Foresters Financial

Consolidated Financial Statements of

The Independent Order of Foresters

Year ended December 31, 2020

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MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Foresters Financial. Management maintains an extensive system of internal accounting controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored by an internal audit department.

The Board of Directors, acting through the Audit and Compliance Committee, which comprises directors who are not officers or employees of Foresters Financial, oversees management responsibility for the financial reporting and internal control system.

The Appointed Actuary is appointed by the Board of Directors to carry out an annual valuation of liabilities for future benefits. In performing this valuation, the Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of insurance contract liabilities are in accordance with accepted actuarial practice and requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of insurance and investment contract liabilities at the balance sheet date to meet all certificate holders' obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the amount of insurance and investment contract liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of Foresters Financial and prepare a report for the Board of Directors. The analysis tests Foresters Financial's capital adequacy under several adverse but plausible conditions using the relevant Standards of Practice of the Canadian Institute of Actuaries. In carrying out her work the Appointed Actuary may consider the work of the internal audit department and KPMG LLP Chartered Professional Accountants ("Auditors"). The Appointed Actuary's Report outlines the scope of the valuation and the Actuary's opinion.

Foresters Financial engages external Auditors to express an opinion on the financial statements. The responsibility of these Auditors is to carry out an independent and objective audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report regarding the fairness of presentation of Foresters Financial's consolidated financial statements in accordance with IFRS, including the accounting requirements of OSFI. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and her report on the insurance and investment contract liabilities. The Auditors' report outlines the scope of their audit and their opinion.

James R. Boyle
President and Chief Executive Officer

Alvin Sharma
Global Chief Financial Officer

Toronto, Ontario, Canada
February 17, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Independent Order of Foresters

Opinion

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

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in surplus for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 International Financial Reporting Standards (IFRS), 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 has 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 17, 2021

APPOINTED ACTUARY'S REPORT

To the Board of Directors of The Independent Order of Foresters

I have valued the policy liabilities and reinsurance recoverables of The Independent Order of Foresters for its consolidated statement of financial position as at December 31, 2020 and their changes in the consolidated statement of comprehensive (loss) income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

Trudy Engel
Fellow, Canadian Institute of Actuaries

Toronto, Ontario, Canada
February 17, 2021

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

	Note	2020	2019
REVENUE			
Gross premiums	17	1,154,112	1,167,991
Ceded premiums	17	(173,917)	(139,039)
Net Premiums		980,195	1,028,952
Net Investment Income			
Interest and dividends (net)	4	256,603	297,667
Net realized gains (losses)	4	245,455	99,393
Net change in unrealized gains (losses) on fair value through profit and loss investments	4	384,347	600,273
Net foreign currency gains (losses) on available-for-sale assets	4	(3,884)	(238)
Total Investment Income (Loss)		882,521	997,095
Fee revenue	18	120,482	130,519
Other operating income	18	7,594	11,426
TOTAL REVENUE		1,990,792	2,167,992
BENEFITS & EXPENSES			
Gross benefits	19	924,032	887,567
Ceded benefits	19	(92,058)	(80,867)
Gross change in insurance contract liabilities	12	768,128	752,429
Ceded change in insurance contract liabilities	12	(159,316)	(115,095)
Policy dividends		49,367	50,068
Commissions		292,495	286,313
Operating expenses	20	336,268	296,300
Interest expense	16	1,577	—
Ceded commissions and operating expenses	20	(76,219)	(54,043)
Fraternal investment	1	14,026	20,542
TOTAL BENEFITS & EXPENSES		2,058,300	2,043,214
Gain on sale of disposal group held for sale	24	57,790	—
(Loss) Income before income taxes		(9,718)	124,778
Income Taxes			
Current	21	(5,557)	(919)
Deferred	21	(5,506)	35,928
Total Income Taxes		(11,063)	35,009
NET INCOME FROM CONTINUING OPERATIONS		1,345	89,769
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	23	(2,576)	2,980
TOTAL NET (LOSS) INCOME		(1,231)	92,749
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that will not be reclassified to net income			
Remeasurement losses on employee benefit plans, net of income tax recovery (expense) of $299 (2019: ($71))	8	(11,851)	(2,110)
Net change in unrealized (losses) gains on property, net of income tax recovery of $55 (2019: $Nil)	7	(630)	729
Total items that or may be reclassified subsequently to net income		(12,481)	(1,381)
Items that are or may be reclassified subsequently to net income			
Net change in unrealized gains on available-for-sale assets net of income tax expense of $10,802 (2019: $741)		86,921	55,200
Reclassification of net realized (losses) gains on available-for-sale assets net of income tax recovery of $3,453 (2019: $289), to net income		(49,852)	(185)
Net unrealized foreign currency translation losses		(57,959)	(78,803)
Total items that or may be reclassified subsequently to net income		(20,890)	(23,788)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME		(33,371)	(25,169)
TOTAL COMPREHENSIVE (LOSS) INCOME		$ (34,602)	$ 67,580

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

	Note	2020	2019
ASSETS			
Invested Assets			
Cash, cash equivalents and short-term securities	4	$ 385,292	$ 305,679
Bonds	4	7,197,895	6,616,543
Equities	4	875,315	835,763
Mortgages	4	30,847	—
Derivative financial instruments	4	1,255	5,020
Other invested assets	4	136,289	143,699
Loans to certificate holders	1	264,606	261,360
Total Invested Assets		8,891,499	8,168,064
Reinsurance assets	12	655,765	501,767
Accrued investment income		52,018	56,073
Deferred acquisition costs	6	23,668	22,800
Prepaid commissions		74,435	67,766
Current income taxes	21	28,590	12,391
Deferred tax assets	21	8,932	15,027
Other assets	6	64,932	70,193
Property and equipment	7	55,886	59,758
Right of use assets	14	24,106	27,462
Goodwill and intangible assets	9	205,692	54,031
Assets classified as held for sale	24	—	1,735,777
		10,085,523	10,791,109
Net investments for accounts of segregated fund unit holders	5	8,000,491	5,795,825
Net investments for accounts of segregated fund unit holders held for sale	24	—	1,940,753
TOTAL ASSETS		**$18,086,014**	**$18,527,687**
LIABILITIES			
Insurance contract liabilities	12	7,023,256	6,481,105
Investment contract liabilities	13	149,166	144,291
Derivative financial instruments	4	21,456	26,774
Benefits payable and provision for unreported claims		209,936	183,877
Lease liabilities	14	36,380	35,541
Current income taxes	21	26,809	25,575
Deferred tax liabilities	21	47,519	16,639
Other liabilities	11	178,963	233,007
Subordinated debt	16	249,241	—
Employee benefit obligations	8	91,364	90,825
Liabilities classified as held for sale	24	—	1,467,440
		8,034,090	8,705,074
Liabilities for accounts of segregated fund unit holders	5	8,000,491	5,795,825
Liabilities for accounts of segregated fund unit holders held for sale	24	—	1,940,753
TOTAL LIABILITIES		16,034,581	16,441,652
SURPLUS			
Retained earnings		1,747,325	1,746,684
Accumulated other comprehensive income		304,108	339,351
		2,051,433	2,086,035
TOTAL LIABILITIES AND SURPLUS		**$18,086,014**	**$18,527,687**

(See accompanying notes)

On behalf of the Board:

James R. Boyle
President and Chief Executive Officer

Robert E. Lamoureux
Chair of the Board

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

	Retained earnings	Accumulated Other Comprehensive Income: Non-permanent: Unrealized gains (losses) on available-for-sale assets	Non-permanent: Cumulative translation account	Permanent: Net unrealized gains (losses) on property	Permanent: Remeasurement gains (losses) on employee benefit plans	Total
Balance as at December 31, 2019	**$1,746,684**	**$ 61,026**	**$ 293,048**	**$ 17,319**	**$ (32,042)**	**$ 339,351**
Total net (loss) income	(1,231)	—	—	—	—	—
Other comprehensive (loss) income						
Pre-tax balance	—	97,723	(17,093)	(685)	(12,150)	67,795
Reclassification of accumulated currency translation gains to net income	—	—	(40,866)	—	—	(40,866)
Reclassification of net realized gains (losses) on available for sale assets	—	(53,305)	—	—	—	(53,305)
Income tax expense	—	(7,349)	—	55	299	(6,995)
Total other comprehensive (loss) income	—	**37,069**	**(57,959)**	**(630)**	**(11,851)**	**(33,371)**
Total Other Comprehensive (Loss) Income for the period	(1,231)	37,069	(57,959)	(630)	(11,851)	(33,371)
Transfer to retained earnings	1,872	—	—	—	(1,872)	(1,872)
Balance as at December 31, 2020	**$1,747,325**	**$ 98,095**	**$ 235,089**	**$ 16,689**	**$ (45,765)**	**$ 304,108**
Balance as at December 31, 2018	**$1,654,394**	**$ 6,011**	**$ 371,851**	**$ 16,590**	**$ (30,391)**	**$ 364,061**
Total net income (loss)	92,749	—	—	—	—	—
Other comprehensive income (loss):						
Pre-tax balance	—	55,941	(78,803)	729	(2,039)	(24,172)
Reclassification of net realized gains (losses) on available-for-sale assets	—	(474)	—	—	—	(474)
Income tax expense	—	(452)	—	—	(71)	(523)
Total other comprehensive income (loss)	**—**	**55,015**	**(78,803)**	**729**	**(2,110)**	**(25,169)**
Total comprehensive income (loss) for the period	92,749	55,015	(78,803)	729	(2,110)	(25,169)
Transfer to retained earnings	(459)	—	—	—	459	459
Balance as at December 31, 2019	**$1,746,684**	**$ 61,026**	**$ 293,048**	**$ 17,319**	**$ (32,042)**	**$ 339,351**

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

	2020 $	2019 $
Cash flow from operating activities		
Total net (loss) income per statements of comprehensive income (loss)	(1,231)	92,749
Items not affecting cash:		
Interest expense related to financing activities	1,577	—
Depreciation and amortization	30,437	29,852
Net increase (decrease) in insurance contract liabilities	768,128	752,429
Net increase in reinsurance assets	(159,316)	(115,095)
Net realized and change in unrealized losses (gains) on invested assets	(629,802)	(701,047)
Net foreign currency (losses) gains on available-for-sale assets	3,884	238
Net foreign currency gains (losses) on other assets and other liabilities	(3,518)	(2,461)
Employee benefit provision	10,150	16,270
Amortization of premium and discount on bonds	13,342	15,045
Gain on sale of discontinued operations	—	(72,574)
Income tax on sale of discontinued operations	—	(71,091)
Gain on sale of disposal group held for sale	(57,790)	—
Deferred income tax expense (recovery)	(5,506)	44,311
Net change in other assets and other liabilities	(48,187)	(5,177)
Net cash provided by (used in) operating activities	(77,832)	(16,551)
Cash flow from investing activities		
Investments sold or matured:		
Bonds	9,285,870	2,649,978
Equities	376,884	247,763
Disposal of discontinued operations, net of cash disposed of	—	293,088
Disposal of group held for sale, net of cash disposed of	196,743	—
Investments acquired:		
Bonds	(9,332,487)	(2,876,198)
Equities	(373,556)	(235,523)
Mortgages	(32,129)	—
Other items, net	(19,839)	10,477
Acquisition of subsidiary, net of cash acquired	(192,795)	—
Net cash provided by (used in) investing activities	(91,309)	89,585
Cash flow from financing activities		
Lease liability payment	(5,637)	(11,651)
Issuance of subordinated debt, net of issuance costs	247,664	—
Net cash provided by (used in) financing activities	242,027	(11,651)
Foreign exchange gains (losses) on cash held in foreign currencies	6,727	(11,733)
Net increase (decrease) in cash, cash equivalents and short-term securities	79,613	49,650
Net cash, cash equivalents and short-term securities for entities classified as held-for-sale	—	(22,141)
Cash, cash equivalents and short-term securities, beginning of year	305,679	278,170
Cash, cash equivalents and short-term securities, end of year	385,292	305,679

Cash, cash equivalents and short-term securities consist of:		
Cash	111,108	197,658
Cash equivalents	18,653	61,217
Short-term securities	255,531	46,804
	385,292	**305,679**

DESCRIPTION OF BUSINESS

The Independent Order of Foresters ("Foresters Financial") is a Fraternal Benefit Society, which provides fraternal benefits to its members as well as individual life insurance, savings and retirement products, through its branch and subsidiary operations in the United States ("U.S."), Canada and the United Kingdom ("U.K.").

Foresters Financial commenced business in Canada in 1881. It is incorporated under the Insurance Companies Act – Canada ("the Act"), and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). In addition, Foresters Financial foreign branch and subsidiary operations are regulated by statutory authorities in the U.S. and the U.K. Foresters Financial's registered office is located at 789 Don Mills Road, Toronto, Ontario M3C 1T9, Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

Foresters Financial has consistently applied the following accounting policies to all periods presented in these consolidated financial statements except where noted in note 2.2.

1.1 Basis of Presentation

a) Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 17, 2021.

b) Basis of measurement

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

- Financial assets at fair value through profit and loss ("FVTPL"), available-for-sale ("AFS") financial assets and derivative financial instruments are measured at fair value;
- Employee benefit assets and obligations represent the funded status of these plans which is calculated as the difference between plan assets at fair value and the present value of defined benefit obligations;
- Reinsurance assets and insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM");
- Owned land and buildings are measured at fair value;
- Right-of-use assets comprise the amount of lease liability and lease liabilities are measured at the present value of the lease payments;
- Disposal group consisting of assets and liabilities held for sale are measured at the lower of carrying amount and fair value less costs to sell

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

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is Foresters Financial's functional currency.

d) 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 may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. The areas where the use of estimates and assumptions have the most significant effect are: the measurement and classification of insurance and investment contract liabilities, the calculation of fair value of financial instruments, impairment testing of intangible assets and goodwill, amortization of deferred acquisition costs, determination of employee benefit assets and liabilities, income taxes, provisions for unreported claims, impairment provisions and the determination of contingencies.

In early 2020, the outbreak of the COVID-19 virus and ensuing global pandemic along with the economic downturn have impacted the results of Foresters Financial. The negative effects include but are not limited to negative mortality experience, decline in interest rates, significant volatility in equity markets, foreign currency exchange rates and increases in insurance claims. The duration and impact of the COVID-19 pandemic is unknown at this time and can introduce additional uncertainty around estimates, assumptions and judgements used in preparing these consolidated financial statements.

The use of estimates, judgments and assumptions are discussed in more detail in the relevant notes to these consolidated financial statements.

1.2 Basis of consolidation

The consolidated financial statements include the results of operations and the financial position of all entities controlled by either Foresters Financial or its subsidiaries. Control exists when Foresters Financial or one of its subsidiaries has power to direct the activities that significantly affect returns, exposure or rights to variable returns based on the subsidiary's performance and the ability to use its power to affect returns. Subsidiaries are fully consolidated from the date on which control is transferred to Foresters Financial until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align with the policies of the group. Intra group transactions are eliminated on consolidation. Foresters Financial's principal subsidiaries are listed in note 28.

1.3 Segmented reporting

Operating segments have been identified based on internal management reports which are used by senior management to assess performance and make decisions. Foresters Financial has three operating segments and a corporate segment (there were four operating segments up until October 2019).

The three operating segments are:

- North American Insurance "NAI" sells insurance, annuities and segregated fund products;
- U.K. Savings, Investments and Protection ("UKSIP") sells protection, pension, unit linked savings and investment products through subsidiary operations;
- Membership works closely with the other operating segments to develop and administer member benefits through Foresters Financial's operations in each country. Membership

has no external source of income and its operations are fully funded by the corporate segment;

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

In 2019, Foresters Financial sold assets from its North American Asset Management ("NAAM") segment (see note 22) including the sale of its Canadian subsidiary in the same segment. Management committed to a plan to exit this segment following a strategic decision to place greater focus on the Company's core business of life insurance. As a result, NAAM's financial results were disclosed as discontinued operations in the consolidated statement of comprehensive (loss) income.

1.4 Foreign currency

Foreign operations

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

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

Monetary and non-monetary assets

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

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

Foreign currency transactions

Foreign currency transactions are converted to the appropriate functional currency on the date of the transaction.

1.5 Invested assets

At initial recognition, invested assets are designated or classified as FVTPL, AFS or loans and receivables as follows:

	FVTPL assets	AFS assets	Loans and receivables
Short-term securities			X
Bonds	X	X	
Equities	X	X	
Derivative financial instruments	X		
Other invested assets	X	X	
Loans to certificate holders			X

Invested assets can be classified as FVTPL assets if they are acquired principally for the purpose of selling or repurchasing in the near term.

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

Invested assets supporting surplus are classified as AFS assets.

a) Cash, cash equivalents and short-term securities

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

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

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

b) Bonds

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

The fair value of publicly traded bonds is determined using quoted market mid prices. For non-publicly traded bonds, fair value is determined using a discounted cash flow approach that includes provisions for credit risk and the expected maturities of the securities. Foresters Financial does not have any bonds for which the fair value is determined using a valuation technique based on assumptions that are not supported by observable market prices or rates.

Interest income is recorded as interest and dividends (net) on the consolidated statement of comprehensive (loss) income on an accrual basis using the effective interest 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 (loss) income.

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

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

c) Equities

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

The fair value of publicly traded equities is determined using quoted market closing prices. For non-publicly traded equities, fair value is estimated on the basis of dealer quotes or recent transactions of similar investments. Transaction costs on FVTPL equities are expensed. Directly attributable transaction costs on AFS equities are capitalized as part of the original cost of the equity.

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

Changes in the fair value of FVTPL equities are recorded as net change in unrealized gains (losses) on fair value through profit and loss investments, a component of net income on the consolidated statement of comprehensive income (loss). Changes in the fair value of AFS equities are recorded as net change in unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive (loss) income.

d) Mortgages

Mortgages are designated as either FVTPL or AFS and are initially recorded at fair value.
The fair value of mortgages is calculated by discounting estimated cash flows using a market interest rate. Interest income is recorded as interest on the consolidated statement of comprehensive (loss) income on an accrual basis using the effective interest method and realized gains (losses) on the sale of mortgages are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive (loss) income. Changes in the fair value of FVTPL mortgages are recorded as net change in unrealized gains (losses) on fair value through profit and loss investments, a component of net (loss) income on the consolidated statement of comprehensive (loss) income. Changes in the fair value of AFS mortgages are recorded as net change in unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive (loss) income.

e) Derivative financial instruments

Foresters Financial utilizes certain derivative financial instruments in portfolios supporting actuarial liabilities in order to hedge against fluctuations in foreign exchange rates and stock market indices. These derivative financial instruments are classified as FVTPL assets or liabilities and are initially recorded at fair value. The fair value of derivative financial instruments is based on quoted market prices, unless they are non-publicly traded in which case fair value is estimated on the basis of models and includes an element of credit risk.

Foresters Financial has presented derivative financial instruments on a net basis where Foresters Financial has the right and intent to offset. When the net fair value is positive, a net asset is reported and when the net fair value is negative, a net liability is reported. Where Foresters Financial does not have the right and intent to offset, derivative financial instruments with a positive fair value are recorded as an asset while derivative financial instruments with a negative fair value are recorded as a liability.

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

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

f) Other Invested Assets

Limited partnerships

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

Limited partnerships supporting insurance contract liabilities are classified as FVTPL assets and recorded at fair value. Foresters Financial does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment where Foresters Financial is a limited partner. Changes in fair value are recorded as net change in 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 (loss).

The difference between the proceeds on sale and outstanding principal balance is recorded as net realized gains (losses), a component of net income on the consolidated statement of comprehensive (loss) income.

Seed money investment in segregated funds

Seed money represents Foresters Financial's initial investment in its segregated funds and is measured at fair value. Fair value is based on the net asset value of the segregated investment fund. Changes in fair value are recorded as net change in unrealized gains (losses) on available-for-sale assets, a component of OCI on the consolidated statement of comprehensive (loss) income.

g) Loans to certificate holders

Loans to certificate holders are classified as loans and receivables and are carried at their unpaid balance. These loans are fully secured by the cash surrender value of the certificates on which the respective loans are made.

h) Derecognition

Foresters Financial derecognizes an invested asset only when the contractual rights to the cash flows from the instrument expire, or when substantially all of the risks and rewards of ownership of the asset are transferred.

i) Invested asset impairments

Invested assets other than FVTPL assets are assessed individually for impairment on a quarterly basis. Foresters Financial considers various factors in assessing impairments, including but not limited to, the financial condition and near term prospects of the issuer, specific adverse conditions affecting an industry or region, a significant and prolonged decline in fair value below the cost of an asset, bankruptcy or default of the issuer, and delinquency in payments of interest or principal. Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due.

FVTPL assets are carried at fair value and all realized and change in unrealized gains and losses are recorded in net income, therefore no further impairment decision is necessary. Additionally, insurance contract liabilities include a margin to account for future asset impairments which will reduce future cash flows.

AFS assets are carried at fair value, however change in unrealized gains and losses are recorded in OCI and accumulated in AOCI. When an AFS asset is identified as impaired, the net loss in AOCI is reclassified to net realized gains (losses), a component of net income on the consolidated statement of comprehensive (loss) 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.

Any subsequent recovery in the fair value of impaired AFS equity securities is recognized in OCI.

1.6 Property and equipment

Property

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

Land is carried at fair value and is not depreciated. The buildings are carried at fair value. The fair value of property is appraised annually by external independent appraisers and is based on an income approach combining the discounted cash flow method and the direct capitalization method using as inputs rental income from current leases, expenses incurred and other assumptions that market participants would use when pricing property under current market conditions. The changes in fair value are recognized as net change in unrealized gains (losses) on property, a component of OCI in the consolidated statement of comprehensive (loss) income.

Equipment

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

Depreciation

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

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

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

Depreciation and repair and maintenance costs are expensed during the period in which they are incurred, and are included in operating expenses on the consolidated statement of comprehensive (loss) income. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits, in excess of the most recently assessed standard of performance of the existing asset, will flow to Foresters Financial and the renovation replaces an identifiable part of the asset, which is derecognized. Major renovations are depreciated over the remaining useful life of the related asset.

Impairment

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

Revaluation loss on property is recorded in OCI in the current period to the extent that all previously recorded net change in unrealized gains in AOCI have been offset. Any losses not absorbed in this manner are recorded in net income. Impairment loss on equipment is recognized in net income.

1.7 Goodwill and intangible assets

a) Recognition and measurement

Goodwill

Acquisitions of businesses where Foresters Financial obtains control are accounted for using the purchase method. This involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangibles and the liabilities assumed, based on their fair values at the date of acquisition. Any excess is recorded as goodwill.

Goodwill is initially measured as the excess of the purchase price of an acquisition of a subsidiary over the fair value of net identifiable assets acquired. After initial recognition, goodwill is carried at cost less any accumulated impairment losses. If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in net income for the year. All goodwill is considered to have an indefinite life and therefore, not amortized.

Intangible assets

i) Acquired intangibles

Intangible assets acquired through business combinations comprise mutual fund, separate account, children's trust fund savings plan asset management contracts, a distribution network, computer software, unit cost reductions, customer relationships, broker relationships, and the CPP brand.

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 (using either a relief-from-royalty method or multi-period excess earnings method) or at replacement cost. 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 (loss) income.

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

Asset type	**Useful life**
Unit cost reductions	10 years
Management contracts and customer relationships	5 – 12 years
Software	1 – 5 years
Broker relationships	25-30 years
Non-compete agreement	3 years

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

The brand intangible asset acquired through the acquisition of CPP has an indefinite useful life and is not amortized.

The mutual fund and separate account asset management contracts in the U.S. have indefinite useful lives and are not amortized. These contracts were disposed in 2019, see note 23.

c) Impairment

For the purpose of impairment testing, goodwill acquired in business combinations is allocated, from the acquisition date, to each of the cash-generating units ("CGUs") that are expected to benefit from the business combination. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent of cash inflows from other groups of assets.

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

Given the variability of future-oriented financial information, goodwill impairment tests are subjected to sensitivity analysis. The critical estimates pertain to those CGUs where there is little difference between the recoverable amount and the related carrying amount. Details of goodwill are presented in note 9.

Intangibles with indefinite useful lives are reviewed annually for impairment. Intangibles with finite useful lives are reviewed only if there is an indication of impairment. Impairment losses are recognized immediately in net income.

1.8 Insurance and investment contracts

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

a) Insurance contract liabilities

Insurance contract liabilities include life, health and annuity lines of business. Insurance contracts are those contracts that transfer significant insurance risk to Foresters Financial. Significant insurance risk exists when Foresters Financial agrees to compensate certificate holders or beneficiaries of an insurance contract for specified future events such as death or disability, that may adversely affect the certificate holder and whose amount and timing are uncertain. Insurance contracts are shown as insurance contract liabilities on the consolidated statement of financial position.

Insurance contract liabilities are calculated using CALM which is based on accepted actuarial practices according to standards established by the Actuarial Standards Board and the requirements of OSFI. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations, including the provision of fraternal benefits, and involves a significant amount of judgment. Valuation assumptions are based on current best estimate assumptions plus a margin for uncertainty for each material contingency. Any change in insurance contact liabilities is recorded in the gross change in insurance contract liabilities on the consolidated statement of comprehensive (loss) income.

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

b) Reinsurance assets

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

- quota share reinsurance arrangements whereby Foresters Financial retains a percentage of the risk associated with life insurance certificates, and
- excess of loss reinsurance arrangements whereby risks in excess of established retention limits are ceded to reinsurers.

Reinsurance transactions do not relieve Foresters Financial of its primary obligation to certificate holders. Losses could result if a reinsurer fails to honour its obligations.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance arrangement and with accepted actuarial practice in Canada. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Impairment occurs when there is objective evidence that Foresters Financial will not be able to collect amounts due under the terms of the contract. Any impairment loss is recorded in net income on the consolidated statement of comprehensive (loss) income.

Premiums for reinsurance ceded are presented as ceded premiums, reinsurance recoveries on claims incurred are recorded as ceded benefits and commissions and expenses related to reinsured contracts are recorded as ceded commissions and operating expenses on the consolidated statement of comprehensive (loss) income. The net amount due from reinsurers with respect to ceded premiums, paid claims and expenses is recorded either as an amount receivable from or payable to reinsurers and included in other assets or other liabilities, respectively, on the consolidated statement of financial position.

c) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to Foresters Financial. Investment contracts include deferred annuities with no guarantees, settlement options with no life contingency and various amounts on deposit.

Investment contracts are recorded at fair value less any directly attributable transaction costs. Deposits to and withdrawals from investment contracts increase or decrease the liability respectively.

d) Segregated funds

Foresters Financial issues Separate Accounts in the U.S., Segregated Funds in Canada and Unit Linked contracts in the U.K. These contracts are collectively referred to as segregated funds. The value of these contracts is directly linked to the fair value of the underlying investments supporting these contracts. The unit holder bears the risks and rewards of the performance of these investments.

Foresters Financial presents segregated fund net assets, which are in the legal name and title of Foresters Financial but are held on behalf of unit holders, as a single line item in the consolidated statement of financial position.

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

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

<u>Net investments for account of segregated fund unit holders</u>

These investments are carried at fair value. Fair value is determined using quoted market values unless quoted market values are not available, in which case estimated fair values are determined by Foresters Financial, based on dealer quotes or recent transactions of similar investments.

Liabilities for account of segregated fund unit holders

These liabilities are measured at fair value reflecting the fair value of the underlying net assets. Certain segregated fund products provide death and maturity benefit guarantees to the unit holder. The liability for these guarantees is recorded under insurance contract liabilities.

e) Derecognition

The liabilities under insurance and investment contracts are derecognized when the obligation is discharged or cancelled.

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 primarily consist of accounts payable, reinsurance financing provision, and accrued expenses.

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

1.10 Income taxes

The tax expense for the year is comprised of current and deferred taxes. Tax is usually recognized as an expense or income in the consolidated statement of comprehensive (loss) 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 (loss) income for the year under local tax regulations and the enacted or substantively enacted tax rate for the year for each taxable entity and any adjustment to tax payable in respect of previous years.

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

The carrying amount of recognized deferred tax assets is reviewed at each reporting 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 reporting date and are recognized to the extent that it becomes probable that future taxable income will allow the deferred tax assets to be recovered.

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

1.11 Employee benefits

Foresters Financial maintains contributory and non-contributory defined benefit pension and post retirement plans, as well as defined contribution pension plans for eligible employees and agents.

a) Defined benefit and post retirement plans

The defined benefit pension plans offer benefits based on length of service and final average earnings and certain plans offer some indexation of benefits. The specific features of these plans vary in accordance with the employee group and countries in which employees are located. In addition, Foresters Financial maintains supplementary non-contributory pension arrangements for eligible employees, primarily for benefits which do not qualify for funding under the various registered pension plans.

Foresters Financial also provides certain post retirement medical and dental benefits to eligible qualifying employees and to their dependents if certain requirements are met. These post retirement benefits are not pre-funded.

Foresters Financial net obligation in respect of defined benefit pension plans and post retirement benefits is calculated separately for each plan. Plan assets are measured at fair value. The cost of pensions and post retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary projections, retirement ages of employees and other variables.

Remeasurements arising from defined benefit plans are made up of actuarial gains, the return excluding interest on plan assets and adjustments for the effect of the asset ceiling. All remeasurements are recognized immediately in OCI and all other expenses are reflected in employee benefits within operating expenses on the consolidated statement of comprehensive (loss) income.

Employee benefit assets arise from pension plans that are in a surplus position (plan assets are greater than the plan obligations). Employee benefit obligations arise from unfunded plans for supplementary pension and post retirement benefits and pension plans that are in a deficit position.

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

b) Defined contribution plans

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

c) Long-term disability benefits

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

1.12 Subordinated debt

Subordinated debt is initially recognized at fair value less transaction costs that are directly attributable to its issuance. Subordinated debt is subsequently measured at amortized cost using the effective interest method and interest expense is recognized in profit or loss. A gain or loss is recognized in profit or loss when the subordinated debt is derecognized.

1.13 Revenue recognition

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

a) Insurance contracts

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

b) Fee revenue and other operating income

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

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

In 2019, Foresters Financial sold its entire NAAM segment (see note 23). As a result, fee revenue from NAAM is included under income from discontinued operations in the consolidated statement of comprehensive (loss) income. As of 2020, Foresters Financial no longer earns revenues from any of the above services.

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 (loss) income.

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

d) Deferred acquisition costs

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

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

1.14 Leases

a) As a lessee

At inception of a contract, Foresters Financial assesses whether a contract is, or contains, a lease, if the contract involves the use of an identified asset and conveys the right to control the use of the asset for a period of time in exchange for consideration.

Foresters Financial recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the amount of lease liability, plus or minus adjustments, such as lease incentives received. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Foresters Financial's incremental borrowing rate. Foresters Financial generally uses its incremental borrowing rate as the discount rate.

Subsequently, the right-of-use asset is depreciated to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the carrying amount of the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured to reflect any lease modifications or reassessments.

Foresters Financial has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Foresters Financial recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

b) As a lessor

Where Foresters Financial is the lessor, all leases are classified as operating leases, because each of these leases do not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. Lease payments from operating leases are recognized as income on a straight-line basis over the lease term and are included in other operating income.

1.15 Contingent liabilities

Contingent liabilities are recognized as liabilities on the consolidated statement of financial position when it is probable that Foresters Financial will incur a future expense and the amount can be reliably measured. If the event resulting in a future obligation is less than probable but greater than remote or, the amount cannot be reliably estimated, the contingency is disclosed in the notes to the consolidated financial statements.

1.16 Fraternal investment

Fraternal investment represents the contribution made by Foresters Financial to support its members, their families and the communities in which they live. These contributions include donations to charities for supporting various community causes, sponsorships for various fund raising programs, support for the volunteer branch system, the provision of scholarships and other benevolent activities. These contributions are recognized as an expense when they are incurred and are reported under fraternal investment within the consolidated statement of comprehensive (loss) income.

1.17 Discontinued operations

A discontinued operation is a component of Foresters Financial's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which:

- Represents a separate major line of business or geographic area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive (loss) income is re-presented as if the operation had been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as net income (loss) from discontinued operations, net of tax in the consolidated statement of comprehensive (loss) income.

1.18 Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in net income.

Once classified as held-for-sale, intangible assets and property and equipment are no longer amortized or depreciated.

2. ACCOUNTING AND REPORTING CHANGES

2.1 New and Amended International Financial Reporting Standards to be Adopted in 2021 or Later

a) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* ("IFRS 17") which is effective for years beginning on or after January 1, 2021. In June 2020, an amended version of IFRS 17 was released that pushed back the effective date to January 1, 2023.

IFRS 17 will replace IFRS 4, *Insurance Contracts* and will change the fundamental principles used by Foresters Financial for recognizing and measuring insurance contract liabilities. The standard requires a company to measure insurance contracts using current 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 profits as it delivers insurance services, rather than when it receives premiums. It will also significantly change the format of the financial statements, including presentation and disclosure.

On transition to IFRS 17, if the full retrospective application to a group of insurance contracts is impracticable, the modified retrospective or fair value methods may be used.

Foresters Financial intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2023 Foresters Financial is assessing the impact of this standard and expects that it will have a significant impact on the consolidated financial statements. However, Foresters Financial is not able to estimate reasonably the quantitative impact that IFRS 17 will have on its financial statements at the present time.

b) 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 the effective date of IFRS 17 (the "deferral approach") to align with Foresters Financial's adoption of IFRS 17. In June 2020, the IASB amended IFRS 4 once again to permit the deferral of IFRS 9 adoption to January 1, 2023 to align with the new effective date of IFRS 17. Foresters Financial qualifies and intends to elect the deferral approach permitted under the amendments. Consequently, Foresters Financial will continue to apply IAS 39, the existing financial instrument standard until its expiry.

Foresters Financial is currently assessing the impact the adoption of IFRS 9 and expects some impact which cannot be quantified at this time.

c) IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued an amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The amendment clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling the contract. The provisions of this amendment will apply on a modified retrospective basis to financial statements beginning on or after January 1, 2022.

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

d) IFRS 3 Business Combinations

In May 2020, the IASB issued an amendment to IFRS 3 *Business* Combinations. The amendment updates the reference to the Conceptual Framework and adds an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2022.

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

e) Annual Improvements to IFRSs 2018-2020 Cycle

In May 2020, the IASB issued Annual Improvements 2018-2020 Cycle as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Two amendments were included in this issue that are applicable for Foresters Financial relating to IFRS 9, Financial Instruments and IFRS 16, Leases. The amendments are effective January 1, 2022. Early adoption is permitted. Foresters Financial is currently assessing the impact the adoption of these amendments will have on its consolidated financial statements.

f) Benchmark Interest Rate Reform

In August 2020 the IASB issued *Interest Rate Benchmark Reform Phase 2, Amendments to IFRS 9,* IAS *39, IFRS 7, IFRS 4 and IFRS 16*. The amendments introduced a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities to allow the effective interest rate method to be adjusted, reliefs from discontinuing hedge relationships, temporary relief from having to meet separately identifiable requirement when a risk-free rate instrument is designated as a hedge of a risk component and additional IFRS 7 disclosures. The amendments are effective January 1, 2021. Foresters is currently assessing the impact the adoption of these amendments will have on its consolidated financial statements.

2.2 Change in accounting policy

On January 1, 2020, Foresters Financial elected to change its accounting policy for the cost basis used in calculating realized gains and losses on the sale of invested assets from a first-in-first-out basis to a pro rata allocation. The change provides increased reliability and relevance to the financial statements. Foresters Financial has adopted this policy prospectively since it had limited information to apply the policy to prior periods with any reasonable degree of accuracy.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

3. BUSINESS ACQUISITIONS

a) Halifax Child Trust Funds

On April 10, 2020, Foresters Financial, through its subsidiary Forester Holdings (Europe) Limited ("FHE"), completed the asset acquisition of the Child Trust Fund business of Halifax, a member of the Lloyds Banking Group for cash consideration of $25,253. The acquired management contracts are included in Intangible assets (note 9). The transaction added over 470,000 policyholders and increased the investments for accounts of segregated fund unit holders by $1,018,863 (refer to Note 5 for additional details).

b) Canada Protection Plan Inc. and TPA Outsourcing Inc.

Background on acquisition

On October 1, 2020, Foresters Financial acquired the business and undertaking of Canada Protection Plan Inc. (“CPP”) and TPA Outsourcing Inc. (“TPA”) through the acquisition of 100% of their common shares. CPP is a licensed insurance brokerage principally involved in the development, sales and marketing of insurance products. TPA performs policy administration and information processing functions on behalf of insurance companies. The acquisition will allow Foresters Financial to benefit from CPP and TPA's strong broker relationships, administration technology and brand recognition in the Canadian marketplace.

Contribution to earnings for the year

If the acquisition had occurred on January 1, 2020, management estimates that CPP and TPA would have contributed net income after income taxes of $5.5 million in 2020. In determining this amount, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2020.

1. Consideration transferred

The following table summarizes the acquisition date fair value of each major class of consideration transferred:

	$
Cash	182,741
Note payable	12,119
Settlement of pre-existing relationship	(86,760)
Total consideration transferred	108,100

Settlement of pre-existing relationship

Prior to the acquisition, Foresters Life Insurance Company ("FLIC"), a wholly owned subsidiary of Foresters Financial, had an insurance distribution agreement with CPP and an outsourcing agreement with TPA. These agreements were effectively settled when Foresters Financial acquired CPP and TPA. The settlement of these agreements and any other pre-existing relationships has been accounted separate from the business combination. The distribution agreement between FLIC and CPP was amended effective October 1 to annul future renewal commissions due to CPP. The acquisition resulted in the settlement of intercompany balances at the date of acquisition and extinguishment of liabilities for future commission payments in FLIC - see Note 12 for further details on the extinguishment of liabilities.

2. Acquisition-related costs

Foresters Financial incurred acquisition-related costs of $2,706 on legal fees, insurance and due diligence costs. These costs have been included in operating expenses.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

3. Identifiable assets acquired and liabilities assumed

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

	Fair value $
Assets	
Cash, cash equivalents and short-term securities	15,200
Note receivable	12,119
Current income taxes	1,304
Other assets	2,077
Right of use assets	5,629
Intangible assets (note 9)	113,308
Property and equipment	649
	150,286
Liabilities	
Lease liabilities	5,629
Current income taxes	286
Deferred tax liabilities	30,064
Other liabilities	12,911
	48,890
Total net identifiable assets	101,396

Measurement methodology for intangible assets and leases

Intangible assets

Intangible assets acquired have been valued using the multi-period excess earnings method (broker relationships, customer relationships), relief-from-royalty method (brand) and replacement cost (technology). The multi-period excess earnings method considers the present value of net cash flows expected to be generated by broker relationships, by excluding any cash flows related to contributory assets. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the brand name being owned.

Lease liabilities

The lease liabilities have been measured at the present value of the remaining lease payments as of October 1, 2020 discounted at Forester Financial's incremental borrowing rate.

4. Goodwill

Goodwill arising from the acquisition has been recognized as follows:

	$
Consideration transferred	108,100
Fair value of net identifiable assets	(101,396)
Goodwill	6,704

Goodwill arises primarily from intangible assets that do not qualify for recognition and from strategic synergies as CPP and TPA have complementary businesses to Foresters. None of the goodwill recognized is expected to be deductible for tax purposes.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

4. INVESTED ASSETS

a) Summary of invested assets

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

	Fair value through profit and loss	Available-for-sale	Loans and receivables	Total carrying value	Total fair value
As at December 31, 2020	$	$	$	$	$
Cash, cash equivalents and short-term securities	—	—	385,292	385,292	385,292
Bonds	5,778,322	1,419,573	—	7,197,895	7,197,895
Equities	702,223	173,092	—	875,315	875,315
Mortgages	—	30,847	—	30,847	30,847
Derivative financial instruments	1,255	—	—	1,255	1,255
Other invested assets	111,239	25,050	—	136,289	136,289
Loans to certificate holders	—	—	264,606	264,606	264,606
Total invested assets	6,593,039	1,648,562	649,898	8,891,499	8,891,499
Net investments for account of segregated fund unit holders	8,000,491	—	—	8,000,491	8,000,491
Total investments	14,593,530	1,648,562	649,898	16,891,990	16,891,990
As at December 31, 2019	$	$	$	$	$
Cash, cash equivalents and short-term securities	—	—	327,820	327,820	327,820
Bonds	6,900,512	1,202,740	—	8,103,252	8,103,252
Equities	702,872	132,891	—	835,763	835,763
Derivative financial instruments	5,020	—	—	5,020	5,020
Other invested assets	114,526	29,173	—	143,699	143,699
Loans to certificate holders	—	—	405,632	405,632	405,632
Net investments for account of segregated fund unit holders	7,736,578	—	—	7,736,578	7,736,578
Less: investments of operations classified as held for sale (note 24)					
- general assets	(1,481,917)	(4,792)	(166,413)	(1,653,122)	(1,653,122)
- segregated fund assets	(1,940,753)	—	—	(1,940,753)	(1,940,753)
Total investments	12,036,838	1,360,012	567,039	13,963,889	13,963,889

Also held are derivative financial liabilities recorded as FVTPL with a carrying value and fair value of $21,456 (2019: $26,774).

b) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

Private placements are valued using a discounted cash flow analysis. The inputs to the valuation include the current credit rating for the bonds and credit spreads to treasury securities. The fair value of mortgages is calculated by discounting estimated cash flows using a market interest rate. The underlying investments of the Limited partnerships are valued using discounted cash flow methodologies, direct capitalization methods, comparable private company transactions and the income approach. Significant unobservable inputs include assumed future market conditions, projected income and expense scenarios, discount rates, terminal EBITDA and exit multiples used in the calculations.

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

Bonds including short-term securities

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

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

Other corporate bonds and non-government based short-term securities such as unquoted bonds, commercial paper ("CP") and certificates of deposit ("CDs") are valued using models. For CP and CDs, the model inputs such as LIBOR yield curves, FX rates, volatilities and counterparty spreads comprise observable market data. For unquoted bonds, the model includes credit spreads which are obtained from brokers or estimated internally. The classification of these instruments within the fair value hierarchy will be either Level 2 or 3, depending upon the nature of the underlying pricing information used for valuation purposes.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Equity securities

Listed securities are treated as Level 1 within the fair value hierarchy and are valued using prices sourced from the primary exchange or dealer, broker, industry group, pricing service or regulatory agency and so quoted in an active market. The quoted market price is the current closing price.

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

Derivative financial instruments

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

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, 2020	$	$	$	$
Bonds	382,435	6,566,980	248,480	7,197,895
Equities	342,185	533,130	—	875,315
Mortgages	—	—	30,847	30,847
Derivative financial instruments	571	684	—	1,255
Other invested assets	—	2,121	134,168	136,289
Net investments for account of segregated fund unit holders	7,239,435	761,056	—	8,000,491
	7,964,626	7,863,971	413,495	16,242,092
December 31, 2019				
Bonds	358,537	7,499,547	245,168	8,103,252
Equities	214,153	621,610	—	835,763
Derivative financial instruments	763	4,257	—	5,020
Other invested assets	—	2,106	141,593	143,699
Net investments for account of segregated fund unit holders	6,630,460	1,106,118	—	7,736,578
Less: investments of operations classified as held for sale (note 24)				
- general assets	—	(1,486,709)	—	(1,486,709)
- segregated fund assets	(1,940,753)	—	—	(1,940,753)
	5,263,160	7,746,929	386,761	13,396,850

Also held are derivative financial liabilities measured at fair value and classified as Level 2 on the fair value hierarchy of $21,456 (2019: $26,774).

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	FVTPL		AFS			
	Bonds	Other invested assets	Bonds	Other invested assets	Mortgages	Total
2020	$	$	$	$	$	$
Balance, beginning of year	245,169	114,526	—	27,066	—	386,761
Changes during the year:						
Purchases	10,866	211	40,052	—	32,129	83,258
Sales and redemptions	(56,549)	(1,131)	(742)	—	(14)	(58,436)
Net change in realized and unrealized gains (losses) included in:						
Other comprehensive income	—	—	(2,033)	(4,138)	(1,268)	(7,439)
Net (loss) income	11,718	(2,367)	—	—	—	9,351
Balance, end of year	211,204	111,239	37,277	22,928	30,847	413,495
2019						
Balance, beginning of year	246,239	107,472	—	31,046	—	384,757
Changes during the year:						
Purchases	17,199	7,906	—	—	—	25,105
Sales and redemptions	(19,959)	(159)	—	—	—	(20,118)
Net change in realized and unrealized gains (losses) included in:						
Other comprehensive income	—	—	—	(3,980)	—	(3,980)
Net income (loss)	1,690	(693)	—	—	—	997
Balance, end of year	245,169	114,526	—	27,066	—	386,761

There were no material transfers between Level 1, 2 and 3 during 2020 or 2019. The fair value of level 3 assets includes a number of investments that are impacted by different market sensitivities. The significant assumptions used to assess the market sensitivity of these assets include: changes in interest rates, real estate capitalization rates, and in the global infrastructure index. The analysis was based on a 1% increase and a 1% decrease in the relevant sensitivity. The following table shows the impact of this analysis on the fair value of the related assets at December 31:

	2020		2019	
	1% increase	1% decrease	1% increase	1% decrease
FVTPL assets:	$	$	$	$
Interest rate sensitivity	(19,557)	19,557	(17,091)	17,091
Real estate capitalization rates	(10,259)	15,053	(10,836)	16,154
AFS assets:				
Interest rate sensitivity	(2,532)	2,532	—	—
Global infrastructure index sensitivity	(132)	132	85	(85)

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

c) Derivative financial instruments

Foresters Financial utilizes derivative financial instruments, including options and foreign exchange forward contracts, when appropriate, to hedge against fluctuations in foreign exchange rates and changes in stock market indices. Foresters Financial does not enter into these financial instruments for trading or speculative purposes. Foresters Financial only enters into derivative financial contracts with approval from the Board of Directors and policies are established to limit counterparty exposure. Adherence to these policies is monitored regularly and reported to the Risk and Investment Committee.

The fair value of Foresters Financial's foreign exchange forward contracts can be positive or negative. Gross derivative counterparty exposure is measured as the total fair value of all outstanding contracts in a gain position (excluding any offsetting contracts in negative positions). Foresters Financial limits the risk of credit losses from derivative counterparties by establishing minimum acceptable counterparty credit ratings of AA, entering into master netting arrangements (based on standard ISDA agreements) and holding collateral to limit credit exposures. Foresters Financials derivative financial instruments were held with counterparties rated AA or higher as at December 31, 2020 and 2019. At December 31, 2020, the largest single counterparty exposure was $6,135 (2019: $4,080).

Foresters Financial is exposed to credit risk resulting from the potential default of counterparties to the foreign exchange forward contracts that are in a net gain position. For contracts in a net gain position, the counterparty may be required to post collateral to Foresters Financial. As at December 31, 2020, no collateral was held in 2020 or 2019 against a net asset of $1,255 (2019: $5,020). For contracts in a net liability position, the counterparties are exposed to credit risk from the potential default by Foresters Financial. Foresters Financial may be required to post collateral to the counterparty for contracts in a net liability position. As at December 31, 2020, Foresters Financial posted collateral with an estimated market value of $23,331 (2019: $26,790) against a net liability of $21,456 (2019: net liability of $26,774). Foresters Financial and the counterparties have the right to sell, pledge, invest, or use any posted collateral. During 2020 and 2019, Foresters Financial did not sell, pledge, invest or use any posted collateral.

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

The following table summarizes derivative financial instruments outstanding:

	Notional amount by remaining term to maturity				Fair value		
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net
As at December 31, 2020							
Foreign exchange forward contracts	385,017	129,488	151,650	666,155	10,016	(30,787)	(20,771)
Options purchased	—	—	—	—	4,066	—	4,066
Options written	—	—	—	—	—	(3,496)	(3,496)
	385,017	129,488	151,650	666,155	14,082	(34,283)	(20,201)
As at December 31, 2019							
Foreign exchange forward contracts	452,267	118,868	158,462	729,597	10,643	(33,160)	(22,517)
Options purchased	—	—	—	—	3,781	—	3,781
Options written	—	—	—	—	—	(3,018)	(3,018)
	452,267	118,868	158,462	729,597	14,424	(36,178)	(21,754)

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

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

d) Impairments

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

e) Net investment income

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

	2020				2019			
	FVTPL	AFS	Other	Total	FVTPL	AFS	Other	Total
	$	$	$	$	$	$	$	$
Interest from:								
Cash, cash equivalents and short-term securities	—	—	704	704	—	—	1,871	1,871
Bonds	200,786	43,486	—	244,272	225,590	45,973	—	271,563
Mortgages	—	324	—	324	—	—	—	—
Loans to certificate holders	—	—	17,372	17,372	—	—	20,780	20,780
	200,786	43,810	18,076	262,672	225,590	45,973	22,651	294,214
Dividend income from equities	7,064	1,179	—	8,243	6,877	8	—	6,885
Income from other invested assets	2,689	4,505	—	7,194	8,761	4,246	—	13,007
Less: Investment expenses	(19,039)	(2,467)	—	(21,506)	(15,397)	(1,042)	—	(16,439)
Total interest and dividends (net)	191,500	47,027	18,076	256,603	225,831	49,185	22,651	297,667

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

	2020			2019		
	FVTPL	AFS	Total	FVTPL	AFS	Total
	$	$	$	$	$	$
Bonds	170,675	48,286	218,961	65,264	17,206	82,470
Equities	14,343	5,396	19,739	13,720	2,847	16,567
Derivative financial instruments	6,755	—	6,755	338	—	338
Other invested assets	—	—	—	—	18	18
Net realized gains (losses)	191,773	53,682	245,455	79,322	20,071	99,393

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

The following table shows the net change in unrealized gains (losses) on fair value through profit and loss investments from continuing operations recorded in net income for the year ended December 31:

	2020	2019
	$	$
Bonds	354,986	512,986
Equities	30,372	77,247
Derivative financial instruments	1,356	10,734
Other invested assets	(2,367)	(694)
Net change in unrealized gains (losses) on FVTPL instruments	384,347	600,273

The net foreign currency gains (losses) on AFS assets, recognized in net investment income (loss) was ($3,884) (2019: ($238)).

5. INVESTMENTS FOR ACCOUNT OF SEGREGATED FUND UNIT HOLDERS

a) Segregated fund net assets

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

	2020	2019
	$	$
Cash, cash equivalents and short - term securities	40,835	116,213
Bonds	742,241	1,352,393
Equities	7,198,013	6,245,544
Other assets net of liabilities	21,524	24,535
Total net assets	8,002,613	7,738,685
Less: segregated fund seed money investment (note 25)	2,122	2,107
Less: Investments of operations classified as held for sale (note 24)	—	1,940,753
Net investments for account of segregated fund unit holders	8,000,491	5,795,825

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Changes in segregated funds

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

	2020 $	2019 $
Balance, beginning of year including held for sale	7,736,578	7,635,014
Acquisition (note 3)	1,018,863	—
Additions to the accounts of the unit holders:		
Deposits received from unit holders	1,499,867	497,532
Investment income	356,466	200,193
Net realized gains on sale of investments	189,216	18,698
Net change in unrealized gains on investments	(96,528)	162,572
	1,949,021	878,995
Deductions to the accounts of the unit holders:		
Amounts withdrawn or transferred by unit holders	464,464	497,481
Net change in realized losses on investments	14	—
Net change in unrealized losses on investments	609,488	—
Management fees and other operating costs	113,744	131,170
	1,187,710	628,651
Less: (Income) Losses on segregated fund seed money investment	(15)	(345)
Less: Investments of operations classified as held for sale (note 24)	—	(1,940,753)
Less: Disposal of held for sale entity (note 24)	(1,685,644)	—
Effect of change in foreign exchange rates	169,398	(148,435)
Balance, end of year	8,000,491	5,795,825

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

c) Investment risks associated with segregated funds

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

6. OTHER ASSETS

a) Other assets

Other assets are comprised of the following:

	2020 $	2019 $
Accounts receivable	13,573	23,577
Amounts due from reinsurers	36,182	38,212
Prepaid expenses	14,702	15,541
Other	475	1,558
Less: other assets of operations classified as held for sale (note 24)	—	(8,695)
	64,932	70,193

The carrying value of these assets approximates their fair value. Other assets of $59,093 (2019: $63,272) will be realized within 12 months from the reporting date.

b) Deferred acquisition costs

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

	2020 $	2019 $
Beginning of year including held for sale	75,625	73,546
Additions	5,839	5,188
Reversal of Impairment	—	2,733
Amortization	(7,357)	(1,203)
Disposal of held for sale entity (note 24)	(53,103)	(1,460)
Derecognition of deferred sales charges	—	(490)
Effect of change in foreign exchange rates	2,664	(2,689)
Less: Deferred acquisition costs of operations classified as held for sale (note 24)	—	(52,825)
End of year	23,668	22,800

Amortization consists of $0 (2019: $473) relating to deferred sales charges and $(7,357) (2019: $730) relating to deferred acquisition costs included in commissions on the consolidated statement of comprehensive (loss) income.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

7. PROPERTY AND EQUIPMENT

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

	Property		Equipment		
	Land $	Buildings $	Furniture and Equipment $	Leasehold Improvements $	Total
Net carrying value as at December 31, 2019 including held for sale	18,146	27,836	11,861	1,915	59,831
Acquisitions (note 3)	—		500	149	649
Additions	—	2,229	874	—	3,103
Gains (losses) included in OCI changes in fair value	(318)	(367)	—	—	(685)
Disposals	—	—	—	(1,961)	(1,961)
Depreciation expense	—	(1,106)	(3,987)	(27)	(5,120)
Disposal of held for sale entity (note 24)	—	—	(43)	(17)	(60)
Effect of change in foreign exchange rates	28	75	(36)	62	129
Net carrying value as at December 31, 2020	17,856	28,667	9,224	139	55,886
Net carrying value as at December 31, 2018	15,822	30,375	17,623	5,520	69,340
Additions	—	301	5,641	—	5,942
Gains (losses) included in OCI changes in fair value	2,360	(1,631)	—	—	729
Disposals	—	—	(5,446)	—	(5,446)
Depreciation expense	—	(1,133)	(5,323)	(3,396)	(9,852)
Reclassification to assets held for sale (note 24)	—	—	(55)	(18)	(73)
Effect of change in foreign exchange rates	(36)	(76)	(579)	(191)	(882)
Net carrying value as at December 31, 2019	18,146	27,836	11,861	1,915	59,758

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	Gross carrying value $	Accumulated Depreciation $	Net carrying value $
December 31, 2020			
Land	17,856	—	17,856
Buildings	28,667	—	28,667
Furniture and equipment	43,024	33,800	9,224
Leasehold improvements	10,079	9,940	139
	99,626	43,740	55,886
December 31, 2019			
Land	18,146	—	18,146
Buildings	27,836	—	27,836
Furniture and equipment	44,478	32,562	11,916
Leasehold improvements	10,138	8,205	1,933
Less: reclassification to assets held for sale (note 24)	(2,280)	(2,207)	(73)
	98,318	38,560	59,758

The land and buildings were revalued at December 31, 2020 by an independent appraiser. The fair value of land and buildings was $17,856 and $28,667 respectively ($18,146 and $27,836 respectively on December 31, 2019). When a building is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount. The net amount is re-presented to the revalued amount of the asset.

The land and buildings are situated in Canada and the U.K. The appraisal on the land and building in Canada was based on an income approach combining the discounted cash flow method and the direct capitalization method. The key assumptions for rental rates were based on existing market rates and a discount and capitalization rate of 7.25% and 7.00% (2019: 7.00% and 7.00%). A 1% increase in the discount and capitalization rate would result in a $5,640 decrease (2019: $5,800 decrease) in the fair value. The U.K. land and building was appraised on the basis of existing use as defined in the practice statements set out in the Royal Institution of Chartered Surveyors ("RICS") valuation standards. The U.K. land component was valued using an assumption that consent to a change of use for residential would be forthcoming.

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

8. EMPLOYEE BENEFIT PLANS

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

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

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

Foresters Financial measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2018 for the Canadian plan and April 1, 2020 and July 1, 2020 for the U.K. plans. The effective date of the next required valuation is December 31, 2021 for the Canadian plan and April 1, 2023 and July 1, 2023 for the U.K. plans.

In 2019, Foresters Financial settled the remaining liabilities of its U.S. defined benefit pension plan by using the plan assets to purchase an annuity for the remaining participants in the plan. The remaining surplus assets from the plan were returned to Foresters Financial upon the wind-up of the plan.

a) Defined benefit pension plans

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

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	2020 $	2019 $
Change in plan assets:		
Fair value of plan assets at January 1	345,271	310,975
Interest income	10,216	11,299
Return on plan assets excluding interest income	26,791	31,413
Employer contributions	8,503	8,441
Employee contributions	1,015	1,053
Benefits paid	(12,584)	(13,546)
Surplus paid out to employer	—	(3,492)
Settlement payments	—	(303)
Effect of change in foreign exchange rates	861	(569)
Fair value of plan assets at December 31	380,073	345,271
Change in projected benefit obligations:		
Accrued benefit obligations at January 1	377,830	338,920
Current service cost	7,011	6,693
Employee contributions	1,015	1,053
Interest cost	10,981	11,951
Benefits paid	(12,570)	(13,868)
Remeasurements		
- experience adjustments	(1,031)	(5,720)
- actuarial (gains) losses from changes in financial assumptions	37,473	42,352
- actuarial (gains) losses from changes in demographic assumptions	771	(620)
- changes in the effect of the asset ceiling	(316)	(2,189)
Effect of change in foreign exchange rates	963	(742)
Accrued benefit obligations at December 31	422,127	377,830
Balance at December 31	(42,054)	(32,559)

Amounts recognized on consolidated statement of financial position		
Employee benefit assets	—	—
Employee benefit obligations (note 8b)	42,054	32,559

Foresters Financial has reviewed both the terms and conditions of the defined benefit plans and the statutory requirements (such as minimum funding requirements) in each jurisdiction, and whether the employee benefit asset exceeded the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. For the U.K. plan, Foresters Financial has a liability for $9,587 (2019: $10,971) in respect of future contributions where there will be no economic benefit to Foresters Financial.

For the plans in Canada and the U.S., no decrease in the employee benefit assets was necessary as the economic benefits available were not lower than the assets recognized.

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

	2020 %	2019 %
Cash and cash equivalents		
Canada	1%	1%
U.K	1%	1%
Bonds and other fixed income securities		
Canada	42%	41%
U.K	9%	8%
Equities		
Canada	31%	32%
U.K	6%	6%
Real estate		
Canada	6%	7%
U.K	1%	1%
Other		
U.K	3%	3%
	100%	100%

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

b) Employee benefit obligations

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	2020		2019	
	Pension $	Other benefits $	Pension $	Other benefits $
Change in projected benefit obligation:				
Accrued benefit obligations at January 1	45,668	12,598	38,971	13,574
Current service cost	709	—	2,520	—
Interest cost	1,075	360	1,274	503
Plan amendments	—	—	4,555	—
Benefits paid	(1,468)	(895)	(1,323)	(947)
Obligation being settled	(11,306)	—	—	—
Remeasurements				
- experience adjustments	(1)	(107)	(2,855)	(149)
- actuarial (gains) losses from changes in financial assumptions	2,331	107	2,981	559
- actuarial (gains) losses from changes in demographic assumptions	—	106	—	(540)
Effect of change in foreign exchange rates	383	(250)	(455)	(402)
Accrued benefit obligations at December 31	37,391	11,919	45,668	12,598
Net obligation for defined benefit pension plans (note 8a)	42,054	—	32,559	—
Amounts recognized on consolidated statement of financial position	**79,445**	**11,919**	**78,227**	**12,598**

The weighted average duration of all the defined benefit obligations was 16 years (2019: 16 years).

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

	2020 $	2019 $
Within 1 year or less	13,355	12,709
2 -5 years	64,057	57,106
6 – 15 years	187,443	184,281
Over 15 years	319,497	332,043
Total	584,352	586,139

Foresters Financial expects to pay $9,600 in contributions to its defined benefit plans in 2021.

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

	2020 $	2019 $
As at December 31		
Fair value of defined benefit plan assets (note 8a)	380,073	345,271
Present value of obligations	471,437	436,096
Funded status – deficit	(91,364)	(90,825)

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Additionally, long-term disability obligations amounted to $2,605 (2019: $2,118) and are recorded in other liabilities on the consolidated statement of financial position. The benefits provided under the long-term disability plan are income replacement based on a percentage of base wages and a continuation of existing dental and medical coverage. In providing these benefits, Foresters Financial has in certain cases insured the benefit with a third party provider, while in other cases the benefits are paid by Foresters Financial. The obligation relates to claims under the non-insured component of the benefits payable.

c) Employee benefit expenses

The following amounts were charged to operating expenses on the consolidated statement of comprehensive (loss) income for expenses related to employee benefit plans:

	2020		2019	
	Pension benefits $	Other benefits $	Pension benefits $	Other benefits $
Defined benefit pension and post retirement plan expenses:				
Current service cost (income)	7,835	—	13,946	—
Net interest cost	1,841	360	1,925	503
	9,676	360	15,871	503
Defined contribution pension plans:				
Employer contributions	4,191		4,159	

Long-term disability benefit expense amounted to $505 and $25 during December 31, 2020 and December 31, 2019 respectively and was included in gross benefits on the consolidated statement of comprehensive (loss) income.

d) Overview of assumptions

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

	2020		2019	
	Pension benefits %	Other benefits %	Pension benefits %	Other benefits %
Assumptions used to calculate benefit obligations				
Discount rate	2.5	2.1	3	2.9
Future pension growth	2.0	7.2	2.1	7.2
Rate of compensation increase	3.5	—	3.5	—
Inflation	2.1	—	2.1	—
Assumptions used to calculate benefit expenses				
Discount rate	3.0	2.9	3.7	3.9
Future pension growth	2.1	7.4	2.2	7.4
Rate of compensation increase	3.9	—	3.9	—
Inflation	2.1	—	2.1	—

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

December 31, 2020	**Defined benefit obligation**	
	Increase	**Decrease**
	$	**$**
Discount rate (1% movement)	(70,767)	94,132
Future pension growth (0.25% movement)	664	(11,970)
Future compensation growth (0.25% movement)	3,770	(3,637)
Inflation rate (0.25% movement)	1,984	(12,627)
Life expectancy (movement by 1 year)	17,211	(17,015)

December 31, 2019	**Defined benefit obligation**	
	Increase	**Decrease**
	$	**$**
Discount rate (1% movement)	(61,814)	81,803
Future pension growth (0.25% movement)	691	(9,997)
Future compensation growth (0.25% movement)	2,979	(2,877)
Inflation rate (0.25% movement)	1,198	(10,283)
Life expectancy (movement by 1 year)	14,310	(12,240)

The weighted average remaining working lives of the active employees covered by defined benefit pension plans was 10 years (2019: 11 years) and for other retirement benefit plans was 0 years (2019: 0 years).

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

	2020		**2019**	
	Canada	**U.K**	**Canada**	**U.K**
Longevity at age 65 for current pensioners				
Males	24	22	24	22
Females	24	24	24	24
Longevity at age 65 for current members aged 45				
Males	25	24	25	24
Females	25	27	25	26

The Medicare (post 65 years of age) inflation assumption for U.S. benefits is 5.8% for 2020 (2019: 6.2%) decreasing to 4.5% by 2037 and thereafter. The healthcare cost inflation assumption for Canadian benefits is 5.1% for 2020 (2019: 5.2%), decreasing to 4.0% in 2040 and thereafter.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

December 31, 2020	**1.0% increase**	**1.0% decrease**
	$	**$**
Effect on service cost plus interest cost	46	(40)
Effect on accrued benefit obligations	1,414	(1,219)

December 31, 2019	**1.0% increase**	**1.0% decrease**
	$	**$**
Effect on service cost plus interest cost	50	(43)
Effect on accrued benefit obligations	1,385	(1,195)

9. GOODWILL AND INTANGIBLE ASSETS

a) Reconciliation of carrying amount

	Indefinite useful life			Finite useful life					
	Goodwill	Brand	Asset management contracts	Unit cost reductions	Management contracts and customer relationships	Software	Non-compete	Distribution Network	Total
	$	$	$	$	$	$	$	$	$
Net carrying value as at December 31, 2019	—	—	—	1,172	42,754	10,105	—	—	54,031
Acquisition (note 3)	6,704	10,000	—	—	29,253	10,308	2,000	87,000	145,265
Additions	—	—	—	—	—	18,283	—	—	18,283
Amortization	—	—	—	(516)	(7,946)	(3,401)	(125)	(870)	(12,858)
Disposal	—	—	—	—	—	—	—	—	—
Impairment losses	—	—	—	—	—	—	—	—	—
Effect of change in foreign exchange rates	—	—	—	6	1,267	(302)	—	—	971
Net carrying value as at December 31, 2020	6,704	10,000	—	662	65,328	34,993	1,875	86,130	205,692
Net carrying value as at December 31, 2018	3,168	—	153,962	1,706	47,196	9,009	—	—	215,041
Additions	—	—	—	—	—	3,744	—	—	3,744
Amortization	—	—	—	(508)	(3,879)	(1,940)	—	—	(6,327)
Disposals	(3,083)	—	(149,807)	(58)	(549)	—	—	—	(153,497)
Impairment losses	—	—	—	—	—	(1,522)	—	—	(1,522)
Effect of change in foreign exchange rates	(85)	—	(4,155)	32	(14)	814	—	—	(3,408)
Net carrying value as at December 31, 2019	—	—	—	1,172	42,754	10,105	—	—	54,031

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	Gross carrying value	Accumulated depreciation	Accumulated impairment losses	Net carrying value
	$	$	$	$
December 31, 2020				
Unit cost reductions	5,749	(5,087)	—	662
Management contracts and customer relationships	91,517	(24,230)	(1,959)	65,328
Software	119,070	(84,077)	—	34,993
Non-compete	2,000	(125)	—	1,875
Distribution network	87,000	(870)	—	86,130
	305,336	(114,389)	(1,959)	188,988
December 31, 2019				
Unit cost reductions	5,685	(4,513)	—	1,172
Management contracts and customer relationships	60,692	(15,979)	(1,959)	42,754
Software	93,224	(83,119)	—	10,105
	159,601	(103,611)	(1,959)	54,031

Included in software was $9,715 (2019: $4,648) that was still under development and had not been amortized. During the year, software costs amounting to $28,272 (2019: $20,698) were expensed and recorded in operating expenses.

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

In the U.S., Foresters Financial Holding Company, Inc.'s ("FFHC") asset management operation was classified as a cash-generating unit ("CGU"). In Canada, Foresters Asset Management Inc. ("FAM")'s asset management operation was classified as a CGU. Both of these CGUs were part of the previous NAAM reporting segment. Goodwill and intangible assets consisting of asset management contracts, distribution network and software were allocated to these cash-generating units. These CGUs were tested for impairment at least annually until the end of 2018. In 2019, both asset management operations were discontinued. The remaining goodwill in FFHC was derecognized due to the disposal of FFHC's asset management contracts as described in note 23. The derecognition was included in discontinued operations in the consolidated statement of comprehensive (loss) income.

In 2020, due to the acquisition of CPP and TPA as described in note 3, a new CGU was created in Canada consisting of FLIC, CPP and TPA which is reported under the NAI reporting segment. Goodwill of $6,704 and intangible assets of $111,072 consisting primarily of distribution network, software, customer relationships and brand are allocated to this CGU. December 31, 2020 is the first annual period for this CGU's impairment assessment.

The recoverable amounts were based on the recoverable amount which was 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 was determined using the discount rate and the terminal growth rate.

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

	2020 %
Price to Book Multiple	1.5
Terminal period growth rate	2.0%
Discount rate	13.7%

The discount rate is the cost of capital based on the Capital Asset Pricing Model specific to the activity of the CGU and the industry. The discount rate is based on a 20 year treasuries yield and includes factors for specific risks such as transaction size and forecasting risk.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual AUM growth rate. The key assumptions upon which management based its determination of the recoverable amount of the CGU were not materially different than those used to determine the recoverable amount of the asset management contracts and all assumptions were consistent with those used in determining the purchase price of the CGU and intangible assets.

As the CGU was newly formed near the end of the year, the recoverable amount of the CGU is not materially different from its carrying amount and remains highly sensitive to the key assumptions noted above. An increase in the applicable discount rate or reduction to the price-to-book multiplier would likely result in the carrying amount exceeding the recoverable amount.

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

	2020 %
Net Income and Terminal Surplus Value decreases by	10%
Reduction of the Price-to-Book Multiplier	12%
Discount rate increases by	1.9%

10. FINANCIAL RISK MANAGEMENT

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

Foresters Financial's Risk Management Policy sets out the standards of practice related to the governance, identification, measurement, monitoring, control and mitigation of risks. Foresters Financial manages risk taking activities against an overall risk appetite, which defines the amount and type of risks it is willing to assume. The risk appetite reflects Foresters Financial's financial condition, risk tolerance and business strategies. Financial risk appetite measures are defined in relation to internal and regulatory capital requirements, liquidity and earnings sensitivities.

The key financial risks related to financial instruments, including derivative financial instruments are credit risk, market risk (currency risk, interest rate risk and equity market risk), insurance risk and liquidity risk. The following sections describe how Foresters Financial manages each of these risks.

a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfill its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to Foresters Financial's general fund invested assets and an increase in provisions for future credit impairments which are included in insurance contract liabilities.

The Board approved Investment Policy sets out the policies and procedures to manage credit risk. Specific guidelines have been established to minimize undue concentration of exposure to a single debtor or a group of related debtors; to limit the purchase of fixed income securities to investment-grade assets; and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings. Mortgages are limited to 5% of total assets and must have an investment grade credit rating.

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

Credit risk also arises from reinsurance activities. The inability or unwillingness of reinsurance counterparties to fulfill their contractual obligations related to the liabilities ceded to them could lead to an increase in insurance contract liabilities. The Reinsurance Risk Management Policy sets out the minimum risk rating criteria that all reinsurance counterparties are required to meet. Reinsurance is placed with counterparties that have an AM Best financial strength rating of A- (excellent) or better and concentration of credit risk is managed by following guidelines approved each year by the Board of Directors. Management regularly monitors the creditworthiness of reinsurers to ensure compliance with Foresters Financial guidelines.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

i) Maximum exposure to credit risk

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

Foresters Financial's maximum credit exposure was as follows:

	2020	2019
	$	$
Short-term securities	255,531	46,804
Bonds	7,197,895	6,616,543
Mortgages	30,847	—
Derivative financial instruments	1,255	5,020
Other invested assets	136,289	143,699
Loans to certificateholders	264,606	261,360
Reinsurance assets	655,765	501,767
Accrued investment income	52,018	56,073
Amounts due from reinsurers	36,182	36,657
Accounts receivable and other receivables	7,632	17,296
Maximum exposure to credit risk	8,638,020	7,685,219

ii) Concentration of credit risk

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

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

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

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

Bonds and other fixed-term securities

Investment concentration in any one investee or its related group of companies, except for securities issued by or guaranteed by the U.S., Canadian, U.K. and certain foreign governments and government agencies, is limited to 3.5% of the bond portfolio for the U.S., 5.0% of the bond portfolio for Canada and 5.0% of the bond portfolio for the U.K. These limits apply to AAA rated bonds and other fixed-term securities, and are further constrained for lower rated bonds in all three countries of operation.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2020			2019		
	FVTPL	AFS	Total	FVTPL	AFS	Total
Bonds issued or guaranteed by:						
U.S treasury and other U.S agencies	1,040,613	281,350	1,321,963	1,502,845	220,908	1,723,753
Canadian federal government	37,274	31,355	68,629	59,995	37,724	97,719
Canadian provincial and municipal government	671,283	111,073	782,356	634,471	115,615	750,086
U.K government	212,922	—	212,922	208,538	—	208,538
Other foreign governments	98,583	18,467	117,050	119,398	3,420	122,818
Total government bonds	2,060,675	442,245	2,502,920	2,525,247	377,667	2,902,914
By industry sector						
Financial	1,249,534	519,242	1,768,776	1,732,832	453,150	2,185,982
Industrial	468,206	73,266	541,472	497,936	64,659	562,595
Utilities	560,471	108,401	668,872	486,025	41,960	527,985
Energy	302,543	58,967	361,510	433,831	85,131	518,962
Consumer Staples	290,984	54,635	345,619	194,918	40,167	235,085
Consumer	110,443	14,390	124,833	190,404	38,618	229,022
Communications	236,335	45,079	281,414	246,580	37,678	284,258
Technology	125,201	26,572	151,773	227,543	20,663	248,206
Health Care	303,754	68,243	371,997	217,455	28,686	246,141
Basic materials	22,599	8,533	31,132	65,875	10,834	76,709
Other	47,577	—	47,577	81,866	3,527	85,393
Total corporate bonds	3,717,647	977,328	4,694,975	4,375,265	825,073	5,200,338
Less: reclassification to assets held for sale (note 24)	—	—	—	(1,481,917)	(4,792)	(1,486,709)
	5,778,322	1,419,573	7,197,895	5,418,595	1,197,948	6,616,543
Allocation by country of issuer:						
United States	3,390,872	1,029,292	4,420,164	4,516,696	876,091	5,392,787
Canada	1,762,524	294,662	2,057,186	1,652,404	270,693	1,923,097
U.K.	343,118	7,903	351,021	296,418	9,015	305,433
Other	281,808	87,716	369,524	434,994	46,941	481,935
Less: reclassification to assets held for sale (note 24)	—	—	—	(1,481,917)	(4,792)	(1,486,709)
	5,778,322	1,419,573	7,197,895	5,418,595	1,197,948	6,616,543

The credit rating of the bond portfolio was as follows:

	2020		2019	
Bond quality	$	%	$	%
Investment grade:				
AAA	1,396,186	19.4	1,198,809	14.8
AA	1,816,248	25.2	2,289,504	28.3
A	2,333,973	32.4	2,699,661	33.2
BBB	1,588,584	22.1	1,844,695	22.8
	7,134,991	99.1	8,032,669	99.1
BB and lower	62,904	0.9	70,583	0.9
Total bonds	7,197,895	100.0	8,103,252	100.0

Equities

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

Own–use and investment property

Investments in real estate are limited to 15.0% of Foresters Financial's total assets.

iii) Impairments

An allowance for losses on AFS assets and loans and receivables is established when the asset becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realization of the carrying value of the asset and related investment income. The carrying value of an impaired asset is reduced to its estimated net realizable value at the time of recognition of impairment. Impairment losses on invested assets are shown in note 4e.

Insurance contract liabilities include an asset default provision for credit losses for future asset defaults as outlined in note 12.

b) Market risk

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

- Currency risk
- Interest rate risk
- Equity market risk

i) Currency risk

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

Administrative expenses

Foresters Financial incurs the majority of its U.S. branch administrative expenses in Canadian dollars and is therefore exposed to foreign exchange rate fluctuations between the Canadian and U.S. dollars. Foresters Financial enters into foreign exchange forward contracts (see note 4c) to reduce a portion of the impact of foreign exchange rate fluctuations on the calculation of U.S. branch insurance contract liabilities. This calculation includes a provision for future certificate maintenance expenses, which are incurred in Canadian dollars. The exchange rate assumed in this calculation is based on exchange rates implicit in these contracts. While these foreign exchange forward contracts effectively offset the impact of foreign exchange rate fluctuations on a significant portion of U.S. branch insurance contract liabilities, Foresters Financial is exposed to foreign exchange rate fluctuations on expenses in excess of those covered by the foreign exchange forward contracts. A 10.0% increase in the U.S. dollar against the Canadian dollar would be expected to reduce U.S. branch insurance contract liabilities by $6,593 (2019: $7,138). A 10.0% decrease in the U.S. dollar against the Canadian dollar would be expected to increase U.S. branch insurance contract liabilities by $7,441 (2019: $7,945).

Foreign operations

A substantial portion of Foresters Financial's operations is denominated in currencies other than Canadian dollars. If the Canadian dollar strengthened relative to non-Canadian currencies, the translated value of reported earnings and surplus from the non-Canadian denominated operations would decline. Foresters Financial uses financial measures such as constant currency calculations to monitor the effect of such currency fluctuations.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

The following table shows the impact on net income and surplus of a 1.0% strengthening in the Canadian dollar relative to the U.S. dollar and the U.K. pound:

	Change in net income		Change in surplus	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Impact of 1.0% strengthening in the Canadian dollar				
U.S. dollar	249	(947)	(12,182)	(15,049)
U.K. pound	(408)	(315)	(2,405)	(2,084)

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

ii) Interest rate risk

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

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

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

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

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

Many annuity and universal life insurance certificates have minimum credited interest rate guarantees ranging from 0.25% to 4.5% (2019: 0.25% to 4.5%). Other products have implicit guarantees. Dividend paying products are sensitive to a sustained decline in interest rates to the extent dividends cannot be reduced below zero. The profitability of non-dividend paying products depends in part on the relationship between interest rates assumed in pricing compared to investment returns currently available.

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

A 1.0% reduction in interest rates would result in an increase in insurance contract liabilities of approximately $109,746 (2019: $116,607) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities of approximately $104,437 (2019: $77,638).

Bonds and mortgages designated as AFS generally do not support insurance contract liabilities or investment contract liabilities. Changes in the fair value of AFS bonds and mortgages are recorded in OCI and cause a corresponding change in surplus. For Foresters Financial AFS bonds and mortgages, an immediate 1.0% parallel increase in interest rates at December 31, 2020 would result in an estimated after-tax decrease in OCI of $74,097 (2019: $53,000). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $67,890 (2019: $49,774).

iii) Equity market risk

Some insurance contract liabilities and investment contract liabilities such as products with long duration are supported in part by equities. There will be impacts on these liabilities, with related changes in surplus, as equity market values fluctuate. A 10.0% increase in equity markets would be expected to decrease insurance contract liabilities by approximately $32,879 (2019: $42,707). A 10.0% decrease in equity markets would be expected to increase insurance contract liabilities by approximately $41,015 (2019: $49,097).

Equities designated as AFS generally do not support insurance contract liabilities or investment contract liabilities. Changes in the fair value of AFS equities are recorded in OCI and cause a corresponding change in surplus. For AFS equities, an immediate 10.0% increase in stock prices at December 31, 2020, would result in an estimated after-tax increase in OCI of $15,835 (2019: $12,402). Conversely, an immediate 10.0% decrease in stock prices would have an equal and opposite effect.

c) Insurance risk

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

Foresters Financial sells participating and non-participating insurance and financial investment products. The types of products include life, health and annuity. Each product can have a number of contingencies associated with it, including mortality, lapse and expense risk. Assumptions are made based on company and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information as outlined in the Pricing Policy.

These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results from the nature of the insurance risk exposure.

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

The following risk factors are components of insurance risk:

Mortality risk – is the risk that death claims are different than assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by certificate holders or agents, improper claims adjudication and excess mortality from the impact of COVID-19.

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

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

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

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed in note 12d. Annually, as part of Financial Condition Testing ("FCT"), Foresters Financial measures the effects of large and sustained adverse movements in insurance risk factors on the calculation of insurance contract liabilities. Sensitivities to changes in actuarial assumptions are provided in note 12d.

d) Liquidity risk

Liquidity risk is the risk that Foresters Financial will not be able to meet all cash outflow obligations as they come due. Foresters Financial liquidity requirements are closely managed through approximate cash flow matching of assets and liabilities and forecasting earned and required yields to ensure consistency between certificate holder requirements and asset yields.

Operating and strategic liquidity levels are managed against established guidelines.

Foresters Financial ensures adequate liquidity on a day-to-day operational basis by maintaining a specified minimum level of highly liquid assets (defined as all short-term investments issued by major banks and the governments of the U.S., Canada and the U.K.). Strategic liquidity is measured under both immediate (within one month) and ongoing (within one year) stress scenarios. Foresters Financial's target liquidity ratio under both scenarios is 200.0%, a ratio that would more than support the highest claims-paying ratings for Foresters Financial, in addition to providing a significant margin above management's expected liquidity requirements. Foresters Financial's liquidity ratio is defined as allowable liquid assets divided by the risk-adjusted liquidity of liabilities. The risk-adjusted liquidity of liabilities is calculated by assessing the probability of a certificate holder surrendering a certificate for cash under each of the two scenarios, adjusted for the ability of the certificate holder to surrender under its contractual provisions.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2020		2019	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Allowable liquid assets	$7,839,235	$8,131,169	$8,562,370	$8,873,531
Risk-adjusted liquidity of liabilities	2,138,633	2,676,940	2,827,658	3,446,861
Liquidity ratio	366.55 %	303.75 %	302.81 %	257.44 %

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

Contractual maturities

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	On demand or within 1 year or less	1-5 years	Over 5 years	Total
	$	$	$	$
2020				
Cash, cash equivalents and short-term securities	385,292	—	—	385,292
Bonds	154,073	810,686	6,233,136	7,197,895
Derivative financial instruments	3,456	2,692	(26,349)	(20,201)
Reinsurance assets	(10,052)	9,737	656,080	655,765
Insurance contract liabilities	(69,215)	(377,172)	(6,576,869)	(7,023,256)
Investment contract liabilities	(149,166)	—	—	(149,166)
Subordinated debt			(249,241)	(249,241)
Benefits payable	(135,097)	(74,839)	—	(209,936)
Net investments for account of segregated fund unit holders	8,000,491	—	—	8,000,491
Liabilities for account of segregated fund unit holders	(8,000,491)	—	—	(8,000,491)
	179,291	371,104	36,757	587,152
2019				
Cash, cash equivalents and short-term securities	327,820	—	—	327,820
Bonds	276,080	1,145,246	6,681,926	8,103,252
Derivative financial instruments	6,538	2,830	(31,122)	(21,754)
Reinsurance assets	(287)	17,576	488,211	505,500
Less: reclassification to held for sale assets (note 24)	(56,531)	(311,233)	(1,144,819)	(1,512,583)
Insurance contract liabilities	(172,271)	(890,653)	(6,844,392)	(7,907,316)
Investment contract liabilities	(153,704)	—	—	(153,704)
Benefits payable	(123,193)	(67,130)	—	(190,323)
Net investments for account of segregated fund unit holders	7,736,578	—	—	7,736,578
Liabilities for account of segregated fund unit holders	(7,736,578)	—	—	(7,736,578)
Less: reclassification to held for sale liabilities (note 24)	2,022,019	378,706	982,098	3,382,823
	2,126,471	275,342	131,902	2,533,715

Almost all investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current consolidated statement of financial position date and the surrender amount would be approximately equal to the liability shown on the current consolidated statement of financial position. The cash flows are shown in the "On demand or within 1 year or less" column.

Investment contract liabilities for the account of segregated fund unit holders are payable or transferable on demand. The offsetting net investments for the account of segregated fund unit holders is shown on the same basis as these assets would be liquidated when necessary to settle the liability. These cash flows are shown in the "On demand or within 1 year or less" column.

Actual maturities for bonds may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. Both contractual and operating lease commitments are disclosed in note 26.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

11. OTHER LIABILITIES

Other liabilities were comprised of the following:

	2020 $	2019 $
Accounts payable and accrued liabilities	125,113	155,742
Payroll, other compensation and benefits	12,034	31,079
Premiums received in advance	10,902	13,961
Provision for deferred gain on sale	13,743	13,510
Provisions	7,126	14,897
Due to reinsurers	7,891	5,910
Other liabilities	2,154	2,078
	178,963	237,177
Less: reclassification to held for sale liabilities (note 24)	—	(4,170)
	178,963	233,007

The carrying value of these liabilities approximates their fair value. Within 12 months from the reporting date, $159,909 (2019: $194,903) will be realized.

Reinsurance financing
In 2016, Foresters Financial entered into a 10 year reinsurance arrangement (note 15), the objective of which is to enhance US statutory solvency levels. There is no risk transfer under the arrangement and this has been accounted for as such resulting in a financial liability included in provisions.

Restructuring
During 2019, Foresters Financial committed to a plan to restructure its operations due to the sale of the asset management operating segments and recorded a restructuring provision of $7,200 (note 20). The restructuring includes activities aimed at achieving planned expense reductions through reduction in staff and cost efficiencies which began in 2019.

Provision for deferred gain on sale
A deferred gain on sale of $13,510 was established in 2019 and relates to an investment management fee guarantee that Foresters Financial has provided. The deferral is for the anticipated shortfall between the fees charged over an annual basis and the annual fee guarantee for the next five years until the guarantee expires in 2024. In 2020, the provision was increased by $2,576 due to market performance and the resulting decline in assets under management and decreased by $2,039 from a payment made against the provision.

Financial guarantee
As part of the sale of the asset management segment, Foresters Financial through its subsidiary, has made financial guarantees relating to various office leases that continue to be used by the purchaser but does not anticipate that any obligation exists nor can it be estimated reliably at this time so no provision has been established. The guarantee will end in 2025.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	2020		
	Provisions		
	Reinsurance financing $	Restructuring $	Deferred gain on sale $
Balance, beginning of year	9,497	5,400	13,510
Provisions made during the year	—	—	2,576
Provisions used during the year	(2,295)	(5,400)	(2,039)
Effect of change in foreign exchange rates	(76)	—	(304)
Balance, end of year	7,126	—	13,743

	2019		
	Provisions		
	Reinsurance financing $	Restructuring $	Deferred gain on sale $
Balance, beginning of year	12,435	—	—
Provisions made during the year	—	7,200	13,800
Provisions used during the year	(2,399)	(1,800)	—
Effect of change in foreign exchange rates	(539)	—	(290)
Balance, end of year	9,497	5,400	13,510

12. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

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

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

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Reconciliation of changes in insurance contract liabilities

	2020	
	Gross insurance contract liabilities	Net insurance contract liabilities
	$	$
Beginning of year – Insurance contract liabilities	6,481,105	5,979,338
Beginning of year - Held for sale	1,426,211	1,422,478
	7,907,316	7,401,816
New business	6,715	(71,746)
Refinement of actuarial assumptions	52,304	39,326
Refinement of actuarial methods and models	7,839	1,650
Change in inforce contractual cashflows	(84,918)	(84,107)
Change in inforce due to changes in interest rates	704,614	641,744
Change in inforce from other movements	(2,426)	(2,055)
Change in contract liability excluding settlement of pre-existing relationship	684,128	524,812
Disposal of held for sale entity (note 24)	(1,539,699)	(1,537,536)
Change in contract liability including held for sale	(855,571)	(1,012,724)
Effect of change in foreign exchange rates	(28,489)	(21,601)
End of year – Insurance contract liabilities	7,023,256	6,367,491

	2019	
	Gross insurance contract liabilities	Net insurance contract liabilities
	$	$
Beginning of year – Insurance contract liabilities	7,398,428	6,999,866
New business	58,351	8,356
Refinement of actuarial assumptions	21,527	(75)
Refinement of actuarial methods and models	33,268	29,045
Change in inforce due to changes in interest rates	638,310	587,647
Change in inforce from other movements	973	12,361
Change in contract liability	752,429	637,334
Reclassification to held for sale liabilities (note 24)	(1,426,211)	(1,422,478)
Change in contract liability including held for sale	(673,782)	(785,144)
Effect of change in foreign exchange rates	(243,541)	(235,384)
End of year – Insurance contract liabilities	6,481,105	5,979,338

The following table provides a reconciliation of the change in contract liability excluding settlement of pre-existing relationship and the gross change in insurance contract liabilities:

	2020
	$
Change in contract liability excluding settlement of pre-existing relationship	684,128
Settlement of pre-existing relationship (note 3)	84,000
Gross change in insurance contract liabilities	768,128

A significant movement during the year resulted from lower interest rates and the change in foreign exchange rates relative to the Canadian dollar.

The primary driver for the adverse mortality assumption is due to the recent experience from the impact of COVID-19 and the ongoing pandemic and the estimation of the short term excess mortality on the Foresters Financial’s business. COVID-19 and the ongoing pandemic continue to have an impact on the Foresters Financial’s business and introduce some uncertainty to the contract liability valuation.

In 2020, the acquisition of CPP and TPA (note 3) led to a reduction of maintenance expenses included in actuarial liabilities reflecting a decrease in forecasted expenses and increased tax savings along with the settlement of a pre-existing arrangement relating to commissions payable by Foresters Life Insurance Company, a subsidiary of Foresters Financial. The settlement of $84,000 was accounted for as an adjustment to Gross change in insurance contract liabilities on the consolidated statement of comprehensive (loss) income and a settlement of a pre-existing relationship on the acquisition as described in Note 3.

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	2020	
	Gross	**Net**
	$	**$**
Refinement of assumptions:		
Maintenance expense assumptions	(21,344)	(20,802)
Mortality assumptions for recent experience	86,398	74,295
Lapse assumptions for recent experience	7,757	6,303
Dividend assumptions	(3,227)	(3,275)
Fraternal experience assumptions	(6,868)	(6,868)
Future asset returns	(20,172)	(18,815)
Investment expense assumptions	8,822	7,551
Other	937	937
	52,303	39,326
Refinement of methods and models:		
Model improvements	7,839	1,650
	7,839	1,650

	2019	
	Gross	**Net**
	$	**$**
Refinement of assumptions:		
Maintenance expense assumptions	(39,167)	(39,130)
Mortality assumptions for recent experience	16,510	11,115
Lapse assumptions for recent experience	51,366	34,300
Dividend assumptions	5,382	5,360
Fraternal experience assumptions	(1,235)	(1,235)
Future asset returns	(27,131)	(24,250)
Investment expense assumptions	15,802	13,764
	21,527	(75)
Refinement of methods and models:		
Regulation and standards changes	22,138	19,466
Other model improvements	11,130	9,579
	33,268	29,045

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

Asset default provisions made for anticipated future losses of principal and interest on investments and included as a component of actuarial liabilities are shown in the table below:

	2020	2019
	$	**$**
Balance, beginning of year *	148,665	134,217
Add: Liabilities held for sale in the prior year	16,079	—
Net (release) strengthening of provision	16,615	34,902
Effect of change in foreign exchange rates	(2,083)	(4,375)
Reclassification to liabilities held for sale	—	(16,079)
Balance, end of year *	179,276	148,665

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

c) Composition of assets supporting liabilities and surplus

Foresters Financial segments its business taking into account the different liability profiles of its products. Based on these profiles, Foresters Financial has invested in fixed income securities, equities and financial derivatives with characteristics that closely match the characteristics of the related liability. The liabilities are matched with assets denominated in the same currency in order to avoid unintended exposure to foreign currency fluctuations. The fair value of insurance contract liabilities is determined by reference to the value of assets supporting these liabilities. Therefore, changes in the fair value of insurance contract liabilities primarily offset changes in the fair value of the invested assets supporting these liabilities.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

Composition of assets supporting all liabilities and surplus

	December 31, 2020					
	Cash, cash equivalents and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
North American Insurance	$ 314,047	$ 6,413,052	$ 384,162	$ 421,497	$ 1,012,376	$ 8,545,134
North American Asset Management (discontinued – note 23)	21,519	—	—	—	40,457	61,976
U.K. Savings, Investments and Protection	47,122	581,718	491,153	9,029	137,396	1,266,418
**Membership ** **	2,349	155,472	—	—	3,795	161,616
Corporate	255	47,653	—	2,471	—	50,379
	$ 385,292	$ 7,197,895	$ 875,315	$ 432,997	$ 1,194,024	$ 10,085,523

*Other invested assets includes loans to certificate holders, limited partnership investments and investment properties.
** Membership includes membership operations in the U.S., Canada and the U.K., as well as membership surplus.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Composition of assets supporting all liabilities and surplus

	December 31, 2019					
	Cash, cash equivalents and short-term securities	**Bonds**	**Equities**	**Other invested assets ***	**Other**	**Total**
North American Insurance	119,657	7,289,784	244,160	544,698	814,531	9,012,830
North American Asset Management (discontinued – note 23)	142,144	—	—	—	31,951	174,095
U.K. Savings, Investments and Protection	34,558	567,009	591,603	8,881	111,353	1,313,404
Membership **	1,827	175,493	—	—	4,820	182,140
Corporate	29,634	70,966	—	772	—	101,372
	327,820	8,103,252	835,763	554,351	962,655	10,783,841
Reclassification to held for sale assets (note 24)	22,141	1,486,709	—	144,272	82,655	1,735,777
	305,679	6,616,543	835,763	410,079	880,000	9,048,064

*Other invested assets includes loans to certificate holders, limited partnership investments and investment properties.
** Membership includes membership operations in the U.S., Canada and the U.K., as well as membership surplus.

d) Assumptions

The nature and method of determining the more significant assumptions made by Foresters Financial in valuing its insurance contract liabilities are described in the following paragraphs. These valuation assumptions are based on best estimates of future experience together with a margin for adverse deviation. Actual experience is monitored to assess whether the assumptions remain appropriate. Best estimates are reviewed at least annually and are changed as warranted. Margins are necessary to provide for possibilities of mis-estimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that policy liabilities cover a range of possible outcomes. Margins for adverse deviations are reviewed periodically for continued appropriateness.

Mortality and morbidity

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

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

Mortality and morbidity assumptions are based on Foresters Financial's internal experience as well as industry past and emerging experience. Although the pattern of claims and benefit payments may be close to that indicated by past experience, some deviation in that pattern is probable as seen by the impact of COVID-19 and excess mortality experienced. Annual studies are performed to examine mortality and morbidity experience where Foresters Financial's actual experience is compared to both its expected assumptions and industry expected values to confirm that appropriate assumptions are being made about the projected benefit patterns. Consistent with actuarial standards, projected improvements in mortality experience are reflected where appropriate.

Lapse rates

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

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

Investment returns

Foresters Financial segments assets supporting insurance contract liabilities by geographic market and by line of business and establishes investment strategies for each liability segment. The computation of actuarial liabilities takes into account projected cash flows of net investment income on assets supporting these liabilities, as well as income expected to be earned (or foregone) on reinvestments (or financing) of mismatched cash flows. Uncertainties exist with respect to projections of risk-free interest rates, credit spreads and the magnitude of credit losses resulting from asset depreciation. Foresters Financial accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of invested assets).

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Maintenance expenses

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

Foreign currency

Currency risk is addressed in note 10b.

In note 10b market risk is addressed and also includes the sensitivity of the insurance contract liabilities to changes in the types of market risk that most significantly impact Foresters Financial.

Dividends

Future certificate holder dividends are included in the determination of actuarial liabilities for participating certificates, with the assumption that certificate holder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the annual Board approved dividend policy.

The following table shows the decrease in after-tax net income which would result if there were changes in key assumptions relating to insurance contract liabilities net of reinsurance:

		2020	2019
	Change	**$**	**$**
Mortality Rates			
adversely impacted by increase	+ 2%	(88,105)	(81,936)
adversely impacted by decrease	- 2%	(2,311)	(3,200)
Lapse Rates	10% Adverse	(238,953)	(224,980)
Maintenance Expense Level	+ 10%	(72,316)	(81,960)

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

13. INVESTMENT CONTRACT LIABILITIES

Reconciliation of changes in investment contract liabilities

The reconciliation of changes in investment contract liabilities during the year is shown in the table below:

	2020 $	2019 $
Balance, beginning of year	144,291	161,108
Held for sale, beginning of year	9,413	—
Deposits received during the year	2,824	2,478
Surrenders and withdrawals	(8,152)	(6,423)
Interest credited and other	5,747	(953)
Effect of change in foreign exchange rates	4,958	(2,506)
Subtotal	159,081	153,704
Less: Reclassification to liabilities held for sale (note 24)	—	(9,413)
Less: Disposal of held for sale entity (note 24)	(9,915)	—
Balance, end of year	149,166	144,291

14. LEASES

a) Information about leases for which Foresters Financial is a lessee:

Foresters Financial leases office space, vehicles and equipment for its use. Office space leases have a non-cancellable term with an option to extend the lease at the end of the lease term. Some office space and equipment leases have variable lease payments that vary with the use of the leased asset.

Right-of-use assets	Office space $	Vehicles $	Equipment $	Total $
Balance at January 1, 2020	24,978	1,455	1,029	27,462
Acquisition (note 3)	5,534	—	95	5,629
Additions	—	1,550	—	1,550
Depreciation	(3,853)	(1,131)	(348)	(5,332)
Impairment Loss	(5,169)	—	—	(5,169)
Disposals	—	—	—	—
Effect of change in foreign exchange rates	(55)	21	—	(34)
Balance at December 31, 2020	21,435	1,895	776	24,106

Right-of-use assets	Office space $	Vehicles $	Equipment $	Total $
Balance at January 1, 2019	47,886	1,829	2,079	51,794
Additions	654	857	—	1,511
Depreciation	(6,040)	(1,108)	(615)	(7,763)
Impairment loss	(1,035)	—	(412)	(1,447)
Disposals	(14,668)	(98)	—	(14,766)
Effect of change in foreign exchange rate	(1,819)	(25)	(23)	(1,867)
Balance at December 31, 2019	24,978	1,455	1,029	27,462

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	2020	2019
	$	$
Lease liabilities maturity analysis - contractual undiscounted cash flows		
Less than one year	7,539	6,579
1-5 years	25,107	23,363
Over 5 years	6,836	11,922
Total undiscounted lease liabilities at December 31	39,482	41,864
Amounts recognized in profit or loss		
Interest on lease liabilities	1,026	91
Expenses relating to short-term, low-value and variable lease payments	669	2,749
	1,695	2,840
Amounts recognized in statement of cash flows		
Total cash outflow for leases	5,637	11,651

b) Information about leases for which Foresters Financial is a lessor:

Foresters Financial leases out its owner-occupied property under operating leases to third-parties. The non-cancellable lease term varies by tenant and some leases include options to extend at the end of the lease term. Lease income is included in other operating income.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2020	2019
	$	$
Maturity analysis - contractual undiscounted cash flows		
Less than 1 year	1,020	1,041
1 to 2 years	861	811
2 to 3 years	750	641
3 to 4 years	426	554
4 to 5 years	327	380
More than 5 years	708	801
Total undiscounted lease payments	**4,092**	**4,228**

15. CAPITAL MANAGEMENT

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

Foresters Financial's objective with respect to capital management is to maintain a consistently strong capital position, to comply with local solvency requirements in all jurisdictions in which Foresters Financial operates and to build on Foresters Financial's value by taking advantage of business and investment opportunities as they arise.

In accordance with the Board approved Capital Management Policy, Foresters Financial has established internal capital targets for capital adequacy at both a consolidated and segment level. These targets exceed local minimum statutory capital requirements in each jurisdiction in which Foresters Financial operates. Foresters Financial projects its capital requirements over a five year period. On a quarterly basis, management monitors performance against internal capital targets and its capital plans, and initiates action when appropriate.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Annually, as part of FCT, Foresters Financial assesses the strength of its capital position under plausible adverse scenarios including mitigating management actions. These scenarios reflect Foresters Financial's plans and risk profile.

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Act and their subsidiaries, known as the Life Insurance Capital Adequacy Test ("LICAT"). 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 ratios as at December 31 shown below, were above the levels that would require any regulatory or corrective action.

		2020	2019
Available capital (A+B)		$ 2,078,348	$ 1,989,948
Tier 1 Capital	A	1,440,347	1,604,397
Tier 2 Capital	B	638,001	385,551
Surplus allowance and eligible deposits	C	1,043,626	1,031,017
Base solvency buffer	D	1,621,810	1,754,955
Total ratio (%)			
([A+B+C] / D) x 100		192.50 %	172.14 %

Other capital management considerations

In 2016, Foresters entered into a 10 year reinsurance arrangement, the objective of which is to enhance US statutory solvency levels. There is no risk transfer under the arrangement and this has been accounted for as such resulting in a financial liability included in other liabilities (note 11) on the consolidated statement of financial position and a reinsurance financing fee included in operating expenses on the consolidated statement of comprehensive (loss) income.

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

16. SUBORDINATED DEBT

The following obligation is included in Subordinated debt as at December 31 and qualifies as Tier 2 capital for Canadian regulatory purposes:

	2020			
	Interest rate	**Earliest par call or redemption date**	**Maturity**	**Carrying value**
Issued October 15, 2020	2.885%	October 15, 2030	2035	$249,241

On October 15, 2020, Foresters Financial completed an offering of $250 million principal amount of Series 2020-1 Subordinated Unsecured Fixed/Floating Debenture due October 15, 2035 and callable on October 15, 2030 for net proceeds after discount, commissions and expenses of $247,664. From October 15, 2030, interest is payable at 1.77% over Canadian dollar offered rate for three-month bankers' acceptances ("CDOR"). Commission and expenses of $2,336 million were included in the carrying value of the note. The subordinated debt presented in Foresters Financial's consolidated statement of financial position are subordinated to the claims of policyholders and certain other creditors.

Interest expense on subordinated debt was $1,577 for 2020. Included in the carrying value is $1,546 of accrued interest expense.

17. PREMIUMS

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

	2020			2019		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Life and health	1,148,940	(173,917)	975,023	1,094,333	(139,050)	955,283
Annuities	5,172	—	5,172	73,658	11	73,669
	1,154,112	(173,917)	980,195	1,167,991	(139,039)	1,028,952

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

18. FEE REVENUE AND OTHER OPERATING INCOME

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

	2020 $	2019 $
Fee revenue:		
Management fees on segregated fund assets	114,821	129,823
Distribution and brokerage fees	5,661	696
Total fee revenue	120,482	130,519
Other operating income:		
Transfers from accounts of segregated fund unit holders	1,734	8,799
Supplementary contract deposits (with life contingency)	1,452	1,586
Foreign currency gains (losses)	3,518	2,461
Net rental expense	(4,390)	(3,259)
Other	5,280	1,839
Total other operating income	7,594	11,426

19. BENEFITS

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

	2020			2019		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
Life & health	795,485	(91,605)	703,880	750,390	(80,190)	670,200
Fraternal	3,832	—	3,832	3,711	-	3,711
Annuities	124,715	(453)	124,262	133,466	(677)	132,789
	924,032	(92,058)	831,974	887,567	(80,867)	806,700

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

20. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2020 $	2019 $
Employee benefits:		
Salaries and benefits	162,154	128,208
Defined benefit pension and post retirement plan expenses (note 8)	10,036	16,374
Defined contribution plan expenses (note 8)	4,191	4,159
	176,381	148,741
Service fees	24,499	26,549
Technology related fees	42,238	39,099
Professional and consulting fees	14,672	17,458
Software costs expensed during the year	28,539	19,058
Depreciation and amortization of property, equipment and intangibles	36,570	19,891
Restructuring costs (note 11)	—	7,200
Other expenses	13,369	18,304
Total operating expenses	336,268	296,300

Foresters Financial recovered commissions and operating expenses from reinsurers in the amount of $74,799 (2019: $52,995) and $1,420 (2019: $1,048) respectively.

21. INCOME TAXES

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

	2020 $	2019 $
Current income tax recovery:		
Current year	(5,557)	(919)
Deferred income tax (benefit) expense:		
Relating to the origination and reversal of temporary differences	2,500	24,791
Change in unrecognized deductible temporary differences	3,075	11,137
Adjustments for prior periods	(11,081)	—
	(5,506)	35,928
Total income taxes (recovery) expense	(11,063)	35,009

Cash taxes paid were $28,110 (2019: $54,183). Cash tax refunds received during the year were $13,361 including $190 in interest. (2019: Tax refunds of $20,198 including $83 in interest).

On March 27, 2020, the US president signed into law the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* ("the Act") with retroactive effect. As a result, Foresters Financial will benefit from tax relief related to the carry-back of net operating losses. *The Act* allows companies to carry back for five years the full amount of net operating losses arising in tax years beginning after December 31, 2017 and before January 1, 2021. At December 31, 2019, Foresters Financial's US subsidiaries had unrecognized tax deductions of $27,700 with a tax impact of $9,418. As a result of *the Act*, Foresters Financial has recognized the tax effect of $57,922 of current year net operating losses and prior year unrecognized tax deductions with a tax impact totaling $18,660.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

a) Income taxes included in OCI

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

	2020 $	2019 $
Income tax expense on net change in unrealized gains and losses on AFS assets	(10,802)	(741)
Income tax recovery on reclassification of realized gains and losses on AFS Assets	3,453	289
Income tax recovery (expense) on remeasurement gains and losses on employee benefit plans	299	(71)
Income tax recovery on unrealized gains and losses on property	55	—
Total income tax expense	(6,995)	(523)

b) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates to income before taxes for the following reasons:

	2020		2019	
	$	%	$	%
Net income from continuing operations	1,345		89,769	
Income tax (recovery) expense	(11,063)		35,009	
Gain on sale of disposal group held for sale	(57,790)		—	
(Loss) Income from continuing operations before gain on sale of disposal group held for sale and income taxes	(67,508)		124,778	
Combined federal and provincial statutory income tax rate for the current year	(17,848)	26.4 %	33,218	26.6 %
Amounts not subject to tax	1,599	(2.4)%	(8,159)	(6.5)%
Settlement of pre-existing relationship (note 3)	22,204	(32.9)%	—	— %
Previously unrecognized losses	(9,418)	14.0 %	—	— %
Tax adjustments related to prior years	(12,726)	18.9 %	(85)	(0.1)%
Difference between Canadian and foreign statutory rates	2,923	(4.3)%	(9,141)	(7.3)%
Policyholder taxes on U.K Ring Fenced Funds	(872)	1.3 %	5,776	4.6 %
Unrecognized deferred taxes	3,075	(4.6)%	11,137	8.9 %
Other taxes	—	— %	2,263	1.8 %
Income tax (recovery) expense	(11,063)	16.4 %	35,009	28.0 %

For 2020, income tax expense is equal to 16.4% (2019: 28.0%) of income from continuing operations before income taxes and the gain on sale of disposal group held for sale from continuing operations.

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2020	2019
	$	$
Deferred tax assets	8,932	15,027
Deferred tax liabilities	47,519	37,839
Subtotal	(38,587)	(22,812)
Less: Reclassification to liabilities held for sale (note 24)	—	(21,200)
Net deferred tax assets	(38,587)	(1,612)

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:

	2020			2019		
	Asset	Liability	Net	Asset	Liability	Net
	$	$	$	$	$	$
Bonds	—	(900)	(900)	—	(20,456)	(20,456)
Loans to certificate holders	—	(10,486)	(10,486)	—	(10,666)	(10,666)
Other invested assets	—	(13,540)	(13,540)	—	(13,939)	(13,939)
Property and equipment	—	(838)	(838)	199	(767)	(568)
Goodwill and intangibles	—	(37,697)	(37,697)	—	(7,268)	(7,268)
Employee benefit assets and obligations	5,823	(2,524)	3,299	2,246	—	2,246
Insurance contract liabilities	10,550	—	10,550	15,427	—	15,427
Other liabilities	2,947	(529)	2,418	539	(6,930)	(6,391)
Tax loss carry-forwards	10,939	(2,332)	8,607	18,803	—	18,803
Subtotal	30,259	(68,846)	(38,587)	37,214	(60,026)	(22,812)
Less: reclassification to held for sale liabilities (note 24)	—	—	—	(2,259)	23,459	21,200
Recognized deferred tax assets (liabilities)	30,259	(68,846)	(38,587)	34,955	(36,567)	(1,612)

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2020 $	2019 $
Beginning of year	(1,612)	29,909
(Charges) credits included in net income	5,506	(44,311)
(Charges) credits included in OCI	(1,886)	(104)
Reclassification of deferred tax on intangibles	—	(7,268)
Acquisition of subsidiaries	(30,065)	—
Disposition of subsidiaries	(9,676)	—
Adjustments related to prior periods	(1,274)	—
	(39,007)	(21,774)
Exchange rate differences	420	(1,038)
Less: Reclassification to held for sale liabilities (note 24)	—	(21,200)
End of year	(38,587)	(1,612)

Recognized deferred tax assets

There were accumulated tax losses in the U.K. amounting to $10,939 (2019: $13,765) which have been recognized in these consolidated financial statements. These losses do not expire.

Unrecognized deferred tax assets

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

	2020 $	2019 $
Deductible temporary differences	7,524	—
Tax losses, credits and unclaimed deductions	48,344	40,213
	55,868	40,213

Deferred income tax assets are recognized for tax losses, credits and unclaimed deductions carried forward to the extent that the realization of the future tax benefit through future taxable profits is probable.

There were unclaimed tax deductions in Canada amounting to $163,105 (2019: $132,722) which have not been recognized in these consolidated financial statements as it is not probable that future taxable income will be available against which to apply these deductions. These unclaimed deductions do not expire.

There were unclaimed tax credits amounting to $4,090 (2019: $4,451) that have not been recognized in the consolidated financial statements as it is not probable that future taxable income will be available against which to apply these deductions. These unclaimed deductions expire beginning in 2035 through 2040.

d) Taxable income in Canada

The Canada Revenue Agency ("CRA") reassessed Foresters 2014 taxation year to add approximately $25.4 million in additional income by increasing the level of assets it considers to be used in Foresters Canadian insurance business and consequently adding to income the gross investment revenue on these assets. In December 2018, Foresters filed a Notice of Appeal to this reassessment with the Tax Court of Canada. This matter is now in litigation. It is possible that subsequent years may be reassessed in a similar manner.

Foresters intends to defend its tax filing positions vigorously. Accordingly, no amounts have been accrued in the consolidated financial statements.

22. SEGMENTED INFORMATION

Foresters Financial has four reportable segments - three operating segments and a corporate segment - which reflect Foresters Financial's internal management structure and basis for internal financial reporting. Each operating segment includes branch operations and/or subsidiary companies, is organized to meet the needs of local markets and is responsible for developing its own products. The Corporate segment manages surplus assets, provides certain administrative services for the operating segments and is responsible for capital management. NAAM was discontinued during 2019 as described in note 23. The primary sources of revenue from the operating segments in NAI and UKSIP are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, as well as annuity products that provide asset accumulation or wealth management benefits,
- net investment income (note 4), and
- fee and other income derived primarily from investment management services (note 18).

The primary source of revenue in the Corporate segment is investment income derived from managing the surplus assets. In addition, Foresters Financial has a membership operation which works closely with the insurance operations in all three countries to develop and administer member benefits.

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

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Segmented statement of comprehensive income

	2020					
	North American Insurance	U.K. Savings, Investments and Protection	Membership	Corporate	Total Continuing Operations	North American Asset Management (discontinued)
Revenue						
Gross written premiums	$ 1,115,098	$ 38,302	$ 712	$ —	$ 1,154,112	$ —
Ceded premiums	(173,282)	(635)	—	—	(173,917)	—
Net written premiums	941,816	37,667	712	—	980,195	—
Net investment income	844,383	18,130	21,194	(1,186)	882,521	—
Fee revenue	25,597	94,885	—	—	120,482	—
Other operating income	3,327	749	—	3,518	7,594	—
Total revenue	1,815,123	151,431	21,906	2,332	1,990,792	—
Total benefits and expenses	1,899,769	108,226	46,225	4,080	2,058,300	2,576
Gain on sale of disposal group held for sale	57,790	—	—	—	57,790	
Net (loss) income before income taxes	(26,856)	43,205	(24,319)	(1,748)	(9,718)	(2,576)
Income taxes	(6,030)	(5,033)	—	—	(11,063)	—
Net (loss) income	(20,826)	48,238	(24,319)	(1,748)	1,345	(2,576)
Other comprehensive (loss) income	(34,605)	2,427	1,435	(2,628)	(33,371)	—
Total comprehensive (loss) income	$ (55,431)	$ 50,665	$ (22,884)	$ (4,376)	$ (32,026)	$ (2,576)

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

	2019					
	North American Insurance	U.K. Savings, Investments and Protection	Membership	Corporate	Total Continuing Operations	North American Asset Management (discontinued)
Revenue						
Gross written premiums	$ 1,125,091	$ 42,148	$ 752	$ —	$ 1,167,991	$ —
Ceded premiums	(137,960)	(1,079)	—	—	(139,039)	—
Net written premiums	987,131	41,069	752	—	1,028,952	—
Net investment income	883,426	77,821	21,094	14,754	997,095	2,033
Fee revenue	42,634	87,885	—	—	130,519	180,962
Other operating income	7,579	1,386	—	2,461	11,426	2,348
Total revenue	1,920,770	208,161	21,846	17,215	2,167,992	185,343
Total benefits and expenses	1,857,077	165,548	15,901	4,688	2,043,214	256,233
Net (loss) income before income taxes	63,693	42,613	5,945	12,527	124,778	(70,890)
Income taxes	20,287	14,722	—	—	35,009	(1,296)
Net income (loss)	43,406	27,891	5,945	12,527	89,769	(69,594)
Gain on sale of discontinued operations	—	—	—	—	—	72,574
Other comprehensive (loss) income	(28,786)	7,539	(1,639)	(2,283)	(25,169)	—
Total comprehensive income (loss)	$ 14,620	$ 35,430	$ 4,306	$ 10,244	$ 64,600	$ 2,980

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

Segmented statement of financial position

	North American Insurance	North American Asset Management (discontinued)	U.K. Savings, Investments and Protection	Membership	Corporate	Total	Held for Sale Assets
As at December 31, 2020							
Total general fund assets	$ 8,545,134	$ 61,976	$ 1,266,418	$ 161,616	$ 50,379	$ 10,085,523	$ —
Net investments for accounts of segregated fund unit holders	80,457	—	7,920,034	—	—	8,000,491	—
Total general fund liabilities	$ 6,786,168	$ 51,537	$ 993,522	$ 199,514	$ 3,349	$ 8,034,090	$ —
As at December 31, 2019							
Total general fund assets	$ 7,277,053	$ 174,095	$ 1,313,404	$ 182,140	$ 101,372	$ 9,048,064	$ 1,735,777
Net investments for accounts of segregated fund unit holders	83,049	—	5,712,776	—	—	5,795,825	1,940,753
Total general fund liabilities	$ 5,830,697	$ 132,554	$ 1,074,217	$ 188,402	$ 4,226	$ 7,230,096	$ 1,467,440

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

The following table shows revenue from continuing operations for Foresters Financial by country:

	2020 $	2019 $
U.S.	1,391,735	1,549,955
Canada	447,101	408,987
U.K.	151,956	209,050
Total	1,990,792	2,167,992

23. DISCONTINUED OPERATIONS

In 2019, Foresters Financial sold assets from the NAAM segment including the sale of its Canadian subsidiary, FAM. Management committed to a plan to exit this segment following a strategic decision to place greater focus on the Company's core business of life insurance. As a result, NAAM's financial results are disclosed as discontinued operations in the consolidated statement of comprehensive (loss) income. There were 3 separate transactions:

1) Select assets from the broker dealer and advisory business of Foresters Financial Services, Inc. ("FFS") were sold to Cetera Financial Group.
2) 100% of the outstanding shares of Foresters Canadian asset management business, FAM, were sold to Fiera Capital.
3) Foresters Financial sold assets related to its investment management business through Foresters Investment Management Company, Inc. ("FIMCO") to Macquarie Investment Management.

a) Results of discontinued operations

	2020 $	2019 $
Fee revenue	—	185,343
Expenses	(2,576)	(256,233)
Results from operating activities	(2,576)	(70,890)
Income tax	—	(1,296)
Results from operating activities, net of tax	**(2,576)**	**(69,594)**
Gain on sale of discontinued operations	—	143,665
Income tax on gain on sale of discontinued operations	—	(71,091)
Net (loss) income from discontinued operations, net of tax	**(2,576)**	**2,980**

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Cash flows from (used in) discontinued operations

The net cash flows from discontinued operations included in the consolidated statement of cash flows were as follows:

	2020 $	2019 $
Net cash used in operating activities	(2,039)	(274,334)
Net cash from investing activities	—	305,353
Net cash used in/from financing activities	—	(7,155)
Net cash flows for the year	**(2,039)**	**23,864**

c) Effect of disposal of a subsidiary on the financial position

The sale of FAM had the following impact on the consolidated statement of financial position:

	2019 $
Cash	4,499
Deferred sales charges	1,460
Other assets	1,558
Employee benefit obligations	(3,046)
Other liabilities	(2,250)
Net assets and liabilities	**2,221**

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

24. DISPOSAL GROUP HELD FOR SALE

On October 17, 2019, Foresters Financial entered into a definitive agreement with Nassau Financial Group, L.P. for the sale of Foresters Financial Holding Company, Inc. ("FFHC Holdco") and its subsidiary Foresters Life Insurance and Annuity Company ("FLIAC"). Accordingly, FFHC Holdco and FLIAC are presented as a disposal group held for sale. FFHC Holdco and FLIAC are part of continuing operations and fully consolidated in the consolidated statement of comprehensive (loss) income. The transaction closed on July 1, 2020 and resulted in a gain on sale of $57,790. Included in the gain on sale is $40,866 of currency translation gains previously recognized in other comprehensive income and reclassified to the gain on sale.

Assets and liabilities of disposal group held for sale

The disposal group was stated at carrying value and comprised the following assets and liabilities.

	July 1, 2020	December 31, 2019
	$	$
Cash	83,021	22,141
Investments	1,525,805	1,486,709
Loans to certificate holders	149,009	144,272
Reinsurance assets	2,163	3,733
Deferred acquisition costs	53,103	52,825
Accruals and receivables	26,437	17,329
Property and equipment	60	73
Other assets	3,321	8,695
	1,842,919	1,735,777
Net investments for accounts of segregated fund unit holders	1,685,644	1,940,753
Assets held for sale	3,528,563	3,676,530
Insurance contract liabilities	1,539,699	1,426,211
Investment contract liabilities	9,915	9,413
Deferred tax liabilities	12,912	21,200
Benefit payable & provision for unreported claims	11,052	6,446
Other liabilities	5,518	4,170
	1,579,096	1,467,440
Investment contract liabilities for accounts of segregated fund unit holders	1,685,644	1,940,753
Liabilities held for sale	3,264,740	3,408,193
Accumulated other comprehensive income	42,009	20,332

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

25. RELATED PARTY TRANSACTIONS

Foresters Financial's subsidiaries provide distribution and insurance administration services to Foresters Financial. Additionally, Foresters Financial provides certain administrative services to some of its subsidiaries in the normal course of business. All fees paid and costs incurred for the transactions are determined on an arm's length basis. Transactions between Foresters Financial and its subsidiaries, which are related parties have been eliminated on consolidation and have not been disclosed in this note.

Management has established procedures to review and approve transactions with related parties and reports annually to various committees of the Board on the procedures followed and the results of the review.

There are no loans or guarantees provided by Foresters Financial to related parties outside the consolidated group.

a) Compensation of key management personnel

Foresters Financial'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 are comprised of directors and executive officers of Foresters Financial. The remuneration of key management personnel was as follows:

	2020 $	2019 $
Salaries and other short term employee benefits	26,823	27,351
Post-employment benefits	1,776	1,587
Other long-term benefits	2,199	2,076
Termination benefits	3,661	4,890
Total compensation of key management personnel	34,459	35,904

b) Interests in investment funds managed by Foresters Financial

Foresters Financial, through its subsidiary FFHC, managed a number of proprietary mutual funds originating in the U.S. FFHC is considered an agent in accordance with the guidance under IFRS 10 as there are substantive removal rights under the advisory agreement and the management fee received by FFHC is commensurate with the services provided. During 2019, all investment funds managed by FFHC were sold as discussed in note 23.

c) Seed money in segregated funds segregated funds

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

In 2020, Foresters Financial redeemed seed investment units totaling $Nil (2019: $194).

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

26. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, Foresters Financial enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. As at December 31, 2020, Foresters Financial's contractual obligations and commitments were as follows:

December 31, 2020	1 year or less $	2 -5 years $	Over 5 years $	Total $
Obligations under service contracts	39,567	59,679	7,207	106,453
Investment commitment	271,343	543	—	271,886
Total contractual obligations	310,910	60,222	7,207	378,339

27. CONTINGENT LIABILITIES

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

For the year ended December 31, 2020 (amounts in thousands of Canadian dollars except where otherwise stated)

28. PRINCIPAL SUBSIDIARIES

The table below provides a list of Foresters Financial's directly and indirectly held major operating subsidiaries, all of which have been fully consolidated.

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)	
			2020	2019
Foresters Investment Management Company, Inc.	U.S.	Asset management operations	100%	-
Foresters Financial Holding Company, Inc.	U.S.	Insurance operations	-	100%
Foresters Life Insurance Company	Canada	Insurance operations	100%	100%
2778387 Ontario Inc.	Canada	Holding company	100%	-
Canada Protection Plan Inc.	Canada	Insurance broker	100%	-
TPA Outsourcing Inc.	Canada	Insurance administration	100%	-
Forester Holdings (Europe) Limited	U.K.	Insurance and asset management operations	100%	100%

There is no non-controlling interest in any of the subsidiaries and there are no significant restrictions that affect the ability to access or use the assets and settle the liabilities of any subsidiary.

In 2020, in anticipation of the sale of Foresters Financial Holding Company, Inc. ("FFHC") and its subsidiary Foresters Life Insurance and Annuity Company ("FLIAC"), FFHC transferred 100% of its ownership in Foresters Investment Management Company, Inc. ("FIMCO") to Foresters Financial.

29. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in 2019. Intangibles consisting of management contracts and deferred tax liabilities have been increased by $7,268 at December 31, 2019 to reflect the appropriate deferred tax on temporary differences existing at the date of acquisition of a subsidiary with no impact to retained earnings.

30. SUBSEQUENT EVENTS

On January 1, 2021, Foresters Financial completed the amalgamation of its subsidiaries 2778387 Ontario Inc., Canada Protection Plan Inc. and TPA Outsourcing Inc. The amalgamated entity will operate as Canada Protection Plan Inc. and is a wholly owned subsidiary of Foresters Financial.