



BMO Reinsurance Limited

Financial Statements

For the Year ended October 31, 2022

BMO Reinsurance Limited

Cedar Court,
Wilkey Business Park,
Wilkey, St. Michael, BB14006
Barbados
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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, 2022 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 M5H 1H5
January 5, 2023

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, 2022, 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, 2022, 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 25, 2023

Statement of Income and Comprehensive Income

For the Year Ended October 31, (Canadian \$)	Notes	2022	2021
Revenue			
Gross premiums	11	\$ 264,347,561	479,431,183
Premiums ceded	11	(1,434,986)	(4,591,264)
Net premiums		262,912,575	474,839,919
Change in unearned premiums	12	321,933	16,860,440
Net premiums earned		263,234,508	491,700,359
Net investment income	4	3,659,309	1,947,583
Total revenue		266,893,817	493,647,942
Expenses			
Gross claims	17	217,380,610	308,964,316
Claims ceded	17	(1,453,015)	(1,493,912)
Change in actuarial liabilities	14	(36,155,950)	(5,554,901)
Change in reinsurance assets	15	(1,515,104)	(828,063)
Change in outstanding losses and loss expenses	16	(30,041,429)	(80,386,687)
Acquisition expenses	9	58,532,883	82,041,584
Operating expenses	18	1,852,766	2,169,077
Total expenses		208,600,761	304,911,414
Income before provision for income taxes		58,293,056	188,736,528
Provision for income taxes	19	1,151,079	3,774,730
Net income attributable to shareholder		57,141,977	184,961,798
Other comprehensive (loss) income			
Items that may be subsequently reclassified to net income:			
Unrealized losses on fair value through other comprehensive income debt securities arising during the period		(6,255,607)	(1,576,057)
Reclassification of realized losses (gains) to net income during the period		63,290	(220,935)
Total comprehensive income		\$ 50,949,660	183,164,806

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

Balance Sheet

As at October 31, (Canadian \$)

Notes

2022

2021

Assets

Cash	3	\$ 48,193,882	354,017,119
Investments	3, 4	201,948,613	65,846,141
Accrued interest receivable	4	804,908	369,106
Reinsurance balances receivable	8	1,727,006	25,519,869
Other assets	9	850,564	588,655
Reinsurance assets	15	4,630,082	3,114,978

Total Assets		\$ 258,155,055	449,455,868
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Liabilities and Shareholder's Equity

Liabilities

Accounts payable and other liabilities	10	\$ 1,562,361	1,777,347
Balances due to reinsurers	10	3,509,370	3,664,682
Unearned premium reserve	12	-	321,933
Corporation tax payable	19	1,165,861	3,774,730
Actuarial liabilities	14	12,908,285	49,064,235
Outstanding losses and loss expenses	16	125,491,782	155,533,211

Total Liabilities		144,637,659	214,136,138
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Shareholder's Equity

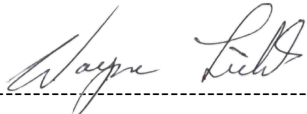
Share capital			
Common	20	10,000,000	10,000,000
Preferred	20	78,000,000	78,000,000
Accumulated other comprehensive (loss) income		(6,340,471)	(148,154)
Retained earnings		31,857,867	147,467,884

Total Shareholder's Equity		113,517,396	235,319,730
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Total Liabilities and Shareholder's Equity		\$ 258,155,055	449,455,868
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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	2022	2021
Share capital:			
Common shares			
Balance, beginning and end of year	20	\$ 10,000,000	10,000,000
Preferred shares			
Balance, beginning and end of year	20	78,000,000	78,000,000
Retained earnings:			
Balance, beginning of year		147,467,884	82,506,086
Net income for the year		57,141,977	184,961,798
Dividends declared			
Common	20	(71,385,121)	(49,586,777)
Preferred	20	(101,366,873)	(70,413,223)
		(172,751,994)	(120,000,000)
Balance, end of year		31,857,867	147,467,884
Accumulated other comprehensive (loss) income:			
Balance, beginning of year		(148,154)	1,648,838
Unrealized losses on fair value through other comprehensive income debt securities arising during the year		(6,255,607)	(1,576,057)
Reclassification of realized losses (gains) to net income during the year		63,290	(220,935)
Balance, end of year		(6,340,471)	(148,154)
Total Shareholder's Equity		\$ 113,517,396	235,319,730

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

Statement of Cash Flows

For the Year Ended October 31, (Canadian \$)	Notes	2022	2021
Cash flows from operating activities			
Net income for the year		\$ 57,141,977	184,961,798
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Unrealized foreign exchange (gains) losses on investments		(9,940,570)	5,899,865
Amortization of premium on bonds, net		368,076	549,700
Realized losses (gains) on sale of investments, net		63,290	(220,935)
Realized foreign exchange gain on short-term deposit		(2,726,085)	-
Assignment of interest earned on short-term deposit		(25,909)	-
Amortization of premises and equipment	9,18	150,643	185,562
Changes in operating assets and liabilities:			
Change in operating assets	21	21,958,794	44,964,121
Change in operating liabilities	21	(69,925,431)	(100,023,937)
Net cash (used in) from operating activities		(2,935,215)	136,316,174
Cash flows used in financing activities			
Dividends paid		(170,000,000)	(120,000,000)
Repayment of lease liabilities		(86,829)	(108,417)
Cash used in financing activities		(170,086,829)	(120,108,417)
Cash flows from investing activities			
Proceeds from sale/maturities of investments		297,365,926	157,723,346
Purchase of investments		(430,151,511)	(119,055,727)
Purchase of premises and equipment		(15,608)	-
Net cash (used in) from investing activities		(132,801,193)	38,667,619
Net (decrease) increase in cash		(305,823,237)	54,875,376
Cash at beginning of year		354,017,119	299,141,743
Cash at end of year		\$ 48,193,882	354,017,119
Supplemental cash flow information:			
Net cash provided by operating activities includes:			
Interest received		\$ 2,616,861	2,022,531
Interest paid		79,234	105,683
Income taxes paid		3,759,948	-

Non-cash transaction:

Details of financing activities which did not involve cash flows are disclosed in Note 20.

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, critical illness, property catastrophe and specialty property and casualty insurance risks. During 2019, a decision was made to exit the property and casualty reinsurance market. On February 28, 2022, the Company terminated its reinsurance agreements which covered life, job loss, disability and critical illness risks that originated from the lending activities in BMO's bank branches across Canada.

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 25, 2023.

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.

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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.

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 economic outlook for Canada and the U.S. is subject to several risks that could lead to a severe downturn, including, persistent high inflation and significant further increases in interest rates, an escalation of the conflict in Ukraine, rising geopolitical tensions between the U.S. and China, and the pandemic. A significant housing market correction could also occur if monetary policy becomes overly restrictive to control inflation. The 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 its 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, 2022.

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 May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), which provides a comprehensive approach to accounting for all types of insurance contracts and will replace the existing IFRS 4 *Insurance Contracts* (IFRS 4). The standard was subsequently amended in June 2020 with additional narrow-scope amendments in December 2021. IFRS 17 will be effective for the Company's fiscal year beginning November 1, 2023. The Company has established an enterprise-wide project in order to meet the requirements of IFRS 17 and continue to evaluate the potential impacts of adoption, including available accounting policy and transition choices.

IFRS 17 will change the fundamental principles used to recognize and measure insurance contracts, including life insurance contracts, reinsurance contracts and investment contracts with discretionary participation features.

Key differences from IFRS 4 are as follows:

IFRS 17 requires the Company to measure groups of contracts based on its estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin (CSM) which represents unearned profits. The CSM component of the insurance contract liability will be amortized into the Statement of Income and Comprehensive Income as services/insurance coverage is provided and groups of contracts that result in losses are recorded in the Statement of Income and Comprehensive Income immediately. Under IFRS 4, there is no similar grouping requirement and gains/losses on new business are recognized in the Statement of Income and Comprehensive Income immediately. When the Company adopts IFRS 17, the Company will establish the CSM for insurance contracts in effect which will increase liabilities and decrease equity.

The discount rate the Company uses under IFRS 4 is connected to the assets held to support the insurance liabilities. Under IFRS 17, the discount rate will reflect the characteristics of the insurance contract liabilities. The Company has an accounting policy choice under IFRS 17 to recognize changes in the discount rate on insurance contract liabilities, either through other comprehensive income or income in the Statement of Income and Comprehensive Income.

On transition, the Company will either apply a full retrospective approach where it restates prior periods as if it had always applied IFRS 17, a modified retrospective where it applies specific modifications to the full retrospective application or a full fair value method where it fair values the contracts to determine a value for the CSM.

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:

2022			
	Level 1 Valued using quoted market prices	Level 2 Valued using Internal models (with observable inputs)	Total
Investments - FVOCI	\$ 113,455,532	88,493,081	201,948,613
Total	\$ 113,455,532	88,493,084	201,948,613
2021			
	Level 1 Valued using quoted market prices	Level 2 Valued using internal models (with observable inputs)	Total
Investments - FVOCI	\$ 29,025,480	36,820,661	65,846,141
Total	\$ 29,025,480	36,820,661	65,846,141

The Company had no Level 3 financial instruments at October 31, 2022 and 2021.

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, 2022, \$1,499,409 of FVOCI investments (2021: \$nil) 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 \$11,765,361 (2021: \$4,961,882).

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:

	2022	2021
Commercial paper	\$ 6,121,392	12,374,659
Bonds	195,827,221	53,471,482
	<u>\$ 201,948,613</u>	<u>65,846,141</u>

Investments by geographic region are as follows:

	2022	2021
United States	\$ 174,028,476	29,777,286
Canada	4,494,384	9,615,367
Other	23,425,753	26,453,488
	<u>\$ 201,948,613</u>	<u>65,846,141</u>

There are no provisions for credit losses related to these amounts as at October 31, 2022 and 2021.

Bonds

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

	2022	
Term to Maturity	Principal Amount	Carrying Amount & Fair Value
<u>Corporate</u>		
Less than one year	\$ 9,268,750	9,195,895
One to five years	78,511,000	75,621,252
<u>Supranational/Government</u>		
Less than one year	57,031,500	55,951,244
One to five years	58,270,000	55,058,830
	<u>\$ 203,081,250</u>	<u>195,827,221</u>

		2021
Term to Maturity	Principal Amount	Carrying Amount & Fair Value
<u>Corporate</u>		
Less than one year	\$ 6,270,666	6,282,375
One to five years	4,500,000	4,571,394
<u>Supranational/Government</u>		
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

Bonds – Interest Rate:

		2022	2021
	Interest Receivable Basis	Coupon Rate (% range)	Coupon Rate (% range)
Corporate	Semi-annual	0.673 – 3.550	1.700 – 2.360
Supranational/Government	Semi-annual	0.125 – 2.500	1.375 – 6.375

Investment income

Investment income is derived from the following sources:

	2022	2021
Interest income	\$ 1,597,824	497,471
Realized (losses) gains on investments	(63,290)	220,935
Realized and unrealized foreign exchange gains	2,124,775	1,229,177
	\$ 3,659,309	1,947,583

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, 2022 was \$804,908 (2021: \$369,106).

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 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.

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.

2022			
Life Insurance	Change in Assumptions	Increase in gross liabilities	Increase in net liabilities
Mortality Rate	+10%	\$ 6,242,048	6,028,404
Discount Rate	-1%	802,567	777,525
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

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 variables, 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 \$1,267,565 (2021: \$584,207). A decrease of 50 basis points in interest rates would result in an increase in other comprehensive income of \$1,267,700 (2021: \$584,266).

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.

NOTES TO FINANCIAL STATEMENTS

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 resident 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, 2022 and October 31, 2021.

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

	2022	2021
AAA	\$ 111,010,074	42,617,713
AA	29,277,485	4,368,963
A	28,114,481	6,484,806
BBB	27,425,181	-
Total portfolio	\$ 195,827,221	53,471,482

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

	2022	2021
Investments	\$ 201,948,613	65,846,141
Accrued interest receivable	804,908	369,106
Reinsurance balances receivable	1,727,006	25,519,869
Other receivables	201,606	227,111
Reinsurance assets	4,630,082	3,114,978
	\$ 209,312,215	95,077,205

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.

				2022
	Less than 1 year	1 to 5 years	No fixed maturity	Total
Financial liabilities				
Accounts payable and other liabilities	\$ 1,562,361	-	-	1,562,361
Balances due to reinsurers	3,509,370	-	-	3,509,370
Actuarial liabilities ⁽¹⁾	17,349,394	10,848	(5,327,279)	12,032,963
Outstanding losses and loss expenses	34,486,764	80,293,888	10,711,130	125,491,782
	\$ 56,907,889	80,304,736	5,383,851	142,596,476

				2021
	Less than 1 year	1 to 5 years	No fixed maturity ⁽²⁾	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) (2)}	28,285,194	5,694,632	14,311,989	48,291,815
Outstanding losses and loss expenses ⁽²⁾	40,745,924	100,102,633	14,684,654	155,533,211
	\$ 74,473,147	105,797,265	28,996,643	209,267,055

⁽¹⁾ Amounts disclosed above exclude unearned premium reserves.

⁽²⁾ Certain comparative figures have been reclassified to confirm with the current year's presentation.

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, 2022 and 2021.

Note 9: Other Assets

Other assets comprise:

	2022	2021
Prepaid expenses	\$ 72,366	72,577
Deferred acquisition expenses	40,346	131,468
Premises and equipment, at cost	2,003,746	1,474,356
less accumulated amortization	(1,467,500)	(1,316,857)
Other receivables	201,606	227,111
	\$ 850,564	588,655

NOTES TO FINANCIAL STATEMENTS

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, 2022 was \$150,643 (2021: \$185,562).

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 be 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 right-of-use asset included in premises and equipment as at October 31, 2022 was \$452,715 (2021: \$48,240)

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, 2022 and 2021.

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. The lease liability as at October 31, 2022 was \$466,550 (2021: \$39,598). Interest expense on lease liabilities for the year ended October 31, 2022 was \$4,956 (2021: \$1,610). Total cash outflow for leases for the year ended October 31, 2022 was \$104,579 (2021: \$103,286). Variable lease payments (for example: utilities) not included in the measurement of lease liabilities for the year ended October 31, 2022 was \$25,210 (2021: \$19,714).

The maturity profile of the Company's undiscounted lease liabilities is \$109,602 for 2023, \$109,602 for 2024, \$109,602 for 2025, \$109,602 for 2026 and \$43,605 for 2027.

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 inception. 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.

	2022	2021
Balance, beginning of year	\$ 321,933	17,182,373
Premiums written during the year	496,056	5,622,448
Premiums earned during the year	(826,437)	(21,362,772)
Foreign currency conversion	8,448	(1,120,116)
Balance, end of year	\$ -	321,933

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:

	2022	2021
Life	\$ 9,402,551	24,799,438
Health, Disability, and Job Loss	3,505,734	24,264,797
Actuarial liabilities	\$ 12,908,285	49,064,235

	2022	2021
Policy reserves	\$ (4,451,956)	(5,779,659)
Claims reserves	17,360,241	54,843,894
Actuarial liabilities	\$ 12,908,285	49,064,235

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

	2022	2021
Actuarial liabilities, beginning of year	\$ 49,064,235	54,619,136
Change in actuarial liabilities from:		
Existing reinsurance treaties	324,514	(4,969,721)
Terminated and recaptured reinsurance treaties	(41,511,759)	-
Changes in actuarial assumptions/methodology	1,446,753	1,279,087
Foreign currency conversion	3,584,542	(1,864,267)
Actuarial liabilities, end of year	\$ 12,908,285	49,064,235

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, 2022 and 2021.

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:

	2022	2021
Balance, beginning of year	\$ 155,533,211	235,919,898
Incurred related to:		
Current	4,007,532	2,970,293
Prior	8,187,489	16,158,299
Paid related to:		
Current	-	(373,351)
Prior	(55,137,963)	(82,169,668)
Foreign exchange	12,901,513	(16,972,260)
Balance, end of year	\$ 125,491,782	155,533,211

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:

	2022	2021
Salaries and benefits	\$ 1,135,503	1,713,223
Professional and consulting	172,832	75,804
Letter of credit and bank fees	192,319	213,010
Computer	126,333	103,906
Amortization of premises and equipment	150,643	185,562
Other	75,136	(122,428)
	<u>\$ 1,852,766</u>	<u>2,169,077</u>

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.

The components of the total provision for income taxes are as follows:

	2022	2021
Current tax expense:		
Current year	\$ 1,165,861	3,774,730
Adjustment for prior year	(14,782)	-
	<u>\$ 1,151,079</u>	<u>3,774,730</u>

A reconciliation of the Company's income taxes that would be payable at statutory tax rates to the provision for income tax recorded in the Statement of Income and Comprehensive Income is set out below:

	2022	2021
Income before income taxes	\$ 58,293,056	188,736,528
Statutory tax rate	2.0%	2.0%
Income tax reconciliation:		
Tax provision based on statutory rate	1,165,861	3,774,730
Adjustment related to prior year	(14,782)	-
	\$ 1,151,079	3,774,730

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.

On April 12, 2022, the Company placed a United States dollar denominated uncertificated certificate of deposit with BMO Harris Bank N.A. (the "Uncertificated CD"). On April 27, 2022 the Company declared a dividend equal to the principal amount of the Uncertificated CD plus interest accrued up to the date of the declaration. The dividend was paid in the form of an in-kind distribution by way of the transfer and assignment of the Uncertificated CD and all rights related thereto owed to the Company, including but not limited to the right to receive the interest accrued up to the declaration date.

In 2022, the Company paid dividends on common shares of \$71,385,121 (2021: \$49,586,777) and on Class A Preferred Shares of \$101,366,873 (2021: \$70,413,223).

Issued and fully paid:

	2022	2021
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

	2022	2021
Net change in operational assets		
(Increase) decrease in accrued interest receivable	\$ (435,802)	246,177
Decrease in reinsurance balances receivable	23,792,863	41,457,722
Decrease in other assets	116,837	4,088,285
Increase in reinsurance assets	(1,515,104)	(828,063)
	\$ 21,958,794	44,964,121

	2022	2021
Net change in operational liabilities		
Decrease in accounts payable and other liabilities	\$ (641,938)	(114,470)
Decrease in balances due to reinsurers	(155,312)	(882,169)
(Decrease) increase in corporation tax payable	(2,608,869)	3,774,730
Decrease in unearned premium reserve	(321,933)	(16,860,440)
Decrease in actuarial liabilities	(36,155,950)	(5,554,901)
Decrease in outstanding losses and loss expenses	(30,041,429)	(80,386,687)
	\$ (69,925,431)	(100,023,937)

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 \$297,478 (2021: \$361,955).

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)	2022	2021
BMO	\$ 236,744	223,498
Finco V	(32,669)	(41,402)
BMO (Bermuda)	(70,496)	(53,231)
BMOIL	(37,827)	(43,373)
BOMBL	(299,180)	(335,159)
	\$ (203,428)	(249,667)

The following tables show balances with related parties:

		2022
	Cash	Other assets
		Accounts payable and other liabilities
BMO	\$ 11,831,444	-
BOMBL	-	83
BMOIL	-	1,235
BMO Global Asset Management	-	-
	\$ 11,831,444	1,318
		103,814

			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

Key Management Personnel and Their Close Family Members

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)	2022	2021
Base salary and initiatives	\$ 25,193	22,173
Post-employment benefits	2,529	2,588
Share-based payments ⁽¹⁾	45,007	32,395
	\$ 72,729	57,156

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

Compensation paid by the Company to key management personnel totaled \$0.5 million (\$0.9 million in 2021).

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, 2022, loans to key management personnel and their close family members totaled \$20.2 million (\$21.8 million in 2021). There are no provisions for credit losses related to these amounts as at October 31, 2022 and 2021.

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 eleven 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 \$53,137,500 (2021: \$73,015,450) of which \$40,093,442 (2021: \$45,628,230) was utilized. These letters of credit relate to certain reinsurance treaties and are unsecured. The Bank provided and issued \$53,137,500 and \$40,093,442 respectively (2021: \$54,452,200 and \$45,628,230) of the total facilities.

Note 24: Solvency Margin

The Company is required by the Insurance Act to comply with certain solvency criteria. At October 31, 2022, the Company's solvency margin exceeded the required minimum.

Note 25: Reinsurance Security Agreement and Pledged Assets

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 agreed that the Company would 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.

Effective February 28, 2022, in connection with the termination of the reinsurance arrangement with the Insurer, the Reinsurance Security Agreement was terminated. The Company used the assets in the Collateral Account to make a payment to the Insurer in satisfaction of the actuarial liabilities previously ceded to and assumed by the Company.

As at October 31, 2022, the actuarial liabilities disclosed in Note 14 included an amount of \$nil (2021: \$41,266,337) in respect of the policies ceded by the Insurer that were associated with the Collateral Account. The market value of the assets in the Collateral Account as of October 31, 2022 was \$nil (2021: \$85,899,637).

Pledged assets

During the year, the Company established a cash collateral account to cover outstanding losses and loss expenses related to cyber claims reported by a reinsurer. As at October 31, 2022, cash pledged as collateral and included in Cash on the Balance Sheet was \$6,958,574 (2021: \$nil).

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 \$27,880 (2021: \$34,673), net of anniversary credits.