account of segregated fund unit holders	14,976	-	-	14,976	14,976
Total investments	**$ 943,080**	**$ 270,794**	**$ -**	**$ 1,213,874**	**$ 1,213,874**

	FVTPL	AFS	Other	Total carrying value	Total fair value
As at December 31, 2017					
Cash and short-term securities	$ 4,636	$ 14,419	$ -	$ 19,055	$ 19,055
Bonds	825,738	255,519	-	1,081,257	1,081,257
Equities	87,456	-	-	87,456	87,456
Other invested assets	81,558	1,952	-	83,510	83,510
Loans to policyholders	-	-	13,622	13,622	13,622
Total invested assets	**999,388**	**271,890**	**13,622**	**1,284,900**	**1,284,900**
Net investments for account of segregated fund unit holders	20,912	-	-	20,912	20,912
Total investments	**$ 1,020,300**	**$ 271,890**	**$ 13,622**	**$ 1,305,812**	**$ 1,305,812**

b) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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:

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

Bonds, including short-term securities

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

Level 1 corporate bonds listed or quoted in an established over-the-counter market are valued using prices received from external pricing providers who generally consolidate quotes received from a panel of investment dealers into a composite price. As the market becomes less active, the quotes provided by some investment dealers may be based on modeled prices rather than on actual transactions. These sources are based largely on observable market data and, therefore these instruments are treated as Level 2 within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote, the instruments are treated as Level 3.

Other corporate bonds and non-government-based short-term securities such as unquoted bonds, commercial paper ("CP") and certificates of deposit ("CDs") are valued using models. For CP and CDs, the model inputs, such as LIBOR yield curves, foreign exchange 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 Level 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. 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.

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	$ 13,889	$ -	$ -	$ 13,889
Short-term securities	-	1,525	-	1,525
Bonds	-	1,015,565	-	1,015,565
Equities	51,394	10,103	-	61,497
Other invested assets	-	13	90,523	90,536
Net investments for account of segregated fund unit holders	8,573	6,403	-	14,976
Other invested assets	-	1,762	-	1,762
Total	$ 73,856	$ 1,035,371	$ 90,523	$ 1,199,750

	Level 1	Level 2	Level 3	Total fair value
December 31, 2017				
Cash	$ 11,247	$ -	$ -	$ 11,247
Short-term securities	-	7,808	-	7,808
Bonds	-	1,081,257	-	1,081,257
Equities	75,801	11,655	-	87,456
Other invested assets	-	-	81,558	81,558
Net investments for account of segregated fund unit holders	10,699	10,213	-	20,912
Other invested assets	-	1,952	-	1,952
Total	$ 97,747	$ 1,112,885	$ 81,558	$ 1,292,190

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

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

	FVTPL	
	Other invested assets	
	2018	2017
Balance, beginning of year	$ 81,558	$ 66,551
Changes during the year:		
Purchases	9,814	14,855
Unrealized (losses) gains	(849)	152
Balance, end of year	$90,523	$81,558

There were no material transfers between Level 1, 2 and 3 during 2017 or 2018. The fair market value of level 3 assets includes investments that are impacted by market sensitivities. Assumptions used to assess the market sensitivity of these assets include interest rates and real estate capitalization rates. The following table shows the impact of this analysis on the fair value of the Level 3 assets. The analysis was based on a 1% increase and a 1% decrease in the related sensitivity.

	2018		2017	
	1% increase	1% decrease	1% increase	1% decrease
FVTPL assets:				
Interest rate	$ (3,919)	$ 3,919	$ (3,084)	$ 3,084
Real estate capitalization rate	$ (8,008)	$ 11,853	$ (8,049)	$ 11,813

c) **Cash and short-term securities**

Cash and short-term securities are comprised of:

	2018	2017
Cash	$ 13,889	$ 11,247
Short-term securities	1,525	7,808
	$ 15,414	$ 19,055

d) **Other invested assets**

Limited partnerships

The Company has investments in limited partnerships which invest in real estate assets and private debt instruments funding infrastructure projects. The Company does not have the ability to exercise significant influence over these limited partnerships. The investments support certain insurance contract liabilities and are classified as FVTPL and carried at fair value. The fair value of these investments at December 31, 2018 was $90,523 (2017: $81,558).

e) **Impairments**

There were no investments that were impaired and therefore required an impairment loss provision. During 2018, Foresters Financial did not reverse any impairment losses previously taken that were sold during the year (2017: $0).

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:								
Short-term securities	$ -	$ 129	$ -	$ 129	$ 3	$ 50	$ -	$ 53
Bonds	30,405	8,466	-	38,871	35,519	5,650	-	41,169
Loans to policyholders	718	-	-	718	-	-	655	655
	31,123	8,595	-	39,718	35,522	5,700	655	41,877
Dividend income from equities	3,024	-	-	3,024	3,525	-	-	3,525
Income from other invested assets	6,279	4	-	6,283	3,861	96	-	3,957
Less: investment expense	(295)	(27)	-	(322)	(292)	(109)	-	(401)
Net investment income	$ 40,131	$ 8,572	$ -	$ 48,703	$ 42,616	$ 5,687	$ 655	$ 48,958

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

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

				2018				2017
	FVTPL	AFS	Other	Total	FVTPL	AFS	Other	Total
Bonds	$ 15,678	$ (2,936)	$ -	$ 12,742	$ 42,224	$ (1,700)	$ -	$ 40,524
Equities	989	-	-	989	(937)	-	-	(937)
Net realized gains (losses)	**$ 16,667**	**$ (2,936)**	**$ -**	**$ 13,731**	**$ 41,287**	**$ (1,700)**	**$ -**	**$ 39,587**

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

	2018	2017
Bonds	$ (43,096)	$ (23,251)
Equities	(8,736)	7,773
Other invested assets	(849)	153
Net unrealized losses on FVTPL investments	**$ (52,681)**	**$ (15,325)**

The following table shows the net unrealized (losses) gains on AFS-invested assets recorded in other comprehensive income for the years ended December 31:

	2018	2017
Bonds	$ (104)	$ (999)
Other invested assets	(190)	129
Net unrealized losses on AFS investments	**$ (294)**	**$ (870)**

4. Investments for account of segregated fund unit holders

a) Segregated fund net assets

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

	2018	2017
Cash and short-term securities	$ 341	$ 426
Equities	7,456	9,303
Mutual fund units	9,065	13,234
Other assets net of liabilities	(125)	(99)
Total net assets	16,737	22,864
Less: Segregated fund seed money investment	1,761	1,952
Net investments for account of segregated fund unit holders	**$ 14,976**	**$ 20,912**

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

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	$	20,912	$	21,780
Additions to the account of the unit holder:				
Deposits received from unit holders		1,016		391
Investment income		381		319
Net realized gains on sale of investments		660		967
		2,057		1,677
Deductions to the account of the unit holder:				
Amounts withdrawn or transferred by unit holders		5,152		2,192
Management fees and other operating costs		583		687
Net change in unrealized gains (losses) on investments		2,448		(463)
		8,183		2,416
Less: (loss)/income earned on segregated fund seed money investment		(190)		129
Balance, end of year	$	14,976	$	20,912

The above change in investments held was offset by an equal change in liabilities for accounts of segregated fund unit holders.

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 policyholders; accordingly, the Company 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 8.

d) **Risks associated with the Company's interests in segregated funds**

The Company is not obligated either contractually or on a constructive basis to provide financial support other than for the segregated funds where the Company ultimately provides support for the guarantee that investors will not receive at maturity an amount less than 75% of the capital invested. The Company has not yet been required or does not currently expect to provide any support under this guarantee.

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5. Other assets

a) **Other assets are comprised of the following:**

		2018		2017
Income tax recoverable	$	16,777	$	-
Amounts due from reinsurers		11,740		14,343
Accounts receivable		1,840		2,351
Deferred sales charges (note 5c)		1,629		2,599
Computer equipment (note 5b)		1,245		520
Other		2,055		975
	$	35,286	$	20,788

The carrying value of these assets approximates their fair value. Other assets of $14,455 (2017: $18,391) will be realized within 12 months from the reporting date.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

b) Computer equipment

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

		2018		2017
Net carrying value, beginning of year	$	520	$	-
Additions		733		528
Depreciation expense		(8)		(8)
Net carrying value, end of year	$	1,245	$	520

c) Deferred sales charges

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

		2018		2017
Beginning of year	$	2,599	$	2,519
Additions		291		877
Amortization		(750)		(797)
Derecognition of deferred sales charges		(511)		-
End of year	$	1,629	$	2,599

6. Employee benefit plans

The Company has a number of unfunded supplementary retirement arrangements and post-retirement health benefit plans. Actuarial valuations of the supplemental retirement arrangements and post-retirement benefits are performed periodically for accounting purposes. These valuations are based on a market-related discount rate and management's best estimate assumptions.

The Company measures its accrued benefit obligation as at December 31 of each year. At the end of 2017, there was no liability remaining on the unfunded supplementary retirement arrangement as there are no more active members.

Other benefits

The other post-retirement benefits provided to former employees are unfunded. The discount rates used to value the liabilities are based on long-term bond yields as of the measurement date, which are consistent with the duration of the plans' liabilities.

The discount rate used to value pension benefits and other benefits is 3.9% (2017: 3.6%) and 3.9% (2017: 3.6%), respectively.

Accrued pension and other benefits obligations are $767 (2017: $847). Benefit costs included in general expenses are $29 (2017: $51). Actuarial gains recorded through OCI net of taxes are $52 (2017: $172).

7. Goodwill and intangible assets

a) Reconciliation of carrying amount

			Indefinite useful life		Finite useful life					
		Goodwill		Asset management contracts		Customer relationships		Software		Total
Net carrying value as at December 31, 2017	$	6,561	$	5,035	$	2,528	$	932	$	15,056
Additions - internally developed		-		-		-		1,198		1,198
Amortization		-		-		(569)		-		(569)
Impairment loss		(6,561)		(5,035)		(1,959)		-		(13,555)
Net carrying value as at December 31, 2018	$	-	$	-	$	-	$	2,130	$	2,130
Net carrying value as at December 31, 2016	$	6,561	$	5,035	$	3,349	$	-	$	14,945
Additions - internally developed		-		-		-		932		932
Disposals		-		-		-		-		-
Amortization		-		-		(821)		-		(821)
Net carrying value as at December 31, 2017	$	6,561	$	5,035	$	2,528	$	932	$	15,056

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

b) **Recoverable amount of goodwill and intangible assets**

Management has determined the Company's asset management operations are a single CGU. Goodwill and the intangible assets, consisting of asset management contracts relating to proprietary mutual funds and customer relationships relating to third party institutional clients, are allocated to this CGU. The CGU is 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.

The recoverable amount of the asset management contracts which has an indefinite useful life were based on present value of the future cash flows expected to be derived from the CGU and asset management contracts (value in use).

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

	2018	2017
Growth rate for revenue	-3.5% to 19.4%	0.2% - 11.4%
Terminal period growth rate	2.0%	2.0%
Discount rate (after-tax)	16.0%	16.8%

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

During 2018, the growth rate assumption is lower than the figure used in the initial forecast period due to changes in the business model and market conditions. Accordingly, management estimated the recoverable amounts of the goodwill and indefinite-lived intangible assets were below the carrying amount of the assets and as a result the impairment loss was recognized.

The impairment loss was included in operating expenses (note 16) and results in nil balances for goodwill, asset management contracts and customer relationships as at December 31, 2018 and therefore will not stipulate further disclosure.

8. Financial risk management

The Company offers insurance products and services, which subject the organization to a broad range of financial risks. The Company has specific policies in place to manage these risks, such as the enterprise-wide Risk Management Policy, Change Management Policy, Investment Policy, Dividend Policy, Product Pricing Policy, Reinsurance Risk Management Policy and Capital Management Policy, all of which are annually approved by the Board. The Company's goal in managing financial risk is to ensure that the outcomes of activities involving elements of risk are consistent with its objectives and risk appetite, and to maintain an appropriate risk/reward balance while protecting the Company's balance sheet from events that have the potential to impair its financial strength.

The Company's Risk Management Policy sets out the standards of practice related to the governance, identification, measurement, monitoring, control and mitigation of risks. The Company 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 the Company'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 are credit risk, market risk (interest rate risk and equity market risk), insurance risk and liquidity risk. The following sections describe how the Company 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 the Company'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 assets in any single geographic area, industry and company, 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 net liabilities for insurance contracts. The Reinsurance Risk Management Policy sets out the minimum risk rating criteria that all reinsurance counterparties are required to meet. Reinsurance is placed with counterparties that have an AM Best financial strength rating of A- (excellent) or better and concentration of credit risk is managed by following guidelines approved each year by the Board of Directors. Management regularly monitors the creditworthiness of reinsurers to ensure compliance with guidelines.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

i) Maximum exposure to credit risk

The Company'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.

The Company's maximum credit exposure was as follows:

	2018	2017
Short-term securities	$ 1,525	$ 7,808
Bonds	1,015,565	1,081,257
Other invested assets	92,298	83,510
Loans to policyholders	14,124	13,622
Reinsurance assets	237,096	212,472
Accrued investment income	7,672	8,387
Amounts due from reinsurers	11,740	14,343
Accounts receivable and other	3,895	3,326
Maximum exposure to credit risk	**$ 1,383,915**	**$ 1,424,725**

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 in that they operate in the same geographic region or in similar industries.

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

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 and certain foreign governments and government agencies, is limited to 5.0% of the bond portfolio. These limits apply to AAA-rated bonds and other fixed-term securities, and are further constrained for lower-rated bonds.

The following table provides details of the carrying value of bonds by industry sector:

			2018			2017
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
Canadian federal government	$ 18,737	$ 28,577	$ 47,314	$ 8,296	$ 10,110	$ 18,406
Canadian provincial and municipal government	242,279	38,997	281,276	285,471	41,098	326,569
Other foreign governments	11,577	3,433	15,010	11,624	3,484	15,108
Total government bonds	**272,593**	**71,007**	**343,600**	**305,391**	**54,692**	**360,083**
Corporate bonds by industry sector:						
Financials	115,681	108,682	224,363	124,560	99,637	224,197
Utilities and energy	137,213	45,079	182,292	161,953	48,098	210,051
Industrials	133,765	4,883	138,648	132,306	13,687	145,993
Communications	43,791	18,697	62,488	36,855	26,341	63,196
Other	34,218	771	34,989	46,866	3,992	50,858
Consumer staples	14,387	10,126	24,513	12,899	9,072	21,971
Consumer	4,672	-	4,672	4,908	-	4,908
Total corporate bonds	**483,727**	**188,238**	**671,965**	**520,347**	**200,827**	**721,174**
	$ 756,320	**$ 259,245**	**$ 1,015,565**	**$ 825,738**	**$ 255,519**	**$ 1,081,257**

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

The credit rating of the bond portfolio was as follows:

	2018		2016	
Bond quality	$	%	$	%
Investment grade:				
AAA	109,404	11%	85,631	8%
AA	247,825	24%	239,841	22%
A	467,483	46%	560,489	52%
BBB	190,853	19%	195,296	18%
Total bonds	1,015,565	100%	1,081,257	100%

Equities

Investments in common and preferred stocks are limited to 10% and 15% respectively, of the Company's total assets. 100% of the Company's equity portfolio is invested in publicly listed corporations.

iii) Impairments

An allowance for losses on AFS bonds and loans and receivables is established when an 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.

Insurance contract liabilities include an asset depreciation provision for credit losses for future asset defaults as outlined in note 10b.

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises two types of risk:

- Interest rate risk
- Equity market risk

i) 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. The Company mitigates its exposure to interest rate risk by utilizing a formal process for managing the matching of assets and liabilities, which involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in that segment.

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

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

The risk 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.

One method of measuring the interest rate risk is to determine the effect on insurance contract liabilities and surplus of an immediate 1.0% increase or decrease in the level of risk-free interest rates.

For insurance contract liabilities, a 1.0% reduction in interest rates would result in an increase in insurance contract liabilities of approximately $17,389 (2017: $9,699) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities of approximately $12,730 (2017: $8,268).

Bonds designated as AFS generally do not support insurance contract liabilities. Changes in the fair value of AFS bonds are recorded in OCI and cause a corresponding change in surplus. For AFS bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2018, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $11,223 (2017: $11,855). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $12,464 (2017: $13,125).

ii) Equity market risk

Some insurance 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 $5,688 (2017: $6,013). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities by approximately $7,216 (2017: $7,337).

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, policyholder behavior and expenses.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

The Company 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 Product 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. The Company'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 policyholders or agents, or improper claims adjudication.
- Lapse risk - is the risk that withdrawals and lapse rates are different than assumed. Lapses that are higher than assumed are often detrimental to profit, especially if they occur prior to recovering costs to issue a policy. Lapses that are lower than assumed can also reduce profits on policies that have generous interest rate guarantees or on policies 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.

The Company 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. The Company 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 10d. Annually, as part of Dynamic Capital Adequacy Testing ("DCAT"), the Company 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 10d.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company's liquidity requirements are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between policyholder requirements and the yield of assets.

Operating and strategic liquidity levels are managed against established guidelines. The Company 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 Canada). Strategic liquidity is measured under both immediate (within one month) and ongoing (within one year) stress scenarios. The Company's target liquidity ratio under both scenarios is 200.0%, a ratio that would more than support the highest claims-paying ratings for the Company, in addition to providing a significant margin above management's expected liquidity requirements. The Company's liquidity ratio is defined as allowable liquid assets / risk-adjusted liquidity of liabilities. The risk-adjusted liquidity of liabilities is calculated by assessing the probability of a policyholder surrendering a policy for cash under each of the two scenarios, adjusted for the ability of the policyholder to surrender under its contractual provisions.

The following chart shows the Company's strategic liquidity ratio:

	2018		2017	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Allowable liquid assets	$ 1,049,045	$ 1,075,471	$ 1,136,964	$ 1,168,455
Risk-adjusted liquidity of liabilities	460,427	472,236	498,762	511,109
Liquidity ratio	227.8%	227.7%	228.0%	228.6%

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

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

Contractual maturities

The contractual maturities of the Company'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 and short-term securities	$ 15,414	$ -	$ -	$ -	$ 15,414
Bonds	10,212	89,166	442,975	473,212	1,015,565
Reinsurance assets	1,312	8,155	56,464	171,165	237,096
Amounts due from reinsurer	11,740	-	-	-	11,740
Insurance contract liabilities	(33,819)	(92,512)	(349,345)	(696,384)	(1,172,060)
Investment contract liabilities	(15,417)	-	-	-	(15,417)
Benefits payable	(37,048)	-	-	-	(37,048)
Due to reinsurers	(3,228)	-	-	-	(3,228)
Net investments for account of segregated fund unit holders	14,976	-	-	-	14,976
Liabilities for account of segregated fund unit holders	(14,976)	-	-	-	(14,976)
Total	$ (50,834)	$ 4,809	$ 150,094	$ (52,007)	$ 52,062

2017	On demand or within 1 year or less	2-5 years	6-15 years	Over 15 years	Total
Cash and short-term securities	$ 19,055	$ -	$ -	$ -	$ 19,055
Bonds	3,086	93,936	480,106	504,129	1,081,257
Reinsurance assets	342	4,597	44,471	163,062	212,472
Amounts due from reinsurer	14,343	-	-	-	14,343
Insurance contract liabilities	(43,425)	(125,094)	(353,799)	(672,458)	(1,194,776)
Investment contract liabilities	(15,582)	-	-	-	(15,582)
Benefits payable	(31,066)	-	-	-	(31,066)
Due to reinsurers	(3,140)	-	-	-	(3,140)
Net investments for account of segregated fund unit holders	20,912	-	-	-	20,912
Liabilities for account of segregated fund unit holders	(20,912)	-	-	-	(20,912)
Total	$ (56,387)	$ (26,561)	$ 170,778	$ (5,267)	$ 82,563

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 "within 1 year" 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 20.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

9. Other liabilities

Other liabilities are comprised of the following:

	2018	2017
Accounts payable and accrued liabilities	$ 18,772	$ 21,645
Demutualization benefits payable	3,598	5,533
Due to reinsurers	3,228	3,140
Payroll, other compensation and benefits	5,305	2,273
Income tax payable	-	8,845
Other liabilities	3,008	2,215
	$ 33,911	$ 43,651

The carrying value of these liabilities approximates their fair value. Within 12 months from the reporting date, $27,521 (2017: $29,467) will be realized.

10. 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 in order to determine the appropriate margin for adverse deviation. In general, in setting these margins for adverse deviation, the Appointed Actuary has aimed for a level of conservatism in keeping with the risk profile of the Company and its operations. 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 policy, the effect of those changes is recognized in income immediately.

The Company 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 policies by line of business. The Company's gross exposure to insurance contract liabilities is partially offset by reinsurance assets on account of certain risks ceded to reinsurers.

b) **Reconciliation of changes in insurance contract liabilities**

	2018		2017	
	Gross	Net	Gross	Net
Beginning of year	$ 1,194,776	$ 982,304	$ 1,238,687	$ 1,043,778
New business	(20,420)	(42,970)	(19,078)	(41,458)
Refinement of unit cost	28,861	28,348	7,800	7,800
Refinement of actuarial assumptions	18,957	14,491	(1,708)	(5,232)
Refinement of actuarial methods and models	9,009	5,632	(26,451)	(14,329)
Change in inforce due to changes in interest rates	(34,196)	(28,886)	39,680	29,892
Change in inforce from other movements	(24,927)	(23,956)	(44,154)	(38,147)
Change in contract liabilities	(22,716)	(47,341)	(43,911)	(61,474)
End of year	$ 1,172,060	$ 934,963	$ 1,194,776	$ 982,304

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

The significant movement during the year resulted from the change in interest rates.

Changes resulting from refinements of actuarial assumptions and methods and models in the above tables are shown in more detail below.

	2018	2017
Refinement of unit cost and actuarial assumptions, net of reinsurance:		
Mortality and lapse assumptions for recent experience	$ 11,306	$ 2,648
Dividend assumptions	(99)	(18)
Investment expense assumptions	3,284	(3,337)
Other	-	(4,524)
	$ 14,491	$ (5,231)
Refinement of methods and models:		
Asset model enhancements	$ -	$ (6,589)
Other model improvements	6,992	(6,999)
Regulation	-	(692)
Other	(1,360)	(49)
	$ 5,632	$ (14,329)

The amounts presented above are net of reinsurance assets. This presentation is consistent with the method used in valuing actuarial liabilities.

c) **Composition of assets supporting liabilities and surplus**

The Company segments its business taking into account the different liability profiles of its products. Based on these profiles, the Company has invested in fixed income securities and equities with characteristics that closely match the characteristics of the related liability.

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

The following charts show the details of assets supporting liabilities and surplus by segment:

December 31, 2018

	Cash and short-term securities	Bonds	Equities	Other invested assets*	Other	Total
Insurance	$ -	$ 756,320	$ 61,497	$ 72,401	$ 287,366	$ 1,177,584
Asset management	4,990	-	-	13	3,640	8,643
Surplus	10,424	259,245	-	34,008	25,417	329,094
	$ 15,414	$ 1,015,565	$ 61,497	$ 106,422	$ 316,423	$ 1,515,321

December 31, 2017

	Cash and short-term securities	Bonds	Equities	Other invested assets*	Other	Total
Insurance	$ -	$ 825,738	$ 87,456	$ 63,040	$ 255,551	$ 1,231,785
Asset management	4,683	-	-	-	8,162	12,845
Surplus	14,372	255,519	-	34,092	30,842	334,825
	$ 19,055	$ 1,081,257	$ 87,456	$ 97,132	$ 294,555	$ 1,579,455

* Other invested assets include loans to policyholders, limited partnership investments and segregated fund seed money.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

d) Assumptions

The nature and method of determining the more significant assumptions made by the Company 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 the Company'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 the Company'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

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

Investment returns

The Company segments assets supporting insurance contract liabilities by line of business. The Company establishes investment strategies for each liability segment. The computation of actuarial liabilities takes into account projected cash flows or net investment income on assets supporting these liabilities, as well as income expected to be earned (or foregone) on reinvestments (or financing) of mismatched cash flows. Uncertainties exist with respect to projections of risk-free interest rates, credit spreads and the magnitude of credit losses resulting from asset depreciation. The Company 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 in-force policies, including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of policy statements, and related indirect expenses and overhead. Annual expense studies are conducted to assess current cost structure 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 policy maintenance expenses are based on the Company's experience.

Dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder 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:			
Life products	+2%	(8,258)	(8,288)
Annuity products	-2%	(756)	(830)
Lapse rates	10% Adverse	(29,881)	(24,608)
Maintenance expense levels	+10%	(11,027)	(7,010)

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

11. 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	$	15,582	$	15,538
Deposits received		131		559
Surrenders and withdrawals		(656)		(882)
Interest credited and other		360		367
Balance, end of year	$	15,417	$	15,582

12. Capital and capital management

a) **Capital**

Upon conversion to a stock company on April 2, 2008, the Company issued 50,000,000 common shares to Foresters Financial for proceeds of $50 million. On April 29, 2016, the Company issued 1,000,000 preferred shares, redeemable at the option of the holder and do not have cumulative dividends, to Foresters Financial for proceeds of $25 million. They are classified as a liability on the statement of financial position. The preferred shares were redeemed during 2018 for $25,000.

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value.

The following table shows the number of outstanding shares:

		2018		2017
50,000,000 common shares, no par value	$	50,000	$	50,000
1,000,000 series A preferred shares	$	-	$	25,000

In 2018, Foresters Financial contributed $20,000 (2017: $20,000) cash to the Company in the form of contributed surplus.

b) **Capital management**

The Company's capital base consists of share capital, contributed surplus, retained earnings and AOCI as shown on the consolidated statement of changes in equity.

The Company's objective with respect to capital management is to maintain a consistently strong capital position, to comply with Canadian solvency requirements and to build on the Company's value by taking advantage of business and investment opportunities as they arise.

In accordance with the Board-approved Capital Management Policy, the Company has established internal capital targets for capital adequacy. These targets exceed the minimum statutory capital requirements in Canada. The Company 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"), the Company assesses the strength of its capital position under plausible adverse scenarios, including mitigating management actions. These scenarios reflect the Company's business plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the 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 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 ratio as at December 31 in the following table was 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)		$	253,372
Tier 1 Capital	A		192,274
Tier 2 Capital	B		61,098
Surplus allowance and eligible deposits	C		210,349
Base solvency buffer	D		392,819
Total ratio (%) ([A+B+C] / D) x 100			118.05%

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

13. 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	$ 179,946	$ (44,387)	$ 135,559	$ 151,682	$ (37,197)	$ 114,485
Annuities	2,365	(11)	2,354	3,283	-	3,283
Total	**$ 182,311**	**$ (44,398)**	**$ 137,913**	**$ 154,965**	**$ (37,197)**	**$ 117,768**

14. Fee revenue and other operating income

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

	2018	2017
Management fees on mutual fund assets	$ 11,509	$ 11,085
Management fees on segregated fund assets	137	144
Other income	2,966	1,203
Total other operating income	**$ 14,612**	**$ 12,432**

15. Benefits

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

			2018			2017
	Gross	Ceded	Net	Gross	Ceded	Net
Life and health	$ 86,623	$ (31,288)	$ 55,335	$ 85,981	$ (33,388)	$ 52,593
Annuities	45,714	(372)	45,342	45,138	(786)	44,352
Total	**$ 132,337**	**$ (31,660)**	**$ 100,677**	**$ 131,119**	**$ (34,174)**	**$ 96,945**

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

16. Operating expenses

A breakdown of operating expenses by nature is provided below:

		2018		2017
Employee benefits:				
Salaries, benefits and other payroll remittances	$	16,598	$	15,031
Employee benefit expenses (note 6)		29		51
		16,627		15,082
Service fees and expenses		19,478		17,493
Premium tax		4,428		3,462
Professional fees and expenses		3,288		4,822
Software costs expensed		1,025		545
Operating lease costs		360		583
Amortization of intangible assets		569		821
Impairment losses (note 7)		13,555		-
Other expenses		4,905		5,691
Total operating expenses	$	64,235	$	48,499

The Company recovered commissions and operating expenses from reinsurers in the amount of $3,798 (2017: $949) and $1,037 (2017: $845) respectively.

17. Income taxes

a) Income tax expenses

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

		2018		2017
Current income tax expense	$	(6,064)	$	11,666
Deferred income tax benefit:				
Relating to the origination and reversal of temporary differences		(25)		481
Total income taxes	$	(6,089)	$	12,147

Cash taxes paid in 2018 were $19,751 (2017: $5,999). Cash taxes received in 2018 were $1,829 including interest of $20 (2017: $2,649 including interest of $7).

b) Income taxes included in OCI

Other comprehensive income (loss) is presented net of income taxes. The following income tax recovery (expense) amounts were included in each component of OCI:

		2018		2017
Income tax recovery on net unrealized gains (losses) on available-for-sale assets	$	536	$	521
Income expense on the reclassification of realized gains (losses) on available-for-sale assets		(457)		(288)
Income tax (expense) recovery on net actuarial gains (losses) on employee benefit plans		(18)		63
	$	61	$	296

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

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 for the year		(32,252)		36,422
Total income tax (recovery) expense		(6,089)		12,147
(Loss) Income before income taxes		(38,341)		48,569
Combined federal and provincial statutory income tax rate for the current year	26.87%	(10,304)	26.77%	13,000
Capital taxes	(6.35%)	2,435	-	-
Tax-exempt income	2.13%	(819)	(1.96%)	(952)
Reduction in tax rate	1.19%	(450)	0.06%	29
Other miscellaneous differences	(0.33%)	125	0.23%	112
Tax adjustments for prior periods	2.89%	(1,108)	(0.09%)	(42)
De-recognition of loss carry forwards	(10.52%)	4,032	-	-
Effective tax rate	15.88%	(6,089)	25.00%	12,147

c) 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 income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

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

	2018			2017		
	Asset	Liability	Net	Asset	Liability	Net
Bonds	$ -	$ (389)	$ (389)	$ -	$ (506)	$ (506)
Property and equipment	-	(95)	(95)	-	(36)	(36)
Employee benefit assets and obligations	170	-	170	189	-	189
Insurance contract liabilities	3,941	(3,790)	151	3,833	(3,650)	183
Benefits payable and provision for unreported claims	59	-	59	53	-	53
Goodwill and intangibles	-	-	-	-	(2,024)	(2,024)
Tax loss carryforward	7,096	-	7,096	8,406	-	8,406
Other temporary differences	151	(2,836)	(2,685)	402	(2,487)	(2,085)
Recognized deferred tax assets	$ 11,417	$ (7,110)	$ 4,307	$ 12,883	$ (8,703)	$ 4,180

The net movement in the deferred tax account is as follows:

	2018	2017
Beginning of year	$ 4,180	$ 4,599
Charges (credits) included in net income	109	(481)
Charges included in OCI	18	62
End of year	$ 4,307	$ 4,180

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

18. Segmented information

The Company has two reportable operating segments, insurance and asset management, which reflect the Company's internal management structure and basis for internal financial reporting. Each operating segment is organized to meet the needs of local markets and is responsible for developing its own products. The primary sources of revenue from these operating segments are:

- Premium income derived from life insurance, accident and sickness insurance, and group annuities (note 13),
- Net investment income (note 3), and
- Fee revenue and other operating income derived primarily from investment management services (note 14)

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.

The Company has a widely diversified policyholder base and, therefore, is not reliant on any individual customers.

19. Related party transactions

The Company is a wholly owned subsidiary of Foresters Financial. Effective April 2, 2008, all the employees of the Company became employees of Foresters Financial. Salaries, benefits and related employee future benefit obligations for employees of Foresters Financial dedicated to the Company are paid by the Company. Foresters Financial provides various support functions in the normal course of business, including human resources, internal audit, legal and compliance, investment management and actuarial services. The cost of these support function services to the Company is charged based on usage. The charge to the Company by Foresters Financial for the support functions in 2018 was $2,500 (2017: $2,500). At December 31, 2018, the amount owing to Foresters Financial was $2,268 (2017: $1,672).

FAM is a wholly owned subsidiary of the Company and provides investment management services to the Company. The charge to the Company by FAM for services in 2018 was $726 (2017: $726).

Compensation of key management personnel

The Company's 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 comprise directors and executive officers of the Company.

The remuneration of key management personnel was as follows:

	2018	2017
Salaries and other short-term employee benefits	$ 752	$ 1,905
Post-employment benefits	83	143
Other long-term benefits	151	41
Termination benefits	109	-
Total compensation of key management personnel	**$ 1,095**	**$ 2,089**

Included in post-employment benefits and other long-term benefits are costs of $95 (2017: $159) which are not paid by the Company, but instead paid by Foresters Financial.

20. Contractual obligations and commitments

a) **Policy dividend practices pursuant to assumption reinsurance transactions**

i) MetLife Canada

On October 30, 2009, the Company acquired insurance policies, annuities and certificates from MetLife Canada pursuant to an assumption reinsurance transaction and agreed to continue the dividend practices of MetLife Canada for the assumed policies.

On April 7, 2000, Metropolitan Life Insurance Company ("Metropolitan") converted from a mutual life insurance company to a stock company and became a wholly owned subsidiary of MetLife, Inc. a Delaware corporation. The conversion was pursuant to an order by the New York Superintendent of Insurance approving Metropolitan's plan of reorganization.

In order to satisfy the New York State Department of Financial Services ("NYSDFS") that participating policyholders of Metropolitan would be treated fairly after demutualization, the Canadian branch of Metropolitan (the "Metropolitan Branch") committed to paying dividends to its individual participating policyholders in accordance with the following objectives:

- For ordinary and industrial participating life insurance, dividend mortality was set at the 2000 dividend scale level, dividend expenses were set at the 2000 dividend scale level indexed with inflation and dividend interest rates are adjusted based on a 10-year rolling average of the 10-year Canada bond rate less an adjustment for taxes.
- Commitments for the individual health insurance and individual annuities lines of business are not expected to produce dividends.

These dividend-paying policies were assumed by MetLife Canada on January 2, 2006 from the Metropolitan Branch on domestication and subsequently, by the Company on October 30, 2009. Although these dividend-paying policies do not fall within the definition of "participating policies" in the Act and were not considered participating policies of MetLife Canada, MetLife Canada agreed with OSFI at the time of domestication to honour the dividend commitment made by the Metropolitan Branch to the New York State Insurance Department ("NYSID") with respect to these dividend-paying policies. These policies will also not be considered to be participating policies by the Company under the Act, but the Company has in turn agreed to follow the MetLife Canada dividend paying-policy and practices with respect to the assumed policies.

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

ii) Prudential

On July 31, 2006, the Company acquired insurance policies from Prudential Insurance Company of America ("Prudential") pursuant to an assumption reinsurance transaction and agreed to continue the dividend practices of Prudential for the assumed policies.

On December 18, 2001, Prudential converted from a mutual insurance company to a stock company. Under demutualization, a Canadian closed block was established with a transfer of specific assets to back the Canadian liabilities of the life insurance policies. Dividends were then based on the experience of this closed block.

In view of the exposure that the emerging experience would fluctuate as the size of the Canadian closed block continued to decline, Prudential applied to the New Jersey regulators in early 2006 to terminate the Canadian closed block. In order to protect the policyholders' reasonable dividend expectation, a three-factor formula was developed for calculating future dividend. The factors reflect:

- industry mortality experience with annual mortality improvements guaranteed for each of the next 8 years;
- the interest earned on the fund graded over the next 23 years into a rolling average of prevailing 10 year Government of Canada bond rates;
- a fixed level of expense

The New Jersey regulator has accepted the change on the condition that the policyholders will have their reasonable dividend expectations protected by the new dividend formula. Although these policies will not be considered to be participating policies by the Company under the Act, the Company has in turn agreed to follow the Prudential dividend policy and practices with respect to the assumed policies.

Policy Liabilities of Assumed Policies – Prudential

	2018			2017		
	Dividend-Paying	Non-Dividend Paying	Total	Dividend-Paying	Non-Dividend Paying	Total
Individual Life	$ 97,852	$ -	$ 97,852	$ 104,182	$ -	$ 104,182
Total	**$ 97,852**	**$ -**	**$ 97,852**	**$ 104,182**	**$ -**	**$ 104,182**

b) In the normal course of business, the Company enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. The Company's contractual obligations and commitments were as follows:

December 31, 2018

	1 year or less	1- 5 years	Over 5 years	Total
Investment commitment	$ 7,378	$ -	$ -	$ 7,378
Obligations under service contracts	1,439	2,317	-	3,756
Lease obligations	129	257	-	386
Total contractual obligations	**$ 8,946**	**$ 2,574**	**$ -**	**$ 11,520**

December 31, 2017

	1 year or less	1- 5 years	Over 5 years	Total
Investment commitment	$ 13,259	$ -	$ -	$ 13,259
Obligations under service contracts	446	-	-	446
Lease obligations	126	379	-	505
Total contractual obligations	**$ 13,831**	**$ 379**	**$ -**	**$ 14,210**

Notes to consolidated financial statements for the year ended December 31, 2018 (in thousands of Canadian dollars)

21. Contingent liabilities

From time to time in connection with its operations, the Company 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 the Company's consolidated statement of financial position.

22. Principal subsidiaries

The table below provides information with respect to the Company's subsidiaries whose financial statements have been consolidated in these financial statements:

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)	
			December 31, 2018	December 31, 2017
Genisystems.ca Services Inc.	Canada	Insurance services	100	100
Foresters Asset Management Inc.	Canada	Investment management services	100	100
Foresters Financial Investment Management Company of Canada Inc.	Canada	Investment management services	-	100

On January 1, 2018, Foresters Financial Investment Management Company of Canada Inc. amalgamated with its affiliate, Foresters Asset Management Inc. The amalgamated entity operates as Foresters Asset Management Inc.

23. Comparative information

Certain comparative amounts have been reclassified to conform to the current year's presentation.

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