2021 Consolidated Financial Report

Foresters Life
Insurance Company

Year ended
December 31, 2021

Foresters Financial

Consolidated Financial Statements and Notes - Table of Contents

MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

Louis Gagnon
Chief Executive Officer

Alvin Sharma
Chief Financial Officer

Toronto, Ontario, Canada
February 22, 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Foresters Life Insurance Company

Opinion

We have audited the consolidated financial statements of Foresters Life Insurance Company (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 22, 2022

APPOINTED ACTUARY'S REPORT

To the policyholders and shareholder of Foresters Life Insurance Company

I have valued the policy liabilities and reinsurance recoverables of Foresters Life Insurance Company for its consolidated statement of financial position as at December 31, 2021 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

Trudy Engel
Fellow, Canadian Institute of Actuaries

Toronto, Ontario, Canada
February 22, 2022

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

	Note	2021	2020 Restated
REVENUE			
Gross premiums	13	$ 268,029	$ 237,649
Ceded premiums	13	(345,633)	(56,413)
Net Premiums		(77,604)	181,236
Net Investment Income			
Interest and dividends (net)	3	37,470	43,039
Net realized gains (losses)	3	31,154	51,588
Net change in unrealized gains (losses) on fair value through profit and loss investments	3	(81,615)	27,303
Total Investment Income (Loss)		(12,991)	121,930
Fee revenue	14	142	126
Other operating income	14	1,502	1,899
TOTAL REVENUE		**(88,951)**	**305,191**
POLICY HOLDER BENEFITS & EXPENSES			
Gross benefits	15	172,376	150,725
Ceded benefits	15	(68,283)	(44,629)
Gross change in insurance contract liabilities	10	74,077	38,840
Ceded change in insurance contract liabilities	10	(379,960)	(91,656)
Dividends		1,975	2,359
Commissions		79,300	93,698
Operating expenses	16	65,928	54,296
Ceded commissions and operating expenses	16	72,490	(10,505)
TOTAL BENEFITS & EXPENSES		**17,903**	**193,128**
Income (Loss) before income taxes		(106,854)	112,063
Income Taxes			
Current	17	(18,241)	18,929
Deferred	17	(2,514)	8,810
Total Income Taxes		(20,755)	27,739
NET INCOME (LOSS)		**(86,099)**	**84,324**
OTHER COMPREHENSIVE INCOME (LOSS)			
Remeasurement on employee benefit plans net of income tax recovery (expense) of ($15) (2020: $2)		38	(4)
Total items that will not be reclassified to net income		38	(4)
Net change in unrealized gains (losses) on available-for-sale assets net of income tax recovery (expense) of $783 (2020: ($7,530))		(1,986)	20,839
Reclassification of net realized (losses) gains on available-for-sale assets, net of income tax recovery of $559 (2020: $2,502)		(1,417)	(6,926)
Total items that are or may be reclassified subsequently to net income		(3,403)	13,913
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**(3,365)**	**13,909**
TOTAL COMPREHENSIVE INCOME (LOSS)		**$ (89,464)**	**98,233**

The accompanying notes are an integral part of these consolidated financial statements.

Foresters Life Insurance Company
Consolidated Statement of Financial Position
For the year ended December 31
(in thousands of Canadian dollars)

	Note	2021	2020
ASSETS			
Invested Assets	3		
Cash and short-term securities		$ 28,826	$ 33,914
Bonds		846,966	1,127,108
Equities		95,944	123,685
Other invested assets		58,403	97,255
Loans to policyholders		13,462	14,210
Total Invested Assets		1,043,601	1,396,172
Reinsurance assets	10	768,080	388,120
Accrued investment income		4,730	6,843
Current income taxes	17	25,489	—
Due from reinsurers		27,205	20,452
Other assets	5	6,328	5,646
Intangible assets	7	5,101	3,700
		836,933	424,761
Net investments for accounts of segregated fund unit holders	4	15,349	14,204
TOTAL ASSETS		**$ 1,895,883**	**$ 1,835,137**
LIABILITIES			
Insurance contract liabilities	10	1,376,148	1,302,071
Investment contract liabilities	11	14,353	14,720
Benefits payable and provision for unreported claims		55,161	48,661
Current income taxes	17	—	21,768
Deferred tax liabilities	17	4,477	7,005
Due to reinsurers	19	92,512	3,112
Other liabilities	9	34,212	30,404
Employee benefit obligations	6	460	517
		1,577,323	1,428,258
Liabilities for accounts of segregated fund unit holders	4	15,349	14,204
TOTAL LIABILITIES		$ 1,592,672	$ 1,442,462
EQUITY			
Participating policyholders' equity		1,191	1,168
Shareholder's equity			
Common shares	12	50,000	50,000
Contributed surplus	12	246,964	161,964
Retained earnings		(6,645)	164,477
Accumulated other comprehensive income		11,701	15,066
		302,020	391,507
TOTAL EQUITY		303,211	392,675
TOTAL LIABILITIES AND EQUITY		**$ 1,895,883**	**$ 1,835,137**

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

Louis Gagnon
Chief Executive Officer

Daniel John Fortin
Chair of the Board

Foresters Life Insurance Company
Consolidated Statement of Changes in Equity
For the year ended December 31
(in thousands of Canadian dollars)

		Shareholder's equity						
	Participating Policyholders	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income – Unrealized gains (losses) on available-for-sale assets	Accumulated other comprehensive income – Remeasurement gains (losses) on employee benefit plans	Total shareholder's equity	Total equity
Balance as at December 31, 2020	**$ 1,168**	**$ 50,000**	**$ 161,964**	**$ 164,477**	**$ 16,641**	**$ (1,575)**	**$ 391,507**	**$392,675**
Total net income (loss)	23	—	—	(86,122)	—	—	(86,122)	(86,099)
Other comprehensive income (loss)								
Pre-tax balance	—	—	—	—	(2,769)	53	(2,716)	(2,716)
Reclassification of net realized gains (losses) on available for sale assets	—	—	—	—	678	—	678	678
Income tax recovery (expense)	—	—	—	—	(1,312)	(15)	(1,327)	(1,327)
Total Other Comprehensive Income (Loss) for the year	—	—	—	—	(3,403)	38	(3,365)	(3,365)
Total Comprehensive Income (Loss)	23	—	—	(86,122)	(3,403)	38	(89,487)	(89,464)
Contribution of capital	—	—	85,000	—	—	—	85,000	85,000
Dividends	—	—	—	(85,000)	—	—	(85,000)	(85,000)
Balance as at December 31, 2021	**$ 1,191**	**$ 50,000**	**$ 246,964**	**$ (6,645)**	**$ 13,238**	**$ (1,537)**	**$ 302,020**	**$303,211**
Balance as at December 31, 2019	**$ 1,215**	**$ 50,000**	**$ 136,964**	**$ 80,106**	**$ 2,728**	**$ (1,571)**	**$ 268,227**	**$269,442**
Total net income (loss)	(47)	—	—	84,371	—	—	84,371	84,324
Other comprehensive income (loss)								
Pre-tax balance	—	—	—	—	28,369	(6)	28,363	28,363
Reclassification of net realized gains (losses) on available for sale assets	—	—	—	—	(9,428)	—	(9,428)	(9,428)
Income tax recovery (expense)	—	—	—	—	(5,028)	2	(5,026)	(5,026)
Total other comprehensive income (loss)	—	—	—	—	13,913	(4)	13,909	13,909
Total Comprehensive Income (Loss)	(47)	—	—	84,371	13,913	(4)	98,280	98,233
Contribution of capital	—	—	25,000	—	—	—	25,000	25,000
Balance as at December 31, 2020	**$ 1,168**	**$ 50,000**	**$ 161,964**	**$ 164,477**	**$ 16,641**	**$ (1,575)**	**$ 391,507**	**$392,675**

The accompanying notes are an integral part of these consolidated financial statements.

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

	2021 $	2020 $
Cash flow from operating activities		
Total net income (loss) per statement of comprehensive income (loss)	$ (86,099)	$ 84,324
Items not affecting cash:		
Depreciation and amortization	1,082	1,020
Net increase in insurance contract liabilities	74,077	38,840
Net increase in reinsurance assets	(379,960)	(91,656)
Net realized and unrealized (gains) losses on invested assets	50,461	(78,891)
Amortization of premiums and discounts on bonds	376	(1,111)
Deferred income tax expense (recovery)	(2,514)	8,810
Net change in other assets and other liabilities	44,629	20,308
Net cash from (used in) operating activities	(297,948)	(18,356)
Cash flow from investing activities		
Investments sold or matured:		
Bonds	1,112,435	1,019,726
Equities	54,236	12,416
Other invested assets	68,525	1,130
Loans to policyholders	2,062	1,525
Investments acquired:		
Bonds	(904,771)	(966,853)
Equities	(10,256)	(59,465)
Other invested assets	(28,770)	(211)
Loans to policyholders	(601)	(560)
Net cash from (used in) investing activities	292,860	7,708
Cash flow from financing activities		
Contributed surplus	85,000	25,000
Dividends paid	(85,000)	—
Net cash from (used in) financing activities	—	25,000
Net increase (decrease) in cash and short-term securities	(5,088)	14,352
Cash and short-term securities – Beginning of year	33,914	19,562
Cash and short-term securities – End of year	$ 28,826	$ 33,914
Cash and short-term securities consist of:		
Cash	$ 18,826	$ 19,316
Short-term securities	10,000	14,598
	$ 28,826	$ 33,914

The accompanying notes are an integral part of these consolidated financial statements.

DESCRIPTION OF BUSINESS

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

The Company commenced business in Canada in 1898. It is incorporated under the Insurance Companies Act - Canada (the "Act") and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI").The Company's registered office is located at 789 Don Mills Road, Toronto, Ontario M3C 1T9 Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Basis of Presentation

a) Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 22, 2022.

b) Basis of measurement

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

- Financial assets at fair value through profit and loss ("FVTPL"), and available-for-sale ("AFS") financial assets are measured at fair value;
- Reinsurance assets and insurance contract liabilities are calculated using the Canadian Asset Liability Method ("CALM")

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

c) Functional and presentation currency

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

d) Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates, judgments and underlying assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

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

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

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

1.2 Basis of consolidation

The consolidated financial statements include the results of operations and the financial position of all entities controlled by either the Company or its subsidiaries. Control exists when the Company or one of its subsidiaries has power to direct the activities that significantly affect returns, exposure or rights to variable returns based on the subsidiary's performance and the ability to use its power to affect returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align with the policies of the group. Intra-group transactions are eliminated on consolidation. The Company's principal subsidiaries are listed in note 22.

1.3 Segmented reporting

Operating segments have been identified based on internal management reports which are used by senior management to assess performance and make decisions. The Company has one operating segment and a surplus segment.

The operating segment sells life insurance, accident and sickness insurance and group annuities.

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

1.4 Foreign currency

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

1.5 Invested assets

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

	FVTPL assets	AFS assets	Loans and receivables
Short-term securities			X
Bonds	X	X	
Equities	X		
Other invested assets	X	X	
Loans to policyholders			X

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

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

Invested assets supporting surplus are classified as AFS assets.

a) Cash and short-term securities

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

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

b) Bonds

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

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

Interest income is recorded as interest and dividends on the consolidated statement of comprehensive income (loss) on an accrual basis using the effective interest method and realized gains and losses on the sale of bonds are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income (loss).

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

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

c) Equities

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

The fair value of publicly traded equities is determined using quoted market closing prices. For non-publicly traded equities, fair value is estimated on the basis of dealer quotes or recent transactions of similar investments. Transaction costs on FVTPL equities are expensed.

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

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

d) Other Invested Assets

Limited partnerships

Limited partnerships support insurance contract liabilities and surplus. The assets are classified as FVTPL and FVOCI and are recorded at fair value. The Company does not have joint control or any significant influence over these partnerships. Fair value is based on the net asset value of the investment where the Company is a limited partner. Changes in fair value are recorded as net change in unrealized gains (losses) on fair value through profit and loss and through other comprehensive income. Realized gains or losses on sale are recorded as net realized gains (losses), both of which are components of net income on the consolidated statement of comprehensive income (loss).

Seed money investment in segregated funds

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

e) Loans to policyholders

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

f) Derecognition

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

g) Invested asset impairments

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

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

AFS assets are carried at fair value and unrealized change in gains and losses are recorded in OCI and accumulated in accumulated other comprehensive income ("AOCI"). When an AFS asset is identified as impaired, the net loss in AOCI is reclassified to net realized gains (losses), a component of net income on the consolidated statement of comprehensive income (loss). Any further reduction in value subsequent to the initial recognition of impairment is also included in net income in the period in which the change occurs.

An impairment loss on AFS bonds and loans and receivables is reversed if there is objective evidence of a permanent recovery in the value of the asset based on an event occurring after the impairment loss was initially recognized. Such a reversal is reflected in net income.

1.6 Other assets

Other assets consist primarily of prepayments, accounts receivable, deferred sales charges and equipment.

Equipment

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

Depreciation

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

Asset type	**Useful life**
Computer equipment	3 - 5 years

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

Impairment

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

1.7 Intangible assets

a) Recognition and measurement

Intangible assets

i) Acquired intangibles

Intangible assets acquired through business combinations are comprised of asset management contracts and customer relationships. The initial cost of intangible assets acquired in a business combination is fair value at the date of acquisition. The fair value of acquired identifiable intangible assets is based on an analysis of discounted cash flows. After the date of acquisition, these intangibles are carried at cost less accumulated amortization and impairment losses.

ii) Computer software

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

b) Amortization

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

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

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

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

c) Impairment

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

1.8 Insurance and investment contracts

Product contracts are classified as insurance or investment contracts based on the level of insurance and financial risk the Company accepts from the policyholder.

a) Insurance contract liabilities

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

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

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

b) Reinsurance assets

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

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

Reinsurance transactions do not relieve the Company of its primary obligation to policyholders. Losses could result if a reinsurer fails to honour its obligations.

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

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

c) Investment contract liabilities

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to the Company. Investment contracts comprise various amounts on deposit.

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

d) Segregated funds

The value of segregated fund contracts is directly linked to the fair value of the underlying investments supporting these contracts. The unit holder bears the risks and rewards of the performance of these investments.

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

Market value movement in the underlying segregated fund net assets along with any investment income earned and expenses incurred are directly attributed to unit holders.

The Company does not present these amounts as revenue on the consolidated statement of comprehensive income (loss); however, they are disclosed in note 4.

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

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

Net investments for account of segregated fund unit holders
These investments are carried at fair value. Fair value is determined using quoted market values unless quoted market values are not available, in which case, estimated fair values are determined by the Company, based on dealer quotes or recent transactions of similar investments.

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

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

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

1.9 Other liabilities
Other liabilities primarily consist of accounts payable and accrued liabilities, due to reinsurers, payroll and other liabilities.

1.10 Income taxes
The tax expense for the year comprises current and deferred taxes. Tax is usually recognized as an expense or income in the consolidated statement of comprehensive income (loss), except when it relates to an item included in OCI or directly in surplus, in which case, tax is recognized in OCI or surplus, respectively.

The current tax expense (recovery) is based on taxable income (loss) for the year under local tax regulations and the enacted or substantively enacted tax rate for the year for each taxable entity and any adjustment to tax payable in respect of previous years.

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

The carrying amount of recognized deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered.

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

1.11 Employee benefits

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

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

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

1.12 Revenue recognition

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

a) Insurance contracts

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

b) Fee revenue and other operating income

Fee revenue includes fees earned from the management of segregated funds. The Company recognizes revenue in the amount it has the right to invoice, as services are provided.

c) Net investment income

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

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

1.13 Costs related to contracts with customers, excluding insurance contracts

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

The Company recognizes contract costs as an expense when incurred if the amortization period of the assets that the Company would have recognized is one year or less.

1.14 Leases

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

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

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

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

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

1.15 Contingent liabilities

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

2. ACCOUNTING AND REPORTING CHANGES

2.1 New and Amended International Financial Reporting Standards to be Adopted in 2022 or Later

a) IFRS 17 Insurance Contracts

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

IFRS 17 will replace IFRS 4, *Insurance Contracts* and will change the fundamental principles used by the Company for recognizing and measuring insurance contract liabilities. The standard requires a company to measure insurance contracts using current estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums. It will also significantly change the format of the financial statements, including presentation and disclosure.

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

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

b) IFRS 9 Financial Instruments

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

In September 2016, the IASB issued amendments to IFRS 4, to allow insurance entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17 (the "deferral approach") to align with the Company's adoption of IFRS 17. In June 2020, the IASB amended IFRS 4 once again to permit the deferral of IFRS 9 adoption to January 1, 2023 to align with the new effective date of IFRS 17. The Company qualifies and intends to elect the deferral approach permitted under the amendments. Consequently, the Company will continue to apply IAS 39, the existing financial instrument standard until its expiry.

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

c) IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

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

d) Annual Improvements to IFRSs 2018-2020 Cycle

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

2.2 Change in accounting policy

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

On January 1, 2021, the Company elected to change its accounting policy for the presentation of advanced commissions on the sale of insurance contracts. The change resulted in advanced commissions paid to be immediately recognized in Commissions on the Consolidated Statement of Comprehensive Income (Loss) and no longer capitalized as Prepaid commissions and included in Insurance contract liabilities. The change provides increased reliability and relevance to the financial statements. The Company adopted this policy retrospectively and restated each of the affected financial statement line items for prior periods. The following table summarizes the impacts on the Company's consolidated financial statements:

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

Consolidated Statement of Financial Position

	Impact of restatement		
	As previously reported	Adjustments	As restated
January 1, 2020			
Prepaid commissions	30,876	(30,876)	—
Other assets	1,639,298	—	1,639,298
Total assets	1,670,174	(30,876)	1,639,298
Insurance contract liabilities	1,294,107	(30,876)	1,263,231
Other liabilities	106,625	—	106,625
Total liabilities	1,400,732	(30,876)	1,369,856
Total surplus	269,442	—	269,442
December 31, 2020			
Prepaid commissions	35,437	(35,437)	—
Other assets	1,835,137	—	1,835,137
Total assets	1,870,574	(35,437)	1,835,137
Insurance contract liabilities	1,337,508	(35,437)	1,302,071
Other liabilities	140,391	—	140,391
Total liabilities	1,477,899	(35,437)	1,442,462
Total surplus	392,675	—	392,675

Consolidated Statement of Comprehensive Income

	Impact of restatement		
	As previously reported	Adjustments	As restated
For the year ended December 31, 2020			
Gross change in insurance contract liabilities	(43,401)	4,561	(38,840)
Commissions	(89,137)	(4,561)	(93,698)
Others	216,862	—	216,862
Total net income (loss)	84,324	—	84,324
Total other comprehensive income (loss)	13,909	—	13,909
Total comprehensive income (loss)	98,233	—	98,233

2.3 New Standards and Amendments Adopted in 2021

Benchmark Interest Rate Reform

In August 2020 the IASB issued *Interest Rate Benchmark Reform Phase 2, Amendments to IFRS 9,* IAS *39, IFRS 7, IFRS 4 and IFRS 16* (the "Phase 2 Amendments"). The Phase 2 Amendments introduced a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, reliefs from discontinuing hedging relationships, temporary relief from having to meet separately identifiable requirement when a risk-free rate instrument is designated as a hedge of a risk component and additional IFRS 7 disclosures. The amendments became effective January 1, 2021. The adoption of the Phase 2 Amendments did not have an impact on the assets, liabilities, income, expenses or equity of the Company.

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

3. INVESTED ASSETS

a) Summary of invested assets

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

	FVTPL	AFS	Loans and receivables	Total carrying value	Total fair value
December 31, 2021	**$**	**$**	**$**	**$**	**$**
Cash, cash equivalents and short-term securities	—	—	28,826	28,826	28,826
Bonds	541,141	305,825	—	846,966	846,966
Equities	61,477	34,467	—	95,944	95,944
Other invested assets	31,572	26,831	—	58,403	58,403
Loans to certificate holders	—	—	13,462	13,462	13,462
Total invested assets	634,190	367,123	42,288	1,043,601	1,043,601
Net investments for account of segregated fund unit holders	15,349	—	—	15,349	15,349
Total investments	649,539	367,123	42,288	1,058,950	1,058,950
December 31, 2020	**$**	**$**	**$**	**$**	**$**
Cash, cash equivalents and short-term securities	—	—	33,914	33,914	33,914
Bonds	884,690	242,418	—	1,127,108	1,127,108
Equities	79,590	44,095	—	123,685	123,685
Other invested assets	95,134	2,121	—	97,255	97,255
Loans to certificate holders	—	—	14,210	14,210	14,210
Total invested assets	1,059,414	288,634	48,124	1,396,172	1,396,172
Net investments for account of segregated fund unit holders	14,204	—	—	14,204	14,204
Total investments	1,073,618	288,634	48,124	1,410,376	1,410,376

b) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

The underlying investments of the Limited Partnerships are valued using discounted cash flow methodologies, direct capitalization methods, comparable private company transactions and the income approach. Significant unobservable inputs include assumed future market conditions, projected income and expense scenarios, discount rates, terminal EBITDA and exit multiples used in the calculations.

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

Bonds including short-term securities

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

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

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

Equity securities

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

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	Level 1	Level 2	Level 3	Total fair value
December 31, 2021	**$**	**$**	**$**	**$**
Bonds	—	846,966	—	846,966
Equities	87,705	8,239	—	95,944
Other invested assets	—	7,317	51,086	58,403
Net investments for account of segregated fund unit holders	11,394	3,955	—	15,349
Total	99,099	866,477	51,086	1,016,662
December 31, 2020	**$**	**$**	**$**	**$**
Bonds	—	1,127,108	—	1,127,108
Equities	108,185	15,500	—	123,685
Other invested assets	—	2,121	95,134	97,255
Net investments for account of segregated fund unit holders	9,584	4,620	—	14,204
Total	117,769	1,149,349	95,134	1,362,252

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

	FVTPL		AFS	
	Other invested assets		Other invested assets	
	2021	2020	2021	2020
	$	$	$	$
Balance, beginning of year	95,134	$ 97,613	—	$ —
Changes during the year:				
Purchases	6	213	24,133	—
Sales and redemptions	(68,467)	(1,131)	—	—
Net change in unrealized gains/losses	280	(1,561)	—	—
Balance, end of year	26,953	95,134	24,133	—

There were no material transfers between Level 1, 2 and 3 during 2021 or 2020. The fair market value of level 3 assets includes investments that are impacted by market sensitivities. Assumptions used to assess the market sensitivity of these assets include interest rates and real estate capitalization rates. The following table shows the impact of this analysis on the fair value of the Level 3 assets. The analysis was based on a 1% increase and a 1% decrease in the related sensitivity. The following table shows the impact of this analysis on the fair value of the related assets at December 31:

	2021		2020	
	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
FVTPL assets:				
Interest rate	(55)	55	(3,723)	3,723
Real estate capitalization rates	(3,912)	5,485	(8,218)	12,058
Global infrastructure index sensitivity	241	(241)	—	—

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

c) Other invested assets

Limited partnerships

The Company has investments in limited partnerships which invest in real estate assets, private debt instruments, and equity infrastructure projects. The Company does not have the ability to exercise significant influence over these limited partnerships. The investments support certain insurance contract liabilities and surplus. The assets are classified as FVTPL and AFS and are carried at fair value. The fair value of these investments as at December 31, 2021 was $51,086 (2020: $95,134).

d) Impairments

There were no investments that were impaired and therefore required an impairment loss provision in 2021 or 2020. During 2021, the Company did not reverse any impairment losses previously taken that were sold during the year (2020: $nil).

e) Net investment income

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

	2021				2020			
	FVTPL	**AFS**	**Other**	**Total**	**FVTPL**	**AFS**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Interest income from:								
Short-term securities	—	—	9	9	—	—	71	71
Bonds	22,017	6,761	—	28,778	28,167	6,683	—	34,850
Loans to policyholders	—	—	672	672	—	—	713	713
	22,017	6,761	681	29,459	28,167	6,683	784	35,634
Dividend income from equities	2,972	1,920	—	4,892	2,997	1,179	—	4,176
Income from other invested assets	4,924	—	—	4,924	5,214	(7)	—	5,207
Less: Investment expenses	(1,335)	(470)	—	(1,805)	(1,563)	(415)	—	(1,978)
Net Investment Income	28,578	8,211	681	37,470	34,815	7,440	784	43,039

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

	2021				2020			
	FVTPL	**AFS**	**Other**	**Total**	**FVTPL**	**AFS**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Bonds	26,981	(677)	—	26,304	42,334	9,386	—	51,720
Equities	6,594	2,653	—	9,247	(174)	42	—	(132)
Other invested assets	(4,397)	—	—	(4,397)	—	—	—	—
Net realized gains (losses)	29,178	1,976	—	31,154	42,160	9,428	—	51,588

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2021 $	2020 $
Bonds	(90,384)	24,323
Equities	4,062	4,541
Other invested assets	4,707	(1,561)
Net change in unrealized gains (losses) on FVTPL investments	(81,615)	27,303

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

	2021 $	2020 $
Bonds	(8,012)	11,226
Equities	2,690	7,700
Other invested assets	577	15
Net change in unrealized gains (losses) on AFS investments	(4,745)	18,941

4. INVESTMENTS FOR ACCOUNT OF SEGREGATED FUND UNIT HOLDERS

a) Segregated fund net assets

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

	2021 $	2020 $
Cash and short-term securities	25	206
Equities	10,106	8,368
Mutual fund units	7,986	8,102
Other assets net of liabilities	(70)	(351)
Total net assets	18,047	16,325
Less: Segregated fund seed money investment	(2,698)	(2,121)
Net investments for account of segregated fund unit holders	15,349	14,204

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Changes in segregated funds

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

	2021 $	2020 $
Balance, beginning of year	14,204	15,533
Additions to the account of the unit holders:		
Deposits received from unit holders	891	134
Investment income	330	338
Net realized gains on sale of investments	1,695	820
Net change in unrealized gains on investments	1,980	—
	4,896	1,292
Deductions to the account of the unit holders:		
Amounts withdrawn or transferred by unit holders	2,681	1,891
Management fees and other operating costs	494	470
Net change in unrealized losses on investments	—	246
	3,175	2,607
Less: (Gain) Loss on segregated fund seed money investment	(576)	(14)
Balance, end of year	15,349	14,204

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

c) Investment risks associated with segregated funds

Segregated fund net assets may be exposed to a variety of financial and other risks. These risks are primarily mitigated by investment guidelines that are actively monitored by professional and experienced portfolio managers. Investment returns on these products belong to the policyholders; accordingly, the Company does not bear the risk associated with these assets outside of guarantees offered on certain variable annuity products. For information regarding the risks associated with the annuity and segregated funds guarantees see note 8.

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

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

5. OTHER ASSETS

a) Other assets

Other assets are comprised of the following:

	2021 $	2020 $
Accounts receivable	5,347	4,323
Computer equipment (note 5b)	842	1,184
Other	139	139
	6,328	5,646

The carrying value of these assets approximates their fair value. Other assets of $5,486 (2020: $4,462) will be realized within 12 months from the reporting date.

b) Computer equipment

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

	2021 $	2020 $
Net carrying value, beginning of year	1,184	1,556
Additions	92	32
Depreciation expense	(434)	(404)
Net carrying value, end of year	842	1,184

6. EMPLOYEE BENEFIT PLANS

The Company has a post-retirement health benefit plan. Actuarial valuations of the post-retirement benefits are performed periodically for accounting purposes. These valuations are based on a market-related discount rate and management’s best estimate assumptions.

The Company measures its accrued benefit obligation as at December 31 of each year.

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

The discount rate used to value the post-retirement benefits 3.0% (2020: 2.3%).

Accrued post-retirement benefits obligations are $460 (2020: $517). Benefit costs included in general expenses were $11 (2020: $16). Actuarial gains (losses) recorded through OCI net of taxes were $38 (2020: $(4)).

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

7. INTANGIBLE ASSETS

a) Reconciliation of carrying amount

	Finite useful life - Software	
	2021	2020
	$	$
Net carrying value, beginning of year	3,700	2,704
Additions - internally developed	2,049	1,644
Amortization	(648)	(648)
Net carrying value, end of year	5,101	3,700

8. FINANCIAL RISK MANAGEMENT

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

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

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

a) Credit risk

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

The Board-approved Investment Policy sets out the policies and procedures to manage credit risk. Specific guidelines have been established to minimize undue concentration of assets in any single geographic area, industry and company, to limit the purchase of fixed income securities to investment-grade assets, and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

i) Maximum exposure to credit risk

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

The Company's maximum credit exposure was as follows:

	2021 $	2020 $
Short-term securities	10,000	14,598
Bonds	846,966	1,127,108
Other invested assets	58,403	97,255
Loans to policyholders	13,462	14,210
Reinsurance assets	768,080	388,120
Accrued investment income	4,730	6,843
Amounts due from reinsurers	27,205	20,452
Accounts receivable and other assets	5,486	4,462
Maximum exposure to credit risk	1,734,332	1,673,048

ii) Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

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

Bonds and other fixed-term securities

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2021			2020		
	FVTPL	**AFS**	**Total**	**FVTPL**	**AFS**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Bonds issued or guaranteed by:						
Canadian federal government	38,200	80,166	118,366	11,799	24,660	36,459
Canadian provincial and municipal government	178,876	122,631	301,507	296,983	106,982	403,965
Other foreign governments	—	—	—	—	3,544	3,544
Total government bonds	217,076	202,797	419,873	308,782	135,186	443,968
Corporate bonds by Industry sector:						
Financials	65,128	68,373	133,501	136,281	74,652	210,933
Utilities and energy	108,340	22,155	130,495	175,211	21,502	196,713
Industrials	48,393	3,264	51,657	127,082	2,980	130,062
Communications	33,161	6,776	39,937	36,786	4,601	41,387
Other	37,818	—	37,818	51,339	—	51,339
Consumer staples	27,536	1,865	29,401	41,087	3,497	44,584
Consumer	3,689	595	4,284	8,122	—	8,122
Total corporate bonds	324,065	103,028	427,093	575,908	107,232	683,140
	541,141	305,825	846,966	884,690	242,418	1,127,108

The credit rating of the bond portfolio was as follows:

	2021		2020	
Bond quality	**$**	**%**	**$**	**%**
Investment grade:				
AAA	148,081	17.5	83,833	7.4
AA	291,770	34.4	388,862	34.5
A	270,283	32.0	481,462	42.7
BBB	135,013	15.9	168,197	15.0
BB and below	1,819	0.2	4,754	0.4
Total bonds	846,966	100.0	1,127,108	100.0

Equities

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

iii) Impairments

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

b) Market risk

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

- Interest rate risk
- Equity market risk

i) Interest rate risk

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

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

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

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

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

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

For insurance contract liabilities, a 1.0% reduction in interest rates would result in an increase in insurance contract liabilities of approximately $1,789 (2020: $25,073) while the effect of a 1.0% increase in interest rates would result in a decrease in insurance contract liabilities of approximately $1,478 (2020: $24,037).

Bonds designated as AFS generally do not support insurance contract liabilities. Changes in the fair value of AFS bonds are recorded in OCI and cause a corresponding change in surplus. For AFS bonds, an immediate 1.0% parallel increase in interest rates at December 31, 2021, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $19,444 (2020: $15,086). Conversely, an immediate 1.0% parallel decrease in interest rates would result in an estimated after-tax increase in OCI of $22,641 (2020: $16,904).

ii) Equity market risk

Some insurance contract liabilities such as products with long duration are supported in part by equities. There will be impacts on these liabilities, with related changes in surplus, as equity market values fluctuate. A 10.0% increase in equity markets would be expected to decrease insurance contract liabilities by approximately $2,399 (2020: $6,801). A 10.0%

decrease in equity markets would be expected to increase insurance contract liabilities by approximately $2,486 (2020: $8,694).

c) Insurance risk

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

The Company sells participating and non-participating insurance and financial investment products. The types of products include life, health and annuity. Each product can have a number of contingencies associated with it, including mortality, lapse and expense risk.

Assumptions are made based on company and industry past experience, current internal data, external market indices and benchmarks, which reflect current observable market prices and other published information, as outlined in the Product Pricing Policy. These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and, therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

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

The following risk factors are components of insurance risk:

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

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

- Expense risk - is the risk that maintenance expense levels will be higher than assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions.

The Company manages insurance risk at an enterprise-wide level by establishing Board-approved polices and guidelines for product development and product pricing, which require that all material risks be provided for at the time of product design and pricing of new products. Additionally, experience studies are performed annually, the outcome of which is used to update the valuation of insurance contract liabilities and the pricing of new and existing products.

The Company also uses reinsurance to transfer risks and limit the amount of loss on any one policy as specified in its Reinsurance Risk Management Policy. In 2021, the Company entered into a coinsurance agreement with its parent company Foresters Financial to reinsure a block of in-force non participating business. Refer to note 12 and note 19 for additional details.

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account, as discussed in note 10d. Annually, as part of Financial Condition Testing ("FCT"), the Company measures the effects of large and sustained adverse movements in insurance risk factors on the calculation of insurance contract liabilities. Sensitivities to changes in actuarial assumptions are provided in note 10d.

d) Liquidity risk

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

Operating and strategic liquidity levels are managed against established guidelines. The Company ensures adequate liquidity on a day-to-day operational basis by maintaining a specified minimum level of highly liquid assets (defined as all short-term investments issued by major banks and the governments of Canada). Strategic liquidity is measured under a single stress stress scenario. The Company's target liquidity ratio under the single scenario is 200.0%, a ratio that would more than support the highest claims-paying ratings for the Company, in addition to providing a significant margin above management's expected liquidity requirements. The Company's liquidity ratio is defined as allowable liquid assets, including the available room on a corporate line of credit. The available assets are reduced to reflect securities pledged to support derivatives activities. The available assets are divided by the risk-adjusted liquidity of liabilities to determine the liquidity ratio. The risk-adjusted liquidity of liabilities is calculated by assessing the probability of a policyholder surrendering a policy for cash under the single scenario, adjusted for the ability of the policyholder to surrender under its contractual provisions. Effective with the Q4 2021 liquidity reporting, Foresters has adopted the latest S&P liquidity model for it's calculations. The updated model did not result in a material change to Foresters liquidity ratio.

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

	Liquidity Ratio	
	2021	**2020**
Allowable liquid assets	$ 848,909	$ 1,109,327
Risk-adjusted liquidity of liabilities	209,194	326,421
Liquidity ratio	405.80 %	339.85 %

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

Contractual maturities

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

2021	On demand or within 1 year or less $	1-5 years $	Over 5 years $	Total $
Cash and short-term securities	28,826	—	—	28,826
Bonds	10,158	90,397	746,411	846,966
Reinsurance assets	(62,398)	(128,323)	958,801	768,080
Amounts due from reinsurer	27,205	—	—	27,205
Insurance contract liabilities	16,141	(36,096)	(1,356,193)	(1,376,148)
Investment contract liabilities	(14,353)	—	—	(14,353)
Benefits payable and provision for unreported claims	(55,161)	—	—	(55,161)
Due to reinsurers	(92,512)	—	—	(92,512)
Net investments for account of segregated fund unit holders	15,349	—	—	15,349
Liabilities for account of segregated fund unit holders	(15,349)	—	—	(15,349)
Total	(142,094)	(74,022)	349,019	132,903

2020	On demand or within 1 year or less $	2-5 years $	Over 5 years $	Total $
Cash and short-term securities	33,914	—	—	33,914
Bonds	24,816	99,615	1,002,677	1,127,108
Reinsurance assets	2,148	20,628	365,344	388,120
Amounts due from reinsurer	20,452	—	—	20,452
Insurance contract liabilities	29,272	(4,706)	(1,326,637)	(1,302,071)
Investment contract liabilities	(14,720)	—	—	(14,720)
Benefits payable and provision for unreported claims	(48,661)	—	—	(48,661)
Due to reinsurers	(3,112)	—	—	(3,112)
Net investments for account of segregated fund unit holders	14,204	—	—	14,204
Liabilities for account of segregated fund unit holders	(14,204)	—	—	(14,204)
Total	44,109	115,537	41,384	201,030

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

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

Actual maturities for bonds may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Both contractual and operating lease commitments are disclosed in note 20.

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

9. OTHER LIABILITIES

Other liabilities are comprised of the following:

	2021 $	2020 $
Accounts payable and accrued liabilities	25,253	22,007
Demutualization benefits payable	2,441	2,450
Payroll, other compensation and benefits	1,743	1,582
Other liabilities	4,775	4,365
	34,212	30,404

The carrying value of these liabilities approximates their fair value. Within 12 months from the reporting date, $29,844 (2020: $26,070) will be realized. Included in Accounts payable and accrued liabilities is $6,044 (2020: $2,629) owing to Foresters Financial (note 19).

10. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

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

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

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Reconciliation of changes in insurance contract liabilities

	2021		2020	
	Gross	Net	Gross	Net
	$	$	$	$
Beginning of year	1,302,071	913,951	1,263,231	966,767
New business	(22,042)	(40,751)	2,601	(33,025)
Refinement of actuarial assumptions	157,935	66,993	9,070	(3,429)
Refinement of actuarial methods and models	(1,006)	(4,240)	8,506	(606)
Change in inforce due to changes in interest rates	(111,540)	(90,889)	109,207	78,102
Change in inforce contractual cashflows	—	—	(84,918)	(84,107)
Change in inforce from other movements	50,730	47,669	(5,626)	(9,751)
Reinsurance transaction (note 19)	—	(284,665)	—	—
Change in contract liability	74,077	(305,883)	38,840	(52,816)
End of year	1,376,148	608,068	1,302,071	913,951

The decrease due to change in interest rates in 2021 is a result of risk free interest rates improvement over the year on the long end.

The primary driver for the adverse mortality assumption is due to mortality experience studies requiring updates to valuation expected mortality rates that are more permanent in nature and adverse experience primarily due to non-medical products. Adverse experience from the ongoing pandemic and the impact of COVID-19 resulted in assumption updates for excess mortality in the short-term. COVID-19 and the ongoing pandemic continues to have an impact on the Company's business and introduces some uncertainty to the contract liability valuation.

The change in inforce from other movements consists of inforce business movement and other market movements such as credit spread movements and trading activities.

In 2020, the acquisition of Canada Protection Plan Inc. and TPA Outsourcing Inc. by Foresters Financial and subsequent amendment to the distribution agreement (note 19) led to a change in inforce contractual cashflows for commissions no longer required to be paid with an impact of $84,000. In addition, the acquisition resulted in reduction of maintenance expenses included in actuarial liabilities reflecting a decrease in forecasted expenses and increased tax savings of $22,000.

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

	2021		2020	
	Gross	Net	Gross	Net
Refinement of assumptions:	$	$	$	$
Maintenance expense assumptions	(5,601)	(5,432)	(29,333)	(28,480)
Mortality assumptions for recent experience	146,465	72,412	31,494	19,391
Lapse assumptions for recent experience	14,154	(1,922)	3,512	3,111
Dividend assumptions	(96)	(92)	(186)	(176)
Investment expense assumptions	3,013	2,027	2,724	1,885
Updated future asset returns	—	—	859	840
	157,935	66,993	9,070	(3,429)
Refinement of methods and models:				
Model improvements	(8,109)	(8,834)	8,506	(606)
Regulation and standard changes	7,103	4,594	—	—
	(1,006)	(4,240)	8,506	(606)

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

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

	2021	2020
	$	$
Balance, beginning of year *	40,839	40,971
Net strengthening (release) of provision **	(25,783)	(132)
Balance, end of year *	15,056	40,839

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

** The provision change in 2021 is significant due to the impact from internal reinsurance.

c) Composition of assets supporting liabilities and surplus

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

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

December 31, 2021	Cash and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
	$	$	$	$	$	$
Insurance	—	541,141	61,477	45,034	803,117	1,450,769
Surplus	28,826	305,825	34,467	26,831	33,816	429,765
	28,826	846,966	95,944	71,865	836,933	1,880,534

December 31, 2020	Cash and short-term securities	Bonds	Equities	Other invested assets *	Other	Total
	$	$	$	$	$	$
Insurance	—	884,690	79,590	76,461	450,269	1,491,010
Surplus	33,914	242,418	44,095	35,004	5,812	361,243
	33,914	1,127,108	123,685	111,465	456,081	1,852,253

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

d) Assumptions

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

Mortality and morbidity

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

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

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

Lapse rates

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

Investment returns

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

Maintenance expenses

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

Dividends

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

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

	Change	2021 $	2020 $
Mortality rates:			
Life products	+ 2%	(1,212)	(11,302)
Annuity products	- 2%	(724)	(846)
Lapse rates	10% Adverse	(5,041)	(58,271)
Maintenance expense levels	+ 10%	(1,910)	(12,542)

The impact of the reinsurance transaction, as described in note 12 and note 19, resulted in favourable changes to all sensitivities for 2021.

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11. INVESTMENT CONTRACT LIABILITIES

Reconciliation of changes in investment contract liabilities

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

	2021	2020
	$	$
Balance, beginning of year	14,720	15,232
Deposits received	198	189
Surrenders and withdrawals	(909)	(1,048)
Interest credited and others	344	347
Balance, end of year	14,353	14,720

12. CAPITAL MANAGEMENT

a) Capital

Upon conversion to a stock company on April 2, 2008, the Company issued 50,000,000 common shares to Foresters Financial for proceeds of $50 million.

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

The following table shows the number of outstanding shares:

	2021	2020
	$	$
50,000,000 common shares, no par value	50,000	50,000

Foresters Financial contributed $85,000 in 2021 (2020: $25,000) to the Company in the form of contributed surplus.

The Company paid a dividend of $85,000 (2020: Nil) to Foresters Financial during the year.

b) Capital management

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

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

In accordance with the Board-approved Capital Management Policy, the Company has established internal capital targets for capital adequacy. These targets exceed the minimum statutory capital requirements in Canada. The Company projects its capital requirements over a five-year period. On a quarterly basis, management monitors performance against internal capital targets and its capital plans, and initiates action when appropriate.

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

In Canada, OSFI has established a capital adequacy measure for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test ("LICAT"). OSFI requires life insurance companies to maintain a minimum Core ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total Capital.

The LICAT ratio as at December 31 in the following table was above the levels that would require any regulatory or corrective action.

		2021	2020
Available capital (A+B)		$ 298,024	$ 388,975
Tier 1 Capital	A	262,494	269,258
Tier 2 Capital	B	35,530	119,716
Surplus allowance and eligible deposits	C	46,803	319,114
Base solvency buffer	D	181,577	508,816
Total ratio (%)			
([A+B+C] / D) x 100		189.91 %	139.16 %

Other capital management considerations

On October 1, 2021, the Company entered into a coinsurance agreement with its parent company, Foresters Financial, to reinsure a block of in-force non participating business with a 100% quota share. The agreement has an unlimited term but may be amended or terminated by both parties by mutual consent at any time. Under the terms of the agreement, the Company will maintain responsibility for servicing the policies. The transaction was structured such that the Company ceded policyholder contract liabilities and transferred related invested assets backing these liabilities.

Refer to note 19 for additional details on the transactions recorded during the year.

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13. PREMIUMS

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

	2021			2020		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
Life and health	266,946	(345,633)	(78,687)	236,338	(56,413)	179,925
Annuities	1,083	—	1,083	1,311	—	1,311
Total	268,029	(345,633)	(77,604)	237,649	(56,413)	181,236

Included in ceded premiums is an amount of $283,497 for a reinsurance transaction entered into with the Company's parent company Foresters Financial (note 19).

14. FEE REVENUE AND OTHER OPERATING INCOME

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

	2021 $	2020 $
Management fees on segregated fund assets	142	126
Other operating income	1,502	1,899
Total other income	1,644	2,025

Other operating income included $1,500 of earn-out income (2020: $1,500) from achieving a revenue target as part of the sale of Foresters Asset Management Inc. ("FAM") in 2019.

15. BENEFITS

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

	2021			2020		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
Life and health	132,347	(67,778)	64,569	108,412	(44,176)	64,236
Annuities	40,029	(505)	39,524	42,313	(453)	41,860
	172,376	(68,283)	104,093	150,725	(44,629)	106,096

Included in ceded benefits is $15,944 (note 19)

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

16. OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2021 $	2020 $
Employee benefits:		
Salaries, benefits and other payroll remittances	1,456	3,201
Employee benefit expenses (note 6)	11	16
	1,467	3,217
Service fees (note 19)	15,472	17,496
Technology related fees	7,498	6,323
Premium tax	6,536	5,747
Professional fees and expenses	1,089	1,195
Software costs expensed	1,371	1,491
Management fees (note 19)	29,622	13,716
Depreciation and amortization of property, equipment and intangibles	1,082	1,052
Other expenses	1,791	4,059
Total operating expenses	65,928	54,296

The Company recovered commissions from reinsurers in the amount of $5,104 (2020: $9,164) and paid operating expenses to reinsurers in the amount of $77,594 (2020: recovery of $1,341) including an initial allowance paid of $83,749 (note 19) due to the new reinsurance transaction described in note 12. The net balance is recorded in ceded commissions and operating expenses on the statement of comprehensive income (loss).

17. INCOME TAXES

a) Income tax expenses

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

	2021 $	2020 $
Current income tax expense:	(18,241)	18,929
Deferred income tax expense:		
Relating to the origination and reversal of temporary differences	(11,680)	8,174
Change in unrecognized deductible temporary differences	8,872	(823)
Adjustments for prior periods	294	1,459
	(2,514)	8,810
Total income taxes	(20,755)	27,739

Cash taxes paid in 2021 were $28,369 (2020: $4,300). Cash taxes received in 2021 were $227 including interest of $1 (2020: $6,631 including interest of $22).

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

b) Income taxes included in OCI

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

	2021 $	2020 $
Income tax recovery (expense) on net change in unrealized gains (losses) on available-for-sale assets	783	(7,530)
Income tax recovery (expense) on the reclassification of realized gains (losses) on available-for-sale assets	559	2,502
Income tax recovery (expense) on net actuarial gains (losses) on employee benefit plans	(15)	2
	1,327	(5,026)

c) Reconciliation of effective tax rate

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

	2021		2020	
	$	%	$	%
Total net income (loss) for the year	(86,099)		84,324	
Total income tax expense (recovery)	(20,755)		27,739	
Income (Loss) before income taxes	(106,854)		112,063	
Combined federal and provincial statutory income tax rate for the current year	(27,473)	25.7	29,748	26.5
Capital taxes	262	(0.2)	—	—
Amounts not subject to tax	(1,258)	1.2	(1,109)	(1.0)
Reduction in tax rate	—	—	109	0.1
Tax rate adjustment for loss carryback	(1,465)	1.4	—	—
Tax adjustments for prior periods	(166)	0.2	(186)	(0.2)
Other adjustments related to differences in tax rates	894	(0.8)	—	—
Unrecognized deferred taxes	8,872	(8.3)	(823)	(0.7)
Other taxes	(421)	0.4	—	—
Effective tax rate	(20,755)	19.4	27,739	24.8

d) Deferred income taxes

In certain instances, the tax basis of assets and liabilities differs from the carrying amount in the consolidated financial statements. These differences will give rise to deferred income tax assets and liabilities.

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

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	2021			2020		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Bonds	—	(131)	(131)	—	(186)	(186)
Property and equipment	—	(591)	(591)	—	(800)	(800)
Other invested assets	—	(3,036)	(3,036)	—	(4,582)	(4,582)
Employee benefit obligations	115	—	115	100	—	100
Insurance contract liabilities	3,610	(3,573)	37	3,725	(3,757)	(32)
Other liabilities	56	(927)	(871)	55	(455)	(400)
Tax loss carryforward	—	—	—	—	(1,105)	(1,105)
Recognized deferred tax assets	3,781	(8,258)	(4,477)	3,880	(10,885)	(7,005)

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

	2021	2020
	$	**$**
Beginning of year	(7,005)	1,804
Origination and reversal of temporary differences	11,091	(8,174)
Change in unrecognized deductible temporary differences	(8,872)	823
Adjustments for prior periods	294	(1,459)
Credits (charges) included in OCI	15	1
End of year	(4,477)	(7,005)

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

There were unclaimed tax deductions and tax credits amounting to $12,502 (2020: $3,627) that have not been recognized in the consolidated financial statements as it is not probable that future taxable income will be available against which to apply these deductions. These unclaimed deductions expire beginning in 2037 through 2041.

18. SEGMENTED INFORMATION

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

- Premium income derived from life insurance, accident and sickness insurance, and group annuities (note 13),
- Net investment income (note 3), and

Segment profits are based on internal management statements and are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

19. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Foresters Financial. Effective April 2, 2008, all the employees of the Company became employees of Foresters Financial. Salaries, benefits and related employee future benefit obligations for employees of Foresters Financial dedicated to the Company are paid by the Company. Foresters Financial provides various support functions in the normal course of business, including human resources, internal audit, legal and compliance, investment management and actuarial services. The cost of these support function services to the Company is charged based on usage. The charge to the Company by Foresters Financial for the support functions in 2021 was $16,722 (2020: $13,716) and is included in management fees (note 16).

Compensation of key management personnel

The Company's key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the organization. Key management personnel comprise directors and executive officers of the Company.

The remuneration of key management personnel was as follows:

	2021 $	2020 $
Salaries and other short-term employee benefits	3,362	2,457
Post-employment benefits	329	226
Other long-term benefits	348	256
Termination benefits	—	181
Total compensation of key management personnel	4,039	3,120

Reinsurance transaction

On October 1, 2021, the Company entered into a coinsurance agreement with its parent company, Foresters Financial, to reinsure a block of in-force non participating business with a 100% quota share. The Company paid an initial ceding allowance of $83,749, included in ceded commissions and operating expenses, and transferred liabilities and supporting assets of $238,638. During the year, the Company recorded a pre-tax loss of $62,302, which includes an increase in reinsurance assets of $284,665 (note 10), ceded premiums of $283,497 (note 13), ceded benefits of $15,944 and ceded commissions and operating expenses of $(79,414).

At December 31, 2021, the amount owing to Foresters Financial was $93,986 (2020: $2,629). $87,942 was included in Due to reinsurers and $6,044 was included in Other Liabilities (note 9).

Other related party transactions

On October 1, 2020, the Company's Parent, Foresters Financial, acquired 100% of the common shares of Canada Protection Plan Inc. ("CPP") and TPA Outsourcing Inc. ("TPA"). CPP is a licensed insurance brokerage principally involved in the development, sales and marketing of insurance products and earns commissions from the Company. TPA performed policy administration and information processing functions on behalf of the Company. The Company had a pre-existing relationship with both CPP and TPA prior to the date of acquisition.

All outstanding balances with these related parties are to be settled in cash within two months of the reporting date. None of the balances is secured. No expense has been recognized in the current year for bad or doubtful debts in respect of amounts owed by related parties. No guarantees have been given or received.

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

In 2021, CPP charged the Company $48,472 (2020: $11,662) in commissions, $15,119 (2020: $3,811) for service fees (note 16) and $12,900 in management fees (note 16). At December 31, 2021, the amount owing to (from) CPP was $(463) (2020: $1,882).

20. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

a) Policy dividend practices pursuant to assumption reinsurance transactions

i) MetLife Canada

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

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

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

- For ordinary and industrial participating life insurance, dividend mortality was set at the 2000 dividend scale level, dividend expenses were set at the 2000 dividend scale level indexed with inflation and dividend interest rates are adjusted based on a 10-year rolling average of the 10-year Canada bond rate less an adjustment for taxes.

- Commitments for the individual health insurance and individual annuities lines of business are not expected to produce dividends.

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

ii) Prudential

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

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

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

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

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

	Policy Liabilities of Assumed Policies - Prudential					
	2021			2020		
	Dividend-Paying	Non-Dividend-Paying	Total	Dividend-Paying	Non-Dividend-Paying	Total
	$	$	$	$	$	$
Individual Life	94,733	—	94,733	102,381	—	102,381
Total	94,733	—	94,733	102,381	—	102,381

For the year ended December 31, 2021 (amounts in thousands of Canadian dollars except where otherwise stated)

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

	December 31, 2021			
	1 year or less	1-5 years	Over 5 years	Total
	$	$	$	$
Investment commitment	54,110	—	—	54,110
Total contractual obligations	54,110	—	—	54,110

	December 31, 2020			
	1 year or less	1-5 years	Over 5 years	Total
	$	$	$	$
Investment commitment	27,261	—	—	27,261
Total contractual obligations	27,261	—	—	27,261

The Company is a guarantor on certain annual management fee requirements to a third party. Management has assessed that no financial obligation exists as the likelihood of not reaching the pre-determined threshold is low.

21. CONTINGENT LIABILITIES

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

22. PRINCIPAL SUBSIDIARIES

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

Name	Country of incorporation	Primary business operation	Ownership and control interest (%)	
			December 31, 2021	December 31, 2020
Genisystems.ca Services Inc.	Canada	Insurance services	100	100

23. COMPARATIVE INFORMATION

Certain comparative amounts have been restated or re-presented to conform to the current year's presentation.

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