BMO Reinsurance

BMO Reinsurance Limited

Financial Statements

For the Year ended October 31, 2021

BMO Reinsurance

BMO Reinsurance Limited
Cedar Court,
Wildey Business Park,
Wildey, St. Michael, BB14006
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Actuarial Certificate

I have valued the actuarial liabilities and other contract liabilities of BMO Reinsurance Limited for its balance sheet as at October 31, 2021 and the changes in the statement of income and comprehensive income for the year then ended in accordance with the accepted actuarial practice including selection of appropriate assumptions and methods.

In my opinion, the amount of actuarial liabilities net of reinsurance recoverables in this report makes appropriate provision for all policy obligations.

Jerome Lamontagne
Fellow, Canadian Institute of Actuaries & Society of Actuaries
60 Yonge Street, Toronto, Ontario M58 1H5
December 13, 2021

INDEPENDENT AUDITORS' REPORT

To the Shareholder of BMO Reinsurance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BMO Reinsurance Limited (the "Company"), set out on pages 4 – 26, which comprise the balance sheet as at October 31, 2021, the statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2021, and its financial performance and its 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 International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Barbados and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 these financial statements in accordance with 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 ISAs 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 these financial statements.

INDEPENDENT AUDITORS’ REPORT, continued

To the Shareholder of BMO Reinsurance Limited, continued

Auditors’ Responsibilities for the Audit of the Financial Statements, continued

As part of an audit in accordance with ISAs, 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 Company’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 Company’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 Company 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.

We 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.

KPMG

Chartered Accountants
Bridgetown, Barbados
January 26, 2022

Statement of Income and Comprehensive Income

For the Year Ended October 31, (Canadian $)	Notes	2021	2020
Revenue			
Gross premiums	11	$ 479,431,183	516,644,333
Premiums ceded	11	(4,591,264)	(4,668,842)
Net premiums		474,839,919	511,975,491
Change in unearned premiums	12	16,860,440	24,751,326
Net premiums earned		491,700,359	536,726,817
Net investment income	4	1,947,583	14,572,676
Total revenue		493,647,942	551,299,493
Expenses			
Gross claims	17	308,964,316	343,075,427
Claims ceded	17	(1,493,912)	(2,725,419)
Change in actuarial liabilities	14	(5,554,901)	(4,361,941)
Change in reinsurance assets	15	(828,063)	1,095,443
Change in outstanding losses and loss expenses	16	(80,386,687)	(54,303,983)
Acquisition expenses	9	82,041,584	87,418,040
Operating expenses	18	2,169,077	4,143,069
Total expenses		304,911,414	374,340,636
Income before provision for income taxes		188,736,528	176,958,857
Provision for income taxes	19	3,774,730	-
Net income attributable to shareholder		184,961,798	176,958,857
Other comprehensive (loss) income			
Items that may be subsequently reclassified to net income:			
Unrealized (losses) gains on fair value through other comprehensive income debt securities arising during the period		(1,576,057)	4,150,439
Reclassification of realized gains to net income during the period		(220,935)	(9,238,235)
Reclassification to net income of losses on cash flow hedges		-	104,753
Total comprehensive income		$ 183,164,806	171,975,814

The accompanying notes form an integral part of these financial statements.

Financial Statements

Balance Sheet

As at October 31, (Canadian $)	Notes	2021	2020
Assets			
Cash	3	$ 354,017,119	299,141,743
Investments	3, 4	65,846,141	112,539,382
Accrued interest receivable	4	369,106	615,283
Reinsurance balances receivable	8	25,519,869	66,977,591
Other assets	9	588,655	4,862,502
Reinsurance assets	15	3,114,978	2,286,915
Total Assets		$ 449,455,868	486,423,416
Liabilities and Shareholder's Equity			
Liabilities			
Accounts payable and other liabilities	10	$ 1,777,347	2,000,234
Balances due to reinsurers	10	3,664,682	4,546,851
Unearned premium reserve	12	321,933	17,182,373
Corporation tax payable	19	3,774,730	-
Actuarial liabilities	14	49,064,235	54,619,136
Outstanding losses and loss expenses	16	155,533,211	235,919,898
Total Liabilities		214,136,138	314,268,492
Shareholder's Equity			
Share capital			
Common	20	10,000,000	10,000,000
Preferred	20	78,000,000	78,000,000
Accumulated other comprehensive (loss) income		(148,154)	1,648,838
Retained earnings		147,467,884	82,506,086
Total Shareholder's Equity		235,319,730	172,154,924
Total Liabilities and Shareholder's Equity		$ 449,455,868	486,423,416

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board of Directors:

Wayne Fields
Director

Sir Trevor Carmichael
Director

Statement of Changes in Shareholder's Equity

For the Year Ended October 31, (Canadian $)	Notes	2021	2020
Share capital:			
Common shares			
Balance, beginning of year		$ 10,000,000	50,000,000
Share capital reduction		-	(40,000,000)
Balance, end of year	20	10,000,000	10,000,000
Preferred shares			
Balance, beginning of year		78,000,000	213,000,000
Share capital reduction		-	(135,000,000)
Balance, end of year	20	78,000,000	78,000,000
Retained earnings:			
Balance, beginning of year		82,506,086	35,547,229
Net income for the year		184,961,798	176,958,857
Dividends declared			
Common	20	(49,586,777)	(53,719,008)
Preferred	20	(70,413,223)	(76,280,992)
		(120,000,000)	(130,000,000)
Balance, end of year		147,467,884	82,506,086
Accumulated other comprehensive (loss) income:			
Balance, beginning of year		1,648,838	6,631,881
Unrealized (losses) gains on fair value through other comprehensive income debt securities arising during the year		(1,576,057)	4,150,439
Reclassification of realized gains to net income during the year		(220,935)	(9,238,235)
Reclassification to net income of losses on cash flow hedges		-	104,753
Balance, end of year		(148,154)	1,648,838
Total Shareholder's Equity		$ 235,319,730	172,154,924

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended October 31, (Canadian $)	Notes	2021	2020
Cash flows from operating activities			
Net income for the year		$ 184,961,798	176,958,857
Adjustment to reconcile net income to net cash from operating activities:			
Unrealized foreign exchange losses (gains) on investments		5,899,865	(26,278,242)
Amortization of premium (discount) on bonds, net		549,700	(809,275)
Realized gains on sale of investments, net		(220,935)	(9,238,235)
Gain on sale of premises and equipment		-	(80,864)
Amortization of premises and equipment	9,18	185,562	196,506
Unrealized losses on cross-currency swaps		-	18,149,982
Change in operating assets	21	44,964,121	56,634,385
Change in operating liabilities	21	(100,023,937)	(83,444,717)
Net cash from operating activities		136,316,174	132,088,397
Cash flows used in financing activities			
Share capital reduction		-	(175,000,000)
Dividends paid		(120,000,000)	(130,000,000)
Repayment of lease liabilities		(108,417)	(145,109)
Cash used in financing activities		(120,108,417)	(305,145,109)
Cash flows from investing activities			
Proceeds from sale/maturities of investments		157,723,346	1,108,799,558
Purchase of investments		(119,055,727)	(734,379,116)
Proceeds from unwound cross-currency swaps, net		-	(21,124,585)
Proceeds from sale of premises and equipment		-	90,308
Purchase of premises and equipment		-	(147,870)
Net cash from investing activities		38,667,619	353,238,295
Net increase in cash		54,875,376	180,181,583
Cash at beginning of year		299,141,743	118,960,160
Cash at end of year		$ 354,017,119	299,141,743
Supplemental cash flow information:			
Net cash provided by operating activities includes:			
Interest received		$ 2,022,531	6,141,301
Interest paid		105,683	3,810

The accompanying notes form an integral part of these financial statements.

Note 1: Reporting Entity

BMO Reinsurance Limited ("the Company") was incorporated in Barbados on September 29, 1986 and is a wholly owned subsidiary of BMO Investments Limited, a company incorporated in Bermuda. Its ultimate parent is Bank of Montreal ("BMO" or "the Bank"), a company incorporated in Canada.

The Company is a Class 2 licensed insurer under the Insurance Act, Cap. 310. The Company's principal activity is the reinsurance of life, health, disability, job loss, property catastrophe and specialty property and casualty insurance risks. During 2019, a decision was made to exit the property and casualty reinsurance market.

The principal place of business is St. Michael, Barbados.

Note 2: Basis of Preparation

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issue by the Company's Board of Directors on January 26, 2022.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for the revaluation of the following items which are measured at fair value: assets measured at fair value through other comprehensive income ("FVOCI"), actuarial liabilities and reinsurance assets.

Significant Accounting Policies

To facilitate a better understanding of the financial statements, the significant accounting policies have been disclosed throughout the notes with the related financial disclosures by major caption.

Translation of Foreign Currencies

The Company conducts business in a variety of foreign currencies and presents the financial statements in Canadian dollars, which is the functional currency. Monetary assets and liabilities as well as non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies, are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities not measured at fair value are translated into Canadian dollars at historical rates. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year. Resulting exchange gains and losses are recorded in the Statement of Income and Comprehensive Income.

From time to time, the Company enters into foreign exchange hedge contracts to reduce its exposure to changes in the value of foreign currencies. Realized and unrealized gains and losses that arise on the mark-to-market of foreign exchange contracts related to economic hedges are included in net investment income in the Statement of Income and Comprehensive Income.

Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Use of Estimates and Judgments

The preparation of the financial statements requires management to use estimates and assumptions that affect the carrying amounts of certain assets and liabilities, certain amounts reported in comprehensive income and other related disclosures.

The most significant assets and liabilities where management must make estimates and judgments include the fair value of investments and the determination of reinsurance assets, actuarial liabilities and outstanding losses and loss expenses. Note 3 discusses the nature and method of determining the significant assumptions made in the computation of the fair value of investments. Notes 14, 15 and 16 discuss the nature and method of determining the significant assumptions made in the computation of actuarial liabilities, reinsurance assets and outstanding losses and loss expenses. If actual results differ from the estimates, the impact would be recorded in future periods.

The extent of the continuing impact of the COVID-19 pandemic on the Canadian and U.S. economies remains uncertain and difficult to predict, including government and regulatory responses to the pandemic, which could vary by scope and region. The pandemic's impact on BMO's business, results of operations, reputation, financial performance and condition, including the potential for credit, counterparty and mark-to-market losses, its credit ratings and regulatory capital and liquidity ratios, as well as impacts to its customers and competitors, will depend on future developments, which remain uncertain. By their very nature, the judgments and estimates the Company makes for the purposes of preparing the financial statements relate to matters that are inherently uncertain. However, the Company has detailed policies and internal controls that are intended to ensure that these judgments and estimates are well controlled and independently reviewed, and that its policies are consistently applied from period to period. Management believes that the estimates of the value of the Company's assets and liabilities are appropriate as at October 31, 2021.

Allowance for Credit Losses

The expected credit loss ("ECL") model requires the recognition of credit losses generally based on twelve months of expected losses for performing financial assets and the recognition of lifetime losses on financial assets that have experienced a significant increase in credit risk since origination.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Company must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Impairment of Securities

Debt securities classified as FVOCI are assessed for impairment using the ECL model. For securities determined to have low credit risk, the allowance for credit losses is measured at 12-month expected credit loss. A financial asset is considered to have low credit risk if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

Changes in Accounting Policy

Conceptual Framework

Effective November 1, 2020, the Company adopted the revised Conceptual Framework ("Framework"), which sets out the fundamental concepts for financial reporting to ensure consistency in standard-setting decisions and that similar transactions are treated in a similar way, so as to provide useful information to users of financial statements. The revised Framework had no impact on the Company's accounting policies.

Future Changes in IFRS

Insurance Contracts

In June 2020, the IASB issued amendments to IFRS 17 *Insurance Contracts* which included deferral of the effective date, resulting in a new adoption date of November 1, 2023 instead November 1, 2022. The Company is currently assessing the impact of the standard on its future financial results.

Note 3: Fair Value

Fair value represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date (i.e. an exit price). The fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to changes in market conditions or other factors. Some financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. Where there is no quoted market price, fair value is determined using management's best estimates based on a range of valuation techniques and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the asset or liability.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments – FVOCI

The fair value of investments is determined using prices observed in the most recent transactions. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discounting curves and spreads obtained from independent dealers, brokers and multi-contributor pricing sources.

Financial Instruments with a Carrying Value Approximating Fair Value

Carrying value is considered to be a reasonable estimate of fair value for the Company's cash balances comprised of non-interest bearing deposits with banks. The carrying value of certain financial assets and liabilities, such as accrued interest receivable, other assets, accounts payable and other liabilities, is a reasonable estimate of fair value due to their short-term nature.

Fair value hierarchy

The Company uses a fair value hierarchy to categorize financial instruments according to inputs used in its valuation techniques to measure fair value. The Company determines the fair value of publicly traded fixed maturity investments using quoted market prices in active markets (Level 1) when these are available. When quoted prices in active markets are not available, the Company determines the fair value of financial instruments using models such as discounted cash flows, with observable market data for inputs, such as yield and prepayment rates or broker quotes and other third-party vendor quotes (Level 2).

Fair value may also be determined using models where significant market inputs are unobservable due to inactive or minimal market activity (Level 3). The Company maximizes the use of market inputs to the extent possible.

The extent of the use of quoted market prices (Level 1) and internal models using observable market information as inputs (Level 2) in the valuation of investments were as follows:

	Level 1 Valued using quoted market prices	Level 2 Valued using Internal models (with observable inputs)	2021 Total
Investments - FVOCI	$ 29,025,480	36,820,661	65,846,141
Total	$ 29,025,480	36,820,661	65,846,141

	Level 1 Valued using quoted market prices	Level 2 Valued using internal models (with observable inputs)	2020 Total
Investments - FVOCI	$ 17,752,659	94,786,723	112,539,382
Total	$ 17,752,659	94,786,723	112,539,382

The Company had no Level 3 financial instruments at October 31, 2021 and 2020.

Significant Transfers
The Company's policy is to record transfers of assets and liabilities between fair value hierarchy levels at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Transfers between the various fair value hierarchy levels reflect changes in the availability of quoted market prices or observable market inputs that result from changes in market conditions.

During the year ended October 31, 2021, $nil of FVOCI investments (2020: $11,729,176) were transferred from Level 1 to Level 2 due to reduced observability of the inputs used to value these securities. Transfers of FVOCI investments from Level 2 to Level 1 due to increased availability of quoted prices in active markets was $4,961,882 (2020: $2,994,097).

Note 4: Investments

Investments at FVOCI are debt securities purchased with the objective of both collecting contractual cash flows and selling the securities. The securities' cash flows represent solely payments of principal and interest. These securities may be sold in response to or in anticipation of changes in interest rates and any resulting prepayment risk, changes in credit risk, changes in foreign currency risk or changes in funding sources or terms, or in order to meet liquidity needs.

Debt securities measured at FVOCI are initially recorded at fair value plus transaction costs. They are subsequently measured at fair value, with unrealized gains and losses recorded in the Statement of Income and Comprehensive Income until the security is sold or impaired. Gains and losses on disposal and impairment losses (recoveries) are recorded in the Statement of Income and Comprehensive Income in net investment income.

The summary of investment carrying values is as follows:

	2021	2020
Commercial paper	$ 12,374,659	39,917,177
Bonds	53,471,482	72,622,205
	$ 65,846,141	112,539,382

Investments by geographic region are as follows:

	2021	2020
United States	$ 29,777,286	95,729,833
Canada	9,615,367	1,553,009
Other	26,453,488	15,256,540
	$ 65,846,141	112,539,382

There are no provisions for credit losses related to these amounts as at October 31, 2021 and 2020.

Bonds

The par value and carrying amount of bonds are shown by contractual maturity in the tables below.

		2021
Term to Maturity	Principal Amount	Carrying Amount & Fair Value
Corporate		
Less than one year	$ 6,270,666	6,282,375
One to five years	4,500,000	4,571,394
Supranational/Government		
Less than one year	7,000,000	7,051,450
One to five years	24,014,000	24,446,006
More than five years	8,662,850	11,120,257
	$ 50,447,516	53,471,482

		2020
Term to Maturity	Principal Amount	Carrying Amount & Fair Value
Corporate		
Less than one year	$ 33,892,919	34,169,545
One to five years	8,248,484	8,437,558
Supranational/Government		
Less than one year	9,900,000	9,999,989
One to five years	5,000,000	5,256,550
More than five years	10,654,800	14,758,563
	$ 67,696,203	72,622,205

Bonds – Interest Rate:

		2021	2020
	Interest Receivable Basis	Coupon Rate (% range)	Coupon Rate (% range)
Corporate	Semi-annual	1.700 – 2.360	1.700 – 3.125
Supranational/Government	Semi-annual	1.375 – 6.375	1.250 – 6.375

Investment income

Investment income is derived from the following sources:

	2021	2020
Interest income	$ 497,471	5,575,327
Realized gains on investments	220,935	9,238,235
Income derived from swaps	-	10,062,495
Realized and unrealized foreign exchange gains (losses)	1,229,177	(10,303,381)
	$ 1,947,583	14,572,676

Interest income is recognized in the Statement of Income and Comprehensive Income as it is accrued and is calculated using the effective interest rate method. Interest accrued as at October 31, 2021 was $369,106 (2020: $615,283).

Note 5: Risk Management Framework

Governance Framework

The Company's governance framework is centred around its Enterprise Risk Management ("ERM") process. The ERM process begins with the Board of Directors who determines the Company's strategy and aligns the objectives and means of the business with its risk appetite. The Company's strategy emphasises the transparency of its risk exposures and the quantitative assessment of these risks. The Company's objective is to avoid surprise losses or un-modelled exposures and ensure an adequate economic return on capital is achieved. It is Management's duty to continuously identify, measure, monitor, manage and report the various risks to which the Company is exposed.

Capital Management Framework

The Company's objectives for capital management are to ensure capital is adequate to maintain the safety and stability of the Company, exceed minimum regulatory requirements and achieve the most efficient and effective use of capital.

Regulatory Framework

The Company is regulated by the Insurance Division of the Financial Services Commission of Barbados, as authorized by the Financial Services Commission Act, 2010-21. Barbados has adopted the Insurance Core Principles of the International Association of Insurance Supervisors. The Company must comply with the guidelines set out under the Exempt Insurance Act. This includes annual filing of audited financial statements no later than six months after the financial year end; provision of an actuarial certificate from an approved Actuary stating that the reserves are adequate to meet the liabilities; and a certificate of solvency must be submitted by the Auditor, in accordance with Section 24 of the Exempt Insurance Act.

Asset Liability Management (ALM) Framework

Financial risks arise from open positions in interest rate, currency and financial products, all of which are exposed to general and specific market movements. The Company has an ALM framework within its Investment Policy to limit and monitor these risks.

Note 6: Insurance Risk

The principal risk that the Company faces under reinsurance treaties is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Board of Directors has a clearly defined Risk Appetite Statement which ensures that a balanced underwriting approach is taken across all product lines. Insurance risk is further mitigated by diversification across a large portfolio of reinsurance treaties and geographical areas.

Life insurance risks

The main components of the Company's life insurance risks are:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.
- Involuntary unemployment risk – risk of loss arising due to policyholder job loss experience being different than expected.
- Catastrophe risk – risk of loss arising due to the frequency or severity of catastrophic events being different than expected.

Key Assumptions

Material judgment is required in the selection of the assumptions that determine the actuarial liabilities. Assumptions selected are based on industry and company experience, current observable market prices and other published information. The assumptions are determined at the date of valuation and are evaluated on a continuous basis. The determination of actuarial liabilities is sensitive to the following key assumptions.

Mortality and morbidity rates

Assumptions are based on standard industry mortality and morbidity rate tables, according to the type of risk written and the geographic territory. The rates reflect recent historical experience and are adjusted to reflect the Company's own experiences. An increase in rates would lead to a larger amount of claims than estimated.

Discount rate

Discount rates reflect investment return estimates on the assets supporting the actuarial liabilities. Actuarial liabilities are the sum of the discounted value of the expected benefits and future administration expenses, less the discounted value of expected premiums that are required to meet future cash outflows.

Sensitivities

The sensitivity analysis which follows shows the impact on gross and net liabilities for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions has a significant impact in determining the ultimate claims liabilities and are non-linear.

			2021
Life Insurance	Change in Assumptions	Increase in gross liabilities	Increase in net liabilities
Mortality Rate	+10%	$ 4,158,343	3,960,089
Discount Rate	-1%	655,828	644,143

			2020
Life Insurance	Change in Assumptions	Increase in gross liabilities	Increase in net liabilities
Mortality Rate	+10%	$ 7,689,818	7,206,393
Discount Rate	-1%	1,108,929	997,146

General Insurance Risks

General insurance risks reinsured by the Company include aviation, crop, cyber, marine, motor, property per risk and property catastrophe. These risks are mitigated by diversification across geographic regions and perils. The Company's underwriting guidelines dictate the maximum claim exposure that can be incurred from a catastrophic event. The Company has exited the Property & Casualty reinsurance market significantly reducing its exposure to catastrophic claims. However, some exposure to catastrophic claims will remain until all outstanding claims that occurred prior to the treaty termination dates are settled and paid.

Note 7: Financial Instruments Risk Management

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, trading prices of securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. The Company's most significant market risks are interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk of economic loss due to the need to reinvest or divest during periods of changing interest rates. The Company is exposed to interest rate risk on its fixed-interest rate bonds. The Company limits this risk by investing in short-term duration bonds. An increase of 50 basis points in interest rates would result in a decrease in other comprehensive income of $584,207 (2020: $344,369). A decrease of 50 basis points in interest rates would result in an increase in other comprehensive income of $584,266 (2020: $344,395).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As part of the Company's ALM Framework, the Company regularly monitors and matches the currency profile of its assets to its liabilities.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors or counterparties to make payments of interest and/or principal when due. This credit risk is derived primarily from investments in bonds, short term investments and amounts recoverable from reinsurers under reinsurance arrangements.

The Company manages this risk by applying its Investment Policy investment guidelines as approved by the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds and debentures and provide for concentration limits by issuer.

The Company's investment policy objective is to preserve capital while achieving an appropriate return on investment. The policy is to invest in non-Canadian bonds with the aggregate carrying value in any one corporate entity not exceeding 10% of the carrying value of the Company's assets at any time. All investment purchases must carry a minimum risk rating of BBB with the aggregate carrying value of BBB+ to BBB holdings not exceeding 30% of the carrying value of the portfolio. From time to time, the Company may hold bonds that after initial purchase have been downgraded to below BBB, subject to additional credit monitoring. No more than 25% of the aggregate carrying value of bonds may be invested in any one industry or sector.

The Company's maximum credit exposure is equivalent to the carrying value of the financial instruments on the Balance Sheet. To reduce its exposure to credit loss related to reinsurance counterparties, the Company enters into reinsurance treaties with reputable third party reinsurers. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies (see Note 15). There are no amounts past due or in dispute from reinsurers as at October 31, 2021 and October 31, 2020.

The Company closely monitors the investment ratings of its bonds and as at the reporting date the ratings were:

		2021	2020
AAA	$	42,617,713	35,510,650
AA		4,368,963	22,240,046
A		6,484,806	14,871,509
Total portfolio	$	53,471,482	72,622,205

Notes

The Company's maximum credit exposure without taking into account any collateral held or other credit enhancements is summarized in the following table:

	2021	2020
Investments	$ 65,846,141	112,539,382
Accrued interest receivable	369,106	615,283
Reinsurance balances receivable	25,519,869	66,977,591
Other assets	227,111	267,906
Reinsurance assets	3,114,978	2,286,915
	$ 95,077,205	182,687,077

Liquidity risk

Liquidity risk is the risk that the Company will not have access to cash to meet claims and other expense payments as they arise. The Company's policy is to ensure a minimum amount of cash is held in order to meet a claims paying threshold, while investing excess cash flows on a timely basis in accordance with investment policies. The threshold amount is set at $10,000,000 and the Company is well above this amount.

The maturities of the Company's non-derivative financial liabilities are shown below. Maturity profiles for actuarial liabilities are determined based on the estimated timing of net cash outflows. Unearned premiums have been excluded from the analysis as they are not contractual obligations.

				2021
	Less than 1 year	1 to 5 years	More than 5 years	Total
Financial liabilities				
Accounts payable and other liabilities	$ 1,777,347	-	-	1,777,347
Balances due to reinsurers	3,664,682	-	-	3,664,682
Actuarial liabilities(1)	51,287,672	5,694,632	(8,690,489)	48,291,815
Outstanding losses and loss expenses	42,984,001	112,549,210	-	155,533,211
	$ 99,713,702	118,243,842	(8,690,489)	209,267,055

				2020
	Less than 1 year	1 to 5 years	More than 5 years	Total
Financial liabilities				
Accounts payable and other liabilities	$ 1,957,624	42,610	-	2,000,234
Balances due to reinsurers	4,546,851	-	-	4,546,851
Actuarial liabilities(1)	55,943,560	7,402,484	(9,615,562)	53,730,482
Outstanding losses and loss expenses	57,453,712	178,466,186	-	235,919,898
	$ 119,901,747	185,911,280	(9,615,562)	296,197,465

(1) Amounts disclosed above exclude unearned premium reserves.

Note 8: Reinsurance Balances Receivable

Reinsurance balances receivable are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, reinsurance balances receivable are measured at amortized cost.

The carrying value of reinsurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Income and Comprehensive Income. There has been no impairment loss recorded for the years ended October 31, 2021 and 2020.

Note 9: Other Assets

Other assets comprise:

	2021	2020
Prepaid expenses	$ 72,577	79,828
Deferred acquisition expenses	131,468	3,827,270
Deferred reinsurance	-	344,437
Premises and equipment, at cost	1,474,356	1,474,356
less accumulated amortization	(1,316,857)	(1,131,295)
Other receivables	227,111	267,906
	$ 588,655	4,862,502

Prepaid expenses include rental deposits and payments made in advance for professional services to be rendered. Prepaid expenses are amortized on a straight-line basis over the life of the related service.

Deferred acquisition expenses comprise commissions, premium taxes and other costs which are directly related to the acquisition of premiums. These expenses, to the extent that they are considered recoverable, are deferred and amortized over the terms of the related treaties.

Deferred reinsurance relates to the portion of reinsurance ceded in the reporting periods that cover periods of insurance risk after the reporting date.

Other receivables include balances due from related parties and sales tax recoverable. Other receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable.

Premises and equipment are recorded at cost less accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives ranging between two and ten years. Amortization expense for the year ended October 31, 2021 was $185,562 (2020: $196,506).

Amortization methods, useful lives and the values of premises and equipment are reviewed regularly for any change in circumstances and are adjusted if appropriate.

When the Company enters into new arrangements as a lessee, a right-of-use asset is recognized equal to the lease liability, which is calculated based on the future lease payments discounted at the incremental borrowing rate over the lease term. The lease term is based on the non-cancellable period and includes any options to extend or terminate which are reasonably certain to exercised.

The right-of-use asset is depreciated on a straight-line basis, based on the shorter of useful life of the underlying asset or the lease term, and is adjusted for impairment losses, if any.

The lease liability accretes interest over the lease term, using the effective interest method, with the associated interest expense recognized in operating expenses – other. The lease liability is remeasured when decisions are made to exercise options under the lease arrangement or when the likelihood of exercising an option within the lease changes.

Amounts relating to leases of low value are expensed when incurred in operating expenses – rent.

At least annually, the Company reviews whether there are any indications that premises and equipment need to be tested for impairment. If there is an indication that an asset may be impaired, the Company tests for impairment by comparing the asset's carrying value to its recoverable amount. The recoverable amount is calculated as the higher of the value in use and the fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset. An impairment charge is recorded when the recoverable amount is less than the carrying value. There were no write-downs of premises and equipment due to impairment during the years ended October 31, 2021 and 2020.

Note 10: Financial Liabilities

Accounts payable and other liabilities, and balances due to reinsurers are classified as financial liabilities. These liabilities are recognized when due and measured on initial recognition at fair value. Subsequent to initial recognition, they are measured at amortized cost. Included in other liabilities are net deposits received in advance under certain reinsurance treaties. These deposits are amortized into income under the treaty terms.

When the Company enters into leases, it records lease liabilities representing the present value of future lease payments over the lease term. Interest expense on lease liabilities for the year ended October 31, 2021 was $1,610 (2020: $3,810). Total cash outflow for leases for the year ended October 31, 2021 was $103,286 (2020: $152,700). Variable lease payments (for example: utilities) not included in the measurement of lease liabilities for the year ended October 31, 2021 was $19,714 (2020: $27,752).

The maturity profile of the Company's undiscounted lease liabilities is $39,598 for 2022 (2021: $148,015).

Note 11: Premiums

Reinsurance treaties are those in which the Company has accepted significant insurance risk by agreeing to compensate the ceding companies for specified uncertain future events that adversely affect the ceding companies and whose amount and timing is unknown. In the absence of significant insurance risk, the treaty is classified as an investment contract.

A treaty which has been classified as an insurance contract remains as such until all rights and obligations under the contract extinguish or expire. Investment contracts may be reclassified as insurance contracts if insurance risk becomes significant.

Gross Premiums

Gross premiums on those treaties with a fixed premium are recognized when the treaty is incepted. On all other treaties, premiums are recognized when they are due or reported by the ceding company.

Premiums Ceded

Reinsurance premiums ceded are recognized when they are due under the terms of the agreements.

Note 12: Unearned Premium Reserve

Premiums earned are generally recognized in income over the treaty period in proportion to the amount of reinsurance provided. Unearned premium reserves for property and casualty reinsurance treaties relate to the portion of gross premiums written in the reporting periods that cover periods of insurance risk after the reporting date.

	2021	2020
Balance, beginning of year	$ 17,182,373	41,933,699
Premiums written during the year	5,622,448	3,653,481
Premiums earned during the year	(21,362,772)	(29,190,750)
Foreign currency conversion	(1,120,116)	785,943
Balance, end of year	$ 321,933	17,182,373

Note 13: Responsibilities of the Appointed Actuary

The Appointed Actuary is appointed by the Board of Directors subject to approval of the Financial Services Commission. The Actuary's responsibility is to carry out an annual valuation of the Company's long-term insurance business, per the Insurance Act of Barbados, using methods and assumptions considered to be appropriate to the circumstances of the Company and to the policies in force. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, mortality, morbidity, policy termination, inflation, expenses and other contingencies.

Note 14: Actuarial Liabilities

Nature of Actuarial Liabilities

Actuarial liabilities, per the Insurance Act of Barbados, are calculated in respect of long-term insurance business using methods and assumptions considered to be appropriate to the circumstances of the Company and to the policies in force. They include a provision for losses incurred but not reported, and represent the amount, which in the opinion of the Company's actuary, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits on policy contracts reinsured by the Company.

Actuarial liabilities, as defined above, comprise:

	2021	2020
Life	$ 24,799,438	25,412,655
Health, Disability, and Job Loss	24,264,797	29,206,481
Actuarial liabilities	$ 49,064,235	54,619,136

	2021	2020
Policy reserves	$ (5,779,659)	(5,916,138)
Claims reserves	54,843,894	60,535,274
Actuarial liabilities	$ 49,064,235	54,619,136

Changes in actuarial liabilities, as defined above, are as follows:

	2021	2020
Actuarial liabilities, beginning of year	$ 54,619,136	58,981,077
Change in actuarial liabilities from:		
Existing reinsurance treaties	(4,969,721)	(5,855,995)
Changes in actuarial assumptions/methodology	1,279,087	1,275,265
Foreign currency conversion	(1,864,267)	218,789
Actuarial liabilities, end of year	$ 49,064,235	54,619,136

Assumptions

The calculation of the actuarial liabilities requires assumptions as to the future course of events which will give rise to payments by the Company. These assumptions are established on the basis of current estimates of mortality, morbidity, rates of return on invested assets, administrative expenses and inflation.

Mortality and morbidity

The assumptions for mortality and morbidity are based either on industry experience or the ceding company's experience. Given the size of the Company and the statistical nature of claims, the Company may well experience a level of claims different from that expected in a particular year.

Economic assumptions

Where applicable, the valuation interest rate to discount future liabilities is based on the average expected yield on the assets supporting the liabilities.

Administrative expenses and inflation

Where applicable, amounts may be included in the actuarial liabilities to provide for the cost of administering policies and, where appropriate, the said amount may include inflation adjustments.

Note 15: Reinsurance Assets

The Company has entered into reinsurance treaties for protection against claims in excess of stipulated amounts. Reinsurance assets represent balances due from retrocessionaires for ceded actuarial liabilities as disclosed in Note 14 and are estimated in the same manner.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance balance receivable that all outstanding amounts due under the terms of the contract may not be received. The event must have a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Any impairment loss is recorded in the Statement of Income and Comprehensive Income. There has been no impairment loss recorded for the years ended October 31, 2021 and 2020.

Note 16: Outstanding Losses and Loss Expenses

Outstanding losses and loss expenses for property and casualty reinsurance treaties are accrued when reinsured events occur and are based on the estimated ultimate cost of settling the claims, using reports and individual case estimates received from the cedents at the balance sheet date. In addition, a provision for additional case reserves is included when it is likely that there will be adverse development on specific case reserves reported by the cedent. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that may modify past experience.

The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgments made by management, and therefore there can be no assurance that ultimate losses and loss expenses will not exceed the claims reserves currently established. These estimates are regularly reviewed, and adjustments for differences between estimates and actual payments for claims and for changes in estimates are reflected in income in the period in which the estimates are changed or payments are made.

A reconciliation of the opening and closing reserve balances for outstanding losses and loss expenses for the period is presented as follows:

		2021	2020
Balance, beginning of year	$	235,919,898	290,223,881
Incurred related to:			
Current		2,970,293	66,545,940
Prior		16,158,299	(1,877,920)
Paid related to:			
Current		(373,351)	(15,593,640)
Prior		(82,169,668)	(108,653,492)
Foreign exchange		(16,972,260)	5,275,129
Balance, end of year	$	155,533,211	235,919,898

Significant claims include 2020 marine claims for Maersk Honam and Golden Ray, crop, satellite, and cyber claims, 2019 Japanese Typhoons Faxai and Hagibis. 2018 Japanese Typhoons Jebi and Trami and the Colombian Dam collapse, and 2017 claims due to several large natural catastrophes - Hurricanes Harvey, Irma, and Maria, two earthquakes in Mexico and the California wildfires.

Note 17: Gross and Ceded Claims

Gross claims are comprised of paid claims and are recognized when reported by the ceding companies. Ceded claims are recognized when the related gross claims are expensed.

Note 18: Operating Expenses

The following outlines the significant operating expenses:

		2021	2020
Salaries and benefits	$	1,713,223	3,497,645
Professional and consulting		75,804	84,650
Letter of credit and bank fees		213,010	229,786
Computer		103,906	188,162
Amortization of premises and equipment		185,562	196,506
Other		(122,428)	(53,680)
	$	2,169,077	4,143,069

Note 19: Income Taxes

The Company reports its provision for income taxes in its Statement of Income and Comprehensive Income based upon transactions recorded in its financial statements regardless of when they are recognised for income tax purposes.

Current tax is the amount of income tax payable in respect of taxable profit for a period. Deferred income tax balances are the cumulative amount of tax applicable to temporary differences between the accounting and tax values of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. Changes in deferred income tax assets and liabilities related to a change in tax rates are recorded in income in the year the tax rate is substantively enacted. The deferred income tax liability is expected to be recognized in the normal course of business.

The Company is subject to taxation in accordance with Section 43A of the Income Tax (Amendment) Act at a rate of two percent of taxable income. In 2020 the Company was subject to taxation in accordance with Section 29 of the Exempt Insurance Act at a rate of eight percent on the first US$125,000 of taxable income and zero percent on taxable income in excess of US$125,000.

Note 20: Share Capital

The Company is authorized to issue an unlimited number of non-redeemable common shares and an unlimited number of non-redeemable Class A preferred shares without nominal or par value. The holders of Class A Preferred Shares have certain voting rights and can attend the General Meeting of the Company. The holders of the Class A Preferred Shares have preference and priority to any payment of dividends on the Common Shares. The Class A Preferred Share dividends are non-cumulative and are at the discretion of the directors.

In 2021, the Company paid dividends on common shares of $49,586,777 (2020: $53,719,008) and on Class A Preferred Shares of $70,413,223 (2020: $76,280,992).

Issued and fully paid:

		2021	2020
50,000,000 common shares – stated value	$	10,000,000	10,000,000
71,000,000 preferred shares - stated value	$	78,000,000	78,000,000

Note 21: Net Cash Provided by Operating Activities

		2021	2020
Net change in operational assets			
Decrease in accrued interest receivable	$	246,177	1,808,891
Decrease in reinsurance balances receivable		41,457,722	48,237,018
Decrease in other assets		4,088,285	5,493,033
(Increase) decrease in reinsurance assets		(828,063)	1,095,443
	$	44,964,121	56,634,385

		2021	2020
Net change in operational liabilities			
Decrease in accounts payable and other liabilities	$	(114,470)	(531,217)
(Decrease) increase in balances due to reinsurers		(882,169)	503,750
Increase in corporation tax payable		3,774,730	-
Decrease in unearned premium reserve		(16,860,440)	(24,751,326)
Decrease in actuarial liabilities		(5,554,901)	(4,361,941)
Decrease in outstanding losses and loss expenses		(80,386,687)	(54,303,983)
	$	(100,023,937)	(83,444,717)

Note 22: Related Party Transactions and Balances

Related parties include entities which are members of BMO Financial Group. Transactions with related parties are measured at the agreed upon exchange amount. The Company uses the legal, marketing, accounting, banking, credit analysis and collateral management services of BMO and the investment management services of BMO Global Asset Management. BMO is paid a fee for providing these services which is based upon terms that are similar with those the Company would charge unrelated parties. Included in net investment income are fees paid to BMO Global Asset Management of $361,955 (2020: $580,178).

The Company provides the use of its personnel, administrative support, accounting and systems to Bank of Montreal (Barbados) Limited ("BOMBL"), BMO Investments Limited ("BMOIL"), BMO Finance Company V Limited ("Finco V") and BMO (Bermuda) Finance Ltd. ("BMO Bermuda"), all of which are under common control. The Company charges a fee for these services based upon terms that are similar with those the Company would charge unrelated parties.

Other than those items disclosed elsewhere in these financial statements, transactions with related parties are summarized as follows:

Operating expenses (income)		2021	2020
BMO	$	223,498	246,662
Finco V		(41,402)	(38,882)
BMO (Bermuda)		(53,231)	(47,740)
BMOIL		(43,373)	(36,565)
BOMBL		(335,159)	(332,800)
	$	(249,667)	(209,325)

The following tables show balances with related parties:

			2021
	Cash	Other assets	Accounts payable and other liabilities
BMO	$ 158,687,451	-	18,442
BOMBL	-	7,577	-
BMOIL	-	42,694	-
BMO Global Asset Management	-	-	112,650
	$ 158,687,451	50,271	131,092

			2020
	Cash	Other assets	Accounts payable and other liabilities
BMO	$ 68,900,271	-	20,410
BOMBL	-	5,938	-
BMOIL	-	909	-
BMO Bermuda	-	-	2,765
Finco V	-	82,648	-
BMO Global Asset Management	-	-	38,624
	$ 68,900,271	89,495	61,799

Key Management Personnel

Related parties include key management personnel and their close family members. Close family members include spouses, common-law partners and dependent minors. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the Company's activities, directly or indirectly. Senior management of the Company plan, direct and control the day-to-day business activities. These business activities are carried out within the strategic framework established by the executive of the ultimate parent, the Bank of Montreal. Thus, the Company's key management personnel have been determined to be the Bank's Board of Directors and certain key executives (together "key management personnel") as they provide overall direction and oversight for the Bank. The key management personnel are ultimately responsible for all material decisions of the Bank. The key management personnel are also responsible for establishing the overall strategic direction of the consolidated Bank, both domestically and internationally and, in that regard, establish such parameters for the consolidated Bank within which the Board of Directors and management of each subsidiary in the consolidated Bank exercise their discretion to make decisions concerning the strategic direction and day to day management of the operations of the particular subsidiary. The Bank's Directors oversee the management of the business and provide stewardship.

Key Management Personnel Compensation

The following table presents the compensation of the Bank's key management personnel.

(Canadian $ in thousands)	2021	2020
Base salary and initiatives	$ 22,173	19,775
Post-employment benefits	2,588	2,518
Share-based payments(1)	32,395	32,226
	$ 57,156	54,519

(1) Amounts included in share-based payments are the fair values of awards granted in the year.

The Bank offers senior executives market interest rates on credit card balances, a fee-based subsidy on annual credit card fees, and a select suite of customer loan and mortgage products at rates normally accorded to preferred customers. At October 31, 2021, loans to key management personnel totaled $21.8 million ($19.5 million in 2020). There are no provisions for credit losses related to these amounts as at October 31, 2021 and 2020.

The Bank's Directors receive a specified amount of their annual retainers in deferred stock units. Until a director's shareholdings (including deferred stock units) are eight times greater than their annual retainer, they are required to take 100% of their annual retainer and other fees in the form of either Bank common shares or deferred stock units. Once the shareholding requirements have been met, directors may elect to receive the remainder of such retainer fees and other remuneration in cash, common shares or deferred stock units.

Note 23: Letters of Credit

The Company had facilities for letters of credit totaling $73,015,450 (2020: $85,238,400) of which $45,628,230 (2020: $51,322,351) was utilized. These letters of credit relate to certain reinsurance treaties and are unsecured. The Bank provided and issued $54,452,200 and $45,628,230 respectively (2020: 65,260,650 and $51,322,351) of the total facilities.

Note 24: Solvency Margin

The Company is required by the Exempt Insurance Act of Barbados to comply with certain solvency criteria. At October 31, 2021, the Company's solvency margin exceeded the required minimum.

Note 25: Reinsurance Security Agreement

Effective October 1, 2005, the Company assumed reinsurance risks from a Canadian primary insurer (the "Insurer") on a full coinsurance basis. The Company and the Insurer established a Reinsurance Security Agreement in respect of this reinsurance arrangement. In accordance with the Office of the Superintendent of Financial Institutions Canada, ("OSFI") guidelines and requirements, the Company is required to grant to the Insurer a security interest in a minimum prescribed amount of assets with a Custodian ("the Collateral Account"); in particular, at least equal to 100% of the actuarial liabilities in respect of the policies ceded by the Insurer. Also, the Company and the Insurer have agreed that the Company will maintain additional assets in the Collateral Account in an amount equal to the maximum eligible deposits for unregistered reinsurance permissible under Section 6.8.1 of the Life Insurance Capital Adequacy Test requirement, as defined by OSFI and determined by the Insurer, in respect of the policies ceded by the Insurer.

As at the effective date of the Balance Sheet, the actuarial liabilities disclosed in Note 14 included an amount of $41,266,337 (2020: $45,307,679) in respect of the policies ceded by the Insurer that are associated with the Collateral Account. The market value of the assets in the Collateral Account as of October 31, 2021 was $85,899,637 (2020: $86,265,414).

Note 26: Pension Plan

The Company operates an annuity pension scheme for its employees in the form of a defined contribution pension plan. Obligations for contributions to the plan are recognized as an expense in the Statement of Income and Comprehensive Income as incurred. The annual premiums paid to the defined contribution pension plan and charged to operations during the year amounted to $34,673 (2020: $50,872), net of anniversary credits.

Note 27: Subsequent Events

The Company reinsures life, job loss, disability and critical illness risks that originate from the lending activities in BMO's bank branches across Canada. The lending products insured include personal and mortgage products and credit cards, as well as commercial loans and mortgages. Three large Canadian insurers underwrite the business in Canada and then cede a large portion of the business to the Company. The Company accepted notices of termination of reinsurance agreements between the Company and these insurers. The reinsurance agreements are to be terminated no later than February 28, 2022. The estimated financial impact in fiscal 2022 is a reduction in gross premiums of $204 million and in net income after tax of $120 million. The Company will continue to generate income from its life reinsurance products.

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