BMO Reinsurance Limited

Financial Statements

For the Year ended October 31, 2018

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

I have valued the actuarial liabilities and other contract liabilities of BMO Reinsurance Limited for its balance sheet as at 31 October 2018 and the changes in the statement of income and comprehensive income for the year then ended in accordance with the accepted actuarial practice including selection of appropriate assumptions and methods.

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

V. Matthew Radoux
Fellow, Canadian Institute of Actuaries & Society of Actuaries
Cedar Court, Wildey Business Park, Wildey, St. Michael, Barbados
December 18, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholder of BMO Reinsurance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BMO Reinsurance Limited (the "Company"), which comprise the balance sheet as at October 31, 2018, the statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Barbados, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

INDEPENDENT AUDITORS' REPORT, continued

To the Shareholder of BMO Reinsurance Limited, continued

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activity of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Chartered Accountants
Bridgetown, Barbados
January 15, 2019

Auditors' Report

Statement of Income and Comprehensive Income

For the Year Ended October 31, (Canadian $)	Notes	2018	2017
Revenue			
Gross premiums	12	$ 625,178,420	633,237,334
Premiums ceded	12	(7,020,780)	(21,570,259)
Net premiums		618,157,640	611,667,075
Change in unearned premiums	13	5,291,935	(65,754,013)
Net premiums earned		623,449,575	545,913,062
Commissions	18	-	10,680,359
Net investment income	4	6,571,064	884,408
Total revenue		630,020,639	557,477,829
Expenses			
Gross claims	19	241,230,593	234,433,163
Claims ceded	19	(1,461,158)	(6,043,558)
Change in actuarial liabilities	15	(680,876)	(2,352,498)
Change in reinsurance assets	16	60,876	(552,078)
Change in outstanding losses and loss expenses	17	66,370,703	104,169,358
Acquisition expenses	10	88,514,659	84,180,176
Operating expenses	20	5,799,068	5,413,899
Total Expenses		399,833,865	419,248,462
Net income attributable to shareholder		230,186,774	138,229,367
Other comprehensive loss			
Items that may be subsequently reclassified to net income:			
Unrealized losses on fair value through other comprehensive income debt securities arising during the period		(4,784,681)	-
Unrealized losses on available-for-sale investments arising during the period		-	(2,038,890)
Reclassification of realized gains to net income during the period		(813)	-
Unrealized gains (losses) on cash flow hedges arising during the period		128,519	(940,223)
Reclassification to net income of (losses) gains on cash flow hedges		(49,659)	903
Total comprehensive income		$ 225,480,140	135,251,157

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

Balance Sheet

As at October 31, (Canadian $)	Notes	2018	2017
Assets			
Cash		$ 71,454,439	296,217,626
Investments	3, 4	481,363,454	205,143,897
Accrued interest receivable	4	2,563,946	990,432
Cross-currency swaps	5	2,176,948	2,119,952
Reinsurance balances receivable	9	120,673,596	90,276,756
Other assets	10	21,658,859	17,424,310
Reinsurance assets	16	2,253,865	2,314,741
Total Assets		$ 702,145,107	614,487,714
Liabilities and Shareholder's Equity			
Liabilities			
Accounts payable and other liabilities	11	$ 1,572,915	961,198
Balances due to reinsurers	11	5,247,812	3,870,809
Unearned premium reserve	13	84,615,664	89,907,599
Cross-currency swaps	3, 5	3,549,918	8,413,484
Actuarial liabilities	15	75,625,022	76,305,898
Outstanding losses and loss expenses	17	206,135,563	139,764,860
Total Liabilities		376,746,894	319,223,848
Shareholder's Equity			
Share capital			
Common	21	50,000,000	50,000,000
Preferred	21	213,000,000	213,000,000
Accumulated other comprehensive loss		(7,162,314)	(2,455,680)
Retained earnings		69,560,527	34,719,546
Total Shareholder's Equity		325,398,213	295,263,866
Total Liabilities and Shareholder's Equity		$ 702,145,107	614,487,714

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

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

Approved on behalf of the Board of Directors:

Wayne Fields
Director

Sir Paul Altman
Director

Financial Statements

Statement of Changes in Shareholder's Equity

For the Year Ended October 31, (Canadian $)	Notes	2018	2017
Share capital:			
Common shares			
Balance, beginning and end of year	21	$ 50,000,000	50,000,000
Preferred shares			
Balance, beginning and end of year	21	213,000,000	213,000,000
Retained earnings:			
Balance, beginning of year		34,719,546	102,400,127
Net income for the year		230,186,774	138,229,367
Dividends declared			
Common		(80,721,402)	(85,086,756)
Preferred		(114,624,391)	(120,823,192)
		(195,345,793)	(205,909,948)
Balance, end of year		69,560,527	34,719,546
Accumulated other comprehensive (loss) income:			
Balance, beginning of year		(2,455,680)	522,530
Unrealized losses on fair value through other comprehensive income debt securities arising during the year		(4,784,681)	-
Unrealized losses on available-for-sale investments arising during the year		-	(2,038,890)
Reclassification of realized gains to net income during the year		(813)	-
Unrealized gains (losses) on cash flow hedges arising during the year		128,519	(940,223)
Reclassification to net income of (losses) gains on cash flow hedges		(49,659)	903
Balance, end of year		(7,162,314)	(2,455,680)
Total Shareholder's Equity		$ 325,398,213	295,263,866

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

Statement of Cash Flows

For the Year Ended October 31, (Canadian $)	Notes	2018	2017
Cash flows from operating activities			
Net income for the year		$ 230,186,774	138,229,367
Adjustment to reconcile net income to net cash provided by operating activities:			
Unrealized foreign exchange (gain) loss on investments		(8,629,723)	8,914,096
Amortization of (discount) premium on bonds, net		(6,233)	1,375,920
Realized gains on sale of investments, net		(813)	-
Amortization of premises and equipment	10	57,794	119,609
Unrealized gain on cross-currency swaps	5	(4,841,702)	(19,704,184)
Change in operating assets	22	(36,157,854)	(55,980,267)
Change in operating liabilities	22	62,386,612	163,558,836
Net cash from operating activities		242,994,855	236,513,377
Cash flows used in financing activities			
Dividends paid		(195,345,793)	(205,909,948)
Cash used in financing activities		(195,345,793)	(205,909,948)
Cash flows from investing activities			
Proceeds from sale/maturities of investments		627,756,585	86,918,174
Purchase of investments		(900,124,867)	(76,363,842)
Purchase of premises and equipment		(43,967)	(4,342)
Net cash (used in) from investing activities		(272,412,249)	10,549,990
Net (decrease) increase in cash		(224,763,187)	41,153,419
Cash at beginning of year		296,217,626	255,064,207
Cash at end of year		$ 71,454,439	296,217,626
Supplemental cash flow information:			
Net cash provided by operating activities includes:			
Interest income received		$ 5,755,244	5,427,458

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

Note 1: Reporting Entity

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

The Company is a licensed insurer under the Exempt Insurance Act of Barbados, 1983. Its principal activity is the reinsurance of life, health, disability, job loss, property catastrophe and specialty property and casualty insurance risks.

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

Note 2: Basis of Preparation

Statement of Compliance

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

These financial statements were authorized for issue by the Company's Board of Directors on January 15, 2019.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for the revaluation of bonds and cross-currency swaps.

Specific Accounting Policies

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

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Translation of Foreign Currencies

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

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

Offsetting Financial Assets and Financial Liabilities

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

Use of Estimates and Assumptions

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

The most significant assets and liabilities where management must make estimates include the fair value of bonds and cross currency interest rate swaps and the determination of reinsurance assets, actuarial liabilities and outstanding losses and loss expenses. Note 3 discusses the nature and method of determining the significant assumptions made in the computation of the fair value of bonds and cross-currency swaps. Notes 15, 16 and 17 discuss the nature and method of determining the significant assumptions made in the computation of actuarial liabilities, reinsurance assets and outstanding losses and loss expenses. If actual results differ from the estimates, the impact would be recorded in future periods.

The Company has established detailed policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed and consistently applied from period to period. Management believes that the estimates of the value of the Company's assets and liabilities are appropriate. Revisions to accounting estimates are recognized in the year in which the estimates are revised and any future periods affected.

Changes in Accounting Policy

Financial Instruments

Effective November 1, 2017 the Company adopted IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 addresses impairment, classification and measurement, and hedge accounting. There was no material impact as a result of the adoption of IFRS 9. Prior periods have not been restated. Refer to Note 30, Transition to IFRS 9 for accounting policies under IAS 39, which were applicable in prior periods.

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts ("IFRS 4"), to allow entities issuing insurance contracts to not apply IFRS 9 before IFRS 17 Insurance Contracts ("IFRS 17"), IASB's new insurance contracts standard, becomes effective. The amendments introduced two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The Company has elected not to use either of the two options introduced in the amendments.

a) Impairment

IFRS 9 introduces a new single expected credit loss ("ECL") impairment model for all financial assets. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event.

The ECL model requires the recognition of credit losses based on twelve months of expected losses for performing financial assets (Stage 1) and recognition of lifetime losses on financial assets that have experienced a significant increase in credit risk since origination (Stage 2). Stage 3 requires lifetime losses for all credit impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a significant increase in credit risk and in calculating the amount of expected losses.

The Company did not previously record an allowance for credit losses on financial assets under IAS 39, and there has been no change upon adoption of IFRS 9. The impact of adoption to the Company's retained earnings at November 1, 2017 is $nil.

b) Classification and Measurement

Debt instruments are classified based on both the Company's business model for managing the assets and the contractual cash flow characteristics of the assets. Debt instruments are measured at fair value through profit or loss ('FVTPL") unless certain conditions are met that permit either fair value through other comprehensive income ("FVOCI") or amortized cost.

FVOCI is permitted where debt instruments are held with the objective of selling the assets or collecting contractual cash flows and those cash flows represent solely payments of principal and interest. These securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in credit risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. Changes in fair value are recorded in other comprehensive income; gains or losses on disposal and impairment losses are recorded in the Statement of income. Premiums, discounts and transaction costs are amortized over the term of the instrument on an effective yield basis as an adjustment to interest income.

There were no changes to the measurement basis of the Company's financial instruments as a result of adopting IFRS 9. All the Company's investments which were classified as AFS as at October 31, 2017 are classified as FVOCI as at October 31, 2018.

c) Hedge Accounting

IFRS 9 introduced a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. IFRS 9 includes a policy choice that allows the Company to continue to apply the existing hedge accounting rules which the Company has elected to use. However, as required by the standard, the Company adopted the new hedge accounting disclosures. Refer to Note 5.

Future Changes in IFRS

Revenue

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, providing a principles-based approach for revenue recognition, and introducing the concept of recognizing revenue for performance obligations as they are satisfied. Revenues outside of the scope of IFRS 15 include interest and dividend income, trading revenues, securities gains/losses, insurance revenues and lease income. IFRS 15 is effective for the Company's fiscal year beginning November 1, 2018. On transition, the Company can either restate prior periods as if it had always applied IFRS 15 or alternatively, the Company can recognize the cumulative effect of any changes resulting from its adoption of IFRS 15 in opening retained earnings with no comparison for prior years. As the majority of the Company's revenue streams are outside the scope of the new standard, the Company does not expect a significant impact on its financial statements from the adoption of the new standard and will not restate prior periods.

Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding asset on the balance sheet. There are minimal changes to lessor accounting. IFRS 16 is effective for the Company's fiscal year beginning November 1, 2019. Early adoption is permitted, provided IFRS 15 Revenue from Contracts with Customers ("IFRS 15") has been adopted. The Company is currently assessing the impact of the standard on its future financial results.

Insurance Contracts
In May 2017, the IASB issued IFRS 17, which provides a comprehensive approach to accounting for all types of insurance contracts and will replace the existing IFRS 4. In November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 by one year, which would change the anticipated effective date for the Company to November 1, 2022. The Company will continue to closely monitor the ongoing discussions at the IASB. The Company is currently assessing the impact of the standard on its future financial results.

Conceptual Framework
In March 2018, the IASB issued the revised Conceptual Framework ("Framework"), which sets out the fundamental concepts for financial reporting to ensure consistency in standard-setting decisions and that similar transactions are treated in a similar way, so as to provide useful information to users of financial statements. The revised Framework will inform future standard-setting decisions but does not impact existing IFRS. The revised Framework is effective for the Company's first fiscal year beginning on November 1, 2020. The Company does not expect the Framework to have a significant impact on its current accounting policies.

Note 3: Fair Value

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

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

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

Cross-Currency Swaps ("the swaps")
Cross-currency swaps are carried at fair value, which is determined based on discounted cash flow calculations.

Other
For all of the Company's other financial instruments, the carrying values are assumed to be reasonable estimates of fair values due to their predominantly short-term nature.

Fair value hierarchy

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

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

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

Classified under IFRS 9:

			2018
	Valued using quoted market prices	Valued using Internal models (with observable inputs)	Total
Investments - FVOCI	$ 169,771,571	311,591,883	481,363,454
Swaps – trading (net)	-	438,672	438,672
Swaps – hedging (net)	-	(1,811,642)	(1,811,642)
Total	$ 169,771,571	310,218,913	479,990,484

Classified under IAS 39:

			2017
	Valued using quoted market prices	Valued using internal models (with observable inputs)	Total
Bonds - available-for-sale	$ 147,092,182	58,051,715	205,143,897
Swaps – trading (net)	-	1,427,604	1,427,604
Swaps – hedging (net)	-	(7,721,136)	(7,721,136)
Total	$ 147,092,182	51,758,183	198,850,365

The Company had no Level 3 financial instruments at October 31, 2018 and 2017.

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

During the year ended October 31, 2018, $42,720,760 of FVOCI investments (2017: 49,725,201 of available-for-sale bonds) were transferred from Level 1 to Level 2 due to reduced observability of the inputs used to value these securities.

Note 4: Investments

The summary of investment carrying values is as follows:

	2018	2017
	Classified under IFRS 9	Classified under IAS 39
Term to Maturity	FVOCI	AFS
Commercial paper	$ 95,702,671	-
Bonds	385,660,783	205,143,897
	$ 481,363,454	205,143,897

Investments by geographic region are as follows:

	2018	2017
United States	$ 424,954,739	160,669,534
Canada	7,556,548	-
Europe	13,750,923	30,211,299
Other	35,101,244	14,263,064
	$ 481,363,454	205,143,897

Bonds

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

		2018
Term to Maturity	Principal Amount	Carrying Amount & Fair Value
Corporate		
Less than one year	$ 29,958,337	29,716,770
One to five years	283,364,033	277,501,600
Supranational/Government		
One to five years	49,442,000	48,852,166
More than five years	23,703,300	29,590,247
	$ 386,467,670	385,660,783

		2017
Term to Maturity	Principal Amount	Carrying Amount & Fair Value
Corporate		
Less than one year	$ 43,256,750	43,266,933
One to five years	100,941,250	101,212,712
Supranational/Government		
Less than one year	12,519,000	12,623,126
One to five years	16,842,000	16,626,488
More than five years	23,211,000	31,414,638
	$ 196,770,000	205,143,897

Bonds – Interest Rate:

		2018	2017
	Interest Receivable Basis	Coupon Rate (% range)	Coupon Rate (% range)
Corporate	Semi-annual	1.40 – 3.625	1.00 – 4.45
Supranational/Government	Semi-annual	1.125 – 6.375	1.125 – 6.375

Notes

Investment income

Investment income is derived from the following sources:

		2018	2017
Interest income	$	5,425,730	2,847,776
Realized gains on investments		813	-
Income derived from swaps		687,846	239,269
Realized and unrealized foreign exchange gains (losses)		456,675	(2,202,637)
	$	6,571,064	884,408

Interest income is recognized in the Statement of Income and Comprehensive Income as it is accrued and is calculated using the effective interest rate method.

Impairment of investments

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

Note 5: Cross-Currency Swaps

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices. A cross-currency swap is a type of derivative where there is a contractual agreement between two parties to exchange fixed rate interest payments and principal amounts in different currencies. The Company enters into cross-currency swap agreements with a third party to hedge its currency risk on those bonds not denominated in Canadian dollars.

Trading Derivatives

Swaps, which do not qualify as hedges for accounting purposes, are classified as trading derivatives and are marked to fair value. Realized and unrealized gains and losses are recorded in net investment income in the Statement of Income and Comprehensive Income. Unrealized gains and losses on trading derivatives are recorded as cross-currency swaps in the Balance Sheet.

Accounting Hedges

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items caused by the risk being hedged or changes in the amount of the future cash flows.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical regression analysis. Any ineffectiveness in the hedging relationship is recognized in net investment income, in the Statement of Income and Comprehensive Income as it arises.

Cash Flow Hedges

Cash flow hedges modify exposure to variability in cash flows for FVOCI debt securities denominated in foreign currencies. The Company's cash flow hedges, which have a maximum remaining term to maturity of three years, are hedges of FVOCI debt securities denominated in foreign currency. The Company hedges the full amount of foreign exchange risk.

Interest paid or received on these derivatives is recorded as an adjustment to net investment income in the Statement of Income and Comprehensive Income over the life of the hedge.

To the extent that changes in the fair value of the derivative offset changes in the fair value of the hedged item, they are recorded in other comprehensive income. The excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item (the "ineffectiveness of the hedge") is recorded directly in net investment income, in the Statement of Income and Comprehensive Income.

For cash flow hedges that are discontinued before the end of the original hedge term, the unrealized gain or loss recorded in other comprehensive income is amortized to net investment income in the Statement of Income and Comprehensive Income as the hedged item affects earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in net investment income in the Statement of Income and Comprehensive Income. The Company does not terminate its foreign exchange hedges before maturity.

The main source of hedge ineffectiveness is the difference in the fixed rates between the hedging instrument and the hedged item.

Fair Value of Trading and Hedging Swaps

Discussion of the fair value measurement of swaps is included in Note 3. Fair values of the swaps are as follows:

			2018			2017
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net
Trading						
Cross-currency swaps	$ 1,902,479	(1,463,807)	438,672	1,427,604	-	1,427,604
Hedging						
Cash flow hedges – cross-currency swaps	274,469	(2,086,111)	(1,811,642)	692,348	(8,413,484)	(7,721,136)
Total	$ 2,176,948	(3,549,918)	(1,372,970)	2,119,952	(8,413,484)	(6,293,532)

The swaps do not qualify for netting under the requirements of IAS 32, but are subject to master netting agreements with a right of set off only in the event of default, insolvency or bankruptcy. The Company has pledged cash balances to a third party in order to fulfill the collateral requirements for the swaps in place. At October 31, 2018 the cash pledged was $590,000 (2017: $5,885,286). The net exposure for the swaps was $782,970 (2017: $408,246).

Notional Amounts

The notional amounts of the swaps represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in the Balance Sheet.

	2018	2017
Trading swaps		
Foreign exchange contract		
Cross-currency swaps	$ 217,206,424	41,897,650
Total	$ 217,206,424	41,897,650

The following table outlines the notional amounts and average rates of swaps designated as hedging instruments, by term to maturity and risk type.

	Remaining term to maturity		2018
	Within 1 year	1 to 3 years	Total
Cash flow hedges			
Foreign exchange risk – cross-currency swaps			
CAD–USD pair			
Notional Amount	$18,492,625	28,190,850	46,683,475
Average fixed interest rate	1.2253	1.3114	1.2773
Average exchange rate: CAD-USD	1.65%	2.15%	1.95%

Cash Flow Hedging Relationships

For cash flow hedges, the following table contains information related to items designated as hedging instruments. Hedged items and hedge ineffectiveness for the year ended October 31, 2018.

					2018
	Asset	Liability	Gains on hedging derivatives used to calculate hedge ineffectiveness	Gains on hypothetical derivatives used to calculate hedge ineffectiveness	Ineffectiveness recorded in investment income
Cash flow hedges					
Foreign exchange risk - cross-currency swaps	$ 274,469	(2,086,111)	180,462	42,564	101,602
Total	$ 274,469	(2,086,111)	180,462	42,564	101,602

For cash flow hedges, the following table contains information related to impacts on the Statement of Other Comprehensive Income for the year ended October 31, 2018.

				2018
	Active AOCI as at November 1, 2017	Gains recognized in OCI	Amount reclassified to net income as the hedged item affects net income	Active AOCI as at October 31, 2018
Cash flow hedges				
Foreign exchange risk	(77,479)	128,519	(49,659)	1,381
Total	(77,479)	128,519	(49,659)	1,381

Comparative Information

During 2017, net losses of $940,223 related to the effective portion of cash flow hedges were recognized in OCI. A gain of $903 related to cash flow hedges was transferred from equity to net income. Net ineffectiveness recognized on cash flow hedges during 2017 was a loss of $578,750.

Note 6: Risk Management Framework

Governance Framework

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

Capital Management Framework

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

Regulatory Framework

The Company is regulated by the Insurance Division of the Financial Services Commission of Barbados, as authorized by the Financial Services Commission Act, 2010-21. Barbados has adopted the Insurance Core Principles of the International Association of Insurance Supervisors.

The Company must comply with the Guidelines set out for Exempt Insurance Companies under the Act. This includes annual filing of audited financial statements no later than six months after the financial year end; provision of an actuarial certificate from an approved Actuary stating that the reserves are adequate to meet the liabilities; and a certificate of solvency must be submitted by the Auditor, in accordance with Section 24 of the Exempt Insurance Act.

Asset Liability Management (ALM) Framework

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

Note 7: Insurance Risk

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

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

Life insurance risks

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

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

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

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

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

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

			2018
Life Insurance	Change in Assumptions	Increase in gross liabilities	Increase in net liabilities
Mortality Rate	+10%	$ 7,334,691	6,749,171
Discount Rate	-1%	619,012	613,279

			2017
Life Insurance	Change in Assumptions	Increase in gross liabilities	Increase in net liabilities
Mortality Rate	+10%	$ 11,066,511	$ 10,397,334
Discount Rate	-1%	1,055,067	1,256,996

General Insurance Risks
General insurance risks reinsured by the Company include aviation, crop, cyber, marine, motor, property per risk and property catastrophe. These risks are mitigated by diversification across geographic regions and perils. The Company's underwriting guidelines dictate the maximum claim exposure that can be incurred from a catastrophic event.

Note 8: Financial Instruments Risk Management

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

Interest rate risk
Interest rate risk is the risk of economic loss due to the need to reinvest or divest during periods of changing interest rates. The Company is exposed to interest rate risk on its fixed-interest rate bonds. The Company limits this risk by investing in short-term duration bonds. An increase of 50 basis points in interest rates would result in a decrease in other comprehensive income of $5,436,493 (2017: $2,728,108). A decrease of 50 basis points in interest rates would result in an increase in other comprehensive income of $5,437,081 (2017: $2,728,500).

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

Credit risk

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

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

The Company's investment policy objective is to preserve capital while achieving an appropriate return on investment. The policy is to invest in non-Canadian bonds with the aggregate carrying value in any one corporate entity not exceeding 5% of the carrying value of the Company's assets at time of purchase and 10% at any time. All investment purchases must carry a minimum risk rating of BBB with the aggregate carrying value of BBB+ to BBB holdings not exceeding 30% of the carrying value of the portfolio. From time to time, the Company may hold bonds that after initial purchase have been downgraded to below BBB, subject to additional credit monitoring. No more than 25% of the aggregate carrying value of bonds may be invested in any one industry or sector.

The Company's maximum credit exposure is equivalent to the carrying value of the financial instruments on the Balance Sheet. To reduce its exposure to credit loss related to reinsurance counterparties, the Company enters into reinsurance treaties with reputable third party reinsurers. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies (see Note 16). There are no amounts past due or in dispute from reinsurers as at October 31, 2018 and October 31, 2017.

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

		2018	2017
AAA	$	108,718,614	93,075,880
AA		163,703,156	54,851,857
A		113,239,013	57,216,160
Total portfolio	$	385,660,783	205,143,897

Liquidity risk

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

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

				2018
	Less than 1 year	1 to 5 years	More than 5 years	Total
Financial assets				
Cash	$ 71,454,439	-	-	71,454,439
Investments	125,419,441	326,353,766	29,590,247	481,363,454
Accrued interest receivable	2,563,946	-	-	2,563,946
Reinsurance balances receivable	120,673,596	-	-	120,673,596
Other assets	748,913	-	-	748,913
Reinsurance assets	2,253,865	-	-	2,253,865
	$ 323,114,200	326,353,766	29,590,247	679,058,213
Financial liabilities				
Accounts payable and other liabilities	$ 1,572,915	-	-	1,572,915
Balances due to reinsurers	5,247,812	-	-	5,247,812
Actuarial liabilities[(1)]	56,904,634	7,088,592	10,606,566	74,599,792
Outstanding losses and loss expenses	77,952,860	128,182,703	-	206,135,563
	$ 141,678,221	135,271,295	10,606,566	287,556,082

(1) Amounts disclosed above exclude unearned premium reserves.

				2017
	Less than 1 year	1 to 5 years	More than 5 years	Total
Financial assets				
Cash	$ 296,217,626	-	-	296,217,626
Investments	55,890,059	117,839,200	31,414,638	205,143,897
Accrued interest receivable	990,432	-	-	990,432
Reinsurance balances receivable	90,276,756	-	-	90,276,756
Other assets	113,379	-	-	113,379
Reinsurance assets	2,314,741	-	-	2,314,741
	$ 445,802,993	117,839,200	31,414,638	595,056,831
Financial liabilities				
Accounts payable and other liabilities	$ 961,198	-	-	961,198
Balances due to reinsurers	3,870,809	-	-	3,870,809
Actuarial liabilities[(1)]	51,814,663	7,824,599	15,664,579	75,303,841
Outstanding losses and loss expenses	115,609,975	24,154,885	-	139,764,860
	$ 172,256,645	31,979,484	15,664,579	219,900,708

(1) Amounts disclosed above exclude unearned premium reserves.

Note 9: Reinsurance Balances Receivable

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

The carrying value of reinsurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Income and Comprehensive Income. There has been no impairment loss recorded for the years ended October 31, 2018 and 2017.

Note 10: Other Assets

Other assets comprise:

		2018	2017
Prepaid expenses	$	316,843	301,301
Deferred acquisition expenses		17,201,421	15,900,883
Deferred reinsurance		3,237,022	940,260
Premises and equipment, at cost		1,140,703	1,100,985
less accumulated amortization		(986,043)	(932,498)
Other receivables		748,913	113,379
	$	21,658,859	17,424,310

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

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

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

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

Premises and equipment are recorded at cost less accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives ranging between two and ten years. Amortization expense for the year ended October 31, 2018 was $57,794 (2017: $119,609).

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

At least annually, the Company reviews whether there are any indications that premises and equipment need to be tested for impairment. If there is an indication that an asset may be impaired, the Company tests for impairment by comparing the asset's carrying value to its recoverable amount. The recoverable amount is calculated as the higher of the value in use and the fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset. An impairment charge is recorded when the recoverable amount is less than the carrying value. There were no write-downs of premises and equipment due to impairment during the years ended October 31, 2018 and 2017.

Note 11: Financial Liabilities

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

Note 12: Premiums

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

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

Gross Premiums

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

Premiums Ceded

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

Note 13: Unearned Premium Reserve

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

		2018	2017
Balance, beginning of year	$	89,907,599	24,153,586
Premiums written during the year		144,553,773	166,428,221
Premiums earned during the year		(154,404,049)	(99,610,554)
Foreign currency conversion		4,558,341	(1,063,654)
Balance, end of year	$	84,615,664	89,907,599

Note 14: Responsibilities of Appointed Actuary

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

Note 15: Actuarial Liabilities

Nature of Actuarial Liabilities

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

Actuarial liabilities, as defined above, comprise:

	2018	2017
Life	$ 46,686,598	45,182,687
Health, Disability, and Job Loss	28,938,424	31,123,211
Actuarial liabilities	$ 75,625,022	76,305,898

	2018	2017
Policy reserves	$ 14,198,620	19,438,322
Claims reserves	61,426,402	56,867,576
Actuarial liabilities	$ 75,625,022	76,305,898

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

	2018	2017
Actuarial liabilities, beginning of period	$ 76,305,898	78,658,396
Change in actuarial liabilities from:		
Existing reinsurance treaties	485,824	(1,661,537)
New reinsurance treaties	-	373,383
Changes in actuarial assumptions/methodology	(1,592,389)	22,288
Terminated and recaptured reinsurance contracts	-	(431,330)
Foreign currency conversion	425,689	(655,302)
Actuarial liabilities, end of period	$ 75,625,022	76,305,898

Assumptions

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

Mortality and morbidity

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

Economic assumptions

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

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

Note 16: Reinsurance Assets

The Company has entered into reinsurance treaties for protection against claims in excess of stipulated amounts. Reinsurance assets represent balances due from retrocessionaires for ceded actuarial liabilities as disclosed in Note 15 and are estimated in the same manner.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance balance receivable that all outstanding amounts due under the terms of the contract may not be received. The event must have a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Any impairment loss is recorded in the Statement of Income and Comprehensive Income. There has been no impairment loss recorded for the years ended October 31, 2018 and 2017.

Note 17: Outstanding Losses and Loss Expenses

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

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

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

		2018	2017
Balance, beginning of period	$	139,764,860	35,595,502
Incurred related to:			
Current		108,315,802	123,006,019
Prior		(18,333,453)	7,744,963
Paid related to:			
Current		-	(116,773)
Prior		(26,155,163)	(25,642,365)
Foreign exchange		2,543,517	(822,486)
Balance, end of period	$	206,135,563	139,764,860

Included in outstanding losses at the end of 2018 are reserves for typhoon Jebi in Japan and the Colombian Dam collapse. Claims in 2017 were due to several large natural catastrophes - Hurricanes Harvey, Irma, and Maria, two earthquakes in Mexico and the California wildfires.

Note 18: Commissions

Commissions on reinsurance premiums consist of ceding allowances paid to the Company.

		2018	2017
Commissions on reinsurance premiums	$	-	10,680,359

Note 19: Gross and Ceded Claims

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

Note 20: Operating Expenses

The following outlines the significant operating expenses:

		2018	2017
Salaries and benefits	$	3,917,090	3,421,971
Professional and consulting		104,165	92,270
Letter of credit and bank fees		233,046	217,656
Computer		577,764	686,362
Rent		171,843	173,549
Amortization of premises and equipment		57,794	119,609
Other		737,366	702,482
	$	5,799,068	5,413,899

Note 21: Share Capital

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

Issued and fully paid:

		2018	2017
50,000,000 common shares – stated value	$	50,000,000	50,000,000
71,000,000 preferred shares - stated value	$	213,000,000	213,000,000

Note 22: Net Cash Provided by Operating Activities

	2018	2017
Net change in operational assets		
(Increase) decrease in accrued interest receivable	$ (1,573,514)	208,925
Increase in reinsurance balances receivable	(30,396,840)	(41,825,856)
Increase in other assets	(4,248,376)	(13,811,258)
Decrease (increase) in reinsurance assets	60,876	(552,078)
	$ (36,157,854)	(55,980,267)

	2018	2017
Net change in operational liabilities		
Increase in accounts payable and other liabilities	$ 611,717	40,504
Increase (decrease) in balances due to reinsurers	1,377,003	(4,052,541)
(Decrease) increase in unearned premium reserve	(5,291,935)	65,754,013
Decrease in actuarial liabilities	(680,876)	(2,352,498)
Increase in outstanding losses and loss expenses	66,370,703	104,169,358
	$ 62,386,612	163,558,836

Note 23: Related Party Transactions and Balances

Transactions with related parties are measured at the agreed upon exchange amount. The Company uses the legal, marketing, accounting, banking, credit analysis and collateral management services of BMO and the investment management services of BMO Global Asset Management. BMO is paid a fee for providing these services which is based upon terms that are similar with those the Company would charge unrelated parties.

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

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

Operating expenses (income)	2018	2017
BMO	$ 316,980	315,429
BMO Global Asset Management	670,205	549,215
Finco V	(35,500)	(34,500)
BMO (Bermuda)	(46,350)	(45,000)
BMOIL	(37,750)	(37,750)
BOMBL	(320,000)	(310,000)
	$ 547,585	437,394

The following tables shows balances with related parties:

2018	Cash	Other assets	Accounts payable and other liabilities
BMO	$ 14,910,525	-	12,230
BOMBL	-	404,958	-
BMOIL	-	76,874	-
BMO Bermuda	-	65,815	-
Finco V	-	65,152	-
BMO Global Asset Management	-	-	244,022
	$ 14,910,525	612,799	256,252

2017	Cash	Other assets	Accounts payable and other liabilities
BMO	$ 83,046,612	-	12,042
BMO Global Asset Management	-	-	186,772
	$ 83,046,612	-	198,814

Key Management Personnel

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

Key Management Personnel Compensation

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

(Canadian $ in thousands)	2018	2017
Base salary and initiatives	$ 21,287	23,457
Post-employment benefits	2,345	1,471
Share-based payments(1)	31,063	38,364
	$ 54,695	63,292

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

The Bank offers senior executives market interest rates on credit card balances, a fee-based subsidy on annual credit card fees, and a select suite of customer loan and mortgage products at rates normally accorded to preferred customers. At October 31, 2018, loans to key management personnel totaled $15.9 million ($9.7 million in 2017).

Notes

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

Note 24: Letters of Credit

The Company had facilities for letters of credit totaling $184,359,000 (2017: $180,530,000) of which $56,559,368 (2017: $51,330,497) was utilized. These letters of credit relate to certain reinsurance treaties and are unsecured. The Bank provided and issued $164,606,250 and $56,559,368 respectively (2017: $161,187,500 and $51,330,497) of the total facilities.

Note 25: Solvency Margin

The Company is required by the Exempt Insurance Act 1983-9 of Barbados to comply with certain solvency criteria. At October 31, 2018, the Company's solvency margin exceeded the required minimum.

Note 26: Taxation

The Company is subject to taxation in accordance with Section 29 of the Exempt Insurance Act at a rate of eight percent on the first US$125,000 of taxable income and zero percent on taxable income in excess of US$125,000.

Note 27: Trust Agreement

Effective October 1, 2005, the Company assumed reinsurance risks from a Canadian primary insurer (the "Insurer") on a full coinsurance basis. The Company, the Insurer, the Office of the Superintendent of Financial Institutions Canada, ("OSFI") and an independent Trustee established a Reinsurance Trust in respect of this reinsurance arrangement. In accordance with OSFI's guidelines and requirements, the Company is required to vest and maintain a minimum prescribed amount of assets with the Trustee; in particular, at least equal to 100% of the actuarial liabilities in respect of the policies ceded by the Insurer. Also, the Company and the Insurer have agreed that the Company will vest and maintain additional assets in the Trust in an amount equal to the maximum eligible deposits for unregistered reinsurance permissible under Section 6.8.1 of the Life Insurance Capital Adequacy Test requirement, (2017 - at least 150% of the Minimum Continuing Capital and Surplus Requirement), as defined by OSFI and determined by the Insurer, in respect of the policies ceded by the Insurer.

As at the effective date of the Balance Sheet, the actuarial liabilities disclosed in Note 15 included an amount of $45,249,624 (2017: $45,250,979) in respect of the policies ceded by the Insurer that are associated with the assets vested in the Reinsurance Trust. The market value of the assets in the Reinsurance Trust as of October 31, 2018 was $82,885,706 (2017: $82,457,343).

Note 28: Pension Plan

The Company operates an annuity pension scheme for its employees in the form of a defined contribution pension plan. Obligations for contributions to the plan are recognized as an expense in the Statement of Income and Comprehensive Income as incurred. The annual premiums paid to the defined contribution pension plan and charged to operations during the year amounted to $72,011 (2017: $69,496), net of anniversary credits.

Note 29: Lease Commitments

In fiscal 2012, the Company entered into an operating lease for the use of its office space. The lease agreement is for five years with a renewal option of three additional five-year terms. The Company is in its first five-year renewal term. Future minimum lease rentals payable under this operating lease as at October 31, 2018 are as follows:

Less than one year	$ 228,516
Between one and five years	562,806
	$ 791,322

Note 30: Transition to IFRS 9

There were no changes to the measurement basis of the Company's financial instruments as a result of adopting IFRS 9. All the Company's available-for-sale investments were classified as fair value through other comprehensive income. The Company did not previously record an allowance for credit losses on financial assets under IAS 39, and there has been no change upon adoption of IFRS 9. The impact of adoption to the Company's retained earnings at November 1, 2017 is $nil. Prior periods have not been restated.

Accounting Policies for Financial Instruments under IAS 39 Financial Instruments: Recognition and Measurement

The following accounting policies apply to comparative information for 2017 in the financial statements as the Company did not restate prior periods on adoption of IFRS 9.

a) Classification and Measurement

AFS investments are initially measured at fair value plus transaction costs. They are subsequently re-measured at fair value with unrealized gains and losses recorded in unrealized gains and losses on available-for-sale investments in other comprehensive income in the Statement of Income and Comprehensive Income until the security is sold. If an unrealized loss is considered to be an impairment it is recorded in the Statement of Income and Comprehensive Income. Gains and losses on disposal and impairment losses are recorded in the Statement of Income and Comprehensive Income within net investment income.

b) Impairment of Investments

The Company reviews AFS investments at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. Impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows from the bond and the impact can be reliably estimated.

Objective evidence of impairment includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a bond.

The decision to record a write-down, the amount and the period in which it is recorded could change if management's assessment of the factors changes. The Company does not record impairment write-downs on bonds when impairment is due to changes in market interest rates, if future contractual cash flows associated with the bond are still expected to be recovered.