

Consolidated Financial Statements of

# **FAITHLIFE FINANCIAL**

(Operating as Serenia Life Financial)

And Independent Auditor's Report thereon

Year ended December 31, 2023



**KPMG LLP**

Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto, ON M5H 2S5  
Canada  
Telephone 416 777 8500  
Fax 416 777 8818

## **INDEPENDENT AUDITOR'S REPORT**

To Board of Directors of FaithLife Financial

### ***Opinion***

We have audited the consolidated financial statements of FaithLife Financial (operating as Serenia Life Financial) (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of income (loss) for the year then ended
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in surplus for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

### ***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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.



***Emphasis of the Matter - Changes in Accounting Policies and Comparative Information***

We draw attention to Note 2.1 to the financial statements ("Note 2.1"), which explains that certain comparative information presented were adjusted as a result of a full retrospective adoption of a change in accounting policy with respect to IFRS 17:

- For the year ended December 31, 2022 has been adjusted.
- As at January 1, 2022 has been derived from the financial statements for the year ended December 31, 2021 which has been adjusted (not presented herein).

We also draw attention to Note 2.2 to the financial statements ("Note 2.2") which explains the adjustment of retained earnings as at January 1, 2023 as a result of a full retrospective adoption of a change in accounting policy with cumulative impact with respect to IFRS 9.

Note 2.1 and Note 2.2 explain the reason for the adjustments. Our opinion is not modified in respect of these matters.

***Other Matter - Changes in Accounting Policies and Comparative Information***

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to adjust certain comparative information presented:

- For the year ended December 31, 2022.
- As at January 1, 2022.

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to retained earnings as at January 1, 2023. In our opinion, such adjustments are appropriate and have been properly applied.

***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 IFRS Accounting Standards, 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.



### ***Auditor's 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 auditor's 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 auditor's 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 auditor's 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.



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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 28, 2024

# FaithLife Financial

Consolidated statement of profit or loss  
(in thousands of dollars)

Year ended 31 December

	Notes	2023	2022 Adjusted
Insurance revenue	9	18,340	17,707
Insurance service expense	26	(19,567)	(20,853)
Net income (expense) from reinsurance contracts		(489)	213
<b>Insurance service result</b>		(1,716)	(2,933)
Interest revenue calculated using the effective interest Method	10	1,102	1,290
Other investment revenue (loss)	10	19,432	(17,315)
Net impairment gain on financial assets	10	265	239
<b>Investment return</b>		20,709	(15,786)
Net finance income (expense) from insurance contracts		(12,522)	20,568
Changes in the underlying items of the segregated funds	10	(114)	-
Net finance income related to segregated funds net assets		114	-
Net finance income (expense) from reinsurance contracts		582	(633)
Movement in investment contract liabilities	25	(2,521)	(1,286)
<b>Net financial result</b>		(14,461)	18,649
Profit (loss) before other items		4,532	(70)
Other income (loss)	12	(9)	352
Other operating and overhead expenses	13	(7,256)	(5,135)
Other finance cost	14	(329)	(323)
<b>Net other result</b>		(7,594)	(5,106)
<b>Profit (loss) before tax</b>		(3,062)	(5,176)
Income tax expense	16	(141)	(143)
<b>Profit (loss) for the year</b>		(3,203)	(5,319)

The notes on pages 2 to 123 are an integral part of these consolidated financial statements.

## FaithLife Financial

Consolidated statement of comprehensive income  
(in thousands of dollars)

Year ended 31 December

	2023	2022 Adjusted
Profit (loss) for the year	(3,203)	(5,319)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Defined benefit liability/asset – remeasurement	(431)	1,674
Equity investments at FVOCI – net change in fair value	(220)	(2,355)
	(651)	(681)
Items that are or may be classified subsequently to profit or loss		
Debt investments at FVOCI		
Net change in fair value	347	(460)
Net amount reclassified to profit or loss	(22)	(1,212)
Amortization of fair value reserves	140	118
Other comprehensive income (loss)	(186)	(2,235)
Total comprehensive income (loss)	(3,389)	(7,554)

The notes on pages 2 to 123 are an integral part of these consolidated financial statements.

# FaithLife Financial

Consolidated statement of financial position  
(in thousands of dollars)

	Notes	31 December 2023	31 December 2022 Adjusted	1 January 2022 Adjusted
<b>Assets</b>				
Cash and cash equivalents	17	20,387	7,142	8,021
Financial investments				
Measured at FVTPL	8	234,943	224,957	235,218
Measured at FVOCI	8	21,950	22,042	32,797
Measured at amortized cost	8	4,000	10,116	16,692
Receivables	20	2,561	2,284	1,797
Insurance contract assets	26	14,767	13,646	11,159
Reinsurance contract assets	26	13,818	12,798	13,833
Investment property	21	6,154	5,711	5,858
Property and equipment				
Owner occupied property at fair value	22	7,762	7,105	7,102
Other	22	395	394	107
Other assets	23	801	583	912
Intangible assets	22	3,526	4,799	5,064
Segregated fund assets	31	44,750	50,530	63,281
<b>Total assets</b>		<b>375,814</b>	<b>362,107</b>	<b>401,841</b>
<b>Liabilities</b>				
Payables	24	3,712	4,118	3,543
Investment contract liabilities	25	81,779	61,533	51,432
Insurance contract liabilities	26	194,194	192,421	219,526
Reinsurance contract liabilities	26	3,981	3,656	4,815
Loans	27	3,310	3,423	3,212
Other liabilities	28	5,737	5,220	7,130
Insurance contract liabilities for account of segregated fund holders	26	44,750	50,530	63,281
<b>Total liabilities</b>		<b>337,463</b>	<b>320,901</b>	<b>352,939</b>
<b>Equity</b>				
Appropriated equity		1,211	1,226	1,250
Unappropriated equity		39,431	42,634	47,953
Accumulated other comprehensive loss		(6,297)	(6,111)	(3,876)
Revaluation reserve		4,006	3,457	3,575
<b>Total equity</b>		<b>38,351</b>	<b>41,206</b>	<b>48,902</b>
<b>Total liabilities and equity</b>		<b>375,814</b>	<b>362,107</b>	<b>401,841</b>

The notes on pages 2 to 12 are an integral part of these consolidated financial statements.

 Director

 Director



# FAITHLIFE FINANCIAL

## Consolidated Statement of Changes in Equity (In thousands of dollars)

	Appropriated equity	Unappropriated equity	Revaluation reserve and AOCI	Total
Balance at 1 January 2022, as previously reported	1,250	44,715	(301)	45,664
Adjustments on initial application of IFRS 17 & 9, net of tax	-	3,238	-	3,238
<b>Adjusted balance at 1 January 2022</b>	<b>1,250</b>	<b>47,953</b>	<b>(301)</b>	<b>48,902</b>
<b>Total comprehensive income for the year (restated)</b>				
Profit for the year	(24)	(5,319)	-	(5,343)
Other comprehensive income for the year			(2,353)	(2,353)
<b>Total comprehensive income for the year (restated)</b>	<b>(24)</b>	<b>(5,319)</b>	<b>(2,353)</b>	<b>(7,696)</b>
<b>Restated balance at 31 December 2022</b>	<b>1,226</b>	<b>42,634</b>	<b>(2,654)</b>	<b>41,206</b>
<b>Balance at 1 January 2023</b>				
Profit for the year	(15)	(3,203)	-	(3,218)
Other comprehensive income for the year	-	-	363	363
<b>Balance 31 December 2023</b>	<b>1,211</b>	<b>39,431</b>	<b>(2,291)</b>	<b>38,351</b>

The notes on pages 2 to 123 are an integral part of these consolidated financial statements.

# FaithLife Financial

Consolidated statement of cash flows  
(in thousands of dollars)

Year ended 31 December 2023

	Notes	2023	2022 adjusted
<b>Cash flows from operating activities</b>			
Profit / (loss) for the year		(3,203)	(5,319)
Adjustments for:			
Depreciation and amortization		2,168	1,929
Contractual service margin (CSM) amortization		(2,109)	(2,818)
Accrued interest on investment contracts	25	2,521	1,286
Net realized (gain) loss on sale of financial investments and impairment on assets		(7,450)	27,455
Unrealized foreign exchange gain (loss)		46	(234)
Other		(372)	(407)
Taxes paid	16	(141)	(143)
		(8,540)	21,749
Changes in:			
Receivables		(277)	(487)
Insurance and reinsurance contracts		(43)	(27,490)
Investment contracts		20,246	10,101
Investment property		(443)	147
Owner occupied property and equipment		(658)	(290)
Intangible assets		1,273	265
Other assets		(218)	329
Payables		(406)	575
Loans		(113)	211
Other liabilities		515	(1,910)
<b>Cash used in operating activities</b>		<b>19,876</b>	<b>(18,549)</b>
<b>Net cash from operating activities</b>		<b>11,336</b>	<b>3,200</b>
<b>Cash flows from investing activities</b>			
Financial instruments		2,890	(2,019)
Acquisition of intangible assets	22	(396)	(1,296)
Acquisition of property and equipment	22	(326)	(515)
<b>Net cash from (used in) investing activities</b>		<b>2,168</b>	<b>(3,830)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(259)	(249)
<b>Net cash from (used in) financing activities</b>		<b>(259)</b>	<b>(249)</b>
<b>Net increase in cash and equivalents</b>		<b>13,245</b>	<b>(879)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>7,142</b>	<b>8,021</b>
<b>Cash and cash equivalents at 31 December</b>		<b>20,387</b>	<b>7,142</b>

The notes on pages 2 to 123 are an integral part of these consolidated financial statements.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 1. Reporting entity

FaithLife Financial is a fraternal benefit society domiciled in Canada, with a registered address of 300-470 Weber Street North, Waterloo, Ontario. These consolidated financial statements comprise the Company and its operating subsidiary (together referred to as 'the Society'). The Society is registered under the *Insurance Companies Act (Canada)* with the Office of the Superintendent of Financial Institutions (OSFI). The Society is a financial services organization that provides life insurance, investment products and fraternal benefits for its policyholder members.

On October 3<sup>rd</sup>, 2022 the Society rebranded its operating name to Serenia Life Financial. FaithLife Financial remains the legal entity name of the Society.

## 2. Basis of preparation

These consolidated financial statements have been prepared in accordance with Internal Financial Reporting Standards (IFRS) Accounting Standards as issued by the International Accounting Standards Board and comply with the accounting requirements of OSFI. They were authorized for issue by the Company's board of directors on 28 February 2024.

Details of the Society's material accounting policies are included in Note 33.

This is the first set of the Society's annual financial statements in which IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* have been applied. The related changes to material accounting policies are described in Note 5.

## 3. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Society's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated.

## 4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Society's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

### A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## **4. Use of judgement and estimates (continued)**

### **A. Judgements (continued)**

- measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL;
- Notes 26 and 33(A) – classification of insurance, reinsurance and investment contracts;
- Notes 26 and 33(B)(i) – level of aggregation of insurance and reinsurance contracts: identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently;
- Notes 26(B) and 33(B)(iv) – measurement of insurance and reinsurance contracts: determining the techniques for estimating risk adjustments for non-financial risk and the coverage units provided under a contract;
- Notes 5(A)(ii) and 33(B)(vii) – transition to IFRS 17: determining whether sufficient reasonable and supportable information is available to apply a full or modified retrospective approach.

### **B. Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties at 31 December 2023 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 15(D)(i) – measurement of defined benefit obligations: key actuarial assumptions; and
- Note 16 – non-recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be used.

Information about assumptions made in measuring insurance and reinsurance contracts is included in - Note 26(D). Changes in the following key assumptions may change the fulfilment cash flows materially during 2024. However, these changes would adjust the contractual service margin (CSM) and would not affect the carrying amounts of the contracts, unless they arise from onerous contracts or do not relate to future services:

- life and participating contracts: assumptions about future cash flows relating to mortality, lapse, longevity, morbidity, policyholder behaviour and investment returns; and
- all contracts: assumptions about discount rates.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 5. Changes in material accounting policies

The Society has initially applied IFRS 17 and IFRS 9, including any consequential amendments to other standards, from 1 January 2023. These standards have brought material changes to the accounting for insurance and reinsurance contracts and financial instruments. As a result, the Society has certain comparative amounts and presented a third statement of financial position as at 1 January 2022.

Except for the changes below, the Society has consistently applied the accounting policies as set out in Note 33 to all periods presented in these consolidated financial statements. The nature and effects of the key changes in the Society's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarised below.

### A. IFRS 17 Insurance contracts

#### i. Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Society's estimates of the present value of future cash flows that are expected to arise as the Society fulfils the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin (CSM).

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Society expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

Insurance finance income and expenses, recognized in profit or loss for life risk and life savings contracts, are presented separately from insurance revenue and insurance service expenses.

Income and expenses from reinsurance contracts other than insurance finance income and expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

For an explanation of how the Society accounts for insurance and reinsurance contracts under IFRS 17, see Note 33(B).

#### ii. Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at 1 January 2022 the Society:

- identified, recognized and measured each group of insurance and reinsurance contracts as if IFRS 17 had always been applied;
- derecognized previously reported balances that would not have existed if IFRS 17 had always been applied. These included insurance receivables, policy loans, members dividends, policy proceeds and amounts on deposit and policy benefits to be settled and provision for unreported claims; and

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 5. Changes in material accounting policies (continued)

### A. IFRS 17 Insurance contracts (continued)

#### ii. Transition (continued)

- recognized any resulting net difference in equity.

The Society has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each of the financial statement line items. The effects of adopting IFRS 17 on the consolidated financial statements at 1 January 2022 are presented in the statement of changes in equity.

#### Insurance and reinsurance contracts

For the life risk, life savings and participating whole life segments, the Society applied the fair value approach in IFRS 17 to identify, recognize and measure certain groups of contracts at 31 December 2019 (see Note 26), because it was impracticable to apply the full retrospective approach.

The effects of retrospective application were not determinable because the information required had not been collected (or had not been collected with sufficient granularity) and was unavailable because of system migrations, data retention requirements, unavailability of data without undue cost and undue hindsight from management. Such information included for certain contracts:

- expectations about a contract's profitability and risks of becoming onerous required for identifying groups of contracts;
- all of the policy administration required data required under IFRS 17 had not been captured in the historical periods;
- the Society underwent a policy administration system conversion in 2014 with historical data prior to that date only allowed for the former accounting standard's level of information available;
- information about historical cash flows and other policyholder activity (e.g. policy loans) required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis; and
- information required to allocate fixed and variable overheads to groups of contracts, because the Society's business operating model did not have the appropriate level of detail to effectively allocate.

The full retrospective approach required assumptions about what Society management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight. Such assumptions and estimates included for groups of contracts:

- the Society operated a materially different sales distribution operating model prior to 2014 making it impracticable to allocate acquisition costs without the use of significant hindsight;
- the Society's organizational and management structure has undergone significant changes over the past many years as well as a new regulatory capital regime came into effect that has altered management's expected requirement to be compensated for the variability of historical cash flows;
- assumptions about discount rates, because the Society had not been producing detail on historical invested asset holdings and investment returns before 2017; and
- assumptions about the risk adjustment for non-financial risk, because the Society had not been subject to any accounting or regulatory framework that required an explicit margin for nonfinancial risk.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## **5. Changes in material accounting policies (continued)**

### **B. IFRS 9 Financial instruments**

#### **i. Classification of financial assets and liabilities**

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

For an explanation of how the Society classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 33(D)(ii).

IFRS 9 has not had a material effect on the Society's accounting policies for financial assets and liabilities.

#### **ii. Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, debt investments at FVOCI and lease receivables. Under IFRS 9, credit losses are recognized earlier than under IAS 39 see Note 33(D).

#### **iii. Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

Details of the changes and implications resulting from the adoption of IFRS 9 are presented in (iv).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 5. Changes in material accounting policies (continued)

### B. IFRS 9 Financial instruments (continued)

#### iv. Effect of initial application

Classification of financial assets and financial liabilities

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Society's financial assets and financial liabilities as at 1 January 2023.

in thousands of dollars	Notes	Original classification under IAS 39	New classification under IFRS 9	Original carrying under IAS 39	New carrying under IFRS 9
<b>Financial assets:</b>					
Cash and cash equivalents	17	Loans and receivables	Amortized cost	7,142	7,142
<b>Financial investments:</b>					
Bonds and debentures investments		Held for trading	FVTPL	107,767	107,767
Bonds and debentures		Available for sale	FVOCI	10,224	10,140
Stocks		Held for trading	FVTPL	8,990	8,990
Stocks		Available for sale	FVOCI	5,506	5,506
Public equity pooled funds		Held for trading	FVTPL	17,769	17,769
Public equity pooled funds		Available for sale	FVOCI	3,231	3,231
Private equity pooled funds		Hold to maturity	FVTPL	5,441	5,441
Private equity pooled funds		Hold to maturity	FVOCI	934	934
Mutual funds		Held for trading	FVTPL	1,213	1,213
Mortgage loans on real estate		Loans and receivables	Amortized cost	10,116	10,116
Mortgage pooled funds		Held for trading	FVTPL	83,777	83,777
Mortgage pooled funds		Available for sale	FVOCI	2,231	2,231
Receivables	19	Loans and receivables	Amortized cost	2,282	2,282
<b>Total financial assets</b>				<b>266,623</b>	<b>266,539</b>
<b>Financial liabilities:</b>					
Payable	23	Amortized cost	Amortized cost	4,118	4,118
Investment contracts	32(A)				
Guaranteed interest accounts		Reported as insurance contract	FVTPL	0	60,692
Term certain annuities		Reported as insurance contract	FVTPL	0	841
Loans	26	Amortized cost	Amortized cost	3,301	3,423
<b>Total financial liabilities</b>				<b>7,419</b>	<b>69,074</b>



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 5. Changes in material accounting policies (continued)

### B. IFRS 9 *Financial Instruments* (continued)

#### iv. Effect of initial application (continued)

Classification of financial assets and financial liabilities (continued)

The Society's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 33(D)(ii). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Under IFRS 4, certain insurance contracts specific to Guaranteed Interest Annuities (GIA) and Term Certain Annuities (TCA) were designated as at FVTPL as the Society managed them and evaluated their performance on a fair value basis in accordance with the accounting standard. Under IFRS 9, the Society has an option to irrevocably designate a financial liability as FVTPL for investment management purposes.

b. Certain debt securities are held to meet everyday liquidity needs. The Society's investment division seeks to minimize the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy occasionally results in sales activity that is significant in value. The Society considers that under IFRS 9 these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets. The contractual terms of these financial assets give rise on specified dates to cash flows that are SPPI. These assets have therefore been classified as financial assets at FVTPL under IFRS 9.

c. Under IAS 39, investments in equity securities that were not designated as at FVTPL were classified as available-for-sale financial assets. The Society has elected to measure certain equity and pooled securities backing the company's surplus at FVOCI (see (e)).

d. Under IAS 39, certain debt securities were designated as at AFS because the Society held these financial assets to back the company's surplus. At 1 January 2022, the Society elected to maintain the measurement approach under IFRS 9 as FVOCI.

e. These stocks and equity securities represent investments that the Society intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Society designated these investments at 1 January 2022 as measured at FVOCI. Unlike under IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

### C. Material accounting policy information

The Society also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material' rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 32 Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

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## 6. Risk management

The Company's board of directors has overall responsibility for the establishment and oversight of the Society's risk management framework. The Society's Risk and Compliance Committee is responsible for oversight of the enterprise risk management framework and coordinates with the other board committees with the monitoring of specific risks.

The Society's risk management policies are established to identify and analyse the risks faced by the Society, set appropriate risk limits and controls, and monitor adherence to risk limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Society's activities. The Society, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Each board committee; Risk and Compliance, Audit and Finance, Investment and Governance and Human Resources oversee how management monitors compliance with the Society's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks that each committee is accountable to monitor.

### A. Financial risk management framework

The primary goals of the Society's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Society's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Society's statement of financial position from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties.

The Society has policies and procedures relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk, market risk, insurance risk and operational risk. The following sections describe how the Society manages each of these risks:

#### i. Credit risk:

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The Society is exposed to credit risk principally through its investments, balances receivables from policyholders and reinsurers. The following policies and procedures are in place to manage this risk:

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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## 6. Risk management (continued)

### A. Financial risk management framework (continued)

#### i. Credit risk (continued)

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area within Canada, as well as industry and company;
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review;
- Investment guidelines also specify collateral requirements;
- Investment segments are monitored continuously and reviewed regularly with the Board of Directors and the Investment Management Committee of the Society; and
- Significant restrictions have been placed around the use of derivative instruments. Such instruments may be used only for hedging purposes, not for speculation, and counterparty credit risk must be mitigated by the use of exchange-traded instruments only.

The Society is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.

Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

#### Maximum exposure to credit risk

The following table summarizes the Society's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses:

	2023	2022 adjusted
Cash and cash equivalents	20,387	7,142
Accrued investment income	1,542	1,462
Insurance and other receivables	832	819
Bonds	131,130	117,905
Mortgage loan pooled fund	76,641	54,831
Mortgage loans on real estate	4,000	10,116
Reinsurance contract asset	13,818	12,798
	248,350	205,073

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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## 6. Risk management (continued)

### A. Financial risk management framework (continued)

#### i Credit risk (continued)

##### Maximum exposure to credit risk (continued)

Credit risk is also mitigated by requiring collateral in certain circumstances and also personal guarantees on mortgage loans on real estate that the Society can act on as required. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. At 31 December 2023 no collateral was held on these assets.

Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

##### Concentration of credit risk:

Concentrations of credit risk arise 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 characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

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

	2023	2022
Canadian bonds issued or guaranteed by:		
Canadian federal government	2,691	2,639
Canadian provincial and municipal governments	70,608	56,935
Corporate bonds by sector:		
Infrastructure/Utilities	27,303	27,044
Energy	16,523	15,478
Financial services	8,463	10,540
Industrials	2,644	2,539
Real estate	692	677
Telecommunications	2,206	2,053
	131,130	117,905

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 6. Risk management (continued)

### A. Financial risk management framework (continued)

#### i. Credit risk (continued)

##### Concentration of credit risk (continued)

Terms to maturities of bonds:

	2023	2022
Due in 1 year or less	5,536	2,681
Due in 1 to 5 years	7,314	12,084
Due in 5 to 10 years	1,754	1,916
Due after 10 years	116,526	101,224
	131,130	117,905

##### Asset quality

The table below summarized the credit exposure of the Society from its investments in fixed income securities by rating:

	2023	2022
AAA	5,079	4,845
AA	56,954	47,640
A	59,576	55,929
BBB	9,521	9,491
	131,130	117,905

The assets analyzed above are based on external credit ratings obtained from various reputable external rating agencies including; Dominion Bond Rating Service Morningstar ("DBRS"), Moody's, Standard & Poor's ("S&P") and Fitch. The rating scales are based on long-term investment horizons under the following broad investment grade definitions:

- AAA The financial instrument is judged to be of the highest quality, with minimal credit risk and indicates the best quality issuers that are reliable and stable.
- AA The financial instrument is judged to be of high quality and is subject to very low credit risk and indicates quality issuers.
- A The financial instrument is considered upper-medium grade and is subject to low credit risk although certain economic situations can more readily affect the issuers' financial soundness adversely than those rated AAA or AA.
- BBB The financial instrument is subject to moderate credit risk and indicates medium class issuers, which are currently satisfactory. BBB is the lowest grade rating considered to be of investment quality.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 6. Risk management (continued)

### A. Financial risk management framework (continued)

#### i. Credit risk (continued)

##### Reinsurance

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that a gross claim is paid. However, the Society remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Society is exposed to credit risk arising from the creditworthiness of reinsurers as counterparties.

The Society monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Society has policies in place which establishes the guidelines for the minimum credit criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria.

When selecting a reinsurer, the Society considers its credit profile. This is assessed from public rating information and from internal investigations. The Society uses Standard & Poor's credit rating methodology as the credit rating source. The reinsurance receivable balance outstanding is with AA and A rated reinsurers. The table below sets out information about the credit quality exposure of reinsurance contract assets measured at FVTPL:

	2023	2022 adjusted
AAA	-	-
AA	7,068	6,619
A	6,750	6,179
BBB	-	-
	13,818	12,798

##### Collateral pledged

The Society has pledged certain investment assets to cover an unfunded defined benefit obligation with a liability amount of \$3,748 (2022: \$4,429) via a Standby Letter of Credit from a Canadian financial institution to secure the future required payments to current retirees. The Letter of Credit is secured by investment grade provincial bonds. Interest income received from the pledged assets is recognized as investment income while the bond assets are included within the financial investments and the financial liability is recognized for the obligation to repay it.

##### Impairments

The Society provides for credit risk by establishing allowances against the carrying value of the bond and debenture investments measured at FVOCI and for impaired mortgage loans on real estate measured at amortized cost. When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Society considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Society's experience, third-party investment manager expert credit assessment and forward-looking information.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### A. Financial risk management (continued)

#### i. Credit risk (continued)

##### Impairments (continued)

###### Bond portfolio

The Society monitors changes in the bond and debenture portfolio's credit risk through its investment manager where tracking published external credit ratings and other market related developments associated with issuers occurs weekly. The Society has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the reporting date. The Society considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Society considers this to be BBB- or higher rating based on various rating agencies, such as Moody's, Standard & Poor's, Dominion Bond Rating Service Morningstar or Fitch.

###### Bond portfolio loss allowance

The following tables show reconciliations from the opening balance to the closing balance of the loss allowance by class of financial instrument. Transfers due to changes in credit risk are determined in accordance with the accounting policy set out in Note 33(D)(iii).

In thousands of dollars	2023	2022 – IFRS 9	2022 - IAS 39 Adjusted
<b>Bonds at FVOCI</b>			
Balance at 1 January	84	-	-
Net measurement of loss allowance	89	84	84
New financial assets acquired	-	-	-
Financial assets derecognized	-	-	-
Balance at 31 December	173	84	84

In thousands of dollars	2023	2022 – IFRS 9	2022 - IAS 39
<b>Mortgage loans on real estate at AC</b>			
Balance at 1 January	512	700	700
Net measurement of loss allowance	(300)	(188)	(188)
New financial assets acquired	-	-	-
Financial assets derecognized	(40)	-	-
Balance at 31 December	172	512	512

There are three stages involved in impairment testing. The three stages are as follows:

1. Stage 1 – the level of credit risk since initial recognition has not incurred a significant increase with the requirement of determining a 12-month expected credit loss estimate for the current reporting period;
2. Stage 2 – there is an observed significant increase in the credit risk since initial recognition with the requirement of determining a lifetime expected credit loss estimate for the current reporting period; and
3. Stage 3 – there is a determined credit impairment with a lifetime expected credit loss estimate for the current reporting period.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 6. Risk and capital management (continued)

### A. Financial risk management (continued)

#### i. Credit risk (continued)

#### Impairments (continued)

In thousands of dollars	Stage 1	2023 Stage 2	Stage 3	Total	Stage 1	2022 – IFRS 9		Total	2022 - IAS 39
						Stage 2	Stage 3		
<b>Mortgage loans on real estate at AC</b>									
Balance at									
1 January	340	-	172	512	-	-	-	-	700
Transfer to Stage 1	-	-	-	-	300	-	-	300	-
Transfer to Stage 2	-	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	400	400	-
Net measurement of loss allowance	(340)	-	-	(340)	40	-	(228)	(188)	(188)
New financial assets acquired	-	-	-	-	-	-	-	-	-
Financial assets Derecognized	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-
Unwinding of discount	-	-	-	-	-	-	-	-	-
Balance at 31 December	-	-	172	172	340	-	172	512	512

#### Mortgage loans on real estate

The ECL for mortgage loans on real estate are determined based on the Society's historic loss experience. The historic loss experience has been low and with the decreasing size of the mortgage loan portfolio, the current loan loss provision methodology using specific provisions based on the ongoing review assessment of the outstanding commercial loans and the borrower's historical payment covenant reporting performance requirements. Asset impairments recognized as at 31 December 2023 - \$172 (2022 - \$512).



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### A. Financial risk management (continued)

#### ii. Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The Society closely manages operating liquidity by limiting cash flow mismatching of assets and liabilities. Management monitors the use of a line of credit on a regular basis and assesses the ongoing availability of these and alternative forms of operating credit.

The Society maintains a \$2.5 million operating bank line of credit to support operational funding requirements. The Company has no outstanding balance owing on the line of credit as at 31 December 2023 - \$nil (2022 - \$nil).

In the normal course of business the Society enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Society's financial liabilities.

2023	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	No fixed maturity
Subordinated debt	-	-	-	3,310	-
Payables	3,712	-	-	-	-
	3,712	-	-	3,310	-

2022	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	No fixed maturity
Subordinated debt	-	-	-	3,423	-
Payables	4,118	-	-	-	-
	4,118	-	-	3,423	-

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## **6. Risk and capital management (continued)**

### **A. Financial risk management (continued)**

#### **iii. Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

Market risk principally arises from the Society's equity investments, interest-bearing financial assets and financial liabilities, and financial assets and financial liabilities denominated in foreign currencies. Interest rate risk and equity price risk also arise from interest rate and equity guarantees in the Society's insurance and investment contracts to the extent that they are not economically hedged or borne by contract holders.

#### **Currency risk**

Currency risk relates to the Society operating in different currencies and converting non-Canadian dollar earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. If foreign currency assets are acquired to back liabilities, they may be converted back to the currency of the liability using foreign exchange contracts.

As at 31 December 2023, the Society's only significant currency exposure was related to the US dollar-denominated subordinated debt of USD \$2,438 (2022 - USD \$2,438) and US dollar-denominated units in a private equity pooled fund of USD \$4,480 (2022 - USD \$4,707). An immediate 10% increase in the foreign currency rate would result in an estimated after-tax decrease in net income of \$246 (2022 - \$279). Conversely, an immediate 10% increase in the foreign currency rate would result in an estimated after-tax decrease in net income of \$300 (2022 - \$342). An increase or decrease in foreign currency rates would have no effect on actuarial liabilities.

#### **Interest rate risk**

The Society's exposure to changes in interest rates is concentrated in the investment portfolio, and to a lesser extent its debt obligations.

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The Society utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment. Cash flows for assets and liabilities in total are also reviewed for interest rate risk.

Interest rate risk is managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. 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 are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or common, preferred and pooled public equities as described below.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

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## **6. Risk and capital management (continued)**

### **A. Financial risk management (continued)**

#### **iii. Market risk (continued)**

##### **Interest rate risk (continued)**

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

Projected cash flows from assets and liabilities are used to determine contract liabilities. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk. See note 6(B)(iv) for interest rate (discount rate) sensitivity analysis.

##### **Equity risk**

Equity risk is the uncertainty associated with the value of assets arising from changes in equity markets. To mitigate equity risk, the Society has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Some policy liabilities are supported by equities. Liabilities which are equity index-linked will fluctuate in line with equity market values. There could be additional impacts on other policy liabilities as equity market values fluctuate. A 10% increase or decrease in equity markets would be expected to impact actuarial liabilities by an immaterial amount.

Equities designated as FVOCI do not support contract liabilities. Changes in fair value of equities are recorded to the consolidated statement of comprehensive income. For the Society's FVOCI equities, an immediate 10% increase in stock prices at 31 December 2023, would result in an estimated after-tax increase in the consolidated statement of comprehensive income of \$863 (2022 - \$874). Conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in other comprehensive income of \$863 (2022 - \$874).

Equities designated as FVTPL support contract liabilities. Changes in fair value of equities are recorded to the consolidated statement of profit or loss. For the Society's FVTPL equities, an immediate 10% increase in stock prices at 31 December 2023, would result in an estimated after-tax increase in the consolidated statement of profit or loss of \$317 (2022 - \$1,730). Conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in the consolidated statement of profit or loss \$317 (2022 - \$1,730).

##### **Concentration risk**

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

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### A. Financial risk management (continued)

#### iii. Market risk (continued)

##### Concentration risk (continued)

Market risk concentrations of the Society's investments at 31 December are as follows:

	2023	2022
Bonds and debentures rated at investment grade BBB- or higher	100.0%	100.0%
Bonds and debentures rated at A or higher	92.7%	92.0%
Government bonds as a percent of total bonds and debentures	55.9%	50.5%
Highest exposure to a single non-government bond and debenture issuer (in thousands of dollars)	5,907	5,494
largest single issuer as a percent of total stock portfolio	4.9%	3.0%
Publicly listed corporations as a percent of total stock portfolio	99.9%	99.8%

##### Segregated funds market value risk

Segregated funds provide an insurance guarantee that a member's investment will not fall below a minimum value at a specified maturity date or upon the member's death. The actuarial liabilities for segregated funds will generally fluctuate in a direction opposite that of financial market value changes, as the costs of the guarantees become higher when market values decrease and are lower when these values increase.

Since the segregated funds offer bond and stock investment options, this business is subject to both interest rate risk and to equity risk. These risk exposures are quantified and reviewed regularly.

An immediate 10% increase or decrease in the market value of the segregated fund unit values at 31 December 2023 would impact contract liabilities by an immaterial amount.

#### iv. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Society's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and general accepted standards and corporate behaviour. Operational risks arise from all the Society's operations.

The Society's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Society's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

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## **6. Risk and capital management (continued)**

### **A. Financial risk management (continued)**

#### **iv. Operational risk (continued)**

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility supported by the development of overall Society standards for the management of operational risk are as follows:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- regular review and assessment of the design effectiveness and operating effectiveness of internal controls under the Society's internal controls framework;
- compliance with regulatory and legal requirements;
- requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risk identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- IT, data security and cyber risks; and
- risk mitigation, including reinsurance where this is cost-effective.

Compliance with the Society's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the Society's senior management, with summaries submitted to the Society's audit and finance and committee.

#### **B. Insurance risk**

The Society assumes insurance risk by issuing insurance contracts, under which the Society agrees to compensate the policyholder or other beneficiary, if a specified future event (the insured event) affecting the policyholder occurs. Insurance claims risk includes mortality, longevity and morbidity risk.

For accounting purposes, insurance risk is defined as risk other than financial risk. Contracts issued by the Society may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The Society's approach to financial risk management has been described in Note (6)(A).

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 behaviour and expenses. A variety of assumptions are made related to the future level of insurance claims, policyholder behaviour, expenses and sales levels when products are designed and priced, as well as in the determination of actuarial liabilities. The development of assumptions for future insurance claims are based on Society and industry experience; assumptions for policyholder behaviour are based on Society experience and predictive models; assumptions for expenses and sales levels are based on Society experience. Such

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

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## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

assumptions require a significant amount of professional judgment; however, actual experience may be materially different than the assumptions made by the Society.

#### i. Risk management objectives and policies for mitigating insurance risk:

The Society manages its insurance risks through the following mechanisms:

- The diversification of business over several classes of insurance and large numbers of uncorrelated individual risks, by which the Society seeks to reduce variability in claims experience.
- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed.
- Actuarial models, which use the above information to calculate premiums and monitor claims patterns.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored.

#### ii. Terms and conditions of insurance contracts:

The terms and conditions attached to insurance contracts determine the level of insurance risk accepted by the Society. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred.

The extent of the Society's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder.

In addition to the specified risks identified above, the Society is subject to the risk that policyholders discontinue the insurance policy through lapse or surrender.

#### iii. Management of insurance risks

The table below summarizes the variety of insurance risks to which the Society is exposed, and the methods by which it seeks to mitigate these risks.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### iii. Management of insurance risks (continued)

Risks	Definition	Risk Management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss.	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
Mortality	Higher mortality rates than those charged for in life insurance premiums, resulting in a loss.	Experience is closely monitored. For dividend paying policies, dividends can be modified if experience is different than assumed. For non-dividend paying policies, the mortality risk is largely reinsured.
Morbidity	Higher rates of claim incidence and/or lower rates of recovery, resulting in a loss.	Experience is closely monitored. The morbidity risk is shared with reinsurers.
Financial	Lower yield curves, interest rate risk and higher rate volatilities can cause investment guarantee reserves to increase.	Experience is closely monitored. For dividend paying policies, dividends can be modified if experience is different than assumed. Asset liability management is employed to match returns and duration of investments with those assumed in the pricing of the insurance product.
Longevity	Possible increase in annuity costs due to policyholders living longer.	The pricing for long-term annuities uses a relatively conservative mortality assumption and shared with reinsurers.
Policyholder behaviour	Selection of more expensive options, or lapse and re-entry when premium rates are decreasing.	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation, surrender penalties for early cancellation.
Catastrophe	Natural and non-natural disasters could result in increased mortality risk and payouts on policies.	The Society has limited exposure to natural disasters, as its risks are spread out geographically and are uncorrelated.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### ii. Management of insurance risks (continued)

Many of the above risks are concentrated by line of business (for example, longevity risk is primarily attached to annuities). The Society, through diversification in the types of business it writes, attempts to mitigate this concentration of risk.

#### iv. Sensitivity analysis:

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with corresponding decreases or increases to profit. The sensitivity analysis detailed below profiles the change in assumptions for all life risk and payout annuities impact as well as profiling the participating whole life policies where assumption changes / experience may be partially passed through to the policyholder.

The table below analyses how the CSM, profit or loss and equity would have increased (decreased) if changes in underwriting risk variables that were reasonably possible at the reporting date had occurred. This analysis presents the sensitivities both before and after risk mitigation by reinsurance and assumes that all other variables remain constant.

31 December 23 in thousands	CSM		Profit or loss		Equity	
	Gross	Net	Gross	Net	Gross	Net
<b>Life risk and payout annuities</b>						
Mortality rates (10% increase)	(4,996)	(1,138)	(1,715)	(460)	(1,715)	(460)
Mortality rates (10% decrease)	7,072	1,671	(90)	(90)	(90)	(90)
Morbidity rates (10% increase)	(665)	(428)	(40)	(29)	(40)	(29)
Morbidity rates (10% decrease)	705	457	-	-	-	-
Expenses (10% increase)	(457)	(513)	(106)	(49)	(106)	(49)
Expenses (10% decrease)	562	562	-	-	-	-
Lapse rates supported (10% increase)	764	872	-	-	-	-
Lapse rates supported (10% decrease)	(790)	(914)	(6)	(1)	(6)	(1)
Lapse rates non-supported (10% increase)	(2,850)	(2,857)	(1,328)	(400)	(1,328)	(400)
Lapse rates non-supported (10% decrease)	5,451	4,238	(86)	(57)	(86)	(57)
Discount rates (increase 50 basis points)			3,491	3,236	3,491	3,236
Discount rates (decrease 50 basis points)			(3,986)	(3,711)	(3,986)	(3,711)
<b>Participating – Whole Life</b>						
Mortality rates (10% increase)	(3,357)	(2,567)	(226)	(190)	(226)	(190)
Mortality rates (10% decrease)	3,810	2,968	-	-	-	-
Expenses (10% increase)	(903)	(911)	(63)	(55)	(63)	(55)
Expenses (10% decrease)	1,026	1,026	-	-	-	-
Lapse rates (10% increase)	(1,020)	(1,191)	(650)	(547)	(650)	(547)
Lapse rates (10% decrease)	1,797	1,856	(11)	(11)	(11)	(11)
Discount rates (increase 50 basis points)			3,867	3,894	3,867	3,894
Discount rates (decrease 50 basis points)			(4,649)	(4,684)	(4,649)	(4,684)



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### iv. Sensitivity analysis (continued)

31 December 22 in thousands	CSM		Profit or loss		Equity	
	Gross	Net	Gross	Net	Gross	Net
Life risk and payout annuities						
Mortality rates (10% increase)	(4,963)	(1,020)	(1,204)	(319)	(1,204)	(319)
Mortality rates (10% decrease)	6,566	1,484	(2)	(2)	(2)	(2)
Morbidity rates (10% increase)	(652)	(423)	(24)	(17)	(24)	(17)
Morbidity rates (10% decrease)	676	440	-	-	-	-
Expenses (10% increase)	(525)	(537)	(26)	(15)	(26)	(15)
Expenses (10% decrease)	588	588	-	-	-	-
Lapse rates supported (10% increase)	691	779	-	-	-	-
Lapse rates supported (10% decrease)	(709)	(811)	(13)	(3)	(13)	(3)
Lapse rates non-supported (10% increase)	(2,746)	(2,421)	(867)	(290)	(867)	(290)
Lapse rates non-supported (10% decrease)	4,555	3,419	(120)	(79)	(120)	(79)
Discount rates (increase 50 basis points)			3,295	3,055	3,295	3,055
Discount rates (decrease 50 basis points)			(3,763)	(3,503)	(3,763)	(3,503)
Participating – Whole Life						
Mortality rates (10% increase)	(3,255)	(2,981)	(331)	(152)	(331)	(152)
Mortality rates (10% decrease)	3,670	3,201	-	-	-	-
Expenses (10% increase)	(939)	(980)	(78)	(37)	(78)	(37)
Expenses (10% decrease)	989	988	-	-	-	-
Lapse rates (10% increase)	(956)	(1,041)	(513)	(434)	(513)	(434)
Lapse rates (10% decrease)	1,569	1,575	-	-	-	-
Discount rates (increase 50 basis points)			3,853	3,880	3,853	3,880
Discount rates (decrease 50 basis points)			(4,632)	(4,667)	(4,632)	(4,667)

Changes in underwriting risk variables mainly affect the CSM, profit or loss and equity as follows.  
The effects on profit or loss and equity are presented net of the related income tax.

a.	CSM	Changes in fulfillment cash flows not relating to any loss components, other than those recognized as insurance finance income or expenses.
b.	Profit or loss	Changes in fulfillment cash flows relating to loss components. Changes in fulfillment cash flows that are recognized as insurance finance income or expenses in profit or loss.
c.	Equity	Changes in fulfillment cash flows that are recognized as insurance finance income or expenses in profit or loss. The effect on profit or loss under (b).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### v. Insurance risk and policies for mitigating insurance risk

The primary activity of the Society relates to the assumption of the risk of loss from events involving persons or organizations. Such risks may relate to life insurance and health benefits. As such, the Society is exposed to the uncertainty surrounding the timing, frequency and severity of claims under insurance contracts.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and/or severity of claims is greater than expected during the measurement period and that the Society does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Society manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralized management of reinsurance and monitoring of emerging issues. These actions are described below:

- Underwriting strategy

The Society underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Society is prepared to accept exposure.

This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set the limits for underwriters by line and size in order to enforce appropriate risk selection within the portfolio. The single largest gross risk (based on estimated maximum loss) to which any one underwriter can commit the Society is \$2,000 for life insurance.

On a monthly basis, the underwriting results are monitored against pre-determined budgets. In the event that it does not deliver underwriting results within accepted parameters, corrective measures are implemented, including the possible cancellation of products or distribution arrangements going forward.

- Reinsurance strategy

The Society reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Society buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Society on any one risk to a maximum of \$375 for life insurance, \$137 for critical illness insurance and \$6 per annum for disability insurance.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### v. Insurance risk and policies for mitigating insurance risk (continued)

- Reinsurance strategy (continued)

Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the Society remains liable to the beneficiaries on these policies. From 1 September 1987 to 30 September 1992, the Society reinsured the mortality and investment risk on certain single premium immediate annuity business. This arrangement is now closed for new business, although the business reinsured continues to be in effect. Reinsurance premiums paid during the year amounted to \$3,447 (2022 - \$3,117).

The Society monitors the financial condition of its reinsurers to minimize its exposure to credit risk and has not incurred any such loss during the year, or in prior years, as a result of reinsurance transactions.

- Concentrations of insurance risk and policies mitigating concentrations

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Society's resources.

The Society has exposure to life and health lines of insurance business with very limited exposure to specialised areas of insurance. The Society's reinsurance policy limits the losses in any one class of business.

- Exposure relating to catastrophe events:

The Society sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Society uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of the Society.

The Society considers that its most significant exposure would arise in the event of deaths claims that are three times higher than expected in one year. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Society's policies for mitigating catastrophe risk exposure include the use of both proportional and non-proportional reinsurance. In the event of a major catastrophe, such as a tripling of death claims, the net retained loss is expected to represent less than \$17,810 (2022 - \$13,560).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### v. Insurance risk and policies for mitigating insurance risk (continued)

- Other risks and policies mitigating these risks:

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Fraud detection measures and procedures are also in place to manage the Society's ability to proactively detect fraudulent claims.

#### vi. Key risks arising from contracts issued

The Society issues insurance contracts, investment contracts and contracts that provide investors with interests in collective investment schemes managed by third-party investment managers. The nature and extent of the underwriting and financial risks arising from these contracts are determined by the contract design. The risks are evaluated for risk management purposes in conjunction with the risks mitigated by related reinsurance contracts and the risks arising from financial assets held to fund the settlement of the liabilities. The extent to which profit or loss and equity in any period are sensitive to financial risks depends on the extent to which they are economically hedged or borne by contract holders and the extent of any mismatches inherent in the accounting policies adopted by the Society.

#### Life risk and life savings contracts

Product	Key risks	Risk mitigation
Life risk		
Term insurance, critical and disability illness	<ul style="list-style-type: none"> <li>- Mortality risk: death of policyholder earlier than expected</li> <li>- Morbidity risk: diagnosis of critical illness earlier than expected</li> <li>- Policyholder behavioural risk</li> </ul>	<ul style="list-style-type: none"> <li>- Reinsurance with financially strong reinsurers</li> <li>- Experience studies</li> </ul>
Participating whole-life	<ul style="list-style-type: none"> <li>- Mortality risk</li> <li>- Interest rate risk: difference in duration and yield of assets and liabilities</li> <li>- Investment credit risk</li> </ul>	<ul style="list-style-type: none"> <li>- Reinsurance with financially strong reinsurers</li> <li>- Investing in investment grade assets</li> <li>- Experience studies</li> </ul>
Universal life / term 100 and endowments	<ul style="list-style-type: none"> <li>- Mortality risk</li> <li>- Interest rate risk: insufficient return on assets to cover guaranteed minimum credited rates</li> <li>- Policyholder behavioural risk</li> </ul>	<ul style="list-style-type: none"> <li>- Reinsurance with financially strong reinsurers</li> <li>- Experience studies</li> <li>- Management discretion to set crediting rates (subject to guaranteed rates)</li> <li>- Surrender penalties</li> </ul>
Life savings		
Guaranteed, term-certain annuities and segregated funds	<ul style="list-style-type: none"> <li>- Interest rate risk: insufficient return on assets to cover guaranteed minimum crediting rates</li> <li>- Investment credit risk</li> </ul>	<ul style="list-style-type: none"> <li>- Matching of assets and liabilities</li> <li>- Surrender penalties</li> <li>- Investment return and monitoring</li> <li>- Investing in investment grade Assets</li> </ul>

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### vi. Key risks arising from contracts issued (continued)

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Payout annuities	<ul style="list-style-type: none"><li>- Longevity risk</li><li>- Interest rate risk: insufficient return on assets to cover guaranteed minimum credited rates</li><li>- Investment credit risk</li></ul>	<ul style="list-style-type: none"><li>- Matching of asset and liability cash flows</li><li>- Investing in investment grade assets</li></ul>
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These key risks reflect only the downside risk to the Society. For most of these risks, there is also an upside risk.

All life risk and life savings payout annuity contracts expose the Society to significant insurance risk. Although mortality, morbidity and longevity experience may be affected by unexpected events (e.g. epidemics), the most significant changes to insurance risk factors (e.g. lifestyle changes, medical advances and improvements in social conditions) tend to occur over a long period of time. The longer the coverage period, the greater the Society's exposure to insurance risk.

Policyholder behaviour risk is a key risk for the majority of life risk policies in-force.

All life risk and life savings contracts expose the Society to interest rate risk. Interest rate risk arises from the extent to which the actual return on financial assets held to fund the settlement of liabilities differs from the expected return when the contracts were issued. This risk is most significant for guaranteed and term certain annuity contracts in the payment period and non-dividend paying whole life contracts because these contracts typically have longer durations. It is not always possible to obtain matching assets with similar durations and the Society does not have discretion to change the amounts of premiums or future payments to policyholders.

Term insurance and non-dividend paying whole-life contracts provide policyholders with a fixed lump sum payable on death. Term insurance contracts provide coverage over a fixed term. Term insurance premiums are level over the term of the contract. Non-dividend paying whole-life contracts provide coverage over the lifetime of the policyholder and have a surrender value after an initial period. The premiums for non-dividend paying whole-life contracts are level throughout the duration of the contracts.

Critical illness contracts are similar to term insurance but pay out a lump sum if the policyholder is diagnosed with an illness specified in the contract.

Payout annuity contracts provide policyholders with periodic payments over their lifetime or the lifetime of additional beneficiaries (if this is longer). The amount of each periodic payment may be fixed or changing over time based on a specified index.

Guaranteed interest annuity and deferred fixed annuity contracts provide policyholders with a return of principal plus a fixed rate of interest during the accumulation period. The policyholder has the right to surrender the contract during the accumulation period and receive the current account value less any surrender charges. The fixed rate of interest is guaranteed for the contract period.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### vi. Key risks arising from contracts issued (continued)

Universal life contracts provide policyholders with a lump sum benefit payable on death and access to an account value if the policyholder provided additional cash deposits beyond the minimum annual premium requirements. The account value of the additional cash deposits is credited daily based on the equity market returns of the selected investment products chosen by the policyholder or credited with interest for cash savings accounts at a rate of either a specified contractual rate or one set at the Society's discretion on a periodic basis.

#### Participating whole life contracts

Product	Key risks	Risk mitigation
Participating whole life	<ul style="list-style-type: none"><li>- Market risk: investment return on underlying items falling below guaranteed minimum rates</li><li>- Policyholder behavioural risk</li></ul>	<ul style="list-style-type: none"><li>- Management discretion to determine amount and timing of policyholder dividends (within limits)</li></ul>

All participating whole life contract holders receive a specified annual investment return based on a credited rate for a period of time as determined by the Society. The credited rate is set each calendar year based on various underlying items. Traditional participating whole life contracts provide policyholders with a guaranteed minimum return on premiums, or a minimum share in the performance of a clearly identified pool of underlying items (if it is higher). The actual share allocated to policyholders in any given period may be higher than the credited rate. Such profits do not have to be allocated to individual policyholders in the year in which they arise and the allocation may be deferred until later years.

#### Other contracts

Product	Key risks	Risk mitigation
Segregated funds (accumulation period)	<ul style="list-style-type: none"><li>- Market risk: insufficient fees to cover cost of guarantees and expenses</li><li>- Policyholder behavioural risk</li></ul>	<ul style="list-style-type: none"><li>- Hedging program</li><li>- Surrender penalties</li></ul>
Payout annuities (payment period)	<ul style="list-style-type: none"><li>- Longevity risk</li><li>- Interest rate risk: differences in duration and yield of assets and liabilities</li><li>- Investment credit risk</li></ul>	<ul style="list-style-type: none"><li>- Matching of assets and liability cash flows</li><li>- Investing in investment grade asset</li></ul>
Universal life equity-linked	<ul style="list-style-type: none"><li>- Market risk: insufficient fees to cover expenses</li><li>- Policyholder behavioural risk</li></ul>	<ul style="list-style-type: none"><li>- Surrender penalties</li></ul>

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### B. Insurance risk (continued)

#### vi. Key risks arising from contracts issued (continued)

A segregated fund is a type of investment fund that offers both investment growth potential and insurance protection. The contract holder invests their premium payments in various investment choice offerings. The premiums accumulate at the fair value returns of the funds less an expense charge. When the policy matures, or the contract holder dies, the benefit amount is equal to the market value of the accumulated premiums, subject to minimum guarantees as set by the Society. The risks arising from segregated fund contracts are primarily financial risks.

Traditional participating whole life insurance and segregated funds contracts also transfer insurance risk. These contracts are classified as direct participating insurance contracts (see Note 32(A)). All other participating contracts are classified as financial instruments.

Risks associated with payout annuities include longevity, interest rate and credit risk, while universal life policies with policyholders having equity-linked side accounts where the fair value fluctuates based on market returns that exposes the Society to volatile fee income that could result in the Society not covering its direct expenses required to operate this contract feature. This risk is mitigated by charging penalties on both side account redemptions and the early surrender of contracts.

Assets backing the contract liabilities of life risk, life savings and investment contracts are itemized in the chart below:

	31 December 2023			31 December 2022 (adjusted)		
in thousands	Life risk life savings contracts	Investment contracts	Total	Life risk life savings contracts	Investments contracts	Total
Cash and cash equivalents	11,513	4,283	15,796	2,907	1,408	4,315
Financial investments	171,819	67,123	238,942	180,440	54,633	235,073
Receivables	1,094	493	1,587	1,348	226	1,574
Insurance contract assets	14,767	-	14,767	13,646	-	13,646
Reinsurance contract assets	13,818	-	13,818	12,798	-	12,798
<b>Total</b>	<b>213,011</b>	<b>71,899</b>	<b>284,910</b>	<b>211,139</b>	<b>56,267</b>	<b>267,406</b>

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 6. Risk and capital management (continued)

### C. Capital management

#### i. Regulatory capital

The Society monitors the amount of its capital available. The Society's policy is to maintain a strong capital base to maintain regulator, creditor and policyholder confidence and to sustain the future development of the business. The Society recognizes the impact of the level of capital on company earnings and the need to maintain a balance between the higher earnings that might be possible with greater levels of investment in the company to increase the competitiveness of the business and the advantages and security afforded by a stronger capital position.

The amount of capital deployed is dependent upon regulatory requirements as well as the Society's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans. The Society's practice is to maintain capital at a level that will exceed the relevant minimum regulatory capital requirements and the Society's internal target capital levels.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT). LICAT establishes the standards used by OSFI to assess whether a life insurer maintains adequate capital or an adequate margin to support risks specific to the life insurance business.

OSFI has established supervisory target levels of 100% for total ratio and 70% for core ratio. OSFI requires life insurance companies to maintain a minimum Core ratio of 55% and a Total ratio of 90%. The prime purposes of the Own Risk and Solvency Assessment (ORSA) report are to identify and assess the Society's material risks, as well as to determine an adequate amount of capital and its internal capital targets, so as to ensure the appropriateness of its risk management and of its current and likely future capital needs and solvency positions.

The Society's capital base consists of retained earnings and AOCI as shown on the consolidated statement of changes in surplus. OSFI has updated the LICAT 2023 capital guidance to reflect the adoption of IFRS 17 by life insurers in Canada.



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 6. Risk and capital management (continued)

### C. Capital management (continued)

#### i. Regulatory capital (continued)

The following table provides the capital and LICAT information and ratios for the Society:

	2023	2022
Tier 1 Capital	24,410	17,883
Tier 2 Capital	24,410	17,862
Available Capital	48,820	35,745
Surplus Allowance	17,300	19,087
Base solvency buffer	30,586	35,825
LICAT ratios:		
Core ratio	119%	87%
Total ratio	216%	153%

The Society has also established policies and procedures designed to identify, measure and report all material risks, as detailed in its ORSA report. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The board of directors reviews and approves the capital policy of the Society.

The Society's capital base is structured to exceed regulatory and internal capital targets while maintaining a capital efficient structure and desired capital ratios. Capital is managed on a basis under principles that consider all the risks associated with the business.

Appropriated equity represents a discretionary amount appropriated by the board of directors to provide for possible future fraternal benefits and activities.

The Society's capital adequacy is monitored through the Report on Financial Condition Testing (FCT). The purpose of the FCT report is to bring the attention of the board of directors to plausible threats to the Society's solvency and to actions which can be taken to lessen the likelihood of those threats or to offset the effects if a threat were to materialize. The report is prepared and reported to the board of directors annually.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 7. Fair value measurement

### A. Valuation models

The Society measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes unobservable inputs that have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Society recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change occurs.

Valuation techniques specific by our investment managers' activities related to various Society financial instruments classified as level 3 are reviewed in detail by the Society's chief financial officer (CFO) annually to validate their approach and judgements to value financial instruments and basis for final conclusion on financial asset valuation. In addition, the Society's Investment Management Committee (IMC) meets with investment managers routinely on various investment aspects, including; portfolio performance and fund valuation to ensure the performance reported are in alignment to the underlying investment holding and is reasonable to support the overall fund's fair value reported. Real estate pooled fund investment managers develop assumptions and inputs used in valuation techniques that adhere to internal valuation policies, follow industry valuation standards and incorporate the use of other third-party firms to support the valuation procedures.

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects the effect of non-performance risk.

For more information about the valuation models for financial instruments, see Note 8(A).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 7. Fair value measurement (continued)

### B. Valuation framework

The Society has an established control framework for the measurement of fair values. This framework includes the Society's finance and investment functions reviewing investment manager valuation reports to compare to quoted market prices, analytical reviews of fund valuation movement relative to other market related inputs and assessment of investment manager valuation approaches. These two functions report to the chief financial officer, with overall responsibility for overseeing and independently verifying all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- reasonability checks on fund valuation movement;
- annual review and validation process with investment managers for all measured assets;
- analysis and investigation of significant daily valuation movements on Level 1 and 2 measured assets; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month.

When third-party information – e.g. pricing services or independent property valuations – is used to measure fair value, the finance function team assesses and documents the evidence obtained from the third-parties to support the conclusion that these valuations meet the requirements of IFRS Standards. This includes:

- verifying that the broker, pricing service or independent property valuer is approved by the Society for use in pricing the relevant type of asset or liability;
- understanding how the fair value has been arrived at, the extent to which it reflects actual market transactions and whether it represents a quoted price in an active market for an identical instrument; and
- when prices for similar assets or liabilities are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the asset or liability subject to measurement.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 8: financial instruments;
- Note 21(B): investment property; and
- Note 22(A): owner-occupied property measured at fair value.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 8. Financial instruments – Classification and fair value

The carrying amounts of the Society's financial assets and liabilities are set out below.

In thousands of dollars	Note	31 December 2023			
		FVTPL - mandatory	FVTPL - designated	FVOCI – debt instruments	FVOCI – equity instruments
Cash and cash equivalents	17	-	-	-	-
Bonds and debentures		-	120,920	10,210	-
Mortgage loans on real estate		-	-	-	-
Mortgage pooled funds		-	74,262	-	2,379
Equity pooled funds		14,351	-	-	4,006
Equity securities		1,586	-	-	5,355
Mutual funds		1,290	-	-	-
Real estate pooled funds		-	22,534	-	-
Investment property	20	-	6,154	-	-
Receivables	19	-	-	-	-
Other assets	22	-	-	-	-
Segregated funds	30	44,750	-	-	-
<b>Total financial assets</b>		<b>61,977</b>	<b>223,870</b>	<b>10,210</b>	<b>11,740</b>
Payables	23	-	-	-	-
Investment contract liabilities	24	-	-	-	-
Loans	26	-	-	-	-
Other liabilities	27	-	-	-	-
Segregated fund liabilities		44,750	-	-	-
<b>Total financial liabilities</b>		<b>44,750</b>	<b>-</b>	<b>-</b>	<b>-</b>

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

31 December 2023		31 December 2022 (adjusted)					
Amortised cost	Total carrying amount	FVTPL - mandatory	FVTPL - designated	FVOCI – debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
20,387	20,387	-	-	-	-	7,142	7,142
-	131,130	-	107,765	10,140	-	-	117,905
4,000	4,000	-	-	-	-	10,116	10,116
-	76,641	-	52,600	-	2,231	-	54,831
-	18,357	23,212	-	-	4,165	-	27,377
-	6,941	8,990	-	-	5,506	-	14,496
-	1,290	1,213	-	-	-	-	1,213
-	22,534	-	31,177	-	-	-	31,177
-	6,154	-	5,711	-	-	-	5,711
2,561	2,561	-	-	-	-	2,284	2,284
801	801	-	-	-	-	581	581
-	44,750	50,530	-	-	-	-	50,530
27,749	335,546	83,945	197,253	10,140	11,902	20,123	323,363
3,712	3,712	-	-	-	-	4,118	4,118
81,261	81,261	-	-	-	-	61,533	61,533
3,310	3,310	-	-	-	-	3,301	3,301
5,549	5,549	-	-	-	-	5,221	5,221
-	44,750	50,530	-	-	-	-	50,530
93,832	138,582	50,530	-	-	-	74,173	124,703

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 8. Financial instruments – Classification and fair values (continued)

### A. Valuation models

The Society's classification of financial instruments and other assets and liabilities were made to eliminate or minimize accounting mismatches and to meet longer-term business objectives.

The Society's investment managers use widely recognized valuation models to determine the fair value of common and simple financial instruments – e.g. interest rate – that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities and exchange-traded derivatives. The availability of observable market prices and model inputs reduces the need for management judgement and estimation, and reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the investments and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Society after initial review and subsequent acceptance as appropriate, relies on investment manager proprietary valuation techniques or industry approaches, which are usually developed from recognized valuation models and other third-party service providers. Some or all of the significant inputs into these models may not be observable in the market and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include mortgage and real estate pooled funds and private equity securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of investment manager judgement and estimation in the determination of fair value.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit and liquidity risk related to the investment in pooled funds. Real estate and mortgage pooled funds and private equity is measured as level 3.

As part of the CFO's annual review of investment manager valuation processes, use of third-party appraisal service providers by an investment manager and the various assumptions and inputs involved in the valuation techniques recognizes the result can be inherently subjective and it yields ranges of possible estimates of fair value, and management uses judgement to select the most appropriate point in the range.

#### i. Valuation techniques for Level 1, 2 and 3 fair value measurements

Where quoted prices of financial assets and financial liabilities in active markets are not available, the following valuation techniques are typically used.

##### Debt and public equity securities

Discounted cash flow techniques are most commonly used for the valuation of debt securities. Discount rates are determined with reference to observable market transactions in instruments with substantially the same terms and characteristics, including the credit quality, the remaining term to repayment of the principal and the currency in which the payments are to be made. Debt securities are measured as level 2.

For equity securities, the valuation techniques employed generally involve determining a measure of sustainable earnings or dividends and then applying an appropriate current market multiple based on publicly available information for similar companies that have actively traded equity securities. Public equity securities are measured as level 1.

##### Investment contract liabilities

Investment contracts can be surrendered and units in consolidated funds can be redeemed by the holder at any time (see Note 6(F)(ii)). Accordingly, their fair value is not less than the amount payable on demand. The fair values are based on the fair value of the underlying items less any accrued fees and surrender charges.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 8. Financial instruments – Classification and fair values (continued)

### A. Valuation models (continued)

#### i. Valuation techniques for Level 1, 2 and 3 fair value measurements (continued)

#### Receivables, payables and other non-derivative financial liabilities

Fair value is determined based on the expected present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair values of payables and other nonderivative financial liabilities reflect their non-performance risk.

### B. Financial instruments measured at fair value

#### i. Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorized.

31 December 2023

In thousands of dollars

	Level 1	Level 2	Level 3	Total
<b>Financial investments</b>				
Cash and cash equivalents	20,387	-	-	20,387
Bonds and debentures	-	131,130	-	131,130
Mortgage loans on real estate	-	-	3,899	3,899
Mortgage pooled funds	-	-	76,641	76,641
Equity pooled funds	-	12,432	5,925	18,357
Equity securities	6,941	-	-	6,941
Mutual funds	1,290	-	-	1,290
Real estate pooled funds	-	-	22,534	22,534
Investment property	-	-	6,154	6,154
Segregated funds	-	44,750	-	44,750
	28,618	188,312	115,153	332,083

For the financial instrument profiled below, the amount of the provincial bonds backs the standby letter of credit requirements.

<b>Other</b>				
<b>Financial investments – pledged</b>				
Provincial bonds (excluding Expected Credit Loss)	-	4,790	-	4,790

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 8. Financial instruments – Classification and fair values (continued)

### B. Financial instruments measured at fair value (continued)

#### i. Fair value hierarchy (continued)

31 December 2022 (adjusted)  
In thousands of dollars

	Level 1	Level 2	Level 3	Total
<b>Financial investments</b>				
Cash and cash equivalents	7,142	-	-	7,142
Bonds and debentures	-	117,907	-	117,907
Mortgage loans on real estate	-	-	9,781	9,781
Mortgage pooled funds	-	-	54,831	54,831
Equity pooled funds	-	21,002	6,375	27,377
Equity securities	14,496	-	-	14,496
Mutual funds	1,213	-	-	1,213
Real estate pooled funds	-	-	31,177	31,177
Investment property	-	-	5,711	5,711
Segregated funds	-	50,530	-	50,530
	22,851	189,439	107,875	320,165

For the financial instrument profiled below, the amount of the provincial bonds backs the standby letter of credit requirements.

<b>Other</b>				
<b>Financial investments – pledged</b>				
Provincial bonds	-	4,672	-	4,672

There were transfers between Level 1, 2 and 3 for the years ended December 31, 2023 and December 31, 2022. Reassessment of investment manager net asset value (NAV) calculations were not directly observable for pooled public equity, mutual funds and segregated funds equity funds for end of trading day valuations. The total transfer amount was \$45,614 (2022 - \$55,167).



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 8. Financial instruments – Classification and fair values (continued)

### B. Financial instruments measured at fair value (continued)

#### ii. Recurring level 3 fair value measurements

#### Reconciliation

The following table shows a reconciliation from the opening balances to the closing balances for recurring fair value measurements in Level 3 of the fair value hierarchy and analyses the total gains and losses recognised in profit or loss and OCI during the year.

FVTPL				
<b>2023</b>				
In thousands of dollars	Bonds	Mortgages on real estate	Mortgage pooled funds	Equity pooled funds
Balance at 1 January	107,765	10,116	52,600	23,212
Total gains (losses) recognized in profit or loss	9,844	-	(406)	848
Recognized in OCI	-	-	-	-
Purchases	7,074	-	22,069	119
Sales and maturities	(3,763)	(6,456)	-	(9,706)
Transfers to level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Effects on movement in exchange rate	-	-	-	(122)
Movement in ECL	-	340	-	-
Balance at 31 December	120,920	4,000	74,263	14,351

FVTPL				
<b>2022 (adjusted)</b>				
In thousands of dollars	Bonds	Mortgages on real estate	Mortgage pooled funds	Equity pooled funds
Balance at 1 January	118,468	16,692	36,283	36,296
Total gains (losses) recognized in profit or loss	9,844	-	(197)	(3,549)
Recognized in OCI	-	-	-	-
Purchases	48,918	-	10,514	1,613
Sales and maturities	(37,307)	(6,804)	-	(11,509)
Transfers to level 3	-	-	-	-
Transfers out of level 3	-	172	-	-
Effects on movement in exchange rate	-	-	-	361
Movement in ECL	-	57	-	-
Balance at 31 December	107,765	10,116	52,600	23,212

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

FVTPL					FVOCI	
Equity securities	Mutual funds	Real estate pooled funds	Investment property	Investment contract liabilities	Bonds	Equity pooled funds
8,990	1,213	31,177	5,711	(61,533)	10,140	11,902
15	153	(3,414)	430	(2,521)	(22)	-
-	-	-	-	-	333	(202)
1,152	17	-	13	(27,740)	-	166
(8,540)	(93)	(5,228)	-	9,745	(152)	(109)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(31)	-	-	-	-	-	(19)
-	-	-	-	-	(89)	-
1,586	1,290	22,534	6,154	(81,779)	10,210	11,740

FVTPL					FVOCI	
Equity securities	Mutual funds	Real estate pooled funds	Investment property	Investment contract liabilities	Bonds	Equity pooled funds
15,191	1,480	27,266	5,858	(51,432)	19,138	13,892
(1,177)	(121)	2,736	-	-	(1,212)	-
-	-	-	-	(1,286)	(1,672)	(2,439)
(-)	26	1,175	-	(15,171)	-	751
(7,413)-	(172)	-	(147)	6,356	(6,030)	(384)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(110)	-	-	-	-	-	82
-	-	-	-	-	(84)	-
8,990	1,213	31,177	5,711	(61,533)	10,140	11,092

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 8. Financial instruments – Classification and fair values (continued)

### B. Financial instruments measured at fair value (continued)

#### iii. Recurring Level 3 fair value measurements (continued)

Level 3 FVTPL invested assets market sensitivity analysis

Although the Society believes that its estimates of fair value are appropriate, the use of different assumptions could lead to different measurements of fair value. 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 certain Level 3 assets. The analysis was based on a 25 basis points (0.25%) increase and a 25 basis points (0.25%) decrease in the related assumptions at 31 December.

	2023		2022	
	0.25% increase	0.25% decrease	0.25% increase	0.25% decrease
in thousands of dollars				
FVTPL assets:				
Real estate capitalization rates	(1,736)	1,909	(2,035)	2,242
Investment property yield rates	(317)	353	(299)	334
Mortgage	(54)	42	(85)	89

#### iv Solely payments of principal and interest disclosure

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Society's financial assets as at and for the year ending December 31, 2023 and 2022, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

2023	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	\$ 131,130	\$ 9,233	\$ -	\$ -
Stocks	-	-	6,941	(870)
Equity pooled funds	-	-	18,357	(1,600)
Mutual funds	-	-	1,290	153
Real estate pooled funds	-	-	22,534	(3,414)
Mortgage loan pooled funds	-	-	76,641	(425)
Mortgage loans on real estate	4,000	-	-	-
	\$ 135,130	\$ 9,233	\$ 125,763	\$ (6,156)

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 8. Financial instruments – Classification and fair values (continued)

### B. Financial instruments measured at fair value (continued)

#### iv Solely payments of principal and interest disclosure (continued)

2022 (adjusted)	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	\$ 117,905	\$ (17,935)	\$ -	\$ -
Stocks	-	-	14,496	(2,422)
Equity pooled funds	-	-	27,377	(5,050)
Mutual funds	-	-	1,213	(121)
Real estate pooled funds	-	-	31,177	2,736
Mortgage loan pooled funds	-	-	54,831	(1,186)
Mortgage loans on real estate	10,116	-	-	-
	\$ 128,021	\$ (17,935)	\$ 129,094	\$ (6,043)

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets:

Credit rating	2023	% of total	2022	% of total
	Carrying amount (fair value)		Carrying amount (fair value)	
AAA	\$ 5,079	2.4	\$ 5,001	2.7
AA	56,954	26.9	40,343	22.1
A	59,576	28.1	62,647	34.2
BBB	9,521	4.5	9,998	5.5
Unrated	80,641	38.1	64,947	35.5
	\$ 211,771	100.0	\$ 182,936	100.0

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 9. Insurance revenue

See accounting policies in Note 33(B)(iv).

In thousands of dollars	Life	Health	Annuity	Segregated Funds	Total
<b>2023</b>					
<b>Contracts measure under GMM</b>					
Amounts relating to changes in liabilities					
For remaining coverage					
CSM recognized for services provided	2,661	120	7	114	2,902
Change in risk adjustment for non-financial risk expired	1,075	32	4	31	1,142
Expected incurred claims and other insurance service expenses	8,754	377	363	885	10,379
Other	128	(1)	-	-	127
Recovery of insurance acquisition cash flows	3,785	2	3	-	3,790
<b>Total insurance revenue</b>	<b>16,403</b>	<b>530</b>	<b>377</b>	<b>1,030</b>	<b>18,340</b>

In thousands of dollars	Life	Health	Annuity	Segregated Funds	Total
<b>2022</b>					
<b>Contracts measured under GMM</b>					
Amounts relating to changes in liabilities					
For remaining coverage					
CSM recognized for services provided	3,494	124	15	159	3,792
Change in risk adjustment for non-financial risk expired	952	36	4	38	1,030
Expected incurred claims and other insurance service expenses	8,504	384	363	1,092	10,343
Other	(44)	2	-	-	(42)
Recovery of insurance acquisition cash flow	2,581	1	2	-	2,584
<b>Total insurance revenue</b>	<b>15,487</b>	<b>547</b>	<b>384</b>	<b>1,289</b>	<b>17,707</b>

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 10. Investment return and net financial result

The following table analyses the Society's net financial result in profit or loss.

		2023				
in thousands of dollars	Note	Life	Health	Annuity	Other	Total
<b>Investment return</b>						
Interest revenue from financial assets not measured at FVTPL	11	365	-	274	463	1,102
Other investment revenue:						
Other investment revenue	11	7,168	157	4,207	1,726	13,258
Net gains/(losses) on FVTPL investments		7,155	146	33	(127)	7,207
Net realized gains/(losses) on FVOCI investments		-	-	-	(22)	(22)
Total gross other investment revenue		14,323	303	4,240	1,577	20,443
Investment expenses		(831)	(7)	(200)	(63)	(1,101)
Total other investment revenue		13,492	296	4,040	1,514	19,342
Net impairment loss on financial assets						
Expected credit gain (loss) – commercial mortgages		-	-	340	-	340
Expected credit loss – bonds		-	-	-	(75)	(75)
Total net impairment loss on financial assets		-	-	340	(75)	265
Total investment return		13,857	296	4,654	1,902	20,709
<b>Net financial expenses from insurance contracts</b>						
Interest accreted		(7,753)	(151)	(115)	-	(8,019)
Effect of changes in interest rates and other financial assumptions		(3,776)	(419)	(194)	-	(4,389)
Net insurance finance income and expense		(11,529)	(570)	(309)	-	(12,408)
Finance income/(expense) from segregated funds contracts		-	-	-	(114)	(114)
Total net finance expenses from insurance contracts		(11,529)	(570)	(309)	(114)	(12,522)
<b>Net finance expense from reinsurance contracts</b>						
Interest accreted		203	76	4	-	283
Other		97	195	7	-	299
Total net finance income from reinsurance contracts		300	271	11	-	582
Total financial result excluding investment contract liabilities		2,628	(3)	4,356	1,788	8,769
Credited interest for investment contract liabilities		-	-	(2,521)	-	(2,521)
Total net financial result		2,628	(3)	1,835	1,788	6,248

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 10. Investment return and net financial result (continued)

The following table analyses the Society's net financial result in profit or loss. (continued)

in thousands of dollars		2022				
	Note	Life	Health	Annuity	Other	Total
<b>Investment return</b>						
Interest revenue from financial assets not measured at FVTPL		296	-	279	715	1,290
Other investment revenue:						
Other investment revenue		7,112	143	2,446	1,642	11,343
Net gains/(losses) on FVTPL investments		(23,714)	(247)	(1,906)	(513)	(26,380)
Net gains/(losses) on FVOCI investments		-	-	-	(1,212)	(1,212)
Total gross other investment revenue		(16,602)	(104)	540	(83)	(16,249)
Investment expenses		(826)	(6)	(169)	(65)	(1,066)
Total other investment revenue		(17,428)	(110)	371	(148)	(17,315)
Net impairment loss on financial assets						
Expected credit loss – commercial mortgages		228	-	(40)	-	188
Expected credit loss – bonds		-	-	-	51	51
Total net impairment loss on financial assets		228	-	(40)	51	239
Total investment return		(16,904)	(110)	610	618	(15,786)
<b>Net financial expenses from insurance contracts</b>						
Interest accreted		(5,115)	(121)	(68)	-	(5,304)
Effect of changes in interest rates and other financial assumptions		23,868	1,444	560	-	25,872
Net insurance finance income and expense		18,753	1,323	492	-	20,568
Finance income/(expense) from segregated funds contracts		-	-	-	-	-
Total net finance expenses from insurance contracts		18,753	1,323	492	-	20,568
<b>Net finance income from reinsurance contracts</b>						
Interest accreted		93	60	5	-	158
Other		(68)	(711)	(12)	-	(791)
Total net finance income from reinsurance contracts		25	(651)	(7)	-	(633)
Total financial result excluding investment contract liabilities		1,874	562	1,095	618	4,149
Credited interest for investment contract liabilities		-	-	(1,286)	-	(1,286)
Total net financial result		1,874	562	(191)	618	2,863

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 11. Other investment revenue

in thousands of dollars	Note	2023	2022
<b>Underlying items</b>			
Net gains on financial instruments mandatorily measured at FVTPL			
Bond interest income		4,982	4,571
Pooled fund public and private distributions		5,112	3,647
Stock dividend distributions		1,019	961
Real estate pooled fund distributions		1,157	1,220
Lease income on investment property		988	944
Total		13,258	11,343
Net change in fair value of investment property		574	-
Net change in fair value changes in financial instruments		2,972	(23,385)
Realized gains/(losses) on financial instruments		3,639	(4,207)
Total		7,185	(27,592)
Total investment revenue measured at FVTPL		20,443	(16,249)
Net gains of financial instruments not measured at FVTPL			
Bond interest income		433	706
Interest income short-term investments		220	45
Other investment income at AC		449	439
Total investment revenue not measured at FVTPL		1,102	1,290
Total gross investment income		21,545	(14,959)

## 12. Other income

in thousands of dollars	2023	2022
Sales commissions	37	117
Foreign exchange	(66)	234
Miscellaneous income	20	1
Total Other Income (loss)	(9)	352



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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Year ended 31 December 2023

## 13. General expenses

in thousands of dollars	2023	2022
Employee benefits	10,510	9,012
Depreciation and amortization	2,130	1,889
Policy administration outsourcing costs	1,547	1,688
Computer services	1,659	1,360
Advertising	376	284
Consulting and professional services	2,133	2,032
Rent and insurance	524	522
Other	3,494	3,500
Total general expenses	22,373	20,287
Less: amounts attributed to insurance acquisition cash flows incurred during the year	13,744	13,500
Less: investment expense	1,101	1,054
Less: other costs	272	598
Other operating and overhead expenses	7,256	5,135

## A. Employee benefits expense

in thousands of dollars	2023	2022
Salary and bonus	7,783	6,994
Health and other benefits	1,452	1,381
Retirement benefits	1,275	637
	10,510	9,012

## 14. Other finance costs

in thousands of dollars	Note	2023	2022
Interest on subordinated note	27	259	249
Bank service fees		70	74
		329	323

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 15. Employee benefit assets and liabilities

Included in other liabilities is the accrued benefit liability attributable to the Society's defined benefit pension plan, supplemental retirement arrangement ("SRA") and post-employment health, dental and life benefits. Details of the plan are as follows:

### A. Pension plan

The Society maintains a pension plan which has a defined benefit and a defined contribution component.

#### i. Plan provisions

Retirement benefits under the defined benefit component are based on the length of pensionable service and on the average of 60 consecutive months' earnings that gives the highest average. The Pension Plan allowed voluntary contributions effective 1 January 1991 to 31 December 2018. Members contribute up to 4% of the portion of salary above the Year's Maximum Pensionable Earnings (YMPE) into the employee's Money Purchase Account, with 75 percent of the employee contributions being matched by the employer and accumulated in the employer's Money Purchase Account. For an employee who was a member as of 31 December 1990, the pension for post 1990 service is subject to a minimum pension amount based on the past service pension formula and the level of accumulated voluntary contributions.

Retirement benefits under the defined contribution component are calculated from the contributions to the plan based on a percentage of each employee's pensionable earnings, voluntary contributions by employees and the investment income earned on those contributions. The assets of the plan are held separately from those of the Society in funds under control of the trustees. On 7 March 2023 the Society completed a transaction to annuitize the majority of the defined benefit pension plan seeing 91% (\$4,312 thousand) of the pension plan liability transferred to another Canadian life insurance company.

#### ii. Regulatory framework

The pension plan is registered under the *Pension Benefits Act* of Ontario and with the *Canada Revenue Agency*.

Under the *Pension Benefits Act* of Ontario, the employer is required to make contributions to fully finance the defined benefit plan over a period of time, in order to constitute the benefits as defined by the plan provisions. The value of these benefits is determined in actuarial valuations at least once every three years or on an annual basis if the market value of assets does not exceed 85% of the liability on the solvency basis.

According to the most recent actuarial valuation for funding purposes as at 1 January 2023, the plan has a surplus on a going-concern basis and has a solvency ratio greater than 85%. Thus, the employer is not required to contribute any amortization payments related to the going concern or solvency positions of the plan.

The employer will continue to contribute \$50,000 to the plan each year to fund expected expenses related to the operation of the plan.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 15. Employee benefit assets and liabilities (continued)

### A. Pension plan (continued)

#### ii. Regulatory framework (continued)

The *Income Tax Act* restricts employer contributions to the defined benefit plan if the assets exceed 125% of the liabilities on the going-concern basis. Any surplus in excess of 25% of the liabilities must be used by the employer to take a contribution holiday or may be used to grant benefit improvements, unless the plan is in a deficit position on a solvency basis. If there is a solvency deficit, contributions must be made so as not to impair the position of the plan.

According to the plan provisions, the employer may use surplus to take a contribution holiday or to satisfy employer service cost requirements under the pension plan.

#### iii. Plan governance

In accordance with the *Pension Benefits Act* of Ontario and the *Income Tax Act*, the Society is the administrator of the plan and is ultimately responsible for all aspects of the plan, including administration, financial management, oversight and compliance with legislative requirements and plan documents. Some of the duties for which the administrator is responsible have been delegated, where appropriate, to a pension committee or third-party advisors. The administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities with respect to the plan.

#### iv. Funding arrangement and funding policy

The Society has adopted a funding practice to make the minimum required contributions as required by law or such greater amount as the employer may deem appropriate.

### B. Supplemental retirement arrangement

The Society maintains a SRA for certain retirees of the Society under various agreements signed with each member. The SRA provides pension benefits that top up the defined benefit pension under the pension plan.

The SRA is not registered with any of the provincial or federal pension benefits acts. The benefits in this arrangement are not pre-funded. Future payments for current retirees are secured by Letters of Credit established by the employer.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
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## 15. Employee benefit assets and liabilities (continued)

### C. Post-retirement benefits plan

The Society maintains a post-retirement benefits plan which provides post-retirement benefits coverage (health, dental and life insurance) on a covered employee's retirement. The benefits plan has been closed to new hires. All employees who retired prior to 31 March 2015 are eligible for post-retirement benefits. The benefits plan is not registered under any of the provincial or federal pension benefits acts. The benefits in this arrangement are not pre-funded.

### D. Defined benefit plan risks

Risks associated with this plan are similar to those of typical defined benefit plans, including market risk, interest rate risk, liquidity risk, credit risk, currency risk, longevity risk, etc. There are no significant risks associated with this plan that could be deemed unusual or require special disclosure.

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. The duration of the defined benefit obligation as at 31 December 2023 is 12.9 years for the pension plan and 8.0 years for the supplemental and post-retirement plans (collectively, the other benefit plans).

The fair value of plan assets for the Society's pension plan is as follows:

in thousands of dollars

	2023		2022	
	Amount	Percent	Amount	Percent
Fixed income funds	231	30.9	1,312	25.6
Mortgage funds	100	13.4	644	12.6
Real Estate funds	65	8.7	587	11.5
Equity funds	345	46.2	2,578	50.3
Cash and equivalents	6	0.8	-	-
	747	100%	5,121	100%

Information about the Society's registered pension plan and other benefit plans is as follows:

In thousands of dollars

	Registered pension plan		Other benefit plans	
	2023	2022	2023	2022
Defined benefit obligation	1,083	4,470	5,260	5,132
Fair value of plan assets	747	5,120	-	-
Funded status - plan surplus (deficit)	(336)	650	(5,260)	(5,132)
Accrued benefit liability	-	-	5,260	5,132

In the past, the Society has periodically provided increases in registered pension benefits paid to retirees, commonly referred to as "indexing," to reflect inflation levels. Such indexing increases are discretionary. They are not contractual or obligatory, either in amount or frequency. The accrued benefit obligation for the registered pension plan has been calculated assuming no future indexing.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 15. Employee benefit assets and liabilities (continued)

### D. Defined benefit plan risks (continued)

The supplemental pension obligation to retired and current executives is an integral part of the compensation plan for these individuals. Payments to retired executives are contractual. Future payments to current executives are contingent on their meeting certain service and vesting requirements.

The current and potential future obligation is unfunded. In connection with this arrangement, the Society has acquired a Letter of Credit from a financial institution to secure the future required payments to current retirees. See Note 6 (E)(vi).

Accrued benefit liabilities are included in other liabilities on the statement of financial position. Of the accrued liability of \$5,260 (2022 - \$5,132) for other benefit plans, \$1,510 (2022 - \$1,485) is for post-retirement health benefits, and \$3,750 (2022 - \$3,647) is for current and potential future supplemental pension obligations to retired and current executives.

#### i. Actuarial assumptions

The significant actuarial assumptions adopted in measuring the Society's accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	Registered pension plan		Other benefit plans	
	2023	2022	2023	2022
Measurement date	December 31		December 31	
Effective date of last actuarial valuation	January 1, 2023		January 1, 2023	
Date of next required actuarial valuation for funding purposes	January 1, 2026		January 1, 2026	
Discount rate, beginning of year	5.00%	3.00%	5.00%	3.00%
Discount rate, end of year	4.60%	5.00%	5.00%	5.00%
Rate of compensation increase	3.00%	3.00%	0.00%	0.00%
Annual inflation indexing factor	0.00%	0.00%	0.00%	0.00%
Health care trend rate assumed				6.5% gradually reducing to 4.50% in 2033 and thereafter
Dental care trend rate assumed	-	-	4.5%	4.5%

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 15. Employee benefit assets and liabilities (continued)

### D. Defined benefit plan risks (continued)

#### ii. Sensitivity analysis

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

#### Pension plan

In thousands of dollars	2023	2022
Discount rate: 4.35% (instead of 4.60%); 2022 4.75% (instead of 5.00%)	37	189
Discount rate: 4.85% (instead of 4.60%); 2022 5.25% (instead of 5.00%)	(36)	(181)
Salary/YMPE Growth: 3.75%/2.75% (instead of 4.00%/3.00%); 2022 (2.75%/2.25% (instead of 3.00%/2.50%))	(12)	(43)
Salary/YMPE Growth: 4.25%/3.25% (instead of 4.00%/3.00%); 2022 (3.25%/2.75% (instead of 3.00%/2.50%))	12	44

#### Post-retirement benefit plan

in thousands of dollars	2023		2022	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect of change in trend rate on health care				
Current service and interest cost impact - for 2023	5	(5)	5	(5)
Defined benefit obligation impact - 31 December 2023	111	(97)	100	(88)
Effect of change in trend rate on dental care				
Current service and interest cost impact - for 2023	2	(2)	2	(2)
Defined benefit obligation impact - 31 December 2023	36	(32)	32	(28)

#### iii. Other information about the Society's benefit plans

in thousands of dollars

	Registered pension plan		Other benefit plans	
	2023	2022	2023	2022
Accrued benefit obligation, beginning of year	4,470	6,830	5,132	6,523
Interest cost	118	193	245	189
Benefits paid	(162)	(768)	(478)	(484)
Defined liabilities extinguished on settlement	(4,061)	-	-	-
Actuarial (gain) loss	718	(1,785)	361	(1,096)
Accrued benefit obligation, end of year	1,083	4,470	5,260	5,132
Fair value of plan assets, beginning of year	5,120	6,230	-	-
Expected return on plan assets	146	176	-	-
Employer contributions	70	84	478	484
Benefits paid	(162)	(768)	(478)	(484)
Assets distributed on settlement	(4,312)	-	-	-
Actuarial gain (loss)	(2)	(557)	-	-
Administration cost	(113)	(45)	-	-
Fair value of plan assets, end of year	747	5,120	-	-

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 15. Employee benefit assets and liabilities (continued)

### D. Defined benefit plan risks (continued)

#### iii. Other information about the Society's benefit plans (continued)

in thousands of dollars	Registered pension plan		Other benefit plans	
	2023	2022	2023	2022
Current service cost	-	-	-	-
Administration cost	113	45	-	-
Loss on settlement	251	-	-	-
Interest cost	118	193	245	189
Expected return on plan assets	(146)	(176)	-	-
Net benefit plan expense	336	62	245	189

Of the net benefit plan expense of \$245 (2022 - \$189) for other benefit plans, expense of \$72 (2022 - \$55) is for post-retirement health, dental and life benefits and \$173 (2022 - \$134) is for current and potential supplemental pension obligations to retired and current executives.

The cost recognized for the Society's defined contribution plan is \$482 (2022 - \$488). These amounts are not included in the cost recognized for the defined benefit plan above.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 16. Income taxes

Income tax expense is composed of the following:

in thousands of dollars	2023	2022
		adjusted
Current tax expense:		
Current period	141	48
Adjustments for prior periods	-	3
		51
Deferred tax expense:		
Origination and reversal of temporary differences	2,300	2,540
Change in unrecognized deductible temporary differences	(2,300)	(2,540)
	-	-
Total corporate tax expense	141	51

No corporate tax expense has been recognized directly in accumulated other comprehensive income.

Reconciliation of effective tax rate:

	2023	2022
		Adjusted
Net income (loss) before tax	(3,062)	(5,176)
Income tax using the Society's tax rate	(804)	(1,347)
Non-deductible expenses	14	12
Tax exempt revenues	(1,473)	(211)
Change in other deductible temporary differences	2,300	2,540
Under (over) provided in prior years	-	-
Loss (gain) on available-for-sale securities	28	(1,048)
Other differences	76	105
Total corporate tax expense	141	51

With the Society's transition to the IFRS 17 accounting standard no deferred tax asset was recorded due to the immaterial amount. The federal tax legislation related to the adoption of IFRS 17 became effective 1 January 2023. The 1 January 2022 opening statement of financial position differences between IFRS 4 and IFRS 17 contract liabilities reflected in retained earnings on adoption have been treated as temporary differences. The tax transition adjustment for the impact of converting contract liabilities and the non-deductible portion of the CSM was calculated at 1 January 2023 and taken over 5 years.



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 16. Income taxes (continued) Corporate taxes (continued):

Unrecognized deferred tax assets:

The Society has deductions available to reduce future income subject to income taxes in future years of \$21,653 (2022 - \$26,395) with additional Ontario tax credits of \$1,603 (2022 - \$1,441). These losses expire between 2027-2042. The following deferred tax assets have not been recognized in respect of these items because it is not yet considered probable that future taxable profit will be available against which the Society can utilize the benefits.

in thousands of dollars	2023	2022 adjusted
Deductible temporary differences	3,955	674
Tax losses	5,682	6,867
Ontario tax credits	1,603	1,441
	11,240	8,982

## 17. Cash and cash equivalents

in thousands of dollars	2023	2022
Bank and cash balances	14,709	5,392
Short-term investments	5,678	1,750
	20,387	7,142

The effective interest rate on short term investments at consolidated statement of financial position date is 5.17% (2022 – 4.30%), with an average maturity of 56 days (2022 - 42 days).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 18. Financial investments

See accounting policies in Note 33(D).

	Underlying items					
2023				Segregated		
in thousands of dollars	Life	Health	Annuity	Funds	Other	Total
<b>Financial instruments</b>						
Cash and cash equivalents	9,594	110	4,477	2,555	3,651	20,387
Bonds and debentures	101,004	1,383	7,431	-	21,312	131,130
Mortgage loans on real estate	1,611	-	2,165	-	224	4,000
Mortgage pooled funds	15,714	1,453	56,510	-	2,964	76,641
Equity pooled funds	8,332	-	4,053	-	5,973	18,358
Equity securities	925	-	-	-	6,015	6,940
Mutual funds	1,290	-	-	-	-	1,290
Real estate pooled funds	20,664	-	-	-	1,870	22,534
Investment property	-	-	-	-	6,154	6,154
Segregated funds	-	-	-	44,750	-	44,750
	159,134	2,946	74,636	47,305	48,163	332,184

	Underlying items					
2022 adjusted				Segregated		
in thousands of dollars	Life	Health	Annuity	Funds	Other	Total
<b>Financial instruments</b>						
Cash and cash equivalents	2,271	52	1,472	1,223	2,124	7,142
Bonds and debentures	86,416	1,196	9,885	-	20,408	117,905
Mortgage loans on real estate	3,124	-	6,758	-	234	10,116
Mortgage pooled funds	14,861	1,362	35,828	-	2,780	54,831
Equity pooled funds	16,164	-	4,633	-	6,580	27,377
Equity securities	8,346	-	-	-	6,150	14,496
Mutual funds	1,213	-	-	-	-	1,213
Real estate pooled funds	28,836	-	-	-	2,341	31,177
Investment property	-	-	-	-	5,711	5,711
Segregated funds	-	-	-	50,530	-	50,530
	161,231	2,610	58,576	51,753	46,328	320,498

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 19. Financial assets and liabilities

The following table presents financial assets and liabilities that the Society expects to recover or settle in 12 months or greater at 31 December.

	2023	2022 adjusted
Bonds and debentures	131,130	115,306
Stocks	6,941	14,496
Equity pooled funds	18,357	27,377
Mutual funds	1,290	1,213
Mortgage loans on real estate	2,145	3,755
Mortgage loan pooled funds	76,641	54,831
Real estate pooled funds	22,534	31,177
Reinsurance contract assets	13,818	5,138
Receivables	434	360
Segregated fund assets	44,750	50,530
<b>Total assets</b>	<b>318,040</b>	<b>304,183</b>
Insurance contract liabilities	192,305	190,572
Investment contract liabilities	49,995	37,603
Reinsurance contract liabilities	3,582	2,984
Segregated fund liabilities	44,750	50,530
Subordinated debt	3,309	3,423
Other liabilities	5,549	5,221
<b>Total liabilities</b>	<b>299,490</b>	<b>290,333</b>

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 20. Receivables

in thousands of dollars	2023	2022 Adjusted
Tenant leaseholds	73	12
Taxes	704	618
Accrued investment income	1,542	1,462
Other	242	192
Total	2,561	2,284

Tenant and other receivables are shown net of impairment losses. Impairment losses in the current period amount to \$nil (2022 – \$nil).

Of the total receivables, \$434 (2022: \$360) is expected to be recovered more than 12 months after the reporting date.

## 21. Investment property

Investment property comprises one commercial property held in Ontario that is owned outright by the Society which a portion of the property is leased to third parties under operating leases. Each of these leases contains their own unique lease terms ranging from 1-year up to 10-year lease terms all non-cancellable. Leases include options to extend at the end of the term and historically the average renewal period is 2-years.

Re-appraisal valuations are typically completed in the third quarter of the fiscal calendar year.

### A. Reconciliation of carrying amount

In thousands of dollars	Note	2023	2022
Balance at 1 January	20(A)	5,711	5,858
Improvements		13	0
Net change in fair value		574	0
Depreciation		(144)	(147)
Balance at 31 December		6,154	5,711

Changes in fair values are recognized as gains in profit or loss and included in 'other investment revenue', of which \$574 (2022: nil) is attributable to investment property held at the reporting date.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## 21. Investment property (continued)

### B. Measurement of fair value

#### i. Fair value hierarchy

The fair value of investment property was determined by an external independent property appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraiser provides the fair value of the Society's investment property portfolio every twelve months.

The fair value measurement for all of the investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 8).

#### ii. Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property and the significant unobservable inputs used.

##### a. Valuation technique

The investment property valuation has been completed by a third-party appraiser. The income and direct comparison approaches have been used in completing the building appraisal. In the income approach, the valuation model considers the net cashflows generated, future expected rental rates, occupancy levels, future expected operating costs and costs not recovered from tenants. The net cashflows are discounted using a risk-adjusted discount rate. The discount rate estimation considers the building quality, its location (prime vs secondary), tenant credit quality and lease terms.

The direct comparison approach, the investment property is compared to similar properties that have sold or are offered for sale in the open market. It is assumed that the property would have been in competition with the comparables if exposed to the market at the same time. Actions of vendors and purchasers in the market would have reflected economic conditions and property attributes at the time of the exposure. Appropriate adjustments are made to the comparables to reflect the market recognized differences between the investment property and the comparables used in the valuation.

Both approaches resulted in a similar property valuation.

##### b. Unobservable inputs

Future expected market rental demand levels and expected rental rates are influenced by increased levels of remote work potentially impacting demand for space and occupancy levels, supply of comparable rental space in the marketplace, tenant inducement costs required to attract and retain tenants and the determined risk-adjusted discount rate.

##### c. Fair value measurement sensitivity to unobservable inputs

The estimated fair value would increase (decrease) if:

- Expected market rental demand were higher (lower);
- Expected rental rates were higher (lower);
- Occupancy levels were higher (lower);
- Marketplace rental supply is lower (higher);
- Tenant inducement costs are lower (higher); and
- The risk-adjusted discount rate were lower (higher).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 21. Investment property (continued)

### C. Maturity value of lease payments

The following table sets out a maturity analysis of tenant lease payments and their share of the expected operating expenses, showing the undiscounted lease payments to be received after the reporting date.

in thousands of dollars	2023	2022
Less than one year	627	644
One to two years	351	627
Two to three years	272	351
Three to four years	143	272
Four to five years	101	143
More than five years	284	385
Total	1,778	2,422

The Society owns the building complex which is segmented between for investment property purposes and own-use purposes. The company utilizes 55% of the complex's total rentable square footage, while the investment property is the remaining 45%.

## 22. Property and equipment

	2023	2022
in thousand of dollars		
Owner-occupied property measured at fair value	7,762	7,105
Other property and equipment owned	395	394
Balance at 31 December	8,157	7,499

### A. Owner-occupied property measured at fair value

#### i. Reconciliation of carrying amount

	2023	2022
in thousand of dollars		
Balance at 1 January	7,105	7,175
Improvements	195	175
Net change in fair value	690	-
Depreciation	(228)	(245)
Balance at 31 December	7,762	7,105

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

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## **22. Property and equipment (continued)**

### **A. Owner-occupied property measured at fair value (continued)**

#### **i. Reconciliation of carrying amount (continued)**

The owner-occupied property is measured at fair value. Changes in fair values are recognized to the revaluation reserve within equity other reserves. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other changes are recognized in profit or loss.

#### **ii. Measurement of fair value**

The fair value of the owner-occupied property at the reporting date was determined by an external independent property appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued. The independent appraiser provides the fair value of the Society's owner-occupied property portfolio every twelve months.

The fair value measurement for the owner-occupied property has been categorized as a Level 3 fair value based on the inputs to the valuation technique used (see Note 7(A)). The valuation techniques and significant unobservable inputs used in measuring the fair values of owner-occupied properties are consistent with those applied to the investment property at the reporting date (see Note 21 (B)).

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 22. Property and equipment (continued)

### B. Other property and equipment owned

	Land and Buildings	IT equipment	Fixture and fittings	Total	Intangible assets
<b>Cost</b>					
Balance at 1 January 2022	7,819	1,600	1,200	10,619	14,242
Additions	175	266	73	514	1,296
Balance, 31 December 2022	7,994	1,866	1,273	11,133	15,538
Balance at 1 January 2023	7,994	1,866	1,273	11,133	15,538
Additions	195	86	45	326	396
Net change in fair value	690	-	-	690	-
Balance, 31 December 2023	8,879	1,952	1,318	12,149	15,934
<b>Accumulated depreciation:</b>					
Balance 1 January 2022	(644)	(1,501)	(1,165)	(3,310)	(9,277)
Depreciation	(245)	(58)	(21)	(322)	(1,462)
Balance, 31 December 2022	(889)	(1,559)	(1,186)	(3,634)	(10,739)
Balance 1 January 2023	(889)	(1,559)	(1,186)	(3,634)	(10,739)
Depreciation	(228)	(101)	(29)	(358)	(1,669)
Balance, 31 December 2023	(1,117)	(1,660)	(1,215)	(3,992)	(12,408)
<b>Carrying amounts</b>					
At 1 January 2022	7,175	99	35	7,309	4,965
At 31 December 2022	7,105	309	87	7,499	4,799
At 31 December 2023	7,762	292	103	8,157	3,526

### C. Intangible assets

Software is measured at cost less accumulated amortization and accumulated impairment losses.

Expenditure on internally and third-party developed software is recognized as an asset only if the Society can demonstrate the technical feasibility to complete the development of the software, its intention and the availability of resources to complete the development and to use the software and its ability to use the software in a manner that will generate probable future economic benefits and to measure the expenditure reliably.

Subsequent expenditure on developed software is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Please see note 22(B).

All other expenditure is recognized in profit or loss as it is incurred.



# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 23. Other assets

	2023	2022
in thousand of dollars		
Prepaid expenses	800	577
Other	1	6
<b>Balance at 31 December</b>	<b>801</b>	<b>583</b>

## 24. Payables

	2023	2022
in thousands of dollars		
Accrued expenses	3,157	2,609
Other	555	1,509
<b>Total</b>	<b>3,712</b>	<b>4,118</b>

Of the total payables, \$nil (2022: nil) is expected to be settled more than twelve months after the reporting date.

## 25. Investment contract liabilities

See accounting policies in Note 33(C).

	2023	2022
in thousands of dollars		
Balance at 1 January	61,533	51,432
<b>Amounts recognized in profit or loss</b>		
Interest credited	2,521	1,286
Total expenses	2,521	1,286
<b>Cash flows</b>		
Contributions received	27,470	15,172
Withdrawals	(8,009)	(4,642)
Benefits paid	(1,736)	(1,715)
<b>Balance at 31 December</b>	<b>81,779</b>	<b>61,533</b>

Of the totals above, \$49,975 (2022: \$37,603) of the investment contract liabilities are expected to be settled more than 12 months after the reporting date.

These liabilities have various contractual maturity dates, and the holders can withdraw their funds at any time prior to the maturity date with the applicable early surrender penalty fee related to the deposit.

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts

See accounting policies in Note 33(B).

in thousands of dollars	Life risk	Life savings	Segregated Funds	Total
<b>31 December 2023</b>				
<b>Insurance contracts</b>				
Insurance contract liabilities	191,576	3,699	(1,081)	194,194
Insurance contract liabilities for accounts of segregated fund holders	-	-	44,750	44,750
	191,576	3,699	43,669	238,944
<b>Insurance contract assets</b>				
Insurance contract balances				
Assets for insurance	14,767	-	-	14,767
<b>Reinsurance contracts</b>				
Reinsurance contract assets	13,657	161	-	13,818
Reinsurance contract liabilities	3,981	-	-	3,981
<b>31 December 2022</b>				
<b>Insurance contracts</b>				
Insurance contract liabilities	190,619	3,171	(1,369)	192,421
Insurance contracted liabilities for accounts of segregated fund holders	-	-	50,530	50,530
	190,619	3,171	49,161	242,951
<b>Insurance contract assets</b>				
Insurance contract balances				
Assets for insurance	13,646	-	-	13,646
<b>Reinsurance contracts</b>				
Reinsurance contract assets	12,581	217	-	12,798
Reinsurance contract liabilities	3,656	-	-	3,656

The following table sets out the carrying amounts of insurance and reinsurance contracts expected to be (recovered) settled more than 12 months after the reporting date.

in thousands of dollars	2023	2022
Insurance contract assets	9,790	9,047
Insurance contract liabilities	191,105	190,483
Reinsurance contract assets	13,421	12,130
Reinsurance contract liabilities	3,981	3,656

# FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### i. Life risk

Insurance contracts

Analysis by remaining coverage and incurred claims

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in thousands of dollars

Opening assets

Opening liabilities

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**Net opening balance**

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**Changes in the statement of profit or loss**

**Insurance revenue**

Contracts under the full retrospective transition approach

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**Insurance service expenses**

Incurred claims and other insurance service expenses

Amortization of insurance acquisition cash flows

Losses and reversals of losses on onerous contracts

Adjustments to liabilities for incurred claims

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Investment components and premium refunds

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**Insurance service result**

Net finance expenses from insurance contracts

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**Total changes in the statement of profit or loss**

---

**Cash flows**

Premiums received

Claims and other insurance service expenses paid, including investment components

Insurance acquisition cash flows

---

**Total cash flows**

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**Other changes in insurance contract liabilities**

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**Net closing balance**

Closing assets

Closing liabilities

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**Net closing balance**

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

2023

2022

## Liabilities for remaining coverageLiabilities for remaining coverage

Excluding loss component	Loss component	Liabilities for incurred claims	Total	Excluding loss component	Loss component	Liabilities for incurred claims	Total
(27,244)	13,553	45	(13,646)	(21,916)	9,682	1,075	(11,159)
185,837	4,489	3,464	193,790	218,903	51	2,427	221,381
<b>158,593</b>	<b>18,042</b>	<b>3,509</b>	<b>180,144</b>	<b>196,987</b>	<b>9,733</b>	<b>3,502</b>	<b>210,222</b>
(17,185)	-	-	(17,185)	(16,460)	-	-	(16,460)
(17,185)	-	-	(17,185)	(16,460)	-	-	(16,460)
-	(735)	11,474	10,739	-	(448)	8,764	8,316
3,791	-	-	3,791	2,583	-	-	2,583
-	4,042	-	4,042	-	8,177	-	8,177
-	-	(25)	(25)	-	-	275	275
3,791	3,307	11,449	18,457	2,583	7,729	9,039	19,351
(8,822)	-	8,822	-	(9,031)	-	9,031	-
<b>(22,216)</b>	<b>3,307</b>	<b>20,271</b>	<b>1,362</b>	<b>(22,908)</b>	<b>7,729</b>	<b>18,070</b>	<b>2,891</b>
11,398	1,011	-	12,408	(21,148)	580	-	(20,568)
(10,818)	4,318	20,271	13,771	(44,056)	8,309	18,070	(17,677)
20,865	-	-	20,865	19,790	-	-	19,790
-	-	(20,513)	(20,513)	-	-	(18,063)	(18,063)
(13,139)	-	-	(13,139)	(13,773)	-	-	(13,773)
<b>7,726</b>	-	(20,513)	(12,787)	6,017	-	(18,063)	(12,046)
(545)	-	(75)	(620)	(355)	-	-	(355)
154,956	22,360	3,192	180,508	158,593	18,042	3,509	180,144
(32,322)	17,555	-	(14,767)	(27,244)	13,553	45	(13,646)
187,278	4,805	3,192	195,275	185,837	4,489	3,464	193,790
<b>154,956</b>	<b>22,360</b>	<b>3,192</b>	<b>180,508</b>	<b>158,593</b>	<b>18,042</b>	<b>3,509</b>	<b>180,144</b>

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### i. Life risk (continued)

Insurance contracts (continued)

Analysis by measurement component

	2023			
	CSM (see(C))			
	Estimates of present value of  future cash flows	Risk adjustment  for non- financial risk	Contracts under full retrospective and fair value transition approach	Total
Opening assets	(15,580)	1,289	645	(13,646)
Opening liabilities	143,236	19,905	30,649	193,790
<b>Net opening balance</b>	<b>127,656</b>	<b>21,194</b>	<b>31,294</b>	<b>180,144</b>
Changes in the statement of profit or loss				
<b>Changes that relate to current services</b>				
CSM recognized for services provided	-	-	(2,788)	(2,788)
Change in risk adjustment for non-financial risk for risk expired	-	(1,350)	-	(1,350)
Experience adjustments	1,483	-	-	1,483
<b>Changes that relate to future services</b>				
Contracts initially recognized in the year	4,337	1,423	11	5,771
Changes in estimates that adjust the CSM	2,262	(732)	(1,530)	
Changes in estimates that result in losses and reversals of losses on onerous contracts	(1,027)	(702)	-	(1,729)
<b>Changes that relate to past services</b>				
Adjustments to liabilities for incurred claims	(25)	-	-	(25)
<b>Insurance service result</b>	<b>7,030</b>	<b>(1,361)</b>	<b>(4,307)</b>	<b>1,362</b>
Net finance expenses from insurance contracts	9,508	1,849	1,051	12,407
<b>Total changes in the statements of profit or loss</b>	<b>16,538</b>	<b>488</b>	<b>(3,255)</b>	<b>13,771</b>
<b>Cash flows</b>	<b>(12,787)</b>	<b>-</b>	<b>-</b>	<b>(12,787)</b>
<b>Transfer to other items in the statement of financial position</b>	<b>(620)</b>	<b>-</b>	<b>-</b>	<b>(620)</b>
<b>Net closing balance</b>	<b>130,787</b>	<b>21,682</b>	<b>28,039</b>	<b>180,508</b>
Closing assets	(17,846)	1,467	1,612	(14,767)
Closing liabilities	148,633	20,215	26,427	195,275
<b>Net closing balance</b>	<b>130,787</b>	<b>21,682</b>	<b>28,039</b>	<b>180,508</b>

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### i. Life risk (continued)

Insurance contracts (continued)

Analysis by measurement component

	2022			
	CSM (see(C))			
	Estimates of present value of  future cash flows	Risk adjustment  for non- financial risk	Contracts under full retrospective and fair value transition approach	Total
Opening assets	(31,019)	6,763	13,097	(11,159)
Opening liabilities	180,753	11,774	28,854	221,381
<b>Net opening balance</b>	<b>149,734</b>	<b>18,537</b>	<b>41,951</b>	<b>210,222</b>
Changes in the statement of profit or loss				
<b>Changes that relate to current services</b>				
CSM recognized for services provided	-	-	(3,634)	(3,634)
Change in risk adjustment for non-financial risk for risk expired	-	(1,170)	-	(1,170)
Experience adjustments	(758)	-	-	(758)
<b>Changes that relate to future services</b>				
Contracts initially recognized in the year	4,748	1,848	14	6,610
Changes in estimates that adjust the CSM	4,146	3,852	(7,998)	-
Changes in estimates that result in losses and reversals of losses on onerous contracts	1,689	(121)	-	1,568
<b>Changes that relate to past services</b>				
Adjustments to liabilities for incurred claims	275	-	-	275
<b>Insurance service result</b>	<b>10,100</b>	<b>4,409</b>	<b>(11,618)</b>	<b>2,891</b>
Net finance expenses from insurance contracts	(19,777)	(1,752)	961	(17,677)
<b>Total changes in the statements of profit or loss</b>	<b>(9,677)</b>	<b>2,657</b>	<b>(10,657)</b>	<b>(17,677)</b>
<b>Cash flows</b>	<b>(12,046)</b>	<b>-</b>	<b>-</b>	<b>(12,046)</b>
<b>Transfer to other items in the statement of financial position</b>	<b>(355)</b>	<b>-</b>	<b>-</b>	<b>(355)</b>
<b>Net closing balance</b>	<b>127,656</b>	<b>21,194</b>	<b>31,294</b>	<b>180,144</b>
Closing assets	(15,580)	1,289	645	(13,646)
Closing liabilities	143,236	19,905	30,649	193,790
Net closing balance	127,656	21,194	31,294	180,144

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### i. Life risk (continued)

Reinsurance contracts

Analysis by remaining coverage and incurred claims

in thousands of dollars

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Opening assets

Opening liabilities

---

**Net opening balance**

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**Changes in the statement of profit or loss**

Allocation of reinsurance premiums paid

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**Amounts recoverable from reinsurance**

Recoveries of incurred claims and other insurance service expenses

Recoveries and reversals of recoveries of losses on onerous underlying contracts

---

Adjustments to assets for incurred claims

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Effect of changes in non-performance risk of reinsurers

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**Net expenses from reinsurance contracts**

Net finance income from reinsurance contracts

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**Total changes in the statement of profit or loss**

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**Cash flows**

Premiums paid

Amounts received

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**Total cash flows**

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**Net closing balance**

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Closing assets

Closing liabilities

---

**Net closing balance**

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# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

2023				2022			
Assets for remaining coverage				Assets for remaining coverage			
Excluding loss-recovery component	Loss-recovery component	Assets for incurred claims	Total	Excluding loss-recovery component	Loss-recovery component	Assets for incurred claims	Total
12,798	-	-	12,798	13,833	-	-	13,833
(6,462)	2,617	189	(3,656)	(6,134)	274	1,046	(4,814)
6,336	2,617	189	9,142	7,699	274	1,046	9,019
(3,742)	-	-	(3,742)	(3,717)	-	-	(3,717)
-	(146)	2,957	2,811	-	(46)	1,697	1,651
-	399	-	399	-	2,346	-	2,346
-	-	-	-	-	-	(25)	(25)
-	253	2,957	3,210	-	2,300	1,672	3,972
1	-	-	1	(43)	-	-	(43)
(3,741)	253	2,957	(531)	(3,760)	2,300	1,672	212
421	161	-	582	(677)	43	-	(634)
3,320	414	2,957	51	(4,437)	2,343	1,672	(422)
3,347	-	-	3,347	3,074	-	-	3,074
-	-	(2,703)	(2,703)	-	-	(2,529)	(2,529)
3,347	-	(2,703)	644	3,074	-	(2,529)	545
6,363	3,031	443	9,837	6,336	2,617	189	9,142
13,818	-	-	13,818	12,798	-	-	12,798
(7,455)	3,031	443	(3,981)	(6,462)	2,617	189	(3,656)
6,363	3,031	443	9,837	6,336	2,617	189	9,142



# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### i. Life risk (continued)

Reinsurance contracts (continued)  
Analysis by measurement component

	2023 CSM (see (C))			
	Estimates of present value of	Risk adjustment	Contracts unders full retrospective and fair value transition approach	Total
in thousands of dollars	future cash flows	for non- financial risk		
Opening assets	(3,376)	9,912	15,404	21,940
Opening liabilities	1,970	(5,782)	(8,986)	(12,798)
<b>Net opening balance</b>	<b>(1,406)</b>	<b>4,130</b>	<b>6,418</b>	<b>9,142</b>
<b>Changes in the statement of profit or loss</b>				
<b>Changes that relate to current services</b>				
CSM recognized for services received	-	-	(793)	(793)
Change in risk adjustment for non-financial risk for risk expired	-	(304)	-	(304)
Experience adjustments	166	-	-	166
<b>Changes that relate to future service</b>				
Contracts initially recognized in the year	(7)	-	2,018	2,011
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	-	-	(1,353)	(1,353)
Changes in estimates that adjust the CSM	86	400	(486)	-
Changes in estimates that relate to losses and reversals of losses on onerous underlying contracts	(55)	(204)	-	(259)
<b>Changes that relate to past services</b>				
Adjustments to assets for incurred claims	-	-	-	-
<b>Effect of changes in non-performance risk of reinsurers</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Net expenses from reinsurance contracts</b>	<b>191</b>	<b>(108)</b>	<b>(614)</b>	<b>(531)</b>
Net finance income from reinsurance contracts	52	361	169	582
<b>Total changes in the statement of profit or Loss</b>	<b>243</b>	<b>253</b>	<b>(445)</b>	<b>51</b>
<b>Cash flows</b>	<b>644</b>	<b>-</b>	<b>-</b>	<b>644</b>
<b>Net closing balance</b>	<b>(519)</b>	<b>4,383</b>	<b>5,973</b>	<b>9,837</b>
Closing assets	(730)	6,156	8,392	13,818
Closing liabilities	211	(1,733)	(2,419)	(3,981)
<b>Net closing balance</b>	<b>(519)</b>	<b>4,383</b>	<b>5,973</b>	<b>9,837</b>

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### i. Life risk (continued)

Reinsurance contracts (continued)  
Analysis by measurement component

	2022 CSM (see (C))			
	Estimates of present value of	Risk adjustment	Contracts under full retrospective and fair value transition approach	Total
in thousands of dollars	future cash flows	for non- financial risk		
Opening assets	(14,368)	12,587	24,632	22,851
Opening liabilities	8,698	(7,620)	(14,911)	(13,833)
<b>Net opening balance</b>	<b>(5,670)</b>	<b>4,967</b>	<b>9,721</b>	<b>9,018</b>
<b>Changes in the statement of profit or loss</b>				
<b>Changes that relate to current services</b>				
CSM recognized for services received	-	-	(974)	(974)
Change in risk adjustment for non-financial risk for risk expired	-	(265)	-	(265)
Experience adjustments	(826)	-	-	(826)
<b>Changes that relate to future service</b>				
Contracts initially recognized in the year	(4)	-	1,755	1,751
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	3,787	185	(3,972)	-
Changes in estimates that adjust the CSM	841	31	-	872
Changes in estimates that relate to losses and reversals of losses on onerous underlying contracts	-	-	(278)	(278)
<b>Changes that relate to past services</b>				
Adjustments to assets for incurred claims	(25)	-	-	(25)
<b>Effect of changes in non-performance risk of reinsurers</b>	<b>(43)</b>	<b>-</b>	<b>-</b>	<b>(43)</b>
<b>Net expenses from reinsurance contracts</b>	<b>3,730</b>	<b>(49)</b>	<b>(3,469)</b>	<b>212</b>
Net finance income from reinsurance contracts	(11)	(788)	166	(633)
<b>Total changes in the statement of profit or Loss</b>	<b>3,719</b>	<b>(837)</b>	<b>(3,303)</b>	<b>(421)</b>
<b>Cash flows</b>	<b>545</b>	<b>-</b>	<b>-</b>	<b>545</b>
<b>Net closing balance</b>	<b>(1,406)</b>	<b>4,130</b>	<b>6,418</b>	<b>9,142</b>
Closing assets	(1,970)	5,782	8,986	12,798
Closing liabilities	564	(1,652)	(2,568)	(3,656)
<b>Net closing balance</b>	<b>(1,406)</b>	<b>4,130</b>	<b>6,418</b>	<b>9,142</b>

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### iii. Segregated funds

in thousands of dollars

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Opening assets

Opening liabilities

---

**Net opening balance**

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**Changes in the statement of profit or loss**

Insurance revenue

---

Other contracts

---

**Insurance service expenses**

Incurred claims and other insurance service expenses

---

Investment components and premium refunds

---

**Insurance service result**

Net finance expenses from insurance contracts

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**Total changes in the statement of profit or loss**

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**Cash flows**

Premiums received

Claims and other insurance service expenses paid, including investment components

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**Total cash flows**

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**Other changes in insurance contract liabilities**

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**Net closing balance**

Closing assets

Closing liabilities

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**Net closing balance**

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# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

2023	2022
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## Liabilities for remaining coverageLiabilities for remaining coverage

Excluding loss component	Liabilities for incurred claims	Total	Excluding loss component	Liabilities for incurred claims	Total
-	-	-	-	-	-
(1,553)	184	(1,369)	(1,916)	84	(1,832)
<b>(1,553)</b>	184	(1,369)	(1,916)	84	(1,832)
(1,029)	-	(1,029)	(1,290)	-	(1,290)
(1,029)	-	(1,029)	(1,290)	-	(1,290)
-	991	991	-	1,146	1,146
-	991	991	-	1,146	1,146
(307)	307	-	-	-	-
<b>(1,336)</b>	1,298	(38)	(1,290)	1,146	(144)
-	-	-	-	-	-
(1,336)	1,298	(38)	(1,290)	1,146	(144)
1,152	-	1,152	1,653	-	1,653
-	(991)	(991)	-	(1,146)	(1,146)
<b>1,152</b>	(991)	161	1,653	(1,146)	507
215	(50)	165	-	100	100
(1,522)	441	(1,081)	(1,553)	184	(1,369)
-	-	-	-	-	-
(1,522)	441	(1,081)	(1,533)	184	(1,369)
<b>(1,522)</b>	441	(1,081)	(1,553)	184	(1,369)

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### A. Movement in insurance and reinsurance contract balances

#### iii. Segregated funds

Analysis by measurement component

	2023			
			CSM (see(C))	
	Estimates of present value of future cash flows	Risk adjustment for non- financial risk	Contracts under full retrospective transition approach	Total
in thousands of dollars				
Opening assets	-	-	-	-
Opening liabilities	(2,113)	153	591	(1,369)
<b>Net opening balance</b>	<b>(2,113)</b>	<b>153</b>	<b>591</b>	<b>(1,369)</b>
Changes in the statement of profit or loss				
<b>Changes that relate to current services</b>				
CSM recognized for services provided	-	-	(114)	(114)
Change in risk adjustment for non-financial risk for risk expired	-	(30)	-	(30)
Experience adjustments	106	-	-	106
<b>Changes that relate to future services</b>				
Changes in estimates that adjust the CSM	(12)	25	(13)	-
<b>Insurance service result</b>	<b>94</b>	<b>(5)</b>	<b>(127)</b>	<b>(38)</b>
Net finance expenses from insurance contracts	-	-	-	-
<b>Total changes in the statements of profit or loss</b>	<b>94</b>	<b>(5)</b>	<b>(127)</b>	<b>(38)</b>
<b>Cash flows</b>	<b>161</b>	<b>-</b>	<b>-</b>	<b>161</b>
<b>Transfer to other items in the statement of financial position</b>	<b>174</b>	<b>(9)</b>	<b>-</b>	<b>165</b>
<b>Net closing balance</b>	<b>(1,684)</b>	<b>139</b>	<b>464</b>	<b>(1,081)</b>
Closing assets	-	-	-	-
Closing liabilities	(1,684)	139	464	441
Net closing balance	(1,684)	139	464	(1,081)

## 26. Insurance and reinsurance contracts (continued)

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## A. Movement in insurance and reinsurance contract balances

### iii. Segregated funds

Analysis by measurement component

	2022			
			CSM (see(C))	
	Estimates of present value of future cash flows	Risk adjustment for non- financial risk	Contracts under full retrospective transition approach	Total
in thousands of dollars				
Opening assets	-	-	-	-
Opening liabilities	(3,095)	230	1,033	(1,832)
<b>Net opening balance</b>	<b>(3,095)</b>	<b>230</b>	<b>1,033</b>	<b>(1,832)</b>
Changes in the statement of profit or loss				
<b>Changes that relate to current services</b>				
CSM recognized for services provided	-	-	(159)	(159)
Change in risk adjustment for non-financial risk for risk expired	-	(38)	-	(38)
Experience adjustments	54	-	-	54
<b>Changes that relate to future services</b>				
Changes in estimates that adjust the CSM	322	(39)	(283)	-
<b>Insurance service result</b>	<b>376</b>	<b>(77)</b>	<b>(442)</b>	<b>(143)</b>
Net finance expenses from insurance contracts	-	-	-	-
<b>Total changes in the statements of profit or loss</b>	<b>376</b>	<b>(77)</b>	<b>(443)</b>	<b>(144)</b>
<b>Cash flows</b>	<b>506</b>	<b>-</b>	<b>-</b>	<b>506</b>
<b>Transfer to other items in the statement of financial position</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>100</b>
<b>Net closing balance</b>	<b>(2,113)</b>	<b>153</b>	<b>590</b>	<b>(1,370)</b>
Closing assets	-	-	-	-
Closing liabilities	(2,113)	153	591	(1,369)
<b>Net closing balance</b>	<b>(2,113)</b>	<b>153</b>	<b>591</b>	<b>(1,369)</b>

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### B. Effects of contracts initially recognized in the year

The following tables summarise the effect on the measurement components arising from the initial recognition of new business insurance and reinsurance contracts in the year.

#### i. Life risk

Insurance contracts

in thousands of dollars	Profitable contracts issued	Onerous contracts issued	Total
<b>2023</b>			
Claims and other insurance service expense payable	164	11,292	11,456
Insurance acquisition cash flows	32	2,632	2,664
Estimate of present value of cash outflows	196	13,924	14,120
Estimate of present value of cash inflows	(236)	(9,567)	(9,803)
Risk adjustments for non-financial risk	29	1,387	1,416
CSM	11	-	11
<b>Losses recognized on initial recognition</b>	<b>-</b>	<b>5,744</b>	<b>5,744</b>
<b>2022</b>			
Claims and other insurance service expense payable	-	14,771	14,771
Insurance acquisition cash flows	-	3,052	3,052
Estimate of present value of cash outflows	-	17,823	17,823
Estimate of present value of cash inflows	(2)	(13,060)	(13,062)
Risk adjustments for non-financial risk	-	1,846	1,846
CSM	2	-	2
<b>Losses recognized on initial recognition</b>	<b>-</b>	<b>6,609</b>	<b>6,609</b>

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### B. Effects of contracts initially recognized in the year (continued)

#### i. Life risk (continued)

Reinsurance contracts

The following tables summarise the effect on the measurement components arising from the initial recognition of new business insurance and reinsurance contracts in the year.

in thousands of dollars	Contracts initiated without loss-recovery component	Contracts initiated with loss-recovery component	Total
<b>2023</b>			
Estimate of present value of cash inflows	-	-	-
Estimate of present value of cash outflows	-	7	7
Risk adjustments for non-financial risk	-	-	-
Income recognized on initial recognition	-	2,011	2,011
<b>CSM</b>	-	<b>2,018</b>	<b>2,018</b>
<b>2022</b>			
Estimate of present value of cash outflows	-	-	-
Estimate of present value of cash inflows	-	4	4
Risk adjustments for non-financial risk	-	-	-
Income recognized on initial recognition	-	1,752	1,752
<b>CSM</b>	-	<b>1,756</b>	<b>1,756</b>



# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 26. Insurance and reinsurance contracts (continued)

### C. Contractual service margin

The following table sets out when the Society expects to recognize the remaining CSM in profit or loss after the reporting date for contracts.

In thousands of dollars	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
<b>31 December 2023</b>					
<b>Insurance contracts</b>					
Life risk	2,456	4,332	3,625	16,348	26,761
Life savings payout annuities	1	2	2	9	14
Segregated Funds	97	141	89	138	465
Critical illness and disability	116	206	171	770	1,263
	2,670	4,681	3,887	17,265	28,503
<b>Reinsurance contracts</b>					
Life risk	(618)	(1,066)	(853)	(2,780)	(5,317)
Life savings payout annuities	(16)	(21)	(11)	(10)	(58)
Critical illness and disability	(50)	(89)	(77)	(383)	(599)
	(684)	(1,176)	(941)	(3,173)	(5,974)
<b>31 December 2022</b>					
<b>Insurance contracts</b>					
Life risk	2,680	4,753	4,011	18,391	29,835
Life savings payout annuities	16	28	23	88	155
Segregated Funds	124	179	113	176	592
Critical illness and disability	117	208	176	803	1,304
	2,937	5,168	4,323	19,458	31,886
<b>Reinsurance contracts</b>					
Life risk	(650)	(1,135)	(926)	(3,010)	(5,721)
Life savings payout annuities	(13)	(17)	(9)	(8)	(47)
Critical illness and disability	(53)	(95)	(83)	(420)	(651)
	(716)	(1,247)	(1,018)	(3,438)	(6,419)

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 26. Insurance and reinsurance contracts (continued)

### D. Significant judgement and estimates

#### i. Fulfilment cash flows

##### Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows and a risk adjustment for non-financial risk.

The Society's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. If there are significant interdependencies between cash flows that vary based on changes in market variables and other cash flows, then the Society annually uses stochastic modelling techniques to estimate the expected present value. Stochastic modelling involves projecting future cash flows under a large number of possible economic scenarios for market variables such as interest rates and equity returns. However, on a quarterly basis the Society utilizes a few different methods to estimate future cash flows outside of the stochastic modelling approach unless there is significant changes in interest rates that would warrant the requirement to use stochastic modelling quarterly.

##### Estimates of future cash flows:

In estimating future cash flows, the Society incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Society's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Society takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted. The Society derives cost inflation assumptions from its own expectations and does not vary with financial risks.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Society has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 26. Insurance and reinsurance contracts (continued)

### D. Significant judgement and estimates (continued)

#### i. Fulfillment cash flows (continued)

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include:

- claims handling, maintenance and administration costs;
- cost of paying benefits;
- recurring commissions payable on instalment premiums receivable within the contract boundary;
- costs that the Society will incur in providing investment services;
- an allocation of directly attributable overhead (accounting, human resources, IT technology and support, property depreciation, rent and maintenance and utilities); and
- other costs specifically chargeable to the policyholders under the terms of the contracts.

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows attributable to acquisition and other fulfilment activities are allocated to groups of contracts using methods that are systematic and rational and are consistently applied to all costs that have similar characteristics. The Society generally allocates insurance acquisition cash flows to groups of contracts based on the total premiums for each group, claims handling costs based on the number of claims for each group, and maintenance and administration costs based on the number of in-force contracts within each group. Other costs are recognized in profit or loss as they are incurred.

#### Contract boundaries:

The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the Society's substantive rights and obligations under the contract.

Life risk and life savings payout annuities:

Mortality/longevity, morbidity and policyholder behaviour experience is closely monitored on an ongoing basis and is reflected both in the pricing of new products and in the measurement of existing contracts. The Society relies on industry mortality improvement studies and relies 100% on the industry's best estimate mortality improvement when determining fulfillment cash flows.

Mortality/longevity and morbidity assumptions are generally developed using a blend of national mortality data, industry trends and the recent experience. Experience is monitored through regular studies, the results of which are reflected both in the pricing of new products and in the measurement of existing contracts.

#### Discount rate:

All cash flows are discounted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The Society will use three yield curves to reflect the liquidity characteristics of the various different insurance contracts. The ultimate forward rate is expected to be stable and would

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 26. Insurance and reinsurance contracts (continued)

### D. Significant judgement and estimates (continued)

#### i. Fulfillment cash flows (continued)

##### Discount rate (continued)

change only on significant changes to long-term expectations. To reflect the liquidity characteristics of the insurance contracts, the risk-free yield curves are adjusted by an illiquidity premium.

##### Risk adjustment for non-financial risk

Risk adjustments for non-financial risk are determined to reflect the compensation that the individual issuing entity would require for bearing non-financial risk, separately for the life risk and life savings contracts, and are allocated to groups of contracts based on an analysis of the risk profiles of the groups. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the Society, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion.

The risk adjustments for non-financial risk are determined using the following techniques:

- utilize the margin approach, with margins limited to the Canadian Institute of Actuaries current ranges for Provisions for Adverse Deviations (PfADs) to ensure these margins reflect the Society's minimum required compensation for non-financial risk; and
- margins will be tested annually using a cost of capital calculation.

To determine the risk adjustments for non-financial risk, the Society will derive the confidence level of its risk adjustment. This confidence level will be derived gross of reinsurance. This derivation will assume the present value of future cashflows follows a normal distribution and uses aspects of the LICAT framework as a reference point to calculate the standard deviation of this distribution.

The Society estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 85th percentile (the target confidence level) over the expected present value of the future cash flows.

## 27. Loans

in thousands of dollars	Note	2023	2022
Subordinated note	A	3,310	3,423
Bank line of credit	B	-	-
		3,310	3,423

Of the total loans, \$3,310 (2022: \$3,423) is expected to be settled more than 12 months after the reporting date.

The Society did not have any defaults of principal or interest or other breaches with respect to the loan during the years ended 31 December 2023 and 2022.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 27. Loans (continued)

Upon the adoption of IFRS 9 on 1 January 2022, the Society recognized a cumulative adjustment to the gross carrying value of the subordinated debt resulting from the two past extensions of the maturity date to repay the loan.

### A. Subordinated notes issued

The subordinated debt is redeemable by the Society at the principal amount plus any accrued and unpaid interest at any time. As at 31 December 2023, the Society has redeemed and repaid an accumulated amount of USD \$1,582 (2022 - USD \$1,582) of the subordinated loan. The carrying value has been converted to Canadian currency at the prevailing exchange rate as of the statement of financial position date.

The subordinated debt bore an annual interest rate of 6.75% until 24 December 2013. After 24 December 2013 and for the remainder of the term, it bears interest at the rate of 7.75%.

Face value	Nominal interest rate	Year of maturity	Carrying amount in thousands of dollars	
			2023	2022
\$4,000 USD	7.75%	7	3,310	3,423

These notes would, in the event of the winding-up of the Society, be subordinated to the claims of policyholders and all other creditors of the Society.

### B. Bank line of credit

The Society maintains an operating bank line of credit of \$2.5 million for general operating purposes. The line is unsecured. The company has no outstanding balance on the line of credit during the years ended 31 December 2023 and 2022.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 27. Loans (continued)

### C. Reconciliation of movement in liabilities to cash flows arising from financing activities

in thousands of dollars	Notes issued
Balance at 1 January 2022	3,090
<b>Changes from financing</b>	
Opening balance sheet present value adjustment	122
Interest paid	(238)
Effects on movement in exchange rates	211
Interest expense	238
<b>Balance at 31 December 2022</b>	<b>3,423</b>
Balance at 1 January 2023	3,423
<b>Changes from financing</b>	
Interest paid	(259)
Effects on movement in exchange rates	(113)
Interest expense	259
<b>Balance at 31 December 2023</b>	<b>3,310</b>

## 28. Other liabilities

In thousands of dollars	Note	2023	2022
Unearned investment property rental income	20	54	43
Employee benefits		87	45
Retiree benefits	15	5,596	5,132
		5,737	5,220

## 29. Subsidiaries

The Society established its wholly-owned subsidiary Serenia Life Distribution Inc. ("SLDI") in 2021 which is a sales and distribution company focused on selling third-party insurance and investment products. Commission revenues earned from the sale of third-party insurance and investment products are recorded in other revenues in the consolidated statement of profit or loss. At 31 December 2023 commission revenues total \$nil (2022 - \$21). An intercompany receivable of \$20 from SLDI was outstanding at year end (2022 - \$17).

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 30. Related parties

In addition to their salaries, the Society also provides health and other benefits to executive officers and contributes to post-employment health and retirement benefit plans on their behalf.

Key management personnel compensation comprised the following.

in thousands of dollars	2023	2022
Base salary and bonus	2,299	2,489
Health and other benefits	221	215
Retirement benefits	471	510
Total	2,991	3,214

Director fees for the year are \$323 (2022 - \$290).

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 31. Segregated funds

The Society sells a number of segregated funds products which it administers on behalf of members. Subject to limited guarantees provided by the Society, investors in these funds bear the full investment risk of, and receive all the benefits from, the assets of the funds.

### i. Financial assets for segregated funds:

Financial assets for segregated funds contracts are recorded at fair value with changes in fair value recorded in net income together with the offsetting changes in fair value of the corresponding financial liabilities for segregated funds contracts.

	2023	2022
Asia Pacific Equity Fund	219	247
Balanced Fund (Jarislowsky)	249	223
Balanced Fund (Laketon)	3,507	3,775
Balanced Fund (McLean Budden)	6,222	6,953
Balanced Fund (Scheer Rowlett)	237	250
Balanced Fund (TDQC)	156	164
Canadian Bond Fund (Indexed)	62	70
Canadian Bond Fund	2,217	2,684
Canadian Equity Fund (Core 2)	180	189
Canadian Equity Fund (Core)	929	887
Canadian Equity Fund (Growth)	3,832	4,004
Canadian Equity Fund (Indexed)	81	97
Canadian Equity Fund (Value)	1,962	1,911
Canadian Small Cap Equity Fund	1,479	1,467
Enhanced Dividend Fund	20,147	23,957
European Equity Fund	177	163
Global Bond Fund	208	228
Global Equity Fund 2	9	9
Global Equity Fund	1,604	1,838
International Equity Fund (Indexed)	32	31
Money Market Fund 2	83	86
Money Market Fund	1,101	1,238
US Equity Fund (Indexed)	57	59
	44,750	50,530

Fund assets are represented by investments in the above funds managed by third party investment managers.



# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

## 31. Segregated funds (continued)

ii. Financial assets for segregated funds (continued):

Changes in financial assets for segregated funds contracts for the years ended 31 December 2023 and 2022 are as follows:

	2023	2022
Segregated funds assets, beginning of year	50,530	63,281
Additions (deductions):		
Members' deposits	1,237	1,387
Net investment income gains (losses) on investments	3,882	(2,591)
Management and administrative fees	(1,355)	(1,641)
Members' withdrawals	(9,544)	(9,906)
	(5,780)	(12,751)
Segregated funds assets, end of year	44,750	50,530

ii. Financial liabilities for segregated funds:

The fair value of financial liabilities for segregated funds contracts is equal to the fair value of the financial assets for segregated funds contracts.

## 32. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on the following alternative basis on each reporting date.

Item	Measurement basis
Financial instruments at FVTPL, including hedging instruments	Fair value
Financial assets at FVOCI	Fair value
Insurance and reinsurance contracts	Fulfilment cash flows and, if any, the CSM
Owner-occupied property at fair value	Fair value
Investment property	Fair value
Net defined benefit liability	Fair value of plan assets less the present value of the defined benefit obligations, limited as explained in Note 15(D)
Other impaired non-financial assets	Higher of fair value less costs of disposal and value in use

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### A. Insurance, reinsurance and investment contracts - Classification

Contracts under which the Society accepts significant insurance risk are classified as insurance contracts. Contracts held by the Society under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts. Insurance and reinsurance contracts also expose the Society to financial risk.

The Society does not accept insurance risk from other insurers.

Insurance contracts may be issued and reinsurance contracts may be initiated by the Society, or they may be acquired in a business combination or in a transfer of contracts that do not form a business. All references in these accounting policies to 'insurance contracts' and 'reinsurance contracts' include contracts issued, initiated or assumed by the Society, unless otherwise stated.

Some contracts entered into by the Society have the legal form of insurance contracts but do not transfer significant insurance risk. These contracts are classified as financial liabilities and are referred to as 'investment contracts' (see (C)).

Insurance contracts are classified as life risk and life savings (for applicable savings products) contracts. Life risk contracts, typically whole life insurance contracts that have the opportunity to earn dividends every year are based on the following:

- the contractual terms specify that the policyholder is eligible to receive dividends based on the resulting experience of investment returns, mortality, expenses and policyholder lapsation;
- when the Society declares a dividend for policyholders, it comes in the form of a credited interest rate based on the built up annual premium payments made by the policyholder since issuance;
- the Society expects to pay to the policyholder an amount equal to a share of the fair value returns on the underlying items assuming the achievement of favourable experience; and
- the Society expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

### B. Insurance and reinsurance contracts

#### i. Aggregation and recognition of insurance and reinsurance contracts

##### Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

An insurance contract issued by the Society is recognized from the earliest of:

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **33. Material accounting policies (continued)**

### **B. Insurance and reinsurance contracts (continued)**

#### **i. Aggregation and recognition of insurance and reinsurance contracts (continued)**

##### **Insurance contracts (continued)**

- the beginning of its coverage period (i.e. the period during which the Society provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

An insurance contract acquired in a transfer of contracts or a business combination is recognized on the date of acquisition.

When the contract is recognized, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

##### **Reinsurance contracts**

Groups of reinsurance contracts are established such that each group comprises a single contract. Some reinsurance contracts provide coverage for underlying contracts that are included in different groups. However, the Society concludes that the reinsurance contract's legal form of a single contract reflects the substance of the Society's contractual rights and obligations, considering that the different coverages lapse together and are not sold separately. As a result, the reinsurance contract is not separated into multiple insurance components that relate to different underlying groups.

A group of reinsurance contracts is recognized on the following date.

- Reinsurance contracts initiated by the Society that provide proportionate coverage: The date on which any underlying insurance contract is initially recognized.
- Other reinsurance contracts initiated by the Society: The beginning of the coverage period of the group of reinsurance contracts. However, if the Society recognizes an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract was entered into before that earlier date, then the group of reinsurance contracts is recognized on that earlier date (see 'Reinsurance of onerous underlying insurance contracts' under (iv)). This applies to the Society's excess of loss and stop loss reinsurance contracts.

#### **ii. Insurance acquisition cash flows**

Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort.

If insurance acquisition cash flows are directly attributable to a group of contracts (e.g. non-refundable commissions paid on issuance of a contract), then they are allocated to that group and to the groups that will include renewals of those contracts. The allocation to renewals only applies to non-life contracts (e.g. guaranteed investment annuity contract maturities that roll over into a new investment term). The Society expects to recover part of the related insurance acquisition cash flows through renewals of

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### ii. Insurance acquisition cash flows (continued)

these contracts. The allocation to renewals is based on the manner in which the Society expects to recover those cash flows.

If insurance acquisition cash flows are directly attributable to a portfolio but not to a group of contracts, then they are allocated to groups in the portfolio using a systematic and rational method. Insurance acquisition cash flows arise when they are paid or when a liability is required to be recognized under a standard other than IFRS 17.

At each reporting date, the Society revises the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used. Amounts allocated to a group are not revised once all contracts have been added to the group.

#### iii. Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows.

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##### Insurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Society can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

A substantive obligation to provide services ends when:

- the contract boundary ends at the maturity date specified in the contract.
- the Society has the practical ability to reassess the risks of a particular contract holder that has rights and can set a price or level of benefits that fully reflects those reassessed risks.

The reassessment of risks considers only risks associated with products providing conversion features to contract holders that have insurance products with guarantee of insurability that is within the contract boundary of the original contract. All other future cash flows will be outside the contract boundary, with no other substantive rights other than guarantee of insurability, the Society has the ability to reprice the products available for conversion to fully reflect any adverse experience.

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##### Reinsurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Society is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
  - has a substantive right to terminate the coverage.
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# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### iii. Contract boundaries (continued)

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Society's substantive rights and obligations and, therefore, may change over time.

#### iv. Measurement – Insurance Contracts

##### Initial measurement

On initial recognition, the Society measures a group of insurance contracts as the total of (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM. The fulfilment cash flows of a group of insurance contracts do not reflect the Society's non-performance risk.

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

##### Initial measurement (continued)

The CSM of a group of insurance contracts represents the unearned profit that the Society will recognize as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of (a) the fulfilment cash flows, (b) any cash flows arising at that date and (c) any amount arising from the derecognition of any assets or liabilities previously recognized for cash flows related to the group (including assets for insurance acquisition cash flows under (ii)) is a net inflow, then the group is not onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognized as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue (see (vii)).

##### Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognized as follows.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### iii. Contract boundaries (continued)

##### Subsequent measurement (continued)

- Changes relating to future services are adjusted against the CSM (or recognized in the insurance service result in profit or loss if the group is onerous);
- Changes relating to current or past services are recognized in the insurance service result in profit or loss;
- Effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognized as insurance finance income or expenses.

The CSM of each group of contracts is calculated at each reporting date as follows.

##### Insurance contracts not likely to participate in dividends

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted on the carrying amount of the CSM during the year, measured at the discount rates on nominal cash flows that do not vary based on the returns on any underlying items determined on initial recognition;
- changes in fulfilment cash flows that relate to future services, except to the extent that:
  - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognized as a loss in profit or loss and creates a loss component (see (vii)); or
  - any decreases in the fulfilment cash flows are allocated to the loss component, reversing losses previously recognized in profit or loss (see (vii));
- the effect of any currency exchange differences on the CSM; and

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### iv. Measurement – Insurance Contracts (continued)

##### Insurance contracts not likely to participate in dividends (continued)

- the amount recognized as insurance revenue because of the services provided in the year (see (vii)).

Changes in fulfilment cash flows that relate to future services comprise:

- experience adjustments arising from premiums received in the year that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, measured at the discount rates determined on initial recognition, except for those that arise from the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the year, determined as the payment expected at the start of the year plus any insurance finance income or expenses (see (viii)) related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the year;
- differences between any loan to a policyholder expected to become repayable in the year and the actual amount that becomes repayable in the year; and
- changes in the risk adjustment for non-financial risk that relate to future services.

Changes in discretionary cash flows are regarded as relating to future services and accordingly adjust the CSM (see Note 26(C)).

##### Participating whole life contracts

Participating whole life policies are contracts under which the Society currently provides the policyholder with an annual dividend in the form of an interest credited rate to their policy each year. When measuring a group of direct participating whole life contracts, the Society adjusts the fulfilment cash flows for the whole of the changes in the annual dividend rate to pay policyholders an amount based on the underlying items. These changes do not relate to future services and are recognized in profit or loss. The Society then adjusts any CSM for changes in the amount of the Society's share of the fair value of the underlying items, which relate to future services, as explained below.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted;
- changes in fulfilment cash flows to future service;
- the effect on any currency exchange differences; and
- for the release of CSM related to the current period.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### iv. Measurement – Insurance contracts (continued)

##### Reinsurance contracts

To measure a group of reinsurance contracts, the Society applies the same accounting policies as are applied to insurance contracts, with the following modifications.

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The Society measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognized in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Society to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of (a) the fulfilment cash flows, (b) any amount arising from the derecognition of any assets or liabilities previously recognized for cash flows related to the group, (c) any cash flows arising at that date and (d) any income recognized in profit or loss because of onerous underlying contracts recognized at that date (see 'Reinsurance of onerous underlying insurance contracts' below). However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the group, then the Society recognizes the cost immediately in profit or loss as an expense.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted on the carrying amount of the CSM during the year, measured at the discount rates on nominal cash flows that do not vary based on the returns on any underlying items determined on initial recognition;
- income recognized in profit or loss in the year on initial recognition of onerous underlying contracts (see below);
- reversals of a loss-recovery component (see 'Net expenses from reinsurance contracts' under (vi)) to the extent that they are not changes in the fulfilment cash flows of the group of reinsurance contracts;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless they result from changes in fulfilment cash flows of onerous underlying contracts, in which case they are recognized in profit or loss and create or adjust a loss-recovery component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognized in profit or loss because of the services received in the year.



# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **33. Material accounting policies (continued)**

### **B. Insurance and reinsurance contracts (continued)**

#### **iv. Measurement – Insurance contracts (continued)**

##### **Reinsurance of onerous underlying insurance contracts**

The Society adjusts the CSM of the group to which a reinsurance contract belongs and as a result recognizes income when it recognizes a loss on initial recognition of onerous underlying contracts, if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognized. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Society expects to recover from the reinsurance contracts.

For reinsurance contracts acquired in a transfer of contracts or a business combination covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying:

- the amount of the loss component that relates to the underlying contracts at the date of acquisition; and
- the percentage of claims on the underlying contracts that the Society expects at the date of acquisition to recover from reinsurance contracts.

A loss-recovery component is created or adjusted for the group of reinsurance contracts to depict the adjustment to the CSM, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid (see 'Net expenses from reinsurance contracts' under (vi)).

#### **v. Derecognition and contract modification**

The Society derecognizes a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Society also derecognizes a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognized. If a contract modification does not result in derecognition, then the Society treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On derecognition of a contract from within a group of contracts:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognized;
- the CSM of the group is adjusted for the change in the fulfilment cash flows, except where such changes are allocated to a loss component; and
- the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognized from the group.

If a contract is derecognized because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the Society entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognized is measured assuming that, at the date of modification, the Society received the premium that it would have charged less any additional premium charged for the modification.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### vi. Presentation

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position.

The Society disaggregates amounts recognized in the statement of profit or loss into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

The Society does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue and insurance service expenses exclude any investment components and are recognized as follows.

#### Insurance revenue – Insurance Contracts

The Society recognizes insurance revenue as it satisfies its performance obligations – i.e. as it provides services under groups of insurance contracts. For insurance contracts, the insurance revenue relating to services provided for each year represents the total of the changes in the liability for remaining coverage that relate to services for which the Society expects to receive consideration and comprises the following items.

- A release of the CSM, measured based on coverage units provided (see 'Release of the CSM' below);
- Changes in the risk adjustment for non-financial risk relating to current services;
- Claims and other insurance service expenses incurred in the year, generally measured at the amounts expected at the beginning of the year. This includes amounts arising from the derecognition of any assets for cash flows other than insurance acquisition cash flows at the date of initial recognition of a group of contracts (see (iv)), which are recognized as insurance revenue and insurance service expenses at that date; and
- Other amounts, including experience adjustments for premium receipts for current or past services for the life risk segment and amounts related to incurred policyholder tax expenses.

In addition, the Society allocates a portion of premiums that relate to recovering insurance acquisition cash flows to each period in a systematic way based on the passage of time. The Society recognizes the allocated amount, adjusted for interest accretion at the discount rates determined on initial recognition of the related group of contracts, as insurance revenue and an equal amount as insurance service expenses.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### vi. Presentation (continued)

##### Insurance revenue – Insurance contracts (continued)

Release of the CSM

See also Note 26(C).

The amount of the CSM of a group of insurance contracts that is recognized as insurance revenue in each year is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the year (before any allocation) equally to each coverage unit provided in the year and expected to be provided in future years, and recognizing in profit or loss the amount of the CSM allocated to coverage units provided in the year. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering for each contract the quantity of benefits provided and its expected coverage period. The coverage units are reviewed and updated at each reporting date.

Services provided by insurance contracts include insurance coverage and, for all participating whole life contracts, investment services for managing underlying items on behalf of policyholders. In addition, life savings contracts may also provide investment services for generating an investment return for the policyholder, but only if:

- an investment component exists or the policyholder has a right to withdraw an amount (e.g. the policyholder's right to receive a surrender value on cancellation of a contract);
- the investment component or withdrawal amount is expected to include an investment return; and
- the Society expects to perform investment activities to generate that investment return.

The expected coverage period reflects expectations of lapses and cancellations of contracts, as well as the likelihood of insured events occurring to the extent that they would affect the expected coverage period. The period of investment services ends no later than the date on which all amounts due to current policyholders relating to those services have been paid.

##### Loss components

The Society establishes a loss component of the liability for remaining coverage for onerous groups of insurance contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue when they occur. When the fulfilment cash flows are incurred, they are allocated between the loss component and the liability for remaining coverage excluding the loss component on a systematic basis.

The systematic basis is determined by the proportion of the loss component relative to the total estimate of the present value of the future cash outflows plus the risk adjustment for nonfinancial risk at the beginning of each year (or on initial recognition if a group of contracts is initially recognized in the year).

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### vi. Presentation (continued)

##### Loss component (continued)

Changes in fulfilment cash flows relating to future services and changes in the amount of the Society's share of the fair value of the underlying items for participating whole life contracts are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates a new CSM for the group of contracts.

##### Insurance service expense

Insurance service expenses arising from insurance contracts are recognized in profit or loss generally as they are incurred. They exclude repayments of investment components and comprise the following items.

- Incurred claims and other insurance service expenses: For some life risk contracts, incurred claims also include premiums waived on detection of critical illness;
- Amortization of insurance acquisition cash flows: For insurance contracts, this is equal to the amount of insurance revenue recognized in the year that relates to recovering insurance acquisition cash flows;
- Losses on onerous contracts and reversals of such losses;
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein; and
- Impairment losses on assets for insurance acquisition cash flows and reversals of such impairment losses.

##### Net expenses from reinsurance contracts

Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Society recognizes an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts. The allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage that relate to services for which the Society expects to pay consideration.

For a group of reinsurance contracts covering onerous underlying contracts, the Society establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of losses recognized:

- on recognition of onerous underlying contracts, if the reinsurance contract covering those contracts is entered into before or at the same time as those contracts are recognized; and
- for changes in fulfilment cash flows of the group of reinsurance contracts relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

The loss-recovery component determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid. It is adjusted to reflect changes in the loss component of the onerous group of underlying contracts, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Society expects to recover from the reinsurance contracts.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### vi. Presentation (continued)

##### Insurance finance income and expenses

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance contracts arising from the effects of the time value of money, financial risk and changes therein, unless any such changes for groups of participating whole life contracts are allocated to a loss component and included in insurance service expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

For life risk and life savings contracts, the amount included in profit or loss is determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The systematic allocation is determined using the following rates:

- life risk contracts: the discount rates determined on initial recognition of the group of contracts; and
- life savings contracts: for insurance finance income or expenses arising from the estimates of future cash flows, a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield); and for insurance finance income or expenses arising from the CSM, the discount rates determined on initial recognition of the group of contracts.

For life risk and life savings contracts, the Society presents insurance finance income or expenses in profit or loss.

#### vii. Transition

At 1 January 2022, the Society applied the following approaches to identify and measure groups of contracts in the life risk and life savings segments on transition to IFRS 17.

Year of issue	Transition approach
<b>After 2019</b>	All groups: Full retrospective approach
<b>Before 2020</b>	All groups: Fair value approach

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#### Insurance and reinsurance contracts – Full retrospective approach

Under the full retrospective approach, the CSM (or the loss component) at 1 January 2022 was determined by calculating the present value of the fulfillment cash flows and directly attributable acquisition costs and using a discount rate applicable to a contract on the date of inception.

For all contracts measured under the full retrospective approach, the Society used reasonable and supportable information available at 1 January 2022 to determine:

- how to identify groups of contracts;
- availability of historical data; and
- how to identify discretionary cash flows for contracts.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### B. Insurance and reinsurance contracts (continued)

#### vii. Transition (continued)

##### Insurance Fair value approach

For contracts acquired in a transfer of contracts or a business combination before 2020, the Society used the fair value approach.

For groups of reinsurance contracts covering onerous underlying contracts, the Society established a loss-recovery component at 1 January 2022. The Society determined the loss-recovery component by multiplying:

- the amount of the loss component that relates to the underlying contracts at 1 January 2022; and
- the percentage of claims on the underlying contracts that the Society expected to recover from the reinsurance contracts.

### C. Investment contracts

Investment contracts include guaranteed investment and term certain annuities. These contracts identify the financial liability related to the investment contract and record the cost in profit or loss.

#### i. Financial liabilities

The Society recognizes a financial liability, representing its contractual obligation of the guaranteed investment and term certain annuities to credit the contract holders account for the contractually agreed to interest rate. This cost is recognized in profit or loss. The Society derecognizes the financial liability when the obligations specified in the contract expire or are discharged or cancelled.

Financial liabilities arising from investment contracts are designated as at AC on initial recognition which includes the original principal deposit, plus accrued interest. The amortized cost value is the amount payable on demand as the contract holders can cancel their contracts prior to maturity (with applicable surrender penalty) at any time after contract inception.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **33. Material accounting policies (continued)**

### **D. Financial assets and financial liabilities**

#### **i. Recognition and initial measurement**

The Society recognizes deposits with financial institutions and loans on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

#### **ii. Classification and subsequent measurement**

##### **Financial assets not derecognised before 1 January 2023**

##### **Classification**

On initial recognition, a financial asset is classified as measured at AC, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Society changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at AC if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- its contractual terms give rise on specified dates to cash flows that are SPPI; and
- it is held for strategic purposes.

All financial assets not classified as measured at AC or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Society may irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### ii. Classification and subsequent measurement (continued)

##### Financial assets not derecognised before 1 January 2023 (continued)

###### Business model assessment

The Society assesses the objective of the business model in which a financial asset is held for each investment segment of financial assets because this best reflects the way that the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of assets;
- how the performance of the investment segment is evaluated and reported to the Society's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Society's stated objective for managing the financial assets is achieved and how cash flows are realized.

For a majority of debt investments, the objective of the Society's business model is to fund insurance contract liabilities. The Society undertakes significant buying and selling activity on a regular basis to rebalance its various investment segments of assets and to ensure that contractual cash flows from the financial assets are sufficient to settle insurance contract liabilities. The Society determines that both collecting contractual cash flows as they come due and selling financial assets to maintain the desired asset profile are integral to achieving the business model's objective.

Certain debt securities are held in separate investment segments for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Society considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Investment segments of financial assets that are managed and whose performance is evaluated on a fair value basis, which include underlying items of participating whole life contracts, and portfolios of financial assets that are held for trading are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

##### Assessment of whether contractual cash flows are SPPI

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time – e.g. if there are repayments of principal.

Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.



# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **33. Material accounting policies (continued)**

### **D. Financial assets and financial liabilities (continued)**

#### **ii. Classification and subsequent measurement (continued)**

##### **Financial assets not derecognized before 1 January 2023 (continued)**

##### **Assessment of whether contractual cash flows are SPPI (continued)**

In assessing whether the contractual cash flows are SPPI, the Society considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Society considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Society's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration for the time value of money (e.g. periodic reset of interest rates).

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. In addition, for a financial asset acquired at a premium or discount to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant on initial recognition.

Some prepayment features permit the debtor to prepay the debt instrument at an amount calculated as the remaining contractual cash flows discounted at the current market benchmark interest rate plus a fixed spread. The Society has determined that these prepayment features are consistent with the SPPI criterion. Because the Society would be compensated only for the change in the market benchmark interest rate and for lost interest margin, the prepayment penalty would not include any non-SPPI risks and may be seen as reasonable compensation.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### ii. Classification and subsequent measurement (continued)

##### Financial assets not derecognized before 1 January 2023 (continued)

##### Assessment of whether contractual cash flows are SPPI (continued)

##### Subsequent measurement and gains and losses

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###### Financial assets at FVTPL

Measured at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss.

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###### Debt investments at FVOCI

Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI and accumulated in the fair value reserve. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

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###### Equity investments at FVOCI

Measured at fair value. Dividends are recognized as income in profit or loss when the Society's right to receive payment is established, unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

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###### Financial assets at amortized cost

Measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

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# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### ii. Classification and subsequent measurement (continued)

##### Financial assets not derecognized before 1 January 2023 (continued)

##### Financial assets derecognised before 1 January 2023

###### Classification

The Society classified its financial assets into one of the following categories:

- financial assets at FVTPL, and within this category as:
  - held-for-trading;
  - derivative hedging instruments; or
  - designated as at FVTPL;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

###### Subsequent measurement and gains and losses

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###### Financial assets at FVTPL

Measured at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, were recognized in profit or loss.

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###### Held-to-maturity investments

Measured at amortized cost using the effective interest method.

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###### Loans and receivables

Measured at amortized cost using the effective interest method.

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###### Available-for-sale financial assets

Measured at fair value. Interest income calculated using the effective interest method, dividends, foreign exchange gains and losses and impairment were recognized in profit or loss. Other net gains and losses were recognized in OCI and accumulated in the fair value reserve. On derecognition, gains and losses accumulated in OCI were reclassified to profit or loss.

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# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### ii. Classification and subsequent measurement (continued)

##### Financial assets not derecognized before 1 January 2023 (continued)

##### Financial liabilities

##### Classification

The Society classifies its financial liabilities, other than financial guarantees, into one of the following categories:

- financial liabilities at FVTPL, and within this category as:
  - held-for-trading;
  - derivative hedging instruments; or
  - designated as at FVTPL; and
- financial liabilities at amortized cost.

The Society has designated investment contract liabilities at AC on initial recognition. This is because these liabilities make up the initial contract holder principal deposit, plus accrued interest on the investment contract.

##### Subsequent measurement and gains and losses

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##### Financial liabilities at FVTPL

Measured at fair value. Net gains and losses, including any interest expenses and foreign exchange gains and losses, are recognized in profit or loss.

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##### Financial liabilities at amortized cost

Measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

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##### Interest on financial instruments not derecognised before 1 January 2023

Interest income and expenses are recognized in profit or loss using the effective interest method. The effective interest rate is calculated on initial recognition of a financial instrument and is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

The AC of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### ii. Classification and subsequent measurement (continued)

##### Interest on financial instruments not derecognised before 1 January 2023 (continued)

The gross carrying amount of a financial asset is its amortised cost before adjusting for any loss allowance.

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##### Financial assets not credit-impaired on initial recognition

If the financial asset is not credit-impaired, then interest income is calculated by applying the effective interest rate to the gross carrying amount of the asset. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the asset, but not ECL.

If the financial asset has become credit-impaired subsequent to initial recognition, then interest income is calculated by applying the effective interest rate to the amortized cost of the asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For information on when financial assets are credit-impaired, see (iii).

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##### Financial assets credit-impaired on initial recognition

Interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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##### Financial liabilities

Interest expenses are calculated by applying the effective interest rate to the amortized cost of the liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the liability.

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The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest revenue calculated using the effective interest method and other finance costs presented in profit or loss include interest on financial assets and financial liabilities measured at AC and debt investments measured at FVTPL.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **33. Material accounting policies (continued)**

### **D. Financial assets and financial liabilities (continued)**

#### **ii. Classification and subsequent measurement (continued)**

##### **Interest on financial instruments derecognised before 1 January 2023**

Interest income and expenses were recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs were incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest revenue calculated using the effective interest method and other finance costs presented in profit or loss included interest on financial assets and financial liabilities measured at amortized cost and available-for-sale financial assets.

#### **iii. Impairment**

Financial assets not derecognized before 1 January 2023

See also Note 6(A)(i)

The Society recognizes loss allowances for ECL on:

- financial assets measured at AC;
- debt investments measured at FVOCI; and
- lease receivables.

The Society measures loss allowances at an amount equal to lifetime ECL, except in the following cases, for which the amount recognized is 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Financial instruments for which 12-month ECL are recognized are referred to as 'Stage 1 financial instruments'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Financial instruments for which lifetime ECL are recognized because of a significant increase in credit risk since initial recognition but that are not credit impaired are referred to as 'Stage 2 financial instruments'. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Financial instruments for which lifetime ECL are recognized and that are credit impaired are referred to as 'Stage 3 financial instruments'.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### iii. Impairment (continued)

In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Society is exposed to credit risk.

#### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Society in accordance with the contract and the cash flows that the Society expects to receive).

#### Credit impaired financial assets

At each reporting date, the Society assesses whether financial assets measured at AC, debt investments at FVOCI and lease receivables are credit impaired. A financial asset is credit

impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the Society on terms that the Group would not otherwise consider;
- the debtor entering bankruptcy or other financial reorganization becoming probable; or
- the disappearance of an active market for a security because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In assessing whether an investment in sovereign debt is credit impaired, the Society considers the following factors:

- the market's assessment of creditworthiness as reflected in bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms, including an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### iii. Impairment (continued)

##### Credit impaired financial assets (continued)

##### Presentation of loss allowances in the statement of financial position

Loss allowances for ECL are presented as follows:

- financial assets measured at AC: the loss allowance is deducted from the gross carrying amount of the assets; and
- debt investments measured at FVOCI: the loss allowance does not reduce the carrying amount of the financial assets (which are measured at fair value) but gives rise to an equal and opposite gain in OCI.

##### Write-off

The gross carrying amount of a financial asset is written off when the Society has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Society determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Although the Society expects no significant recovery from amounts written off, financial assets that are written off could still be subject to enforcement activities in order to comply with the Society's procedures for recovery of amounts due.

##### Financial assets derecognised before 1 January 2023

At each reporting date, the Society assessed whether there was objective evidence that financial assets not measured at FVTPL were impaired. A financial asset or a group of financial assets was impaired when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably. This assessment was similar to determining whether a financial asset not derecognised before 1 January 2023 is credit impaired (see above).

In addition, for an investment in an equity instrument, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Society considered a decline of 25% to be significant and a period of fifteen months to be prolonged. However, in specific circumstances a smaller decline or a shorter period might have been appropriate.



# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### iii. Impairment (continued)

Financial assets derecognised before 1 January 2023 (continued)

Impairment losses on financial assets were recognized as follows.

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#### Financial assets

##### At amortized cost

The Society considered evidence of impairment for these assets at both individual asset and collective levels. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Society used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognized in profit or loss and reflected in an allowance account. When the Society considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss was reversed through profit or loss.

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#### Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognized, then the impairment loss was reversed through profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

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# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### iv. Derecognition and contract modification

##### Financial assets

The Society derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount at the date of derecognition and the consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss. For debt investments at FVOCI and financial assets that had already been derecognised at 1 January 2023, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. The cumulative gain or loss on equity investments designated as at FVOCI is not reclassified to profit or loss.

In transactions in which the Society neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Society continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

If the terms of a financial asset are modified, then the Society evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows.

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the new asset.
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the debtor is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual cash flows rather than to originate a new asset with substantially different terms. If the Society plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see 'Write-off' under (iii)).

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## 33. Material accounting policies (continued)

### D. Financial assets and financial liabilities (continued)

#### iv. Derecognition and contract modification (continued)

##### Financial assets (continued)

If a financial asset measured at AC or FVOCI is modified but not substantially, then the financial asset is not derecognized. If the asset had not been derecognized at 1 January 2023, then the Society recalculates the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. If such a modification is carried out because of financial difficulties of the borrower (see (iii)), then the gain or loss is presented together with impairment losses; in other cases, it is presented as interest revenue. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

##### Financial liabilities

The Society generally derecognizes a financial liability when its contractual obligations expire or are discharged or cancelled. The Society also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Notwithstanding the above, when, and only when, the Society repurchases its financial liability and includes it as an underlying item of direct participating contracts, the Society may elect not to derecognize the financial liability. Instead, the Society may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if it were a financial asset and measure it at FVTPL. This election is irrevocable and is made on an instrument by-instrument basis.

If a financial liability measured at amortized cost is modified but not substantially, then it is not derecognized.

- For financial liabilities that had not been derecognized at 1 January 2023, the Society recalculates the amortized cost of the financial liability by discounting the modified contractual cash flows at the original effective interest rate and recognizes any resulting adjustment to the amortized cost as a modification gain or loss in 'other finance costs' in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred adjust the carrying amount of the modified financial liability and are amortized over the remaining term of the modified financial liability.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **33. Material accounting policies (continued)**

### **D. Financial assets and financial liabilities (continued)**

#### **iv. Derecognition and contract modification (continued)**

Financial liabilities (continued)

- For financial liabilities that had been derecognized at 1 January 2023, the Society recognized any difference in present value as an adjustment to the effective interest rate and amortized it over the remaining life of the modified financial liability, with no immediate gain or loss recognized.

### **E. Impairment of non-financial assets**

At each reporting date, the Society reviews the carrying amounts of its non-financial assets (other than insurance and reinsurance contract assets, investment property, deferred tax assets and employee benefit assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The Society's corporate assets do not generate separate cash inflows and are used in the day to day business operations.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

# FaithLife Financial

Notes to the consolidated financial statements (continued)  
(In thousands of dollars)

Year ended 31 December 2023

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## **34. Standards issued but not yet effective**

The Society has determined there are no material implications to the financial statements arising from IFRS issued but not yet effective.

## **35. Subsequent note**

There are no subsequent events since 2023's fiscal year end.