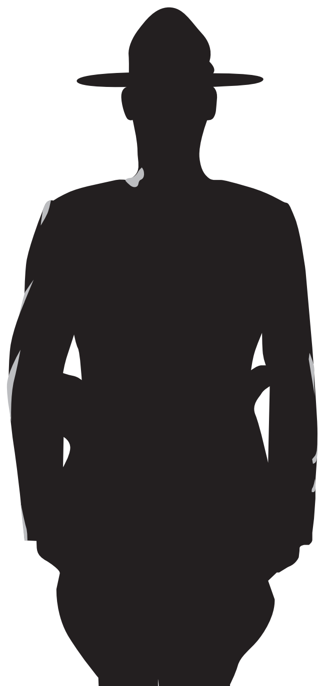
Protecting **Canadians** – Today and Tomorrow



Consolidated Financial Report 2008

Responsibility for Financial Reporting

The accompanying consolidated financial statements of Unity Life of Canada were prepared by management in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions Canada, and include amounts based on management's best estimates and judgments.

Management is responsible for the integrity of the consolidated financial statements and has established internal controls to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Audit Committee, comprised of directors who are not officers or employees of the company, meets regularly with management, the Appointed Actuary and the external and internal auditors to review actuarial, accounting, reporting and internal control matters. The Audit Committee reviews the actuary's annual valuation of policy liabilities and dynamic capital testing report and reports its findings to the Board of Directors. The Audit Committee reviews the consolidated financial statements in detail and reports its findings to the Board of Directors prior to the Board of Directors' approval of the consolidated financial statements.

The Office of the Superintendent of Financial Institutions Canada examines the business and affairs of the company, as it deems necessary, to satisfy itself that the provisions of the Insurance Companies Act are being duly observed and the company is in sound financial condition.

The Appointed Actuary is appointed by the Board of Directors, pursuant to the Insurance Companies Act. It is the responsibility of the Appointed Actuary to carry out an annual valuation of the company's policy liabilities in accordance with Canadian generally accepted actuarial practice and regulatory requirements and report thereon to the Shareholder and Policyholders. In performing the valuation, the Appointed Actuary makes assumptions as to the future rates of interest, mortality, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the company and the insurance policies in force. The Appointed Actuary also makes use of the work of the external auditors in the verification of the underlying data used in the valuation. The Appointed Actuary's report outlines the scope of the valuation and the Appointed Actuary's opinion. The external auditors have been appointed by the Shareholder and Policyholders, pursuant to the Insurance Companies Act. Their responsibility is to conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Shareholder and Policyholders on the fair presentation of the company's consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles. In carrying out their audit, the external auditors consider the work of the Appointed Actuary and his report on the policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

Anthony W. Poole
President & Chief Executive Officer

Hendrik Verdurmen
Vice-President & Chief Financial Officer

February 10, 2009

Auditors' Report

To the Shareholder and Policyholders of Unity Life of Canada

We have audited the consolidated balance sheet of **Unity Life of Canada** and the statement of net assets of the segregated funds as at December 31, 2008 and the consolidated statements of income, equity, comprehensive income, cash flows and change in net assets of the segregated funds for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts of disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company and of its segregated funds as at December 31, 2008 and the results of its operations, its cash flows and the changes in net assets of the segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

February 10, 2009

Appointed Actuary's Report

To the Shareholder and Policyholders of Unity Life of Canada

I have valued the policy liabilities in the company's consolidated balance sheet at December 31, 2008 and their change in the consolidated statement of income in accordance with Canadian generally accepted actuarial practice, including selection of appropriate assumptions and methods.

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

Stephen R. Haist
Fellow, Canadian Institute of Actuaries

February 10, 2009

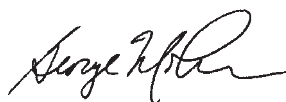
Consolidated Balance Sheet

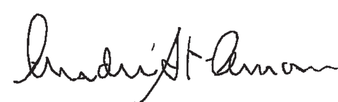
As at December 31, 2008 (in thousands of Canadian dollars)

	2008 **$**	2007 $
Assets		
Invested assets (note 4)		
Cash and cash equivalents	25,518	12,932
Bonds and debentures	511,220	441,244
Stocks	70,356	77,690
Real estate	3,999	3,999
Loans on policies	12,011	12,723
Segregated funds – seed money	687	993
	623,791	549,581
Other assets		
Investment income due and accrued	4,602	4,096
Outstanding premiums	1,007	932
Amount due from reinsurers	4,482	5,091
Capital assets (note 6)	347	295
Goodwill	140	140
Other assets	3,161	1,836
	637,530	561,971
Liabilities		
Policy liabilities		
Provision for future policy benefits (note 7)	514,619	462,703
Outstanding claims and provision for unreported claims	10,698	10,771
Policy funds on deposit	13,167	13,256
Provision for dividends to policyholders	1,195	1,195
	539,679	487,925
Other liabilities		
Accrued liabilities	21,666	9,305
Income taxes payable	–	516
Mortgage payable (note 4)	2,410	2,463
Accrued employee benefit obligations (note 9)	1,283	1,333
Future income tax liability (note 10)	11,111	9,581
	576,149	511,123
Equity		
Shareholder's equity	60,814	–
Participating policyholders' equity	567	–
Policyholders' equity	–	50,848
	61,381	50,848
	637,530	561,971

Commitments (note 16)
Contingencies (note 17)

Approved by the Board of Directors

George S. Mohacsi 
Director

André St-Amour, 
Director

Consolidated Statement of Income

For the year ended December 31, 2008 (in thousands of Canadian dollars)

	2008 **$**	2007 $
Income		
Premiums		
Life and accident and sickness	45,320	42,968
Group annuity	41,273	43,186
	86,593	86,154
Net investment (loss) income (note 4)	(18,531)	13,955
Other income	287	960
	68,349	101,069
Expenditures		
Claims	31,602	29,876
Surrender values	4,501	4,931
Maturities and other benefits	1,059	1,429
(Decrease) increase in provision for future policy benefits (note 7)	(32,506)	11,909
Dividends to participating policyholders	943	993
Dividends to policyholders	4,441	4,372
Interest paid to policyholders	441	457
Agency commissions	29,650	24,570
General expenses	17,639	17,246
Taxes and licences	1,532	1,492
	59,302	97,275
Income before income taxes	9,047	3,794
Provision for (recovery of) income taxes (note 10)	2,216	(433)
Net income for the year	6,831	4,227

Consolidated Statement of Equity

For the year ended December 31, 2008 (in thousands of Canadian dollars)

	2008 $	2007 $
Policyholders' surplus		
Balance – Beginning of year	49,570	44,147
Change in accounting policy	–	1,196
Net income prior to demutualization	1,245	4,227
Redemption and transfer of surplus	(50,815)	–
Balance – End of year	–	49,570
Shareholder's equity		
Common shares		
Issuance of common shares	50,000	–
Balance – End of year	50,000	–
Contributed surplus		
Contribution of capital	4,000	–
Balance – End of year	4,000	–
Retained earnings		
Transfer from policyholders' surplus	815	–
Transfer to participating policyholders	(500)	–
Net income subsequent to demutualization	5,519	–
Balance – End of year	5,834	–
Accumulated other comprehensive income		
Balance – Beginning of year	1,278	–
Change in accounting policy	–	1,406
Comprehensive loss	(298)	(128)
Balance – End of year	980	1,278
Total shareholder's equity	60,814	–
Participating policyholders' equity subsequent to demutualization		
Transfer from shareholder's retained earnings	500	–
Net income	67	–
Balance – End of year	567	–
Total equity	61,381	50,848

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2008 (in thousands of Canadian dollars)

	2008 $	2007 $
Net income for the year	6,831	4,227
Other comprehensive loss		
Unrealized losses on available-for-sale assets, net of income taxes of $121 (2007 – $156)	(304)	(262)
Reclassification of net realized losses to net income, net of income taxes of $2 (2007 – $80)	6	134
	(298)	(128)
Total comprehensive income	6,533	4,099

Consolidated Statement of Cash Flows

For the year ended December 31, 2008 (in thousands of Canadian dollars)

	2008 **$**	2007 $
Cash provided by (used in)		
Operating activities		
Net income for the year	6,831	4,227
Items not involving cash and cash equivalents		
Amortization of capital assets	84	76
Change in fair value option assets	38,114	4,177
Amortization of premium on investments	–	151
Realized gains	8	214
Provision for future policy benefits	(32,506)	11,909
Future income tax liability	1,649	(838)
Other assets and other liabilities	(1,127)	3,968
	13,053	23,884
Investing activities		
Investment purchases and advances		
Bonds and debentures	(62,772)	(76,476)
Stocks	(21,654)	(34,689)
Loans on policies	(1,690)	(1,690)
Real estate	–	–
Purchase of capital assets	(134)	(24)
Investment sales and maturities		
Bonds and debentures	40,853	83,991
Stocks	15,557	1,931
Loans on policies	2,446	1,261
Cash received on assumption of CPSA block of policies	–	734
Cash received on assumption of blocks of policies (note 7)	11,092	–
	(16,302)	(24,962)
Financing activities		
Issuance of common shares (note 12)	50,000	–
Contributed surplus (note 12)	4,000	–
Payment to policyholders	(38,165)	–
	15,835	–
Net change in cash and cash equivalents	12,586	(1,078)
Cash and cash equivalents – Beginning of year	12,932	14,010
Cash and cash equivalents – End of year	25,518	12,932
Cash and cash equivalents consist of		
Cash	12,819	4,474
Short-term investments, with original maturities of 90 days or less	12,699	8,458
	25,518	12,932
Supplementary information		
Income and investment income taxes paid	2,863	1,144

Segregated Funds Statement of Net Assets

As at December 31, 2008 (in thousands of Canadian dollars)

	2008 $	2007 $
Assets		
Cash and cash equivalents	440	1,155
Stocks	6,664	8,771
Mutual fund units	33,360	55,614
Investment income due and accrued	130	271
Other assets	10	8
	40,604	65,819
Liabilities		
Payable to company	1,260	969
Other liabilities	138	334
	1,398	1,303
Net Assets	39,206	64,516
Applicable to Segregated Fund policyholders	38,519	63,523
Applicable to company	687	993
	39,206	64,516

Segregated Funds Statement of Changes in Net Assets

For the year ended December 31, 2008 (in thousands of Canadian dollars)

	2008 $	2007 $
Net assets – Beginning of year	64,516	76,620
Additions		
Investment income	5,284	7,165
Change in unrealized gain on investments	(18,754)	(6,113)
Premiums	4,884	4,681
	(8,586)	5,733
Deductions		
Maturities and withdrawals	16,167	17,135
Management fees	557	702
	16,724	17,837
Net assets – End of year	39,206	64,516

1 Organization

Unity Life of Canada offers products including life insurance, accident and sickness insurance, group annuities and group creditor insurance, which are distributed across Canada.

On April 2, 2008, the company demutualized and converted from a mutual life insurance company to a stock company. On that date, the company became a wholly-owned subsidiary of The Independent Order of Foresters (Foresters). The company issued 50,000,000 common shares, which were purchased by Foresters for $50,000. This amount was set aside to fund payments to those eligible policyholders of the company of which $11,835 remains as an accrued liability as at December 31, 2008.

As part of the demutualization, the company restructured its participating account, including the establishment of a closed block sub-account (note 11).

Upon demutualization on April 2, 2008, $1,245 of net income was attributable to the company's participating policyholders. Subsequent to demutualization, net income was segregated between that portion attributable to the participating policyholders and that portion attributable to the Shareholder.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, GeniSystems.ca Services Inc.

Invested assets

Effective January 1, 2007, the company changed the accounting policy for financial assets. All financial assets are designated as held-for-trading (fair value option), or classified as available-for-sale (AFS) or loans and receivables.

Fair values of financial instruments measured at fair value that are quoted in active markets are obtained from external pricing services and are based on bid prices for financial assets. Transaction costs are expensed as incurred.

Fair value option

The company has chosen to designate bonds and stocks that support policy liabilities as held-for-trading in order to reduce a recognition inconsistency that would otherwise arise. Financial assets designated as held-for-trading are carried at fair value on the consolidated balance sheet from the trade date with realized gains and losses and changes in unrealized gains and losses recorded in net income.

Available-for-sale

AFS financial assets are non-derivative financial assets that are not classified as loans and receivables, or fair value option. AFS financial assets that are traded in an active market are measured at fair value on the consolidated balance sheet from the trade date, with changes in unrealized gains and losses recorded in other comprehensive income until realized. Stocks that are classified as AFS and do not have a quoted price in an active market are recorded at cost. When AFS financial assets are sold or impaired, the accumulated fair value adjustments and associated income taxes, previously recognized in accumulated other comprehensive income, are transferred to the consolidated statement of income as net realized gains or losses on investments. A provision for impairment for stocks, bonds and debentures classified as AFS is established when there is objective evidence that the investment is impaired and the impairment is other than temporary.

Loans and receivables

Any such assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. A provision for impairment of loans and receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to their original terms.

Cash and cash equivalents

Cash and cash equivalents comprise amounts on deposit with banks and short-term investments with a maturity of three months or less and are designated as held-for-trading (fair value option). Short-term investments are carried at amortized cost, which approximates fair value.

2. Summary of significant accounting policies (cont'd)

Capital assets

Capital assets are stated at cost less accumulated amortization and are amortized on a monthly basis over their estimated useful lives, on the following basis:

Computer software	5 years straight-line
Computer equipment	3 to 5 years straight-line
Leasehold improvements, furniture and fixtures	5 years straight-line
Furniture and fixtures	10 years straight-line

Goodwill

Goodwill, being the excess of the purchase price over the fair value of net identifiable assets acquired, is carried at cost and is subject to an annual review for impairment.

Policy liabilities

Policy liabilities are determined using accepted actuarial practices, as established by The Canadian Institute of Actuaries (CIA), using The Canadian Asset Liability Method (CALM). Policy liabilities represent an estimate of the amount which, together with estimated future premiums and investment income, will be sufficient to pay outstanding claims and future benefits, projected dividends, expenses and income taxes on policies in force.

The process of determining policy liabilities necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the potential volatility of each component comprising the liabilities. To recognize uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include a margin in each assumption. A range of allowable margins is prescribed by the CIA. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent that they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in income immediately.

Provisions for asset defaults

The company maintains provisions for defaults on principal and interest payments due on invested assets consisting of:

a) normal provision, which is the present value of an explicit margin in the interest rate used in determining policy liabilities;

b) a general provision for expected future asset defaults in excess of normal is included in determining policy liabilities;

c) provisions against specific bonds and debentures classified as AFS in the year in which there has been an other than temporary impairment in value; and

d) provisions against stocks classified as AFS for which there has been an other than temporary decline in carrying value.

Income taxes

The company provides for income taxes using the liability method of tax accounting, whereby current income taxes are based on taxable income and future income taxes are based on temporary differences between the current value of the assets and liabilities on the consolidated balance sheet and their values for income tax purposes. The income tax rules and rates used to measure income tax assets and liabilities are those rules and rates enacted or substantively enacted at the consolidated balance sheet date which are expected to be in effect when the asset or liability is settled.

In determining the impact of income taxes, the company is required to comply with standards of both The Canadian Institute of Chartered Accountants (CICA) and the CIA. Actuarial standards require that the projected timing of all cash flows associated with policy liabilities, including income taxes, are to be included in the determination of actuarial liabilities.

The actuarial liabilities are first computed including all related income tax effects on a discounted basis, including the effects of temporary differences that have already occurred. Future income tax assets and/or liabilities arising from temporary differences, which have already occurred, are computed without discounting. These amounts are reclassified from the actuarial liabilities to future income tax balances to show them separately on an undiscounted basis on the consolidated balance sheet. The net result of this reclassification is to leave the discounting effect of the future income tax balances in the actuarial liabilities.

Segregated fund investments

Segregated fund investments are carried at market value. Separate financial statements are provided for segregated fund transactions and balances. Consequently, segregated fund transactions are not included in the consolidated balance sheet or consolidated statement of income, other than income earned by the company from management fees and on capital invested in the funds as seed money. Substantially all risks and rewards of ownership of the segregated funds accrue to the policyholders.

Employee benefits

The company accrues obligations for certain retirement and other post-employment benefit plans and the related costs. The obligations are determined annually by independent actuaries, using the projected benefit method and management's best estimates, except for the discount rate which is based on market rates.

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the consolidated financial statements. Actual results could differ from those estimates.

3 Changes in accounting policies

Capital disclosures

On January 1, 2008, the company adopted CICA Handbook Section 1535, Capital Disclosures. The section requires disclosure of an entity's objectives, policies and processes for managing capital. The new disclosures required are included in note 13 of these consolidated financial statements.

Financial instrument – disclosures and presentation

On January 1, 2008, the company adopted the CICA Handbook Section 3862, Financial Instruments – Disclosures. Section 3862 requires additional financial instrument disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosures required are included in note 5 of these consolidated financial statements.

Future accounting policy changes

In February 2008, the CICA announced that Canadian GAAP will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The company will begin reporting under IFRS for the first quarter ending March 31, 2011 and will be required to prepare an opening consolidated balance sheet together with information for comparative years.

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing CICA Handbook Section 3062, Goodwill and Other Intangible Assets and CICA Handbook Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The standard applies to the company's fiscal year beginning on January 1, 2009. The new standard is not expected to have a material impact on the company's consolidated financial statements.

4 Invested assets

a) The fair values of financial assets are as follows:

				2008	2007
	Fair value option $	**Available-for-sale $**	**Other $**	**Total $**	Fair value $
Cash and cash equivalents	25,518	–	–	25,518	12,932
Bonds and debentures	483,302	27,918	–	511,220	441,244
Stocks	70,356	–	–	70,356	77,690
Real estate	–	–	3,999	3,999	3,999
Loans on policies	–	–	12,011	12,011	12,723
Segregated funds – seed money	687	–	–	687	993
	579,863	27,918	16,010	623,791	549,581

4. Invested assets (cont'd)

b) Bonds and debentures

The maturity profile of bonds and debentures is as follows:

	2008 **$**	2007 $
Term to maturity		
Canadian and provincial government		
Due in one year or less	10,595	1,419
After one through five years	26,391	10,543
After five years	273,545	245,491
	310,531	257,453
Municipal		
Due in one year or less	2,680	252
After one through five years	9,397	9,274
After five years	9,807	16,262
	21,884	25,788
Canadian corporate		
Due in one year or less	7,024	5,611
After one through five years	30,737	39,613
After five years	141,044	112,779
	178,805	158,003
	511,220	441,244

The portfolio is comprised of zero coupon bonds, interest bearing bonds and debentures. Zero coupon bonds have a principal amount of $460,009 (2007 – $449,584) and a carrying value of $169,563 (2007 – $170,463).

c) Stocks

Stocks, which represent holdings of common and preferred shares, have no fixed maturity dates and are generally not exposed to interest rate risk.

d) Real estate

Real estate comprises the company's 20% joint venture participation with a federally regulated financial institution in a commercial property investment.

The real estate participation has been pledged as security for a related non-recourse mortgage payable of $2,410 (2007 – $2,463) with interest at 5.7213%, compounded semi-annually, payable in monthly blended instalments of $16 and due March 2016. Interest expense on this mortgage amounted to $138 (2007 – $141).

e) Net investment (loss) income was derived from the following sources:

	Fair value option $	**Available-for-sale $**	**Other $**	**2008 $**	2007 $
Interest	15,083	1,061	387	16,531	15,668
Dividends	3,309	–	–	3,309	2,819
Realized losses	–	(8)	–	(8)	(214)
Fair value losses on fair value option assets	(38,114)	–	–	(38,114)	(4,177)
Real estate	–	–	202	202	95
Loans on policies	–	–	797	797	795
Segregated funds – seed money	(306)	–	–	(306)	3
	(20,028)	1,053	1,386	(17,589)	14,989
Investment expenses	(840)	(44)	(58)	(942)	(1,034)
	(20,868)	1,009	1,328	(18,531)	13,955

5 Financial instrument risk management

The primary goals of the company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, and to maintain an appropriate risk versus reward balance while protecting the company's consolidated balance sheet 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 company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk. The following describes how the company manages each of these risks.

a) Liquidity risk

Liquidity risk is the risk that the company will not have sufficient funds available to fund cash outflow commitments as they fall due. The company manages operating liquidity through matching the cash flow of assets and liabilities.

The primary sources of cash are policyholder premiums, reinsurance benefits, proceeds from maturing or sale of investments and net recognized investment income. The primary uses of cash include the purchase of new investments, benefit payments to policyholders and beneficiaries, policyholder dividends, reinsurance premiums, operating expenses including income taxes and minor capital expenditures.

The company manages its assets and liabilities to achieve an appropriate liquidity level as well as an appropriate mix of interest rates, maturity and return on assets. These assets consist of cash, short-term investments, bonds and debentures and stocks with carrying values of $607,094 and $531,866 as at December 31, 2008, and 2007, respectively. The objective of the company is to be able to sustain solvency in the worst plausible scenario. This is measured quarterly through liquidity ratios provided in an asset/liability matching report.

The following table summarizes the principal repayment schedule of certain of the company's financial liabilities as at December 31, 2008:

	Within 1 year $	1 – 3 years $	3 – 5 years $	Over 5 years $	No fixed maturity $
Amounts on deposit	–	–	–	–	13,167
Claims outstanding	10,698	–	–	–	–
Other policy benefits	1,195	–	–	–	–
Accrued liabilities	21,666	–	–	–	–
Mortgage payable	56	121	136	2,097	–
Commitments	263	526	44	–	–

b) Credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that restrict purchases to investment grade assets, provide parameters that minimize concentration of assets geographically and by industry, and specify minimum and maximum limits for each asset class.
- Investment portfolios are reviewed regularly with the audit committee of the board of directors.
- The company is exposed to credit risk relating to premiums due from policyholders only during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions payable to agents are deducted from amounts receivable where appropriate.
- Reinsurance is placed with companies that meet the company's approved credit rating requirements. Concentration of credit risk is managed according to guidelines approved annually by the board of directors. Credit worthiness of reinsurers is monitored on an ongoing basis by management.

5. Financial instrument risk management (cont'd)

Maximum exposure to credit risk

The following table summarizes the company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset.

	2008				2007
	Fair value option $	**Available-for-sale $**	**Other $**	**Total $**	Fair value $
Cash and short-term investments	25,518	–	–	25,518	12,932
Bonds and debentures	483,302	27,918	–	511,220	441,244
Stocks	70,356	–	–	70,356	77,690
Real estate	–	–	3,999	3,999	3,999
Loans on policies	–	–	12,011	12,011	12,723
Segregated fund seed money	687	–	–	687	993
Investment income due and accrued	–	–	4,602	4,602	4,096
Outstanding premiums	–	–	1,007	1,007	932
Amounts due from reinsurers	–	–	4,482	4,482	5,091
	579,863	27,918	26,101	633,882	559,700

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 details the carrying value of bonds by industry:

	2008 $	2007 $
Bonds issued or guaranteed by		
Canadian federal government	42,927	10,825
Canadian provincial and municipal governments	289,488	289,577
	332,415	300,402
Corporate bonds by industry sector		
Communications	72	111
Financials	94,530	66,014
Industrials	743	745
Utilities and energy	49,679	46,394
Other	33,781	27,578
	178,805	140,842
	511,220	441,244

5. Financial instrument risk management (cont'd)

Asset quality

The breakdown of the company's bonds and debentures by credit rating is presented below:

	2008 **$**	2007 $
Bond quality		
AAA	103,860	46,631
AA	237,383	214,312
A	158,857	180,301
BBB	11,120	–
	511,220	441,244

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Interest rate risk

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 following policies and procedures are in place to mitigate the company's exposure to interest rate risk.

- The company 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.
- 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 value of the assets will be offset by a similar change in the fair 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 equities as described below.

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

Projected cash flows from the current assets and liabilities are used in CALM to determine actuarial 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.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the company of an immediate 1% increase or decrease in the level of interest rates. These interest rate changes will impact the projected cash flows. For most of the interest sensitive products and annuities, a decrease in interest rates results in decreased profitability. A sustained 1% decline in the general level of interest rates would result in an increase in actuarial liabilities on these products of approximately $10 million while the effect of a sustained 1% increase in the general level of interest rates would result in a decrease in actuarial liabilities on these products of approximately $10 million.

Annuity products have minimum credited interest rate guarantees, ranging from 1.0% to 4.0% (2007 – 1.5% to 4.0%). These products are sensitive to a sustained decline in interest rates. The dividend paying traditional life insurance products are also sensitive to a sustained decline in interest rates. However, this impact would only be realized in the long term because dividends would be reduced as the yield on the asset portfolio declines. Bonds designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale bonds are recorded to OCI. For the company's available-for-sale bonds, an immediate 1% increase in interest rates as at December 31, 2008, across the entire yield curve, would result in an estimated after-tax decrease in OCI of $2 million. Conversely, an immediate 1% decrease in interest rates would result in an estimated after-tax increase in OCI of $2 million.

Equity risk

Some policy liabilities are supported by equities, for example segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $300. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $300.

d) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of 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 claims is based on company and industry experience; assumptions for policyholder behaviour are based on company experience and predictive models. Such assumptions require a significant amount of professional judgment and, therefore, actual experience may be materially different than the assumptions made by the company.

The company follows the policy of underwriting and reinsuring contracts of insurance with major Canadian reinsurers which, in the main, limits the liability of the company to a maximum amount on any one loss of $500. The company's reinsurance is generally placed on either a co-insurance or a yearly renewable term basis. This reinsurance does not, however, relieve the company of its primary obligation to the policyholders. The company expects to recover all amounts due from the reinsurers.

The amounts shown in the consolidated financial statements are net of the following amounts relating to reinsurance ceded:

	2008 **$**	2007 $
Provision for future policy benefits	117,178	124,058
Premiums	25,246	24,717
Policy benefits	15,904	12,733
Commission	4,883	5,420

6 Capital assets

			2008	2007
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**	Net $
Computer software	187	114	73	99
Computer equipment	169	130	39	19
Leasehold improvement, furniture and fixtures	375	140	235	177
	731	384	347	295

7 Policy liabilities

a) Nature and composition of policy liabilities and related supporting assets

The company is active in individual and group product lines in Canada. The composition of the provision for future policy benefits is as follows:

	2008 **$**	2007 $
Participating		
Individual life	46,357	52,114
Annuity	565	610
Non-participating		
Life	273,768	273,380
Annuity	188,268	131,046
Accident and sickness	5,661	5,553
	514,619	462,703

b) Assumptions

In the computation of policy liabilities, best estimate assumptions covering the lifetime of the policies have been made for many variables including mortality/morbidity, investment returns, rates of policy termination, levels of operating expenses, inflation, policyholder dividends and income taxes. Since many of these assumptions relate to events that may occur many years into the future, they are subject to revision at subsequent measurement dates. The methods for arriving at the most important of these assumptions are outlined below.

Mortality

For individual life mortality, management carries out periodic mortality studies. The assumptions used are based on recent CIA industry experience. For annuity mortality, the company experience table has been projected forward to allow for continuing mortality improvement for the older age group.

Investment returns

Asset segments backing specific lines of business are maintained. The projected cash flow from these segments is combined with future reinvestment rates derived from the economic outlook and investment policy to determine expected rates of return on these assets for all future years.

Expenses

Policy maintenance expenses are derived from internal cost allocation studies with future expenses adjusted for inflation. The majority of policy maintenance expenses is outsourced to a third party administrator.

Lapses

Lapse assumptions are based on a combination of company and industry experience.

c) Provision for adverse deviations (PFAD)

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include a margin in each assumption. A range of allowable margins is prescribed by the CIA. As the probability of deviation from estimates declines, these margins will be included in future income to the extent not required to cover adverse experience.

Margins are maintained at a level appropriate to the circumstances of the company. As a result of the non-guaranteed nature of participating business, the PFAD for this class of policies is held at a lower level than for fully guaranteed products.

d) Changes in provisions for future policy benefits

Changes in provisions for future policy benefits are as follows:

	2008 **$**	2007 $
Policy liabilities – Beginning of year	462,703	372,879
Transition adjustment – CICA standards for financial instruments	–	59,525
Revised opening balance	462,703	432,404
Changes in basis	(143)	226
Normal changes		
New business	5,307	14,645
In force	(37,670)	(2,962)
(Decrease) increase in provision for future policy benefits	(32,506)	11,909
Other changes		
Assumption of policies	84,422	18,390
Increase in policy liabilities	51,916	30,299
Policy liabilities – End of year	514,619	462,703
Changes in basis		
Expense assumption	(2,912)	484
Interest scenarios, investment income taxes and dividends	5,431	–
Lapse assumption	3,641	1,926
Miscellaneous data refinements, future premium and future policy changes	245	–
Bulk assumption – data and assumption uncertainty	(1,500)	–
Mortality assumption	(5,048)	(2,184)
Change in basis	(143)	226

Normal changes reflect changes caused by normal business activities, such as growth or decline of business base and aging of business base. These changes were reflected in new business and business in force.

e) Assumption of Forethought Life Insurance Company (Forethought) and Washington National Insurance Company (Washington) blocks of policies

The company assumed a block of individual life and group annuity business (Forethought) with effect from December 31, 2008. Policy liabilities with a value of $82,528 were acquired as a result of the transaction.

The company assumed a block of individual life business from Washington with effect from December 1, 2008. Policy liabilities with a value of $1,894 were acquired as a result of the transaction.

The consideration received as a result of these transactions was as follows:

	Forethought $	**Washington $**
Cash	9,242	1,850
Bonds	73,286	–
Policy loans	–	44

f) Assets supporting liabilities

It is the company's policy to match assets with liabilities. The cash flows required to satisfy policy obligations are matched, within reasonable limits, with the cash flows derived from related assets. Changes in the market values of assets backing the liabilities will tend to be offset by changes in these liabilities.

7. Policy liabilities (cont'd)

The distribution of invested assets supporting liabilities and surplus is as follows:

2008	**Bonds and debentures $**	**Stocks $**	**Other $**	**Total $**
Carrying value				
Participating				
Individual life	32,047	6,072	8,238	46,357
Annuity	565	–	–	565
Non-participating				
Life	262,657	2,693	8,418	273,768
Annuity	126,677	61,591	–	188,268
Accident and sickness	5,661	–	–	5,661
Other, including capital and surplus	83,613	–	25,559	109,172
	511,220	70,356	42,215	623,791

2007	Bonds and debentures $	Stocks $	Other $	Total $
Carrying value				
Participating				
Individual life	34,953	8,133	9,027	52,113
Annuity	610	–	–	610
Non-participating				
Life	261,896	2,790	8,694	273,380
Annuity	66,121	64,926	–	131,047
Accident and sickness	5,553	–	–	5,553
Other, including capital and surplus	72,111	1,841	12,926	86,878
	441,244	77,690	30,647	549,581

8 Accumulated other comprehensive income (AOCI)

	Components of AOCI	
	2008 $	2007 $
Unrealized gains on available for sale bonds and debentures – net of income taxes of $506	980	1,278

9 Employee future benefits

Effective April 2, 2008, all the employees of the company became employees of Foresters. Previously, the company provided future benefits to employees in the form of entitlement to other benefits, including pension benefits, group life insurance, accidental death and dismemberment, long-term disability and group medical and dental benefits.

Pension benefits

Pension benefits were provided until December 31, 2005, through a registered, funded, contributory defined benefit plan, which covered all eligible employees. In addition, the company sponsored a funded, non-contributory defined benefit supplemental retirement plan and a number of unfunded supplementary retirement arrangements, which provided benefits to eligible employees. With the exception of three unfunded supplementary arrangements, which provided pension benefits

to specified former employees, all of these arrangements have been terminated and the obligations settled. The company terminated its registered defined benefit plan effective December 31, 2005. The accrued benefit obligations were substantially settled in 2007. Effective January 1, 2006, the company established a group registered retirement saving plan. This was funded through employee contributions which represent 3% of their reportable earnings with a 6% matching by the company. As of May 8, 2008, this plan was terminated.

The next valuation for pension expense purposes for the remaining liabilities under the supplementary retirement arrangements will be conducted as at December 31, 2009.

Other benefits

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

The discount rate used to value pension benefits and other benefits is 6.75% (2007 – 5.5%) and 7.5% (2007 – 5.5%), respectively.

Accrued employee benefits obligations are $1,283 (2007 – $1,333). Benefit costs included in general expenses are $53 (2007 – $61).

10 Income taxes

The company's provision for (recovery of) income taxes is as follows:

	2008 **$**	2007 $
Current	567	405
Future	1,649	(838)
	2,216	(433)

The provision for (recovery of) income taxes differs from the combined federal and provincial statutory income tax rate, as certain sources of income are exempt from tax or are taxed at other than the statutory rate. A reconciliation of income tax calculated at the statutory tax rate with the income tax provision at the effective rate in the consolidated financial statements is summarized in the following table:

	2008 **$**	2007 $
Provision for income taxes at combined federal and provincial statutory income tax rate	2,953	1,328
Non-taxable investment income	(328)	(849)
Change in tax rate for future income taxes	(499)	(1,066)
Other	90	154
Provision for (recovery of) income taxes	2,216	(433)

Future income taxes comprise the following:

	2008 **$**	2007 $
Bonds	6,351	11,034
Equities	(557)	–
Net deferred losses	1,954	1,907
Capital assets	(81)	(192)
Other assets	(249)	(93)
Actuarial and other reserves	3,903	(2,600)
Other liabilities	(210)	(475)
Future income taxes	11,111	9,581

The company is subject to review by the income tax authorities. The possibility of any challenge of filing positions by the income tax authorities is not determinable at this time. Management believes the company's income tax returns are appropriately filed.

11 Participating account

As part of the demutualization, the company is required under Section 456 of the Insurance Companies Act (ICA) to maintain and report accounts for its participating policies that are separate from those for its non-participating policies. This change took effect on the effective date of the demutualization, April 2, 2008. The participating account was restructured to ensure that contractual obligations and reasonable expectations of policyholders in respect of future dividends and other non-guaranteed policy benefits are protected for the owners of participating policies as of the effective date, and to ensure adequate support for any future participating policies expected to be allocated to the participating account.

After the effective date, the company continued to maintain a participating account, and it established and maintained a shareholder's account that will include the liabilities in respect of its non-participating businesses. Within the participating account, the company will establish and maintain three separate sub-accounts as follows:

a) a closed sub-account of the participating account (the closed block) comprised of liabilities for guaranteed benefits, expenses and taxes (including income taxes) and policyholders' reasonable expectations for dividends and other non-guaranteed benefits determined using best estimate assumptions. The closed block sub-account was created for eligible participating policyholders as at the date of demutualization. These amounts were estimated to be $49,275. The closed block sub-account established at demutualization is for the protection of policyholders' reasonable expectations and is for the sole benefit of the policyholders of the closed block. The closed block sub-account assets are not available to the shareholder's account. If at any time the value of the assets allocated to the closed block sub-account were, in the opinion of the appointed actuary, less than the assets required to support the liabilities, assets having a sufficient value to rectify the situation, will be transferred first from the ancillary sub-account (see b) below) and then, if such deficiency was expected to be permanent, from the shareholder's account. Any such transfers from the shareholder's account would be recorded as a charge to net income attributable to the shareholder's account;

b) a sub-account of the participating account (the ancillary sub-account), comprising liabilities for provisions for the remaining obligations in respect of participating policies referred to in (a) including:

- i) provisions for adverse deviations (provisions) on policies in the closed block. These provisions will ensure that the guaranteed benefits and reasonable expectations of the holders of pre-demutualization participating policies will be satisfied;
- ii) previously acquired participating health policies and participating vested annuities that have no expectation of future dividends;
- iii) other participating policy liabilities relating to pre-demutualization policies, including amounts on deposit, which are also non-participating in nature;

c) an open sub-account of the participating account (the new business sub-account), comprising all liabilities for new participating policies issued on or after demutualization. On demutualization, $500 of seed capital was transferred from shareholder's equity to participating policyholders' equity new business sub-account. Subsequent transfers will be made, if necessary, to ensure that the assets allocated to the new business sub-account are sufficient to support the future participating policies, including riders or supplementary benefits, arising from this sub-account in the five year period subsequent to demutualization. The new business sub-account comprises:

- i) all liabilities and riders or supplementary benefits attached to or arising from such policies (determined using best estimate assumptions and margins for adverse deviation) issued or assumed by the company on or after the effective date;
- ii) liabilities for amounts on deposit in respect of participating policies and riders or supplementary benefits attached to or arising from such policies issued or assumed by the company on or after the effective date;
- iii) any surplus which may be attributable to such participating policies and riders or supplementary benefits; and
- iv) the assets allocated to the participating account in respect of the liabilities and surplus referred to in (i), (ii) or (iii) of this sub-section.

12 Capital

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

Authorized

Unlimited common shares

Issued and outstanding

	$
50,000,000 common shares	50,000

During 2008, Foresters contributed $4,000 cash to the company in the form of contributed surplus.

13 Capital management

The company's capital base is structured to meet or exceed regulatory and internal capital targets that reflect an efficient use of capital and maintain desired capital ratios. The board of directors is responsible for the annual review and approval of the company's capital plan combined with the review and approval of the annual operating plan. The company is 100% owned by Foresters.

The company has established policies and procedures to identify, measure and report material risks. Management is responsible for the design and implementation of procedures that facilitate the monitoring of the capital plan. The board of directors reviews and approves all capital transactions undertaken by management.

The company is subject to certain requirements and restrictions under insurance company legislation, including minimum capital requirements. The company's minimum continuing capital and surplus requirements are in excess of the minimum supervisory requirements.

14 Segment information

The company operates in one operating segment through marketing life and health insurance in Canada, which includes participating, non-participating, accident and sickness, group annuities and group creditor insurance business.

15 Segregated funds

The company had an agreement that C.I. Mutual Funds would market certain segregated funds on its behalf. This agreement came to an end in 2000. All guarantee risks relating to the performance of the existing funds have been ceded to the Canadian subsidiary of an international reinsurance company. The net asset value of these funds is $33,533 and $55,845 as at December 31, 2008 and December 31, 2007, respectively.

16 Commitments

a) The company has entered into various operating leases for office space. The estimated minimum lease payments of $833 are as follows:

	$
2009	263
2010	263
2011	263
Thereafter	44
	833

16. Commitments (cont'd)

b) The company has a contractual obligation with a third party administrator, GeniSys Management Solutions (Genisys) expiring on July 31, 2010 for certain administrative services with an annual cost based on volume, which amounted to $8,333 (2007 – $7,676).

The company entered into an agreement on September 23, 2008 with Medical Mutual Services, LLC, the parent company of GeniSys, to purchase the assets of GeniSys for US$1.6 million. This transaction is expected to close on February 28, 2009. As part of the agreement, the company will assume lease and employee obligations associated with the administrative services previously performed by Genisys.

17 Contingencies

Due to the nature of the insurance industry, the company is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing its provision for future policy benefits.

18 Related party transactions

The company is a wholly owned subsidiary of Foresters. Effective April 2, 2008, all the employees of the company became employees of Foresters. Salaries, benefits and related employee future benefit obligations for employees of Foresters dedicated to the company are paid by the company. Foresters provide various support functions in the normal course of business including human resources, internal audit, legal and compliance and investment management. The cost of these support function services to the company is charged based on usage. The charge to the company by Foresters for the support functions for 2008 was $488.

19 Comparative figures

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

Summary of the Dividend Policy – Unity Life of Canada

Dividends are determined by the Board of Directors based on a review of the experience gains of the participating fund.

Experience gains and losses arise when results achieved by Unity Life are better or worse than the assumptions on which premiums or other policy values were based. Normally, the determination of premiums is based upon assumptions about investment rates of return, asset defaults, mortality, lapses, expenses, taxes and planned contributions to surplus.

The primary method of classifying policies for dividend purposes is the contribution method, whereby dividend classes represent policies with similar characteristics. Experience gains form the basis for the equitable allocation of dividends to broad classes of policyholders.

Home Office

100 Milverton Drive, Suite 400, Mississauga, Ontario L5R 4H1

T 905 219 8000 **F** 905 219 8121 **TF** 1 800 267 8777

info@unitylife.ca **www.unitylife.ca**

Servicing/Operations

Courier 1660 Tech Avenue, Suite 3, Mississauga, Ontario L4W 5S8

Mail P.O. Box 1098, Station “F”, Toronto, Ontario M4Y 2T7

T 905 219 8000 **F** 905 219 8102 **TF** 1 800 267 8777

Assuris

Unity Life of Canada, A Foresters Company is a member of **Assuris** (Canadian Life & Health Insurance Compensation Corporation). **Assuris** administers the consumer protection plan that provides protection to the policyholders of member companies.

Policyholders and prospective policyholders are invited to visit their website at http://www.assuris.ca or read the **Assuris** brochure for details and limitations of coverage.