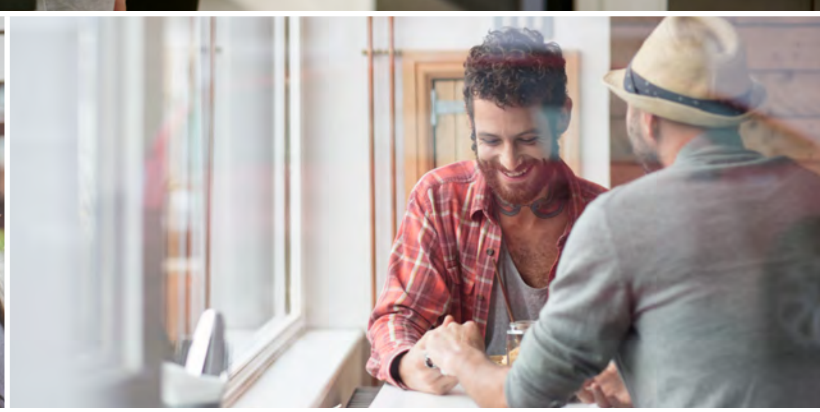
Annual Report 2017



ivari™

CONTENTS

ivari

ivari is one of Canada's leading individual life insurance providers, with $9.5 billion in total assets under management and total consolidated gross premium revenue of $870 million ($808 million for *ivari* stand-alone + $62 million for Canadian Premier Life Insurance up to the point of its sale) in 2017.

Canadians at every stage of life access our reliable life and protection products through a national network of independent advisors. Each day, we strive to provide a positive experience for all who interact with us and continually seek feedback to keep doing what is working well and make changes to what isn't.

With headquarters in Toronto, *ivari* has offices in Vancouver, Calgary, London and Montreal, employing more than 500 people with a wide range of skills and expertise. We provide challenging and rewarding careers in the continually evolving financial services industry and ongoing learning and development opportunities.

Our commitment to giving back to the communities in which we live and work comes in many forms. From a Volunteer Program that gives each employee up to 12 hours a year to volunteer with the charity of their choice to in the spirit of hope, our corporate giving program focused on funding charities that are dedicated to the prevention and elimination of heart disease, stroke, cancer and diabetes, giving back is core to who we are.

To learn more about *ivari*, visit ivari.ca.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

In 2017, *ivari* made great progress against its strategic growth priorities. With this momentum we have a solid foundation to strengthen our position in the marketplace in the coming year.

We continue to partner with advisors to help them more effectively reach middle-market Canadian consumers and provide them with financial peace of mind through a valuable combination of products and services.

To further advance growth in the middle-market in 2017, the company also established strategic partnerships with Everest Funeral Concierge Services, Insurance Supermarket Inc. (ISI) and Specialty Life Insurance (SLi).

Teams from across our organization have worked hard to identify and implement enhancements to the experience we offer our customers, which has helped strengthen our position among our direct competitors.

Our consolidated net income was $65.2 million, primarily as a result of the gain on the sale of the Affinity business. The company maintained a strong capital position throughout the year and paid $923 million in dividends to our parent company, Wilton Re.

ivari life sales are represented in the figures below:

- WFG declined 8% compared to the previous year.
- Brokerage sales declined 14% over last year.
- Market share of 4.3%.

A NEW CHAPTER IN IVARI'S LEADERSHIP

In August 2017, Todd Lawrence joined *ivari* as Deputy CEO. This is in preparation for my succession upon retirement. Todd is rapidly taking on leadership of the business to ensure a smooth transition and continuity for consumers and advisors.

Todd is a seasoned financial professional with 25 years of experience. During his career, he has held numerous senior positions within the financial services industry with a range of experience that includes insurance, reinsurance, mortgages, retail lending, deposits and wealth management.

OUR COMMITMENT TO IMPROVING THE QUALITY OF CANADIAN LIVES

ivari's Healthy Steps Program aims to empower children and teens to get a head start to lifelong healthy living. As a life insurance company, we have a good understanding of what it takes for people to lead long and healthy lives and last year we donated $176,827 to charitable causes in our local communities that align with this focus.

Early in 2017 *ivari* also launched a Kids Team Sponsorship Program, which is designed to support healthy lifestyles in youth. We recognize that organized sports are an important tool to help foster a lifelong enthusiasm for active living and in 2017 we sponsored 25 local kids teams.

Our long-standing partnership with the United Way/Centraide Canada allows us to give back to organizations working to make a difference in the communities where we live and work. In 2017 we received a United Way Spirit Award nomination for our exceptional effort and generosity plus, going above and beyond to support efforts to build a better region.

On behalf of the Board of Directors and all employees, thank you for your continued confidence in us.

Douglas W Brooks

Doug Brooks
President and Chief Executive Officer

BUSINESS RESULTS

- Capital strength remained well above minimum OSFI requirements, as measured by the MCCSR ratio, ending the year at 206%.
- Net income in the year of $ 65.2 million.
- Life sales declined by about 15%.
- Total assets under management of $9.5 billion as at December 31, 2017.
- All of our invested assets are investment grade, with average quality of A+.

SOURCE OF EARNINGS

The Company's net income is presented in the Annual Report in a Source of Earnings format to quantify the financial contribution from each of its major sources of income. A discussion of the Company's earnings in this format has been included to assist the reader in understanding how the earnings were generated this year. The reader can also understand trends in the Company's earnings over time by reviewing the annual Source of Earnings presentation and discussion over several years.

Based on guidance from the Canadian Institute of Actuaries and guidelines from the Office of the Superintendent of Financial Institutions (OSFI), the following sources of net income are disclosed:

EXPECTED PROFIT ON IN-FORCE OPERATIONS

This is the profit anticipated to be earned from the business in force at the beginning of the year. The largest part of such profit is the release of the safety margins held in the insurance contract liabilities for each year's risks (provisions for adverse deviations). These provisions for any specific year are no longer required as that year passes because the Company is no longer exposed to the risks at the end of that year. Net fee income on segregated fund policies is also included here.

IMPACT OF NEW BUSINESS

This represents the income recognized at the point of sale for contracts issued in the year. It includes premiums net of commissions and expenses as well as insurance contract liabilities established at the time of issue. This figure does not measure the ultimate profitability of these contracts because provisions for adverse deviations will be released into income over time.

EXPERIENCE GAINS (LOSSES)

This source of earnings represents the impact of the differences between actual experience during the year and the levels anticipated at the beginning of the year, as provided for in the insurance contract liabilities. For example, experience gains or losses can arise from financial market movements, mortality experience and lapse experience. Income arising from new business after the point of sale is also included here.

MANAGEMENT ACTIONS

This source of earnings represents the impact of actions taken by management in the course of the year that impacted net income, primarily through changes in insurance contract liabilities. Typically, these actions include changes in reinvestment strategy, asset transactions to optimize the risk profile of the company and changes in reinsurance coverage.

CHANGES IN METHODS AND ASSUMPTIONS

This source of earnings represents the impact of changes in insurance contract liabilities made for a variety of reasons such as: revised assumptions concerning future experience; updates to the provisions for adverse deviations; changes in Canadian actuarial standards of practice or OSFI guidelines; and changes due to improvements to the valuation systems.

OTHER

This includes any other items, usually small in amount, that have not been included in the other sources of earnings.

INCOME TAXES

Income taxes are allocated to each line of business according to its taxable income and taking into account specific federal and provincial tax rules.

Consolidated Source of Earnings Statement for the year ended December 31, 2017, by line of business
(millions of dollars)

CONTINUING OPERATIONS	Universal Life	Traditional Life	Annuities	Accident & Sickness	Segregated Funds	Surplus	Total	2016
Expected Profit on continuing in-force operations	35.7	11.2	1.8	0.0	10.4	0.0	59.1	60.3
Impact of New Business	40.8	1.9	0.1	(0.1)	(1.6)	0.0	41.1	84.9
Experience Gains (Losses)	(31.2)	22.2	0.6	(1.2)	(4.4)	4.1	(9.9)	114.0
Management Actions	(0.2)	(19.4)	(5.8)	0.0	0.0	(0.5)	(25.9)	132.0
Changes in Methods and Assumptions	(40.3)	(59.4)	1.4	(0.1)	0.2	0.0	(98.2)	(297.6)
Other Variances	(0.6)	0.7	1.0	0.2	0.1	(0.2)	1.2	(24.1)
Earnings on surplus						(11.1)	(11.1)	(43.6)
Income Before Income Taxes	4.2	(42.8)	(0.9)	(1.2)	4.7	(7.7)	(43.7)	25.9
Income tax expense (recovery)	(0.1)	(4.8)	0.0	0.0	0.1	(27.3)	(32.1)	0.9
Net Income (Loss) from continuing operations	4.3	(38.0)	(0.9)	(1.2)	4.6	19.6	(11.6)	25.0
DISCOUNTINUED OPERATIONS								
Net Income from Canadian Premier Life classified as discontinued operations							76.8	11.3
Total Net Income (Loss)							65.2	36.3

Note: The consolidated results above represent the Source of Earnings for ivari on a standalone basis (Continuing Operations) plus the net income after tax from Canadian Premier Life (CPL) classified as discontinued operations. The sale of CPL was announced in the fourth quarter of 2016 and closed on April 1, 2017. The 2016 results for discontinued operations are a full year of CPL's net income; the 2017 results are the sum of CPL's net income for the first quarter of $1 million and ivari's gain on the sale of CPL of $75.8 million after tax.

The presentation does not lend itself to the elimination of inter-company activity and no eliminations have been made. Inter-company activities consist of management and administrative services provided between the companies.

Expected profits on inforce operations of $59 million in 2017 are fairly stable compared to $60 million for 2016 as the release of safety margins has not materially changed from revised assumptions.

The contribution of new business reduced from $85 million to $41 million, mostly due to lower sales of universal life products. The 2016 figure was somewhat inflated by a spike in universal life sales in the latter part of the year, triggered by tax changes on such policies beginning in 2017.

The experience loss of $10 million represents the net impact of various components. Although the Company is sensitive to movements in interest rates, credit spreads and equity returns, market movements were fairly neutral over the year and contributed an experience gain of $6 million. Mortality and lapse experience contributed an experience loss of $2.5 million, which is materially improved over last year as a result of past strengthening of assumptions. All other components, including expenses, net to an experience loss of $13 million.

Management actions resulting in a loss of $26 million were about evenly split between a realignment of the various asset portfolios backing insurance contract liabilities and reinsurance of a block of business to the newly established Canadian branch of Wilton Re (Canada) Limited.

The impact of changes in methods and assumptions in 2017 was split about evenly between changes resulting from revised Canadian actuarial standards of practice, specifically with respect to lower promulgated long-term interest rate assumptions and higher mortality improvement levels, and changes made to reflect emerging experience.

Earnings on surplus represent the net impact of $59 million of investment income on surplus assets minus interest expenses on assets on deposit from reinsurers of $70 million.

Income Tax expense (recovery) in the Surplus line of business includes a one-time favourable legal settlement of $11 million relating to taxes paid in prior years reflected as a recovery.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the accompanying consolidated financial statements. This responsibility includes selecting appropriate policies and making estimates and other judgments consistent with International Financial Reporting Standards issued by the International Accounting Standards Board and with the requirements of the Office of the Superintendent of Financial Institutions.

The Board of Directors oversees management's responsibilities for financial reporting. An Audit and Conduct Review Committee, comprising both affiliated and non-affiliated Directors, is appointed by the Board of Directors to review the consolidated financial statements and report to the Directors prior to their approval of the consolidated financial statements for issuance to the shareholder and policyholders.

Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded and that *ivari* ("the Company") adheres to legislative and regulatory requirements. These systems include the communication of policies and standards of business conduct throughout the Company. Such policies and standards are designed to prevent conflicts of interest and unauthorized disclosure of information. Internal controls are reviewed and evaluated by the Company's internal auditors.

The Audit and Conduct Review Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary in establishing that the Company is employing an appropriate system of internal control, is adhering to legislative and regulatory requirements and is applying the Company's policies and standards of business conduct. Both the internal and external auditors have full and unrestricted access to the Audit and Conduct Review Committee, with and without the presence of management.

The Office of the Superintendent of Financial Institutions conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the *Insurance Companies Act* (Canada) and to ensure that the interests of policyholders and the public are safeguarded.

The Appointed Actuary, who is a member of management, is appointed by the Board of Directors to discharge the various actuarial responsibilities required under the *Insurance Companies Act* (Canada) and conducts the valuation of the Company's insurance contract liabilities. The report of the Appointed Actuary accompanies these consolidated financial statements.

The Company's external auditors, Deloitte LLP, Chartered Professional Accountants, Licensed Public Accountants, conduct an independent audit of the consolidated financial statements and meet separately with both management and the Audit and Conduct Review Committee to discuss the results of their audit. The Independent Auditor's Report to the shareholder and policyholders accompanies these consolidated financial statements.

Douglas Brooks, FCIA, FSA
President and Chief Executive Officer

Robin Fitzgerald, FCIA, FSA
EVP and Chief Financial Officer

APPOINTED ACTUARY'S REPORT

To the Shareholder and Policyholders of ***ivari***:

I have valued the policy liabilities and reinsurance recoverables of *ivari* for its consolidated statement of financial position as at December 31, 2017 and their changes in the consolidated statement of income (loss) for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
February 22, 2018

Daniel Pellerin
Fellow, Canadian Institute of Actuaries

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholder of ***ivari***,

We have audited the accompanying consolidated financial statements of *ivari*, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of income (loss), consolidated statement of comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of *ivari* as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

February 22, 2018
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	Note	2017	2016
(thousands of dollars)			
ASSETS			
Cash and cash equivalents	3,4,5	$ 23,732	$ 19,970
Short-term investments	3,4,5	773,807	877,909
Bonds and debentures	3,4,5	5,413,881	5,508,994
Exchange-traded and mutual funds	4,5	1,627,975	1,635,112
Mortgage loans	4	423	881
Derivative assets	4,5,6	594	245
Loans to policyholders	4	150,007	161,335
Other invested assets	4	31,696	33,505
Accrued investment income		60,576	82,455
Total Invested Assets		$ 8,082,691	$ 8,320,406
Reinsurance assets	3,8	2,479,544	2,188,628
Income taxes recoverable		11,900	–
Other assets	7	152,737	128,640
Segregated funds net assets	5,19	1,442,133	1,568,361
Canadian Premier Life assets, classified as held-for-sale	16	–	215,102
Total Assets		$ 12,169,005	$ 12,421,137
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	3, 8	$ 8,493,140	$ 7,619,164
Investment contract liabilities	3, 8	40,888	50,183
Reinsurance payables		12,678	20,599
Derivative liabilities	4,6	2,910	1,212
Deferred tax liability	11	41,495	35,175
Other liabilities	9	901,544	1,554,049
Segregated funds net liabilities	5,19	1,442,133	1,568,361
Canadian Premier Life liabilities, classified as held-for-sale	16	–	140,114
Total Liabilities		$ 10,934,788	$ 10,988,857
Equity			
Capital stock	14	911,750	911,750
Contributed surplus	13	885,500	860,500
Retained earnings (deficit)		(697,841)	(440,018)
Accumulated other comprehensive income (loss)		134,808	100,048
Total Equity		$ 1,234,217	$ 1,432,280
Total Liabilities and Equity		$ 12,169,005	$ 12,421,137

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

Approved by the Board of Directors on February 22, 2018 and signed on its behalf by:

Douglas Brooks, FCIA, FSA
Director, President and Chief Executive Officer

Robert Alexander
Director

CONSOLIDATED STATEMENT OF INCOME (LOSS)

For the Year Ended December 31	Note	2017	2016
(thousands of dollars)			
CONTINUING OPERATIONS			
Revenue			
Gross premiums	17	$ 807,738	$ 780,728
Less: Premiums ceded to reinsurers	17	480,288	422,433
Net premiums		327,450	358,295
Net investment income	4	657,457	419,274
Fee income		38,983	40,114
Other income		298	1,153
Total Revenue		$ 1,024,188	$ 818,836
Policy benefits and claims			
Gross benefits and claims	18	$ 545,736	$ 454,333
Claims ceded to reinsurers	18	(387,844)	(319,646)
Change in gross insurance contract liabilities	8	851,856	193,658
Change in insurance contract liabilities ceded to reinsurers		(290,916)	105,811
Change in investment contract liabilities	8	1,045	1,552
Change in non-controlling interest		–	(3,939)
Total Policy Benefits and Claims		$ 719,877	$ 431,770
Expenses			
Sales commissions and bonuses		$ 149,576	$ 158,914
Interest expense		70,262	68,503
Marketing and operating expenses	10	113,078	119,508
Policy related taxes, licenses and fees		15,049	14,275
Total Expenses		$ 347,965	$ 361,200
Income (Loss) Before Income Taxes		$ (43,654)	$ 25,866
Income tax expense (recovery)	11	$ (32,066)	$ 861
Net Income (Loss) from Continuing Operations		$ (11,588)	$ 25,006
DISCONTINUED OPERATIONS			
Net Income and Gain on Sale from Canadian Premier Life Classified as Discontinued Operations	16	$ 76,766	$ 11,307
Total Net Income (Loss)		$ 65,178	$ 36,313

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31		2017		2016
(thousands of dollars)				
Net income (loss)	$	65,178	$	36,313
Continuing operations: Other comprehensive income (loss), net of income taxes:				
Change in unrealized gains (losses) on available-for-sale assets arising during the year:				
Bonds		37,057		3,542
Equities and Other		32		45
Reclassification adjustment for losses (gains) included in net income (loss):				
Bonds		64		(1,303)
Equities and Other		–		–
Total Other Comprehensive Income (Loss) from Continuing Operations	$	37,153	$	2,284
Discontinued operations: Other comprehensive income (loss), net of income taxes:				
Change in unrealized gains (losses) on available-for-sale assets arising during the year:				
Bonds		62		(1,162)
Equities and Other		–		–
Reclassification adjustment for losses (gains) included in net income (loss):				
Bonds		(2,455)		(471)
Equities and Other		–		–
Total Other Comprehensive Income (Loss) from Discontinued Operations	$	(2,393)	$	(1,633)
Total Comprehensive Income (Loss)	$	99,938	$	36,965

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31	Note	2017	2016
(thousands of dollars)			
Common shares			
Balance, January 1	14	$ 911,750	$ 911,750
Common shares issued		–	–
Balance, December 31		$ 911,750	$ 911,750
Preferred shares			
Balance, January 1	14	–	–
Preferred shares issued		–	–
Balance, December 31		–	–
Contributed surplus			
Balance, January 1		$ 860,500	$ 830,000
Additional contributed surplus, contributed in cash during the year		25,000	30,500
Balance, December 31		$ 885,500	$ 860,500
Continuing operations: Retained earnings (deficit)			
Balance, January 1		$ (443,901)	$ 113,093
Net income (loss)		(11,588)	25,006
Sale of discontinued operations		80,649	–
Dividends received from discontinued operations		–	18,000
Dividends paid or declared	13	(323,000)	(600,000)
Balance, December 31		$ (697,841)	$ (443,901)
Discontinued operations: Retained earnings (deficit)			
Balance, January 1		$ 3,883	$ 10,576
Net income (loss)	16	76,766	11,307
Dividends paid		–	(18,000)
Sale of discontinued operations		(80,649)	–
Balance, December 31		$ –	$ 3,883
Continuing operations: Accumulated other comprehensive income (loss), net of income taxes			
Balance, January 1		$ 97,655	$ 95,371
Net change in unrealized gains (losses) on available-for-sale assets		37,153	2,284
Balance, December 31		$ 134,808	$ 97,655
Discontinued operations: Accumulated other comprehensive income (loss), net of income taxes			
Balance, January 1		$ 2,393	$ 4,026
Net change in unrealized gains (losses) on available-for-sale assets		(2,393)	(1,633)
Balance, December 31		–	2,393
Total Equity		$ 1,234,217	$ 1,432,280

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31 (thousands of dollars)	2017	2016
OPERATING ACTIVITIES		
Net income (loss)	$ 65,178	$ 36,313
Items not affecting cash:		
Decrease (increase) in accrued investment income	22,802	(59,001)
Decrease (increase) in other assets	(5,972)	7,176
Decrease (increase) in deferred tax provision on operating income	(7,463)	(10,291)
Increase (decrease) in insurance contract liabilities	788,808	192,375
Increase (decrease) in investment contract liabilities	(9,295)	(11,237)
Increase (decrease) in other liabilities	(73,498)	89,680
Decrease (increase) in reinsurance assets	(332,354)	114,045
Net realized losses (gains), including impairments	(307,979)	(110,463)
Net amortization of premium (accrual of discount) on invested assets	(125,845)	(119,640)
Ceded premium paid in kind with invested assets	50,745	–
Total non-cash items	$ (51)	$ 92,644
Net Cash Provided by (Used in) Operating Activities	$ 65,127	$ 128,957
INVESTING ACTIVITIES		
Sales, maturities and scheduled repayments of:		
Bonds and other fixed-term securities	$ 1,018,199	$ 264,578
Exchange-traded and mutual funds	216,465	266,121
Mortgage loans	458	408
Other invested assets	124,628	133,626
Derivatives	(4,362)	9,307
Purchases and issues of:		
Bonds and other fixed-term securities	(452,899)	(201,327)
Exchange-traded and mutual funds	(114,351)	(268,491)
Other invested assets	(122,600)	(129,663)
Short-term investments, net	121,846	(226,723)
Loans to policyholders, net	11,328	1,031
Net Cash Provided by (Used in) Investing Activities	$ 798,713	$ (151,133)
FINANCING ACTIVITIES		
Contributed surplus	$ 25,000	$ 30,500
Dividends paid	(923,000)	–
Net Cash Provided by (Used in) Financing Activities	$ (898,000)	$ 30,500
Net Increase (Decrease) in Cash and Cash Equivalents during the year	$ (34,160)	$ 8,324
SUMMARY OF CHANGES IN CASH POSITION		
Cash and cash equivalents, beginning of year	$ 57,892	$ 49,568
Net increase (decrease) in cash and cash equivalents during the year[1]	(34,160)	8,324
Cash and Cash Equivalents, end of year	$ 23,732	$ 57,892
Less: Net cash and cash equivalents, discontinued operations, end of year	–	37,922
Net Cash and Cash Equivalents, Continuing Operations, end of year	$ 23,732	$ 19,970

1 Included in net increase (decrease) in cash and cash equivalents during the year is interest received of $263 as at December 31, 2017 (2016 – $301) and interest expense paid of $48,659 as at December 31, 2017 (2016 – $43,869).

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

CONSOLIDATED SCHEDULE OF CHANGES IN SEGREGATED FUNDS NET ASSETS

For the Year Ended December 31		2017		2016
(thousands of dollars)				
Segregated funds net assets, beginning of year	$	1,568,958	$	1,700,766
Additions to segregated funds:				
Deposits		57,383		81,624
Net realized and unrealized gains (losses)		70,245		27,386
Interest and dividend income		56,457		89,149
Total Additions	$	184,085	$	198,159
Deductions from segregated funds:				
Seed units redemptions	$	–	$	–
Payments to policyholders and their beneficiaries		263,606		280,280
Management fees		33,444		35,642
Other expenses, including GST on management fees		13,220		14,045
Total Deductions	$	310,270	$	329,967
Segregated Funds Net Assets, end of year	$	1,442,773	$	1,568,958

CONSOLIDATED SCHEDULE OF SEGREGATED FUNDS NET ASSETS

As at December 31		2017		2016
(thousands of dollars)				
Investments, at market value:				
Cash and short-term investments	$	85,761	$	83,111
Bonds		106,986		125,321
Equities and mutual funds		1,219,385		1,311,602
Futures contracts		(171)		(139)
Other assets		32,608		52,953
Liabilities		(1,797)		(3,890)
Total Segregated Funds Net Assets	$	1,442,772	$	1,568,958
Seed units invested in segregated funds by the Company		640		596
Segregated funds net assets		1,442,133		1,568,362
Total Segregated Funds Net Assets	$	1,442,773	$	1,568,958

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – INDEX

December 31, 2017

1. Basis of Preparation

(a) Corporate Information

ivari is a Canadian life insurance company, incorporated under the Insurance Companies Act (Canada) and licensed to offer life and accident and sickness insurance throughout Canada. ivari (the "Company") is privately held with all of its outstanding common shares owned by ivari Holdings ULC ("iHULC"), formerly ivari Canada ULC ("iCULC"), which is ultimately owned by Wilton Re Ltd. ("WRL").

ivari was the sole shareholder of another Canadian life insurance company, Canadian Premier Life Insurance Company ("CPL"). On November 1, 2016, *ivari* announced the sale of CPL to Securian Financial Group, Inc. ("Securian") as part of a larger transaction which included all of WRL's affinity business in Canada and the sale closed on April 1, 2017. The basis of presentation used in preparing these consolidated statements and the following notes reflects the sale of CPL.

ivari provides protection and wealth management solutions, including individual life insurance, annuities, segregated funds, and accident and sickness insurance to Canadians from its registered office and headquarters at 5000 Yonge Street, Toronto, Ontario, M2N 7J8. The Company distributes its solutions through a large network of independent advisors and direct marketers.

The Company is subject to regulation by the Office of the Superintendent of Financial Institutions ("OSFI") and by the Provincial and Territorial Superintendents of Financial Institutions and Insurance for all provinces and territories. Under regulations and guidelines prescribed by OSFI, the Company is required to maintain certain minimum levels of capital, which are dependent on the type and amount of insurance policies in force and the nature of the Company's assets. OSFI limits the distribution of the Company's earnings through monitoring of adherence to these capital requirements.

(b) Basis of Presentation

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

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company, and all amounts are rounded to the nearest thousand dollars except when otherwise indicated.

The Company's parent, iHULC, and its Board of Directors have the power to make changes to the consolidated financial statements after issuance, subject to materiality.

(c) Use of Estimates and Judgments

Preparation of the consolidated financial statements requires that management make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Accounting policies requiring complex estimates and significant judgments include the measurement and classification of insurance contract liabilities and investment contract liabilities, the valuation of certain financial assets and liabilities, and income taxes. Details on the judgments and estimates are provided in the related notes. Although some variability is inherent in these estimates, management believes that the amounts provided are appropriate.

(d) Basis of Consolidation

These consolidated financial statements include the financial results for *ivari* and CPL.

In accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* ("IFRS 5"), management has determined that CPL is appropriately included within these consolidated financial statements as discontinued operations. As such, the statement of income (loss) presents the CPL net income within a single line – income from discontinued operations. The consolidated statement of financial position presents each of CPL's total assets and total liabilities as a separate line. See Note 16 for additional details.

Unless otherwise indicated, the notes to these consolidated financial statements exclude the discontinued operations.

The Company has invested in imaxxFunds to support certain investment objectives. The Company has determined that no portion of the imaxxFunds was under its substantive control during 2017 and 2016.

The Company's consolidated financial statements have been prepared using uniform accounting policies for like transactions and events in similar circumstances. Intercompany balances, as well as income and expenses arising from intercompany transactions, have been eliminated in preparing the consolidated financial statements.

2. Significant Accounting Policies and Accounting Policy Changes

(a) Significant Accounting Policies

The Company's significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

(i) Financial Assets Excluding Embedded Derivatives

Financial assets are recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

The Company records sales of invested assets on the trade date.

Classification

The following financial assets are classified as fair value through profit or loss ("FVTPL"): financial assets held for trading ("HFT"), financial assets managed on a fair value basis in accordance with the Company's risk management and investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably separated. In addition, in certain instances the Company designates financial assets to this category when, by doing so, a potential accounting mismatch in the consolidated financial statements is eliminated or significantly reduced.

The Company designates financial assets backing insurance contract liabilities as FVTPL. Insurance contract liabilities are calculated based on the Canadian Asset Liability Method ("CALM"). Under this method, the carrying value of assets backing insurance contract liabilities is considered in the basis of the calculation. Therefore, any change in fair value of the assets matching these liabilities is taken into account in the calculation. Assets backing insurance contract liabilities include cash and cash equivalents and short-term investments, exchange-traded funds ("ETFs"), bonds and debentures and mutual funds.

Mortgages, land leases and accounts receivable are classified as loans and receivables.

All remaining non-derivative financial assets are designated as available-for-sale ("AFS"). These AFS assets back surplus and investment contract liabilities, and include cash equivalents, bonds and debentures and the seed units segregated funds.

The Company has not classified any financial instruments as held-to-maturity.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date. For AFS assets and for loans and receivables, the Company also includes any directly attributable incremental costs in the initial fair value measurement. Accrued interest is recognized separately.

For FVTPL assets, all accrued income and realized and unrealized gains (losses) are recognized in net investment income in the consolidated statement of income (loss) as incurred. For AFS assets, unrealized gains (losses) in fair value are recognized in other comprehensive income ("OCI"). Realized gains (losses) on the sale of AFS assets are reclassified from accumulated other comprehensive income ("AOCI") and recorded as gains (losses) in net investment income. Loans and receivables are carried at amortized cost using the effective interest rate method. See note 9 (a) for additional details.

- Fair Value

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions involving the same instrument, without modification or repackaging, or based on a valuation technique whose variables include only inputs from observable markets.

Subsequent to initial recognition, the values of financial assets and financial liabilities are measured at fair values that are quoted in active markets based on bid prices for financial assets or ask prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which utilize observable market inputs. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. See Note 5 (d) for additional information.

The Company calculates fair values based on the following methods of valuation and assumptions:

- Invested Assets

  The fair value of invested assets is based on quoted market prices. If quoted market prices are not readily available, the fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

2. Significant Accounting Policies and Accounting Policy Changes *(continued)*

(a) Significant Accounting Policies *(continued)*

(i) Financial Assets Excluding Embedded Derivatives *(continued)*

- Financial Instruments Maturing Within the Next Year

The fair value of assets maturing within a year is approximated by their carrying amount adjusted for credit risk where appropriate.

- Derivative Financial Instruments

The fair value of exchange-traded futures derivative financial instruments is based on quoted market prices. The fair value of over-the-counter derivative financial instruments is determined using valuation models that incorporate prevailing market rates and prices on underlying instruments with similar maturities and characteristics.

The fair value of over-the-counter trading derivatives, including foreign currency forwards and credit swaps as well as equity call and put options, is estimated using established models which recognize the need to address market, liquidity and credit risks not appropriately captured by the models and is recorded net of valuation adjustments. For certain derivatives, fair value may be determined in whole or in part from valuation techniques using non-observable market inputs or transaction prices. A number of factors such as bid-offer spread, credit profile and market uncertainty are taken into account, as appropriate, when values are determined using valuation techniques.

The Company's financial assets include the following:

- Cash, Cash Equivalents and Short-Term Investments

Assets included here are comprised of cash, current operating accounts, term deposits and fixed income securities which are held for the purpose of meeting short-term cash commitments.

Short-term investments within the Company's surplus portfolio with a maturity of less than 90 days from the acquisition date are presented as cash equivalents.

Purchase premiums or discounts are amortized over the life of the security using the effective interest rate method and are recognized as interest income. Interest income earned on these assets is recorded in net investment income.

- Bonds and Debentures

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, when independent prices are not available, fair values are determined by using valuation techniques which utilize observable market inputs. These primarily include comparisons with similar instruments where market observable prices exist and may include discounted cash flow analysis and other valuation techniques commonly used by market participants. The Company does not believe that using alternative assumptions in the valuation techniques for these bonds would result in significantly different fair values.

Purchase premiums or discounts are amortized over the life of the security using the effective interest rate method and are recognized as interest income. Interest income earned on these assets is recorded in net investment income.

- Mortgages

Mortgages are carried at amortized cost as described above.

- Exchange-traded Funds ("ETFs")

The Company invests in ETFs to match the underlying investment risk of equity-linked account values for universal life contracts. ETFs are recorded at their fair values, being the bid price recorded by the securities exchange on which such securities are principally traded.

- Mutual Funds

The Company invests in mutual funds to match the underlying investment risk of equity-linked account values for universal life contracts. The fair value of investments in mutual funds is determined using specified bid unit values.

- Common Stock

Common stock is included in exchange-traded and mutual funds on the consolidated statement of financial position.

- Loans to Policyholders

Loans to policyholders are carried at their outstanding balance which represents the unpaid principal balance and accrued interest. These loans are fully secured by the cash surrender value of the policies on which the respective loans are made.

- Other Invested Assets

  The Company has invested seed units in its segregated funds, and these are carried at fair value using quoted prices.

  Land leases represent an investment in loans that are secured by the land beneath the residential property.

  As part of its derivatives activities, the Company has pledged short-term investments as futures margins.

- Accounts Receivable

  Accounts receivable are measured at amortized cost and are comprised of amounts due from business partners, affiliates and brokers as well as premiums due.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to: the financial condition of the issuer; specific adverse conditions affecting an industry or region; a decline in fair value not related to interest rates; bankruptcy; defaults; and delinquency in payments of interest or principal. Investments are considered to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or when the Company does not intend to hold the investment until the value has recovered. Market prices are taken into consideration when evaluating impairment, however, the market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset.

When there is objective evidence that an AFS bond is impaired, the asset is written down to its fair value and the loss accumulated in AOCI is reclassified to other net investment income. Following impairment loss recognition, these assets continue to be recorded at fair value, with further changes in fair value recorded to OCI, and are regularly assessed for further impairment. Should the fair value subsequently increase due to an event occurring after the impairment loss was recorded, the impairment loss is reversed as appropriate.

For impaired bonds, write-offs are made to adjust the carrying value to the recoverable amount measured by discounting the estimated future cash flows at the effective interest rate inherent in the bonds. For mortgages and loans classified as loans and receivables, provisions are established to adjust the carrying value to the recoverable amount measured by discounting the estimated future cash flows at the effective interest rate inherent in the loan. Wherever possible, the fair value of collateral underlying the loan or an observable market price is used to establish the recoverable amount. Gains (losses) on bonds, ETFs and mutual funds designated as FVTPL are already recorded in net income. When determined to be impaired, interest on bonds, mortgages and loans is no longer accrued and previous interest accruals are reversed.

Objective evidence of impairment of an investment in an equity instrument designated as AFS includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined as an unrealized loss position for six months or more or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, the Company actively monitors earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment. Significant management judgment is used in applying this information.

Impairment losses on equity instruments are never reversed.

Impairment reviews are conducted periodically throughout the year.

Derecognition

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the amount recognized in net income (loss) is the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain (loss) that had been recognized in OCI and accumulated in equity.

(ii) Financial Liabilities

Measurement

Financial liabilities are recognized initially on the date they are originated at fair value plus any directly attributable incremental costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

2. Significant Accounting Policies and Accounting Policy Changes *(continued)*

(a) Significant Accounting Policies *(continued)*

(ii) Financial Liabilities *(continued)*

Measurement (continued)

The Company's financial liabilities include investment contract liabilities, derivative liabilities and other liabilities which consist of the following:

- Amounts on Deposit from Reinsurers

  The Company has a funds withheld arrangement with one of its reinsurance providers and credits interest on the outstanding balance of the amount payable to the reinsurer.

- Other liabilities also include accounts payable, accrued expenses, taxes payable and dividends payable.

Derecognition

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled when they expire.

(iii) Offsetting of Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iv) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. An incremental cost is one that would not have been incurred had the financial instrument not been acquired, issued or disposed of.

(v) Insurance Contracts

Insurance contracts are accounted for under IFRS 4 *Insurance Contracts* ("IFRS 4") and under it, the Company continues to apply the accounting policies that were applicable prior to the adoption of IFRS.

Insurance contracts are contracts under which the Company accepts a significant risk, other than a financial risk, from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. The Company reviews contracts with consistent risk features to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Company has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance will not be subsequently reclassified as investment contracts.

Insurance Contract Liabilities

Insurance contract liabilities are valued using CALM. The liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends and expenses on in-force policies. Insurance contract liabilities are determined using accepted actuarial practices according to the standards established by the Actuarial Standards Board ("ASB") and guidance provided by the Canadian Institute of Actuaries ("CIA").

The Company recognizes the liability when the insurance contract is entered into and the premiums are due, and derecognizes the balance when the insurance contract expires, is discharged or is cancelled.

Insurance contract liabilities are presented gross of reinsurance assets on the consolidated statement of financial position.

Other Insurance Contract Liabilities

Other insurance contract liabilities represent the estimated amount necessary to pay benefits which have been incurred and not yet paid. These liabilities are based on best estimates and may include reasonable provisions for adverse deviations from those estimates. Where the benefits involve the payment of benefits over an extended period of time, the estimated future benefit and expense amounts have been discounted for interest; otherwise the amounts are calculated on an undiscounted basis.

(vi) Investment Contracts

Investment contracts are contracts under which the Company accepts a financial risk for a policyholder but does not accept a significant insurance risk. Contracts issued by the Company that transfer financial risk from the policyholder to the Company and do not transfer significant insurance risk are accounted for in accordance with International Accounting Standards ("IAS") 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") and they can be reclassified as insurance contracts if the insurance risk subsequently becomes significant.

Investment contract liabilities are measured at amortized cost and recognized when the investment contract is entered into. At initial recognition, the Company records these liabilities at fair value less transaction costs directly attributable to issuance of the investment contract. For subsequent periods, the Company measures the investment contract liabilities at amortized cost using the effective interest rate method. The liability is derecognized when the investment contract expires, is discharged or is cancelled.

(vii) Service Contracts

Contracts that have the legal form of an insurance contract but do not expose the insurer to significant insurance or financial risk, for example life insurance contracts in which the insurer bears no significant mortality risk, are termed service contracts. Service contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Revenue and expenses related to service contracts are included in other income.

(viii) Embedded Derivatives

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are bifurcated and accounted for as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Company considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

These financial instruments are measured at fair value with changes in fair value recognized in profit or loss. Fair value of embedded derivatives is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available.

(ix) Reinsurance Assets and Liabilities

Ceded Reinsurance

Ceded reinsurance contracts are contracts entered into by the Company with other insurance companies ("reinsurers") in order to transfer a portion of the risk and to receive proportionate compensation for benefits and claims on insurance contracts written by the Company. For contracts transferring sufficient insurance risk, a reinsurance asset or liability is recognized for the expected future benefits less expected future reinsurance premiums.

As required under IFRS, premiums, liabilities for future policy benefits, policyholder benefits paid and commissions are recorded gross of amounts ceded to, and recoverable from, reinsurers.

Reinsurance assets represent amounts due to the Company from reinsurers. The calculation of these amounts, in accordance with the terms of the reinsurance agreements, is consistent with the calculation of insurance contract liabilities.

Reinsurance assets are subject to impairment testing. They are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured. Impairment losses are recognized in net income (loss).

Reinsurance assets are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party. Reinsurance liabilities are derecognized when the contractual obligations are extinguished or expire or when the contract is transferred to another party.

Assumed Reinsurance

Assumed reinsurance contracts are contracts entered into by the Company to acquire a portion of the risk and provide proportionate compensation for claims and benefits on insurance contracts written by other insurance companies. The Company, through CPL, assumed reinsurance risk in the normal course of business for life insurance and non-life insurance contracts. Premiums, benefits and change in insurance contract liabilities on assumed reinsurance were recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

(x) Current Income Taxes

The income tax expense (recovery) is the amount expected to be paid to (recovered from) the taxation authorities for the current year as well as adjustments for taxes expected to be payable or recoverable in respect to previous periods. The tax rates used to compute these amounts are those that are enacted or substantively enacted at the reporting date.

Income taxes relating to amounts included in OCI are recognized in OCI and not in net income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Significant Accounting Policies and Accounting Policy Changes *(continued)*

(a) Significant Accounting Policies *(continued)*

(xi) Deferred Income Taxes

Deferred income taxes are accounted for using the liability method of tax allocation. Under this method, a deferred tax asset or liability is recorded for differences that are expected to reverse in future periods between the carrying amount of an asset or liability recognized in the consolidated statement of financial position and the amount attributed to that asset or liability for tax purposes. These differences are referred to as temporary differences. Deferred income taxes are calculated on temporary differences arising from investments in subsidiaries except where the Company controls the timing of the reversal of the temporary difference and it is apparent that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is recorded at the tax rate expected to apply when each temporary difference is reversed, and the change in the balance is recognized in either OCI or net income depending on the nature of the underlying transaction.

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither net income nor comprehensive income, no deferred tax asset is recognized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available in the future against which the deferred tax asset can be applied. An unrecognized deferred tax asset is reassessed at each reporting date and recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

A deferred tax liability is recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the comprehensive income nor taxable income (loss).

(xii) Segregated Funds

Segregated funds contracts provide minimum death and maturity value guarantees to the policyholders. The Company considers these benefits to be insurance contracts and includes the liabilities associated with these guarantees in insurance contract liabilities.

Certain of the segregated funds contracts allow the policyholders to invest in segregated investment funds managed by the Company for their benefit. The policyholders bear the risks and rewards of the performance of the funds, however the underlying assets of the funds are owned by the Company. The underlying assets are recorded at fair value and the values are based on quoted market prices or, where quoted market prices are not readily available, on prevailing market prices for instruments with similar characteristics and risk profiles or by using internal or external valuation models with observable market-based inputs. The fair value of the net liabilities is set equal to the fair value of the net assets. Segregated funds net assets and net liabilities are presented as separate lines on the consolidated statement of financial position.

The Company earns a fee for the management of these funds which is included in fee income.

(xiii) Derivatives Excluding Embedded Derivatives

Derivatives are financial instruments that require little or no net initial investment, are settled at a future date and whose value changes in response to an underlying variable(s).

In the ordinary course of business, the Company uses various derivatives, such as currency forwards, equity futures and credit derivatives, to manage the risk related to its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates, stock market indices and credit changes.

Derivatives with a positive fair value are reported as assets and derivatives with a negative fair value are reported as liabilities. The Company classifies derivatives as HFT with fair value changes reflected in net investment income within the consolidated statement of income (loss).

IFRS specifies the criteria under which hedge accounting may be applied and how hedge accounting may be executed for each of the permitted hedging strategies. The Company does not use hedge accounting for any of its derivative instruments.

Fair values of exchange-traded futures contracts are based on quoted market closing prices. Fair values of forward contracts, which are traded over-the-counter, are determined using pricing models which take into account current market prices of underlying instruments, interest rates and exchange rates. Fair values of swap contracts are determined by discounting expected future cash flows using current market interest rates and exchange rates for similar instruments. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available.

(xiv) Provisions

Provisions are recognized for present legal or constructive obligations arising from past events, when it is probable that they will result in a flow of economic benefits (losses) and the amount can be reliably estimated. The amount recognized as a provision is the best estimate of the amount required to settle the present obligation at the consolidated statement of financial position date, considering all its inherent risks and uncertainties. Legal costs related to the settlement are recognized as incurred. These provisions are reviewed on a case by case basis as facts and circumstances change.

(xv) Property and Equipment

Property and equipment is reported as a component of other assets and is comprised of: furniture, computers, other equipment, leasehold improvements and leased equipment. These assets are carried at cost less accumulated depreciation and impairment. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are depreciated over the remaining lease terms of the associated leases, with fifteen years being the longest lease term. All other property and equipment are depreciated over periods that range from three to ten years.

(xvi) Intangible Assets

Software and other intangible assets are recognized to the extent that the assets: can be identified; are controlled by the Company; are expected to provide future economic benefits; and can be measured reliably. The Company has no internally-generated intangible assets arising from research or goodwill, brands, customer lists and similar items.

Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses, and reported as a component of other assets. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in net income as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in net income (loss). Intangible assets are depreciated over periods ranging from three to ten years. The depreciation expense is recognized in marketing and operating expenses in the consolidated statement of income (loss).

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

(xvii) Impairment of Property and Equipment and Intangible Assets

A property and equipment item or an intangible asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of the value-in-use of the asset and its fair value less cost to sell. The value-in-use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

Impairment losses are charged directly to net income (loss).

Impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the recoverable amount of the asset since recognition of the last impairment loss. The reversal is recognized in net income to the extent that it reverses impairment losses previously recognized in net income. The carrying amount after reversal would not exceed the amount that would have been recognized had there been no impairment.

(xviii) Revenue Recognition

Premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due. When premiums are recognized, insurance contract liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Fees and other income are recognized when earned and primarily include fees earned from the management of segregated fund assets.

(xix) Net Investment Income

Interest income is recognized in the consolidated statement of income (loss) as it accrues and is calculated by using the effective interest rate method. Fees and commissions are an integral part of the effective yield of the financial asset or liability and are recognized as an adjustment to the effective interest rate of the instrument.

Dividends as well as mutual funds and ETF distributions are recognized when declared.

2. Significant Accounting Policies and Accounting Policy Changes *(continued)*

(a) Significant Accounting Policies *(continued)*

(xix) Net Investment Income *(continued)*

Realized gains (losses) on the sale of financial assets are recorded in net income and are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

Investment expenses are comprised of administration expenses, both internal and external, as well as expenses related to investment income and are recognized in net income as they accrue.

(xx) Related Party Transactions

The Company enters into transactions with related parties in the normal course of business. Such transactions are measured at the amount of consideration established and agreed to by the related parties. In all cases, transactions are at market terms and conditions.

(xxi) Operating Leases

Leases where substantially all the risks and benefits of ownership of the asset are not transferred are classified as operating leases. Lease payments are charged to net income in the year to which they relate.

(xxii) Deferred Compensation Payments

The Company provides a cash-based deferred compensation plan to certain levels of management employees. The estimated award is expensed over the 48 month vesting period and any adjustments to the expected award are recognized as they are determined. The final award amount is payable in two equal parts approximately 3.5 years and 4 years following the end of the year in which it is earned.

(xxiii) Contributed Surplus

The Company records contributed additional capital in contributed surplus.

(xxiv) Policy Benefits and Claims

Gross Benefits and Claims

Gross benefits for insurance contracts include the cost of all benefits arising during the year as well as all costs that are directly related to the processing and settlement of benefits.

Claims Ceded to Reinsurers

Amounts recoverable from reinsurers are estimated in a manner consistent with liabilities associated with the reinsured policies and are assessed at least annually for impairment.

(xxv) Sales Taxes and Premium Taxes

Expenses and assets are recognized net of the amount of related sales taxes in the following two instances:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Some receivables and payables include the related amount of sales tax.

Outstanding net amounts of sales or premium taxes recoverable from, or payable to, the taxation authorities are included as part of other assets or other liabilities in the consolidated statement of financial position.

(b) Other Accounting Policy Changes

The following standards and amendments are effective for 2017:

(i) Amendments to IAS 7 *Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* which require disclosure on the statement of cash flows of movements in certain liabilities arising from financing liabilities. The amendments are effective on January 1, 2017. The Company has reviewed and adopted these amendments with minimal impact on the consolidated financial statements.

(ii) Amendments to IAS 12 *Income Tax*

In January 2016, the IASB issued amendments to IAS 12 *Income Tax* which clarify the treatment of deferred tax assets related to debt instruments measured at fair value. A deductible temporary difference arises when the carrying amount of the debt instrument measured at fair value is less than the cost for tax purposes, irrespective of whether the debt instrument is held-for-sale or held-to-maturity. The recognition of the deferred tax asset that arises from this deductible temporary difference is considered in combination with other deferred taxes where tax law restricts the utilization of tax losses. In addition, when estimating future taxable profits, consideration can be given to recovering more than the asset's carrying amount where probable. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company has reviewed and adopted the amendments with minimal impact on the consolidated financial statements.

The following standards and amendments will be applicable to the Company subsequent to 2017:

(iii) IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers*, effective on January 1, 2017, that sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. The standard requires a company to recognize revenue that represents the transfer of goods or services to customers, measured at the amounts it expects to receive when the customer has control of the goods or services. Contracts covered by IFRS 9 *Financial Instruments* ("IFRS 9") and IFRS 4 are excluded from the scope of this new standard. In September 2015, the IASB deferred the effective date of IFRS 15 *Revenue from Contracts with Customers* from January 1, 2017 to January 1, 2018. The Company is analyzing the impact on the consolidated financial statements.

(iv) IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39. IFRS 9 provides guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The classification and measurement of financial assets will depend on the financial asset's contractual cash flow characteristics and the entity's business model for managing the asset. For financial instruments not measured at FVTPL, IFRS 9 introduces an impairment model that requires recognition of expected loss from possible default events in the near term as well as recognition of lifetime expected loss if certain criteria are met. A new model for hedge accounting aligns hedge accounting more closely with the entity's risk management activities by increasing the eligibility of both hedged items and hedging instruments, and introducing a more principles-based approach to assess hedging effectiveness. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 January 1, 2018, however in September 2016, the IASB made amendments to IFRS 4 that provide a temporary exemption which permits an insurer to apply IAS 39 rather than IFRS 9 for annual periods beginning before January 1, 2021. The temporary exemption is only available to entities with activities which are predominantly connected with insurance and which have not already adopted portions of IFRS 9. The Company has elected the temporary exemption and will continue to apply IAS 39 until 2021.

(v) IFRS 16 *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. The standard is effective for years beginning January 1, 2019 and later. The Company is analyzing the impact on the consolidated financial statements.

(vi) IFRS 17 *Insurance Contracts* ("IFRS 17")

In May 2017, the IASB issued IFRS 17 to establish a comprehensive global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. The standard is effective for years beginning on or after January 1, 2021, and is to be applied retrospectively, unless impracticable, in which case the insurer may elect to use a modified retrospective or fair value method. IFRS 17 will replace IFRS 4, and will change the fundamental principles used by the Company for recognizing and measuring insurance contract liabilities. IFRS 17 will also change the presentation and related note disclosures of the Company's consolidated financial statements. Although permitted by the standard, OSFI does not allow early adoption.

The Company is planning its IFRS 17 implementation, including consideration of any OSFI requirements.

The IASB issued other revised standards and exposure drafts effective for annual periods starting January 1, 2018 and beyond. The Company is analyzing the contemplated future revisions and their potential impact on the consolidated financial statements.

3. Risk Management and Control Practices

Enterprise Risk Management ("ERM") provides the framework under which all risk management activities within the Company are coordinated. The objective of ERM is to ensure that significant risks are identified, risk limits are defined, risks are appropriately managed, and that risk management activities are properly monitored within a given set of established risk tolerances on an ongoing basis. The Company has in place an established organization, framework, policies and procedures for managing the significant risks associated with its business.

The Board is ultimately responsible for the Company's risk management and it regularly monitors risk management policies and practices. The Investment, Financial Risk and Operational Risk Committee ("IFRC") and the Audit and Conduct Review Committee ("ACRC") of the Board facilitate the Board's risk management monitoring as part of their mandates.

An Own Risk and Solvency Assessment Report has been approved by the Company's Board. This report consolidates documentation and assessments of the Company's ERM framework as well as documentation about the development of internal targets and capital needs.

Risk Identification, Monitoring and Measurement

The Company's Risk and Capital Committee ("RCC") oversees, monitors and ensures appropriate risk taking and risk management decisions, with the authority to adjust or limit risk positions in line with the Company's defined risk strategy and established risk tolerances. The RCC provides a high level of assurance to the ACRC and the IFRC that risk taking is in compliance with the defined risk management framework, policies and guidelines.

Risk Management, under the direction of the Chief Risk Officer, plays a key role in the achievement of the Company's risk management and governance objectives. Working with the RCC, Risk Management proactively identifies and assesses financial, credit and operational risks facing the Company and oversees the development of plans to manage and mitigate these risks into the future. It promotes a risk management culture within the Company and ensures current risk management policies and procedures are appropriate for the circumstances of the Company and meet applicable regulatory standards. Risk Management works with Company management to articulate the risk appetite and risk profile of the Company. The Internal Audit function develops short- and long-term audit plans, giving consideration to the inherent and residual risks of ongoing business processes and the impact of the changing internal and external environments, with the input of the RCC and the ACRC. Audits are conducted in accordance with this plan, independently assessing the effectiveness and efficiency of risk management policies and processes designed to: identify, measure and mitigate risks; provide accurate, timely and reliable financial and operating information; safeguard assets; and support compliance with regulatory and other legislative requirements.

The Company employs a continuous process for extreme event monitoring, which includes the use of Capital at Risk Target Ranges, quarterly shock testing and annual Dynamic Capital Adequacy Testing ("DCAT"). The Capital at Risk framework identifies the Company's risk appetite to various market and underwriting risks to which the Company is exposed. Both downside and upside shocks are modeled. The framework allows management to identify risks which are material and develop appropriate action plans to mitigate these risks. The DCAT analyzes the Company's regulatory capital adequacy over a five year projected timeframe by stress testing a number of significantly adverse but plausible scenarios.

The Company manages its risks in accordance with risk management policies, approved annually by the IFRC, the ACRC or the Board, as applicable. These policies set out general principles, accountabilities, risk limits and reporting requirements for the measurement and management of risks the Company faces.

(a) Credit Risk

Credit risk is the risk of loss from not receiving amounts owed by the Company's financial counterparties. The Company is subject to credit risk in connection with issuers of securities held in the Company's investment portfolio, debtors, reinsurers and derivative counterparties. Losses may occur when a counterparty fails to make timely payments pursuant to the terms of the underlying contractual arrangement or when the counterparty's credit rating or risk profile deteriorates. Credit risk can also arise in connection with deterioration of, or the Company's ability to realize the value of, an underlying security that is used to collateralize a debt obligation. Credit risk can occur at multiple levels as a result of broad economic conditions, challenges with specific sectors of the economy or from issues affecting individual companies. Events that result in defaults, impairments or downgrades of the securities in the Company's investment portfolio would cause the Company to record realized or unrealized losses and may increase provisions for asset default, adversely impacting earnings.

(i) Credit Risk Governance and Control

The Company manages its credit risk through the credit, counterparty exposure and concentration tolerance limits and control activities outlined in its Investment Policy and Reinsurance Risk Management Policy. Key controls utilized in the management and measurements of credit risk are as follows:

- Risk appetite and tolerance limits for credit risk;
- Credit risk management guidelines and procedures;
- Investment diversification requirements by asset class, geography and industry;
- Risk-based credit portfolio and industry exposure limits;
- Mandatory use of credit quality ratings for portfolio investments are established and reviewed regularly;
- Comprehensive due diligence processes and ongoing credit analysis;
- Regulatory solvency requirements that include risk-based capital requirements;
- Monitoring of reinsurance exposures and assessment of reinsurers' creditworthiness;
- Credit swap arrangements may be used to mitigate any exposure that falls outside of the Company's tolerance limits;
- Stress testing techniques, such as DCAT, are used to measure the effects of large and sustained adverse credit developments;
- Insurance contract liabilities are determined in accordance with standards established by the ASB and guidance provided by the CIA;
- Target capital levels that exceed regulatory minimums have been established; and
- Active credit risk governance, including independent monitoring and review, and reporting to the IFRC.

3. Risk Management and Control Practices *(continued)*

(a) Credit Risk *(continued)*

(ii) Concentration of Credit Risk for Financial Instruments

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, such as groups of debtors in the same economic or geographic regions or in similar industries. The following tables provide the carrying values of bonds and debentures by industry sector.

	December 31, 2017		
	Fair Value Through Profit or Loss	Available-for-Sale	Total
Government	$ 1,747,921	$ 567,593	$ 2,315,514
Financial	339,198	72,882	412,080
Communications	549,158	50,358	599,516
Utilities	481,455	42,930	524,385
Consumer	688,147	22,817	710,963
Industrial	703,805	41,585	745,391
Other	106,032	–	106,032
Total	$ 4,615,716	$ 798,165	$ 5,413,881

	December 31, 2016		
	Fair Value Through Profit or Loss	Available-for-Sale	Total
Government	$ 2,254,198	$ 507,650	$ 2,761,848
Financial	292,531	77,988	370,519
Communications	523,754	50,254	574,008
Utilities	447,370	43,992	491,362
Consumer	558,758	23,120	581,878
Industrial	670,638	44,538	715,176
Other	13,208	995	14,203
Total	$ 4,760,457	$ 748,537	$ 5,508,994

(iii) Asset Default Risk

The following tables provide the carrying values of the bonds and debentures by credit rating.

	December 31, 2017			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-Sale	Total	Percent of Portfolio
AAA	$ 187,284	$ 109,340	$ 296,624	5.48%
AA	1,476,762	474,508	1,951,271	36.04%
A	1,539,369	73,493	1,612,862	29.79%
BBB	1,412,301	140,824	1,553,124	28.69%
BB or Lower	–	–	–	–
Total	$ 4,615,716	$ 798,165	$ 5,413,881	100.00%

	December 31, 2016			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-Sale	Total	Percent of Portfolio
AAA	$ 249,506	$ 95,349	$ 344,855	6.26%
AA	1,251,707	33,308	1,285,015	23.33%
A	1,920,257	476,029	2,396,286	43.50%
BBB	1,338,987	143,851	1,482,838	26.92%
BB or Lower	–	–	–	–
Total	$ 4,760,457	$ 748,537	$ 5,508,994	100.00%

3. Risk Management and Control Practices *(continued)*

(a) Credit Risk *(continued)*

(iv) Loans Past Due

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received but management has reasonable assurance of the timely collection of the full amount of principal and interest due. As at December 31, 2017, there were no loans where either the principal or interest was past due (2016 – nil).

(v) Derivative Financial Instruments by Counterparty Credit Rating

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

The following table summarizes derivative financial instruments with a positive fair value by counterparty rating.

	December 31, 2017	December 31, 2016
AA	$ 18	$ 57
A	576	188
Total	$ 594	$ 245

(vi) Concentration of Credit Risk for Reinsurance

The following table summarizes the potential maximum exposure to loss of reinsurance assets, by reinsurer rating assigned by external rating agencies.

	December 31, 2017			December 31, 2016		
	Reinsurance Assets	Liabilities to Reinsurers[1]	Net Exposure	Reinsurance Assets	Liabilities to Reinsurers[1]	Net Exposure
AAA	–	–	–	–	–	–
AA	$ 2,539,378	$ 1,262,621	$ 1,276,757	$ 2,283,262	$ 1,163,032	$ 1,120,230
A	(59,834)	–	(59,834)	(94,634)	–	(94,634)
BB	–	–	–	–	–	–
Not Rated	–	–	–	–	–	–
Total	$ 2,479,544	$ 1,262,621	$ 1,216,923	$ 2,188,628	$ 1,163,032	$ 1,025,596

1 Includes funds withheld and amounts on deposit.

(b) Market Risk

The Company is exposed to significant financial and capital market risk, the risk that the fair value or future cash flows of an insurance contract or financial instrument will fluctuate because of changes in market prices. Market risk includes equity risk, interest rate risk, and currency risk.

Equity Risk

Equity risk is the potential adverse impact on the Company's earnings or capital due to movements in individual equity prices or general movements in the value of the stock market. The Company is exposed to equity risk through direct investment in equities, through the guarantees within its products, and through the impact of policyholder funds invested in accounts which track external equity-related indices. The exposure to equity risk arising from death and maturity guarantee provisions included in the Company's segregated funds contracts, as summarized in the table in Note 3 (b) (ii), has declined in recent years due to a de-emphasis of segregated funds sales.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes or volatility in interest rates or credit/swap spreads when asset and liability cash flows do not coincide. The Company is exposed to interest rate risk when the cash flows from assets and the policy obligations they support are significantly mismatched, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows in unfavourable interest rate environments. The impact of changes or volatility in interest rates or credit/swap spreads are reflected in the valuation of the Company's financial assets and insurance contract liabilities. The interest rate guarantee provisions included in the Company's universal life contracts, summarized in Note 3 (b) (iii), represent one of the Company's most significant exposures to interest rate risk. If the Company's investment returns fall below the guaranteed interest rates, it may have to increase liabilities in respect of its universal life contracts.

Currency Risk

Currency risk is the potential for economic loss associated with fluctuations in the market values of assets or liabilities due to foreign exchange rate movements that are not fully passed through to the policyholders. As at December 31, 2017 and 2016, the Company has minimal exposure to currency risk.

(i) Market Risk Management, Governance and Control

The Company manages its interest rate, equity and currency risks though tolerance limits and control activities outlined in its Asset-Liability Risk Management and Risk Appetite Policies. Key controls utilized in the management and measurement of market risk are outlined below.

- Risk appetite and target ranges have been established for market risk.
- Ongoing monitoring and reporting of market risk sensitivities against established risk target ranges is performed.
- Related risk management policies, guidelines and procedures are in place.
- The Asset-Liability Management working group oversees key market risk strategies and tactics, reviews compliance with applicable policies and standards and reviews investment and hedging performance.
- Hedging and asset-liability management programs are maintained in respect of key market risks.
- Product development and pricing policies require a detailed risk assessment and pricing provisions for material market risks.
- Use of foreign exchange derivative contracts such as currency swaps and forwards to mitigate exposure outside of established risk target ranges.
- Stress testing techniques, such as DCAT, are used to measure the effects of large and sustained adverse market movements.
- Insurance contract liabilities are established in accordance with standards set forth by the ASB and guidance provided by the CIA.
- Target capital levels that exceed regulatory minimums have been established.

3. Risk Management and Control Practices *(continued)*

(b) Market Risk *(continued)*

(i) Market Risk Management, Governance and Control *(continued)*

The following table outlines the impact on the Company's net income and OCI resulting from specific changes in interest rate and equity market prices as at December 31 assuming all other variables remain constant.

	Estimated Impact on Net Income		Estimated Impact on OCI		Estimated Impact on Total Equity	
	2017	2016	2017	2016	2017	2016
Change in equity markets[1]						
10% increase	$ 49,400	$ 77,800	$ –	$ –	$ 49,400	$ 77,800
10% decrease	(61,700)	(79,700)	–	–	(61,700)	(79,700)
20% increase	91,300	154,000	100	100	91,400	154,100
20% decrease	(122,400)	(165,600)	(100)	(100)	(122,500)	(165,700)
Changes in interest rates[2]						
1% increase in yield curve	$ 37,800	$ (34,400)	$ (108,500)	$ (102,400)	$ (70,700)	$ (136,800)
1% decrease in yield curve	(51,000)	30,400	142,000	135,200	91,000	165,600
2% increase in yield curve	62,400	(57,200)	(191,900)	(180,500)	(129,500)	(237,700)
2% decrease in yield curve	(135,900)	18,200	328,200	312,800	192,300	331,000

1 Represents the impact of an immediate change in the equity markets as at December 31. Income impacts are net of changes in the supporting assets and any hedge recoveries, including projected changes in future hedge costs. A 26.68% effective tax rate (2016 – 26.72%) is assumed to estimate after-tax income.

2 Represents the impact of an immediate parallel shift in the yield curve for all durations, subject to a 0% floor. A 26.68% effective tax rate (2016 – 26.72%) was used to estimate after-tax income.

(ii) Segregated Funds Guarantees and Hedging Strategy

The guarantee provisions included in the Company's segregated funds contracts represent one of the Company's exposures to market risk. These guaranteed benefits are linked to underlying fund performance and may be triggered upon death, maturity or withdrawal. The Company established insurance contract liabilities for these guaranteed benefits which reflect the market value of certain hedge instruments as well as the cash flows from these hedge instruments that are available to pay for the guarantees.

The Company uses a semi-static hedge program to significantly reduce exposure to equity risk in its segregated funds. The Company has hedged about 100% (2016 – 85%) of the segregated fund equity exposure and 100% of the currency exposure as measured on an economic basis.

See Note 6(b) for a table summarizing the derivatives used in the Company's hedging programs.

The following table provides information with respect to the maturity and withdrawal benefit guarantees provided in the Company's in-force segregated fund policies as at December 31.

	December 31, 2017			December 31, 2016		
	Guarantee Value	Fund Value	Amount at Risk	Guarantee Value	Fund Value	Amount at Risk
Maturity Benefit	848,128	1,442,133	701	960,476	1,568,361	2,359
Death Benefit	1,253,042	1,442,133	1,897	1,387,675	1,568,361	4,814
Withdrawal Benefit	402,827	1,442,133	54,434	416,352	1,568,361	48,519

(iii) Universal Life Minimum Interest Guarantees

The following table shows the total fund value of universal life policyholder funds by the guaranteed interest rates.

	Fund Value[1]	
	December 31, 2017	December 31, 2016
No guarantee	$ 54,711	$ 71,424
Up to 2%	88,107	82,833
Up to 3%	167,885	122,164
Up to 4%	549,491	548,157
Total	$ 860,194	$ 824,578

1 The Fund Value excludes balances where the credited rate is tied to the policy loan rate.

(iv) Exchange-traded funds

The Company invests in ETFs, tracking various global market indices, to support policyholder funds invested in such indices. The Company also invests in ETFs on the Canadian equity market to support some of its longer duration insurance contract liabilities. The notional amount of the latter as at December 31, 2017 is $254,637 (2016 – $402,871).

(v) Embedded Derivatives

A host contract that includes an identifiable condition to modify the cash flows that are otherwise payable is said to contain an embedded derivative. The death and maturity guarantee provisions included in the Company's segregated fund contracts as well as the interest and market index guarantee provisions included in the Company's universal life contracts have been identified as embedded derivatives, and represent the Company's most significant exposure to market and interest rate risk.

The economic characteristics and risks associated with the death and maturity guarantee provisions in the Company's segregated fund contracts have potential for significant insurance risk. Consequently, these embedded derivatives are considered to be insurance contracts and are reported as such.

The economic characteristics and risks of the interest guarantee provisions included in the Company's universal life contracts are closely linked to the economic characteristics and risks of the host universal life contracts. Consequently, these embedded derivatives are not reported separately.

Embedded derivatives also arise from the market index options included in the Company's universal life contracts. These contracts allow the policyholder to select an interest-credited rate that is tied to the movement of certain market indices. As the returns of the index are passed directly to the policyholders, these embedded derivatives do not expose the Company to any equity risk. The economic characteristics and risks of these embedded derivatives are not closely linked to the economic characteristics and risks of the host universal life contracts, and thus these embedded derivatives are reported separately. See Note 6 for further details.

(c) Liquidity Risk

Liquidity risk is the potential for economic loss arising from the Company being unable to maintain cash flows that are adequate to fund the day-to-day operations of the Company, as well as meet all present and future financial obligations as they fall due.

(i) Liquidity Risk Management Governance and Control

The Company manages its liquidity risk through liquidity ratio tolerance limits and risk mitigation activities outlined in its Liquidity Risk Management Policy. Risk mitigation activities primarily involve managing cash flows so as to ensure that cash inflows are sufficient to meet cash outflows, taking into consideration the liquidity of the Company's assets.

Key controls utilized in the management and measurement of liquidity risk are outlined below.

- Stress testing of the Company's liquidity is performed quarterly by comparing liquidity coverage ratios under various economic scenarios and timeframes to the Company's policy thresholds.
- Cash management and asset-liability management programs ensure that sufficient cash flow and liquid assets are available to cover potential funding requirements. The Company invests in various types of assets with a view of matching them to its liabilities of various durations.
- Target capital levels exceed regulatory minimums. The Company actively manages and monitors capital and asset levels, and the diversification and credit quality of its investments.
- The Company maintains various credit facilities for general corporate purposes.
- The Company's contingency plan to mitigate the impact of a liquidity crisis includes the sale of highly liquid securities. If further action is required, the Company will work with its parent to facilitate capital contributions.

As at December 31, 2017 and 2016, the Company maintained sufficient liquidity to cover all cash flow needs for the foreseeable future.

3. Risk Management and Control Practices *(continued)*

(c) Liquidity Risk *(continued)*

(ii) Maturity of Assets, Liabilities and Commitments

In the normal course of business, the Company enters into contracts that give rise to future benefits and obligations, and the timing of the related receipts/payments for certain contracts is shown below.

	December 31, 2017				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Assets					
Cash and cash equivalents	$ 23,732	$ –	$ –	$ –	$ 23,732
Short-term investments	773,807	–	–	–	773,807
Bonds and debentures	18,402	202,378	485,727	4,707,373	5,413,881
Mortgage loans	378	37	7	–	423
Derivative assets	594	–	–	–	594
Other invested assets	30,823	781	92	–	31,696
Accrued investment income	60,576	–	–	–	60,576
Total	$ 908,313	$ 203,196	$ 485,827	$ 4,707,373	$ 6,304,710
Liabilities[1] and Lease Commitments[3]					
Investment contract liabilities	$ 13,324	$ 27,115	$ 3,262	$ 687	$ 44,388
Reinsurance payables	12,678	–	–	–	12,678
Derivative liabilities	960	1,950	–	–	2,910
Other liabilities	91,651	244,058	397,943	2,335,485	3,069,136
Undiscounted insurance contract liabilities[1, 2]	(38,830)	144,198	950,855	31,493,917	32,550,140
Other insurance contract liabilities	–	–	–	–	102,233
Subtotal	79,783	417,321	1,352,060	33,830,089	35,781,485
Operating leases[3]	8,360	3,885	471	–	12,716
Total	$ 88,143	$ 421,206	$ 1,352,531	$ 33,830,089	$ 35,794,201

(c) Liquidity Risk *(continued)*

(ii) Maturity of Assets, Liabilities and Commitments *(continued)*

	December 31, 2016				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Assets					
Cash and cash equivalents	$ 19,970	$ –	$ –	$ –	$ 19,970
Short-term investments	877,909	–	–	–	877,909
Bonds and debentures	36,443	300,665	695,966	4,475,920	5,508,994
Mortgage loans	455	410	16	–	881
Derivative assets	245	–	-	-	245
Other invested assets	32,540	639	326	-	33,505
Accrued investment income	82,455	-	-	-	82,455
Total	$ 1,050,016	$ 301,714	$ 696,309	$ 4,475,920	$ 6,523,959
Liabilities[1] and Lease Commitments[3]					
Investment contract liabilities	$ 17,156	$ 32,463	$ 4,447	$ 952	$ 55,018
Reinsurance payables	20,599	–	–	–	20,599
Derivative liabilities	1,212	–	–	–	1,212
Other liabilities	761,237	230,432	376,506	2,423,457	3,791,632
Undiscounted insurance contract liabilities[1, 2]	(35,965)	125,838	878,991	30,097,233	31,066,097
Other insurance contract liabilities	–	–	–	–	80,113
Subtotal	764,240	388,733	1,259,944	32,521,642	35,014,672
Operating leases[3]	8,309	11,656	708	–	20,673
Total	$ 772,549	$ 400,389	$ 1,260,652	$ 32,521,642	$ 35,035,345

1 Payments are based on maturity dates and actual settlement of the obligations could occur earlier than shown.

2 Undiscounted insurance contract liabilities are determined using estimated cash flows on in-force contracts that are used in the determination of insurance contract liabilities, without being discounted with interest. Future segregated fund obligations have not been offset by the impact of the Company's hedge program. For further information, see Note 6 (b).

3 Operating leases are discussed in Note 21.

The composition of other assets and other liabilities is described in Note 7 and Note 9 respectively; all are expected to mature in less than 5 years, except amounts on deposit from reinsurers.

3. Risk Management and Control Practices *(continued)*

(d) Insurance Risk

Insurance risk is the risk of loss due to actual experience emerging differently than assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholder behaviour and expenses. It also includes loss resulting from the selecting and classifying risks to be insured, the adjudication of claims, the management of contractual product options and the use of reinsurance.

The Company manages its insurance risk through its Underwriting Risk Management Policy, Claims Risk Management Policy, Reinsurance Risk Management Policy and Product Design and Pricing Risk Policy. These policies are approved annually by the ACRC of the Board. These policies set out general principles, accountabilities, risk limits and reporting requirements for the measurement and management of underwriting, claim, reinsurance, product design and pricing risks.

Key controls utilized in the management and measurement of insurance risk are outlined below.

- Insurance contract liabilities are established in accordance with standards set forth by the ASB and guidance provided by the Canadian Institute of Actuaries (“CIA”).
- Target capital levels have been established that exceed regulatory minimums.
- Board-approved maximum retention limits mean that insurance amounts issued in excess of these limits are reinsured.
- Various limits, restrictions and fee structures may be introduced into plan designs in order to establish more homogeneous policy risk profiles and limit the potential for anti-selection.
- Well-defined underwriting and risk selection standards are regularly monitored and audited by the Company, its reinsurers and the Medical Insurance Bureau.
- Approval limits are established for underwriting staff based on education and experience.
- Review and monitoring are conducted of persistency, agents’ conduct and complaints.
- Diversification and risk pooling is managed by aggregation of broad exposures across product lines, geography, distribution channels, etc.
- Well-defined claims adjudication procedures provide guidelines to effectively manage when claims are to be paid, declined or when further investigation is required to make a decision.
- Claims authority levels are based on staff qualifications and technical experience.
- Reviews and audits of submitted claims are performed by the Company’s reinsurers.
- Periodic mortality reports providing detailed break-downs of settled claims are prepared.
- Experience studies (both Company specific and industry level) and Source of Earnings analyses are regularly conducted and factored into the valuation of insurance contract liabilities as well as product pricing practices.
- Stress testing techniques, such as DCAT, are used to measure the effects of large and sustained adverse movements in insurance risk factors.

(e) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and controls, people and systems or from external events. Operational failures can lead to involuntary one-time losses, inefficiencies resulting in recurring losses, reputation damage or lost opportunities.

Operational risk exposure is maintained within defined operational risk tolerances. To ensure that operational risk exposure is maintained within the tolerance limits, and that the Company has a complete understanding of the risk issues and risk events that can affect its operational risk profile, a number of activities are carried out.

The Company uses key risk indicators to measure and monitor its business processes and key operating activities.

Another component of the operational risk management program is scenario analysis. This is the process of developing scenarios along structured dimensions, using opinions from subject matter experts and business leaders, and then deriving reasoned risk assessments of the severity and frequency of these scenarios. This enables business improvements, better risk management and measurement of operational risk capital.

A quarterly report is provided to the RCC that captures: the nature and magnitude of all significant operational risks; the processes, policies, procedures and controls in place to manage these significant operational risks; and, the overall effectiveness of the operational risk management process, including highlighting any operational risk management issues and the actions that have been or will be taken to address them.

The Company's Chief Compliance Officer provides a quarterly report to the RCC and the ACRC which includes reasonable assurance that the Company complies with relevant laws and regulatory requirements. In addition, internal auditors review the adequacy of the internal controls, reporting quarterly to management, the RCC and the ACRC.

4. Portfolio Investments

(a) Invested Assets and Derivative Liabilities

Fair values for securities traded on recognized exchanges are determined by reference to quoted market prices. Fair values for investments not traded on recognized exchanges are based on either prevailing market prices for instruments with similar characteristics and risk profiles, or internal or external valuation models using observable market-based inputs, and individual factors such as interest rate yield curves, currency rates, and price and rate volatility, as applicable.

The carrying values, fair values and classification of the Company's cash and invested assets and derivative liabilities are summarized in the following table.

	Available-for-Sale	Fair Value Through Profit or Loss	Held-for-Trading	Loans and Receivables	Other	December 31, 2017 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying and Fair Value
Cash and cash equivalents	873	22,859	–	–	–	$ 23,732
Short–term investments	40,682	733,125	–	–	–	773,807
Bonds and debentures	798,165	4,615,716	–	–	–	5,413,881
Exchange-traded and mutual fund	–	1,627,975	–	–	–	1,627,975
Loans to policyholders	–	–	–	–	150,007	150,007
Mortgage loans	–	–	–	423	–	423
Derivative assets	–	–	594	–	–	594
Other invested assets:						
Segregated funds seed units	640	–	–	–	–	640
Land leases	–	–	–	978	–	978
Futures margins	–	30,078	–	–	–	30,078
Accrued investment income	–	–	–	–	60,576	60,576
Total Invested Assets	840,360	7,029,753	594	1,401	210,583	$ 8,082,691
Derivative Liabilities	–	–	2,910	–	–	$ 2,910

	Available-for-Sale	Fair Value Through Profit or Loss	Held-for-Trading	Loans and Receivables	Other	December 31, 2016 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying and Fair Value
Cash and cash equivalents	6,324	13,646	–	–	–	$ 19,970
Short–term investments	69,756	808,153	–	–	–	877,909
Bonds and debentures	748,536	4,760,458	–	–	–	5,508,994
Exchange-traded and mutual fund	–	1,635,112	–	–	–	1,635,112
Loans to policyholders	–	–	–	–	161,335	161,335
Mortgage loans	–	–	–	881	–	881
Derivative assets	–	–	245	–	–	245
Other invested assets:						
Segregated funds seed units	596	–	–	–	–	596
Land leases	–	–	–	1,180	–	1,180
Futures margins	–	31,729	–	–	–	31,729
Accrued investment income	–	–	–	–	82,455	82,455
Total Invested Assets	825,212	7,249,098	245	2,061	243,790	$ 8,320,406
Derivative Liabilities	–	–	1,212	–	–	$ 1,212

(b) Cash and Cash Equivalents

Cash and cash equivalents are made up of the following:

	December 31, 2017	December 31, 2016
Cash, end of year	$ 21,497	$ 13,646
Cash equivalents, end of year	2,235	6,324
Cash and Cash Equivalents, End of Year	$ 23,732	$ 19,970

(c) Unrealized Gains (Losses)

The following tables present the unrealized gains (losses) of investment assets designated as AFS.

	December 31, 2017			
	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	AOCI Before Tax
Cash equivalents	$ 873	$ –	$ –	$ –
Short-term investments	40,682	1	(10)	(9)
Bonds and debentures	798,165	186,530	(1,589)	184,941
Segregated funds seed units	640	365	–	365
Common stock	–	–	–	–
Total	$ 840,360	$ 186,896	$ (1,599)	$ 185,297

	December 31, 2016			
	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	AOCI Before Tax
Cash equivalents	$ 6,324	$ –	$ –	$ –
Short-term investments	69,756	3	(1)	2
Bonds and debentures	748,536	136,114	(1,819)	134,295
Segregated funds seed units	596	322	–	322
Common stock	–	–	–	–
Total	$ 825,212	$ 136,439	$ (1,820)	$ 134,619

4. Portfolio Investments *(continued)*

(d) Bonds and Debentures

The following tables summarize the fair value and average yield of the Company's investment in bonds and debentures, by type of bond and term to maturity.

December 31, 2017	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Bonds and Debentures – Fair Value Through Profit or Loss					
Government – Federal					
Carrying value	$ 4,984	$ 11,768	$ 10,397	$ 12,995	$ 40,144
Average yield	1.36%	1.70%	1.97%	2.20%	1.89%
Government – Canadian Provincial					
Carrying value	$ –	$ 40,087	$ 218,801	$ 1,447,040	$ 1,705,928
Average yield	–	2.21%	2.93%	3.05%	3.02%
Corporate					
Carrying value	$ 5,256	$ 97,437	$ 152,191	$ 2,346,131	$ 2,601,015
Average yield	1.97%	2.84%	3.52%	4.13%	4.04%
Foreign Issuers					
Carrying value	$ –	$ 3,185	$ 42,330	$ 223,114	$ 268,629
Average yield	–	2.35%	3.07%	3.91%	3.76%
Total	$ 10,240	$ 152,477	$ 423,719	$ 4,029,280	$ 4,615,716
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	$ 3,259	$ 11,072	$ –	$ 80,535	$ 94,866
Average yield	1.32%	1.83%	–	2.26%	2.12%
Government – Canadian Provincial					
Carrying value	$ –	$ 6,948	$ –	$ 465,779	$ 472,727
Average yield	–	2.23%	–	2.90%	2.89%
Corporate					
Carrying value	$ 895	$ 31,882	$ 62,009	$ 131,780	$ 226,566
Average yield	2.27%	2.58%	2.78%	4.14%	3.54%
Foreign Issuers					
Carrying value	$ 4,006	$ –	$ –	–	$ 4,006
Average yield	1.61%	–	–	–	1.61%
Total	$ 8,160	$ 49,902	$ 62,009	$ 678,094	$ 798,165
Grand Total	$ 18,402	$ 202,378	$ 485,727	$ 4,707,373	$ 5,413,881

(d) Bonds and Debentures *(continued)*

December 31, 2016	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Bonds and Debentures – Fair Value Through Profit or Loss					
Government – Federal					
Carrying value	$ 4,836	$ 35,293	$ 7,861	$ 54,794	$ 102,784
Average yield	0.65%	0.83%	1.59%	2.31%	1.67%
Government – Canadian Provincial					
Carrying value	$ 4,505	$ 51,534	$ 393,659	$ 1,570,433	$ 2,020,131
Average yield	0.80%	1.71%	2.57%	3.38%	3.18%
Corporate					
Carrying value	$ 16,216	$ 158,164	$ 211,640	$ 2,014,310	$ 2,400,330
Average yield	1.51%	2.31%	3.66%	4.93%	4.63%
Foreign Issuers					
Carrying value	$ 5,018	$ 14,785	$ 4,470	$ 212,940	$ 237,213
Average yield	1.33%	1.83%	3.49%	3.74%	3.57%
Total	$ 30,575	$ 259,776	$ 617,630	$ 3,852,477	$ 4,760,458
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	$ –	$ 3,379	$ 11,488	$ 80,481	$ 95,348
Average yield	–	0.74%	1.26%	2.30%	2.12%
Government – Canadian Provincial					
Carrying value	$ –	$ 1,790	$ 5,233	$ 405,278	$ 412,301
Average yield	–	1.68%	1.98%	3.28%	3.26%
Corporate					
Carrying value	$ 3,860	$ 31,636	$ 61,615	$ 137,684	$ 234,795
Average yield	1.42%	2.15%	2.91%	4.50%	3.72%
Foreign Issuers					
Carrying value	$ 2,007	$ 4,084	$ –	–	$ 6,091
Average yield	1.33%	1.42%	–	–	1.39%
Total	$ 5,868	$ 40,889	$ 78,336	$ 623,443	$ 748,536
Grand Total	$ 36,443	$ 300,665	$ 695,966	$ 4,475,920	$ 5,508,994

4. Portfolio Investments *(continued)*

(e) Exchange-traded and Mutual Funds

The following table summarizes the fair value of the Company's investment in exchange-traded and mutual funds.

	December 31, 2017 Fair Value	December 31, 2016 Fair Value
Exchange-traded funds	$ 254,637	$ 402,871
Mutual funds	1,373,338	1,232,241
Total	$ 1,627,975	$ 1,635,112

(f) Impairment

As described in Note 2(a)(i), management regularly reviews the credit quality of the investment portfolio.

During 2017, there were no impairments on bonds held as AFS assets (2016 – nil) and there was no recovery (2016 – nil). During 2017, impairments on equities was $0 (2016 – nil) and impairments in seed money in segregated funds was $0 (2016 – nil).

(g) Net Investment Income

2017	Fair Value Through Profit or Loss	Held for–Trading	Available–for–Sale	Other	Total
Cash and short–term investments					
Interest income	5,159	–	243	–	$ 5,402
Gains (losses)	(13,207)	–	3	–	(13,204)
Bonds and debentures					
Interest income	186,598	–	25,298	–	211,896
Gains (losses)	227,851	–	(92)	–	227,759
Exchange–traded and mutual funds					
Gains (losses)	94,978	–	–	–	94,978
Dividends	74,143	–	–	–	74,143
Derivatives					
Gains (losses)	–	63,101	–	–	63,101
Mortgage loans	–	–	–	73	73
Land leases	–	–	–	85	85
Loans to policyholders	–	–	–	10,384	10,384
Miscellaneous income (loss)	–	–	–	255	255
Impairment recovery (expense)	–	–	–	–	–
Investment income before investment expenses and investment income tax					$ 674,872
Less: Investment expenses					13,719
Less: Investment income tax					3,696
Net Investment Income					$ 657,457

Gains (losses) include both realized and unrealized gains (losses) for securities designated as FVTPL and realized gains (losses) for AFS securities.

(g) Net Investment Income *(continued)*

2016	Fair Value Through Profit or Loss	Held for–Trading	Available–for–Sale	Other	Total
Cash and short–term investments					
Interest income	3,310	–	272	–	$ 3,582
Gains (losses)	(4,170)	–	(1)	–	(4,171)
Bonds and debentures					
Interest income	197,703	–	25,490	–	223,193
Gains (losses)	(29,040)	–	1,802	–	(27,239)
Exchange–traded and mutual funds					
Gains (losses)	121,406	–	–	–	121,406
Dividends	97,891	–	–	–	97,891
Derivatives					
Gains (losses)	–	11,086	–	–	11,086
Mortgage loans	–	–	–	124	124
Land leases	–	–	–	87	87
Loans to policyholders	–	–	–	10,720	10,720
Miscellaneous income (loss)	–	–	–	65	65
Impairment recovery (expense)	–	–	–	–	–
Investment income before investment expenses and investment income tax					$ 436,746
Less: Investment expenses					13,022
Less: Investment income tax					4,450
Net Investment Income					$ 419,274

Gains (losses) include both realized and unrealized gains (losses) for securities designated as FVTPL and realized gains (losses) for AFS securities.

(h) Hedging

Certain universal life policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices or mutual funds. The Company uses a combination of investments in ETFs, mutual funds and a future/cash investment strategy to hedge this risk and earn a return sufficient to cover the interest credited plus a required spread. These assets are designated as HFT and any realized or unrealized gains (losses) on these assets are included in net investment income. This investment income is directly offset by an increase (or reduction) in insurance contract liabilities for these policies.

The Company maintains extensive hedging programs as described in Note 6. The futures and currency forwards are carried at market value, with gains (losses) recognized immediately in investment income. In addition, interest income is earned on short-term investments that are pledged as collateral for the futures. During 2017, the net impact on net investment income from the segregated funds hedging strategy was ($11,739) (2016 – ($17,958)).

(i) Pledged Securities

As part of its derivatives-related activities, the Company has pledged short-term investments as futures margins. Assets pledged by the Company strictly for the purpose of providing collateral to counterparties are classified on the consolidated statement of financial position as other invested assets.

The pledged assets will be returned to the Company when the underlying transaction is terminated. In the event of the Company's inability to make payment upon futures settlement, the counterparty would be entitled to apply the collateral in order to settle the liability. Collateral requirements are determined by changes in the market value of the futures contracts outstanding. As at December 31, 2017, the Company pledged securities having a fair value of $30,078 (2016 – $31,728).

5. Determination of Fair Value of Financial Instruments

(a) Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: This category includes financial assets and financial liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2: This category includes financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. The main asset classes included in this category are financial assets for which pricing is obtained through pricing services based on broker quotes and not determined in an active market.
- Level 3: This category includes financial assets and financial liabilities whose fair value is determined using a valuation technique (model) for which more than an insignificant level of inputs used in the overall valuation are not market observable.

Notes 5(c) and 5(d) provide additional details about the assets categorized as Level 3 and the techniques used in their valuation.

The following tables present the Company's financial assets and liabilities measured at fair value, and their relative percentages on each level of the fair value hierarchy.

	December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,615,716	–	98%	2%
Exchange–traded and mutual funds	1,627,975	100%	–	–
Cash and cash equivalents	22,859	100%	–	–
Short–term investments	733,125	–	100%	–
Pledged securities	30,078	–	100%	–
Held–for–trading				
Swaps	–	–	–	–
Forwards	594	–	100%	–
Available–for–sale				
Bonds and debentures[1]	798,165	–	100%	–
Mutual funds	–	100%	–	–
Cash and cash equivalents	873	–	100%	–
Short–term investments	40,682	–	100%	–
Seed units	640	100%	–	–
Financial Liabilities				
Swaps	–	–	–	–
Forwards	895	–	100%	–
Options	2,015	–	100%	–
Segregated Funds Net Assets	1,442,133	87%	13%	–
Segregated Funds Net Liabilities	1,442,133	87%	13%	–

1 The Company reports bonds issued by Canadian governments as Level 2 consistent with Canadian industry practice.

(a) Fair Value Hierarchy *(continued)*

	December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,760,458	–	98%	2%
Exchange–traded and mutual funds	1,635,112	100%	–	–
Cash and cash equivalents	13,646	100%	–	–
Short–term investments	808,152	–	100%	–
Pledged securities	31,729	–	100%	–
Held–for–trading				
Swaps	–	–	–	–
Forwards	245	–	100%	–
Available–for–sale				
Bonds and debentures[1]	748,536	–	100%	–
Mutual funds	–	100%	–	–
Cash and cash equivalents	6,324	–	100%	–
Short–term investments	69,756	–	100%	–
Seed units	596	100%	–	–
Financial Liabilities				
Swaps	–	–	–	–
Forwards	1,212	–	100%	–
Segregated Funds Net Assets	1,568,362	86%	14%	–
Segregated Funds Net Liabilities	1,568,362	86%	14%	–

1 The Company reports bonds issued by Canadian governments as Level 2 consistent with Canadian industry practice.

5. Determination of Fair Value of Financial Instruments *(continued)*

(b) Movements between Level 1 and Level 2 Financial Instruments

There were no transfers between Level 1 and Level 2 financial instruments during 2017.

Within segregated funds, there were no material transfers between Levels 1 and 2 during 2017 (2016 – nil).

(c) Movements in Level 3 Financial Instruments

The following table provides details of the movements in the fair value of financial instruments categorized within Level 3 from the beginning to the end of 2017.

	Available–for–Sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	$ –	$ 86,125	$ 302	$ 86,427
Total gains (losses) through profit or loss	–	3,231	8	3,239
Total unrealized gains (losses) through OCI	–	–	(5)	(5)
Purchases	–	–	603	603
Sales	–	–	–	–
Settlements	–	–	–	–
Net transfers into (out of) level 3	–	–	–	–
Closing Balance	$ –	$ 89,356	$ 908	$ 90,264
Total gains (losses) in net income for assets held at end of year	$ –	$ (1,009)	$ –	$ (1,009)

The following table provides details of the movements in the fair value of financial instruments categorized within Level 3 during 2016.

	Available–for–Sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	$ 2,555	$ 117,841	$ 314	$ 120,710
Total gains (losses) through profit or loss	66	3,729	–	3,795
Total unrealized gains (losses) through OCI	(51)	–	(12)	(63)
Purchases	–	–	–	–
Sales	–	–	–	–
Settlements	(2,570)	–	–	(2,570)
Net transfers into (out of) level 3	–	(35,445)	–	(35,445)
Closing Balance	$ –	$ 86,125	$ 302	$ 86,427
Total gains (losses) in net income for assets held at end of year	$ –	$ (157)	$ –	$ (157)

(d) Valuation of Level 3 Financial Instruments

Bonds and debentures

(i) Corporate bonds

Valuations of corporate bonds are reviewed monthly. Valuations are determined through a discounted cash flow methodology using a calculated yield comprised of a credit spread over a given benchmark. In all cases, the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Starting with an observable credit spread from a similar bond of the given issuer, the Company makes adjustments for unobservable or uncertain inputs which may be due to subordination, liquidity and maturity differences.

(ii) Government bonds

Market prices from indices or quotes from brokers or third-party services are used and are determined monthly.

The table below provides information about the valuation techniques and resulting fair values used for recurring and non-recurring fair value measurements for certain Level 3 financial instruments as at December 31.

	Valuation Technique	2017 Fair Value	2017 Fair Value
Fair value through profit or loss			
Bonds and debentures			
Corporate bonds	Discounted cash flows[1]	$ 89,356	$ 86,125

1 Discounted cash flows are based on credit spread ranging between 75 bps and 108 bps and a yield curve ranging between 4.194% and 3.753% (weighted average of 4.166%) as the significant unobservable inputs.

(e) Alternative Possible Assumptions of Unobservable Inputs of Level 3 Financial Instruments

For corporate bonds, the most significant unobservable input to the valuation is the credit spread. An increase in credit spread results in a lower valuation, while a decrease in credit spread results in a higher valuation. The impact of changes in inputs may not be independent. If alternate assumptions of plus or minus 50 basis points in credit spread were applied to the $89,356 of Level 3 Corporate Bonds, the fair value would change by approximately ($5,231) and $5,473, respectively.

6. Derivatives

(a) Discussion of Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. Such instruments include interest rate, foreign exchange, equity and credit derivative contracts.

The Company uses various derivative financial instruments to manage and reduce its exposure to fluctuations in risk, including credit, interest rate, currency exchange rate and equity, arising on insurance contract liabilities as part of an asset-liability management program. All derivatives are recorded at fair value with the resulting realized and unrealized gains (losses) recognized immediately in net income (loss).

The Company enters into futures contracts which are derivatives transacted through organized and regulated exchanges and consist primarily of equity futures and options. The remainder of the Company's derivatives comprises over-the-counter transactions that are privately negotiated between the Company and the counterparty to the contract. These consist of credit default swaps and currency forwards.

The notional amounts are not recorded as assets or liabilities as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts do not represent the potential gain (loss) associated with market risk, and are not indicative of the credit risk associated with derivative financial instruments.

OSFI has provided disclosure guidelines for three measures of derivative instruments: the positive replacement cost which is the fair value to the extent it is positive; the credit equivalent amount used to approximate the potential credit exposure; and the risk-weighted credit equivalent amount. The credit equivalent amount is the positive replacement cost plus an amount representing the potential future credit exposure as outlined in OSFI's Capital Requirements Guidelines ("Capital Guidelines"). The risk-weighted credit equivalent amount is the credit equivalent amount weighted according to the nature of the derivative and creditworthiness of the counterparties as outlined in the Capital Guidelines.

	December 31, 2017			December 31, 2016		
	Positive Replacement Cost[1]	Credit Equivalent Amount	Capital Requirement	Positive Replacement Cost[1]	Credit Equivalent Amount	Capital Requirement
Foreign exchange forward contracts	$ 594	$ 1,901	$ 5	$ 245	$ 1,464	$ 4
Equity futures and other contracts	2,916	–	–	1,043	–	–
Interest rate futures contracts	6	–	–	–	–	–
Total	$ 3,517	$ 1,901	$ 5	$ 1,288	$ 1,464	$ 4

1 Total replacement cost of all contracts with positive fair value.

6. Derivatives *(continued)*

(a) Discussion of Derivatives *(continued)*

(i) Credit Derivatives

Credit derivatives are over-the-counter contracts designed to transfer the credit risk in an underlying financial instrument from one counterparty to another. The most common credit derivatives are credit default swaps. In credit default swaps, an option purchaser acquires credit protection on a reference asset or group of assets from an option writer in exchange for a premium. The option purchaser may pay the agreed premium at inception or over a period of time. The credit protection compensates the option purchaser for any deterioration in value of the reference asset upon the occurrence of certain credit events such as bankruptcy, credit downgrade or failure to pay. Settlement may be cash-based or physical, requiring the delivery of the reference asset to the option writer.

The Company enters into credit derivatives to manage the credit exposure in its bond portfolio. The Company also enters into credit derivatives that sell protection in an effort to make its credit derivative strategy revenue neutral.

(ii) Interest Rate Derivatives

Interest rate futures, standardized contracts transacted on an exchange, are based upon an agreement to pay or receive a cash amount based on the difference between the contracted price level of an underlying fixed income investment and its corresponding market price at a specified future date. There is no actual delivery of the underlying fixed income investment. These contracts are in standard amounts with standard settlement dates.

Certain universal life insurance policies issued by the Company allow the policyholder to select an interest-credited rate that is tied to the movement of a synthetic global government bond fund. The Company uses a futures/money-market investment strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of the synthetic bond fund plus a spread. All interest rate futures invested in by the Company are used to support this investment strategy.

(iii) Equity Derivatives

Equity index futures, which are standardized contracts transacted on an exchange, are agreements to pay or receive a cash amount based on the difference between the contracted price level of an underlying stock index and its corresponding market price level at a specified future date. There is no actual delivery of stocks that comprise the underlying index. These contracts are in standard amounts with standard settlement dates.

The Company enters into equity index futures contracts to assist in managing exposures related to the death benefit and maturity guarantees of its segregated fund contracts.

Certain universal life insurance policies issued by the Company allow the policyholder to select an interest-credited rate that is tied to the movement of certain stock exchange indices. The Company uses a combination of investments in EFTs and a derivatives strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of these indices plus a spread.

(iv) Foreign Exchange Derivatives

Foreign exchange forward contracts (currency forwards) are over-the-counter contracts in which one counterparty contracts with another to exchange a specified amount of one currency for a specified amount of a second currency, at a future date or range of dates.

The Company enters into currency forward contracts to assist in managing exposures related to the death benefit and maturity guarantees of some of its segregated funds contracts.

Certain universal life insurance policies issued by the Company allow the policyholder to select an interest-credited rate that is tied to the movement of certain stock exchange indices, and in some cases the interest-credited rate is tied to the Canadian dollar equivalent of foreign indices. In these cases, the Company enters into currency forward contracts to manage the foreign currency exposure.

(v) Summary of Notional Amounts and Fair Values of Derivative Investments

The following table provides a summary of the notional amounts of the Company's derivative investments by term to maturity as at December 31, 2017 and in total as at December 31, 2016.

	Term to maturity		2017	2016
	Within 1 Year	1–5 years		
Exchange–traded Contracts				
Equity futures and other contracts[1]	384,433	–	$ 384,433	$ 328,945
Interest rate futures contracts	7,041	–	7,041	7,924
Over–the–Counter Contracts				
Foreign exchange forward contracts	(45,281)	–	(45,281)	(33,835)
Total	346,193	–	$ 346,193	$ 303,034

1 The group of contracts shown as equity futures and other contracts includes two equity collar contracts. Each contract is made up of long puts and short calls with a notional amount of $1,570. One contract will mature in March 2018, and the other in March 2019.

The following table provides the fair value of the Company's derivative financial instruments by term to maturity as at December 31.

	2017			2016		
	Within 1 Year	1-5 Years	Total	Within 1 Year	1-5 Years	Total
Foreign exchange forward contracts	594	–	$ 594	245	–	$ 245
Credit default swaps	–	–	–	–	–	–
Derivative assets	594	–	$ 594	245	–	$ 245
Foreign exchange forward contracts	895	–	$ 895	1,212	–	$ 1,212
Credit default swaps	–	–	–	–	–	–
Equity Collar	2,015	–	2,015			
Derivative liabilities	2,910	–	$ 2,910	1,212	–	$ 1,212

(vi) Embedded Derivatives

The Company's market index options included in the Company's universal life contracts have been identified as embedded derivatives. As the returns of the index are passed directly to the policyholders and client accounts are credited daily, the market value of these derivatives is zero. The notional amount of these embedded derivatives as at December 31, 2017 was $1,934,760 (2016 – $1,755,219).

(b) Hedges for Segregated Funds

The Company uses equity futures and currency forwards to manage exposures related to the death benefit and maturity guarantees of its segregated fund contracts.

The following table summarizes the notional amounts and carrying values of derivative instruments in the Company's hedge programs as at December 31.

	December 31, 2017			December 31, 2016		
	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
Equity futures	$ (91,372)	March 18	$ –	$ (97,677)	March 17	$ –
Foreign exchange forwards	32,145	March 18	500	32,981	March 17	(110)
Total	$ (59,227)		$ 500	$ (64,696)		$ (110)

7. Other Assets

Other assets and their amounts are shown in the following table as at December 31.

	2017	2016
Accounts receivable	$ 94,970	$ 62,504
Property and equipment	2,397	3,643
Intangible assets	8,414	9,289
Prepaid expenses	46,956	53,204
Total	$ 152,737	$ 128,640

There were no property and equipment write-downs and no write-downs of intangible assets during the year ended December 31, 2017 (2016 – $40 and nil). None of the intangible assets have been pledged as security for liabilities or have titles that are restricted.

8. Insurance Contract Liabilities and Investment Contract Liabilities

(a) Nature of Insurance Contract Liabilities

Most of the Company's business, including products sold and policies in-force, are insurance contracts. These contracts include individual life, health and critical illness insurance and individual payout annuities as well as life and health insurance sold to groups or members of groups. The guarantee provisions of segregated fund contracts are also considered insurance contracts.

Insurance contract liabilities represent an estimate of the amount which, together with anticipated future premiums and investment income and considering the hedging program for segregated funds, will be sufficient to pay outstanding claims and future benefits, policyholder dividends and expenses on policies in-force, before taking into account existing ceded reinsurance arrangements.

Insurance contract liabilities are comprised of gross insurance contract liabilities and other insurance contract liabilities. Gross life, health and annuity insurance contract liabilities are determined by the CALM and minimum guarantees on segregated funds are determined using an OSFI-approved stochastic approach, in accordance with standards established by the ASB and guidance provided by the CIA. Other insurance contract liabilities are detailed later in this note.

The determination of gross insurance contract liabilities is based on an explicit projection of cash flows many years into the future with respect to policies in-force. To that purpose, best estimates of future experience are determined by the Appointed Actuary and employed as valuation assumptions. To recognize the possible mis-estimation or deterioration of these assumptions, each one of them is adjusted to include a margin for adverse deviation. Current period differences in actual experience from the best estimate assumptions including margins are recognized in current period income. As the probability of deviation from best estimates changes or when best estimates are updated, the resulting change in insurance contract liabilities is also recognized in current period income.

For lapse, morbidity, mortality, mortality improvement, investment returns, asset defaults and expense assumptions, a range of allowable margins is prescribed by the ASB based on criteria such as time horizon, level of experience monitoring and availability of credible experience data. For interest rate risk, multiple reinvestment scenarios are conducted by the Appointed Actuary using a cash flow valuation method in order to determine the appropriate provision for adverse deviations.

(b) Best Estimate Assumptions and Methodology

The methods of determining the material best estimate assumptions used in the computation of insurance contract liabilities are described in the following paragraphs. The selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Mortality and Morbidity Assumptions

Mortality refers to the rates at which death occurs for defined groups of insured risks. Best estimate mortality assumptions are based on internal as well as industry experience and are differentiated by gender, underwriting class and policy type.

Morbidity relates to the occurrence of accidents and sickness defined groups for insured risks. Best estimate morbidity assumptions are based on internal as well as industry experience and are differentiated by age, gender, occupation class and policy type.

The effect on insurance contract liabilities of a 1% increase in future mortality and morbidity rates would be a reduction of approximately $9,800 (2016 – $9,100). The effect on insurance contract liabilities of a 1% decrease in future mortality and morbidity rates would be an increase of approximately $10,000 (2016 – $9,200).

Mortality Improvement Assumptions

As the current downward trend in mortality rates is assumed to continue for some years into the future, a best estimate mortality improvement assumption was established for longer duration individual life insurance contracts, on the basis of more recent industry studies. Such assumption increases the net insurance contract liabilities as the life insurance portfolio is adversely impacted by older reinsurance arrangements. Mortality improvement is also assumed for single premium annuities.

Lapse Rate Assumptions

The Company bases its estimates of future lapse rates on previous experience for each block of policies and on industry experience where available and appropriate.

For life insurance policies, best estimate lapse rates vary with several factors including: product design, age, the insured's smoking status and policy duration. The expected lapse rates for lapse supported policies are reduced by a margin for adverse deviation. The expected lapse rates for non-lapse supported policies are increased by a margin for adverse deviation.

For segregated fund contracts, expected lapse rates vary with several factors, most notably: the ratio of the current market value to the current guarantee value ("MV/GV ratio"), tax registration status and time remaining to the potential date of claim (term to maturity). The expected lapse rates are reduced by a margin for adverse deviation where the MV/GV ratio is less than 1 and increased by a margin where the MV/GV ratio is greater than 1.

The effect on insurance contract liabilities from a 10% adverse change in the lapse rate assumptions would be an increase of approximately $173,000 (2016 – $153,500).

Premium Persistency Assumptions

Best estimates of the amounts and duration of future premium payments on universal life insurance policies are based on past experience and policy level data where available.

Investment Income Assumptions

The computation of insurance contract liabilities takes into account projected net investment income on assets supporting insurance contract liabilities. Best estimates of future investment income are based on the current level of risk-free yield curves, current levels of bond spreads, expected bond ratings, expected bond defaults and long-term averages of equity markets returns.

The impact of an immediate 1% increase in the general level of interest rates would be a reduction in the insurance contract liabilities, net of changes in unrealized gains on supporting assets, of approximately $152,100 (2016 – $112,400). Conversely, a 1% decrease in the general level of interest rates would increase the insurance contract liabilities, net of changes in unrealized gains on supporting assets, by approximately $186,900 (2016 – $147,500).

The impact of an immediate 10% increase in the general level of equity markets would be a decrease in insurance contract liabilities of approximately $87,800 (2016 – $106,200). Conversely, a 10% decrease in the general level of equity markets would result in an increase in insurance contract liabilities of approximately $90,600 (2016 – $108,800).

The Company holds explicit provisions in insurance contract liabilities for possible future defaults. Potential credit losses are based on past Company and industry experience as well as specific reviews of the credit quality of the assets supporting insurance contract liabilities.

Reinvestment Assumptions

The computation of insurance contract liabilities assumes that positive cash flows projected over the term of liabilities are reinvested in accordance with Company policies and negative cash flows are financed similarly through disinvestment of assets or borrowings at short-term rates. Interest rates, returns on equities and equity limits assumed in those notional transactions are in accordance with actuarial standards of practice.

Maintenance Expense Assumptions

Amounts are included in insurance contract liabilities to provide for the future costs of administering policies in-force including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, related indirect expenses and overhead. Estimates of future policy maintenance expenses are based on the Company's experience as well as estimates of such factors as salary rate increases, productivity changes, business volumes and indirect tax rates. The increase in insurance contract liabilities of a 10% increase in future expense levels would be approximately $17,000 (2016 – $19,800).

Tax Assumptions

Insurance contract liabilities reflect temporary timing and permanent tax rate differences, as appropriate, as well as assumptions for future premium taxes and other non-income related taxes.

Participating Policies

Insurance contract liabilities for participating policies include the present value of estimated amounts of future policyholder dividends based on current dividend scales.

Adjustable Policies

Expected reductions in 2018 in policy benefits on applicable adjustable policies are immaterial (2016 – $1,400) and have not been used to reduce insurance contract liabilities.

Segregated Funds Hedge Program

The hedge program for segregated funds is reflected in the calculation of the related insurance contract liabilities by modeling the impact of hedge payments under various economic scenarios.

8. Insurance Contract Liabilities and Investment Contract Liabilities *(continued)*

(c) Insurance Contract Liabilities and Supporting Assets

The carrying values of the gross insurance contract liabilities and invested assets backing these liabilities, by line of business, are as follows as at December 31:

	2017				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	$ 8,028,992	$ 3,727	$ 358,189	–	$ 8,390,908
Other insurance contract liabilities	102,205	28	–	–	102,232
Total insurance contract liabilities	$ 8,131,197	$ 3,754	$ 358,189	–	$ 8,493,140
Invested assets backing insurance contract liabilities	$ 5,943,208	$ 2,161	$ 370,146	$ 1,767,177	$ 8,082,691
Reinsurance assets	2,479,507	37	–	–	2,479,544
Total assets backing insurance contract liabilities	$ 8,422,715	$ 2,198	$ 370,146	$ 1,767,177	$ 10,562,235

	2016				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	$ 7,157,901	$ 3,671	$ 377,479	–	$ 7,539,051
Other insurance contract liabilities	80,084	29	–	–	80,113
Total insurance contract liabilities	$ 7,237,985	$ 3,700	$ 377,479	–	$ 7,619,164
Invested assets backing insurance contract liabilities	$ 7,109,495	$ 2,968	$ 444,801	$ 763,142	$ 8,320,406
Reinsurance assets	2,188,555	73	–	–	2,188,628
Total assets backing insurance contract liabilities	$ 9,298,050	$ 3,041	$ 444,801	$ 763,142	$10,509,034

1 Corporate assets include *ivari*'s surplus assets.

(d) Reinsurance Assets

Reinsurance assets relate to both gross insurance contract liabilities and other insurance contract liabilities. The carrying value of reinsurance assets is calculated as the difference between the carrying value of insurance contract liabilities before and after taking into account existing ceded reinsurance arrangements. This calculation uses the same assumptions and margins as described above and no provision is made for possible default of reinsurance payments. As at December 31, 2017, reinsurance assets were $2,479,544 (2016 – 2,188,628).

There were no impairments of reinsurance assets in 2017 (2016 – nil).

(e) Changes in Insurance Contract Liabilities and Reinsurance Assets

The following tables show the changes in gross insurance contract liabilities and related reinsurance assets for the year.

	2017			
	Gross Insurance Contract Liabilities	Reinsurance Assets	Net	
Opening Balance	$ 7,539,051	$ 2,188,628	$ 5,350,423	
Change in market value of supporting assets	420,365	124,219	296,146	
Change in balances on new and in-force business	321,513	154,917	166,596	Includes the impact of changes in the economic environment
Changes in methods and assumptions:				
Persistency	64,482	53,209	11,274	Reflects lapse experience
Mortality and morbidity improvement	9,512	(28,946)	38,459	Reflects emerging experience on individual life insurance and annuities and changes to rates promulgated by the ASB
Taxes and Expenses	4,579	(11,013)	15,592	Update to maintenance expenses and changes in premium tax rates
Reinvestment rates	21,631	(398)	22,029	Changes to ultimate reinvestment rates promulgated by the ASB
Fund allocations	11,143	(1,020)	12,163	Reflects more recent mix of investments from UL policyholders in guaranteed and variable funds
Methodology changes and model refinements	(544)	(50)	(493)	Various updates
Segregated funds	(825)	–	(825)	Calibration of economic model for segregated funds
Total changes	$ 851,856	$ 290,916	$ 560,940	
Closing Balance	$ 8,390,907	$ 2,479,544	$ 5,911,363	

8. Insurance Contract Liabilities and Investment Contract Liabilities *(continued)*

(e) Changes in Insurance Contract Liabilities and Reinsurance Assets *(continued)*

2016	Gross Insurance Contract Liabilities	Reinsurance Assets	Net	
Opening Balance	$ 7,345,393	$ 2,294,439	$ 5,050,954	
Change in market value of supporting assets	179,480	52,104	127,376	
Change in balances on new and in-force business	(372,888)	(247,444)	(125,444)	Includes the impact of changes in the economic environment
Changes in methods and assumptions:				
Persistency	444,388	184,919	259,469	Review of lapses, premium persistency and partial withdrawals
Mortality and morbidity improvement	(73,389)	(104,989)	31,600	Reflects emerging experience on individual life insurance and annuities
Taxes and Expenses	14,573	9,599	4,974	Update to maintenance expenses and changes in premium tax rates
Reinvestment rates	–	–	–	
Fund allocations	–	–	–	
Methodology changes and model refinements	–	–	–	
Segregated funds	1,494	–	1,494	Various economic updates and calibration of segregated funds
Total changes from continuing operations	$ 193,658	$ (105,811)	$ 299,469	
Closing Balance	$ 7,539,051	$ 2,188,628	$ 5,350,423	

(f) Other Insurance Contract Liabilities

Other insurance contract liabilities are shown in the following table. The change in other insurance contract liabilities is included in gross premiums and in gross benefits and claims on the Company's consolidated statement of income (loss). The portion of reinsurance assets related to other insurance contract liabilities is $0 (2016 – nil).

	December 31, 2017	December 31, 2016
Premiums received in advance	$ 2,749	$ 3,292
Policyholder amounts on deposit	14,641	14,507
Outstanding claims and adjustment expenses	84,842	62,314
Total	$ 102,232	$ 80,113

(g) Changes in Investment Contract Liabilities

The Company has classified its individual fixed rate annuities as investment contracts. The related liabilities are the deposit amounts paid to the Company under these contracts accumulated to the current date by applying the contractually guaranteed interest rates. This determination of the liabilities is a very close approximation to the amortized cost using the effective interest rate method. Details of the changes in investment contract liabilities are provided below.

For the period ended	December 31, 2017	December 31, 2016
Opening Balance	$ 50,183	$ 61,420
New business and renewal deposits	1,581	1,243
Interest	1,045	1,638
Withdrawals	(6,793)	(8,156)
Fees	–	–
Claim payments	(5,128)	(5,962)
Total net changes	$ (9,295)	$ (11,237)
Closing Balance	$ 40,888	$ 50,183

9. Other Liabilities

	December 31, 2017	December 31, 2016
Amount on deposit from reinsurers	$ 862,800	$ 841,471
Accounts payable and accrued liabilities	19,839	23,180
Income taxes payable	–	7,899
Dividends payable	–	600,000
Other	18,905	81,499
Total	$ 901,544	$ 1,554,049

(a) Amounts on Deposit from Reinsurers

In late 1998, the Company entered into an agreement to reinsure its Term to 100 policies in-force on January 1, 1998. Under the treaty, the ceded single premium of $225,000 was deemed to be paid by the Company withholding the funds and agreeing to treat them as a loan from the reinsurer. Added to the initial loan amount were additional specific loan amounts in each of the 1998-2003 years. The total loan is repaid according to a prescribed repayment schedule included in the treaty and an annual interest rate of about 8.54% is applied to the outstanding balance monthly. Neither the amount of the loan nor the repayment schedule is affected by the performance of the reinsurance component of the treaty.

During 2017, the Company recognized an interest expense for the funds withheld under this reinsurance treaty of $69,989 (2016 – 68,104).

Repayments made in accordance with the schedule during 2017 totaled $48,659 (2016 – $43,870). The table below provides the prescribed repayments for each of the next 5 years and the total repayments for each 5 year period thereafter through the remaining term of the loan.

Year	Repayment Amount
2018	52,907
2019	55,335
2020	60,012
2021	62,178
2022	66,532
5 Year Total	296,904

Year	Repayment Amount
2023 – 2027	397,943
2028 – 2032	423,909
2033 – 2037	458,284
2038 – 2042	437,618
2043 – 2047	386,816
2048 – 2052	298,104

Year	Repayment Amount
2053 – 2057	192,723
2058 – 2062	95,404
2063 – 2067	33,368
2068 – 2072	8,424
2073 – 2077	834

Between 2003 when the loan repayments began and 2024, the repayments are less than the interest on the loan and therefore, the loan balance has grown and will continue to grow until 2025. The outstanding balance was $862,800 as at December 31, 2017 (2016 – $841,471). For disclosure purposes only, the Company has estimated the loan's fair value to be $1,234,215 (2016 – $1,176,923) by present valuing the expected future repayments at 5.50% (2016 – 5.75%), an appropriate discount rate given the current interest rate environment and adjusting for specific factors including the Company's own credit risk and the duration of the obligation. The fair value varies with the discount rate, and for example, it would increase by $85,529 if 5.00% was used and decreased by $77,128 if 6.00% was used.

(b) On December 23, 2016, the Company declared two dividends totaling $600,000 to be paid in 2017, $80,000 in January and $520,000 in February.

(c) At December 31, 2017, the Company had access to a bank line of credit of $20,000 against which no funds had been drawn.

10. Marketing and Operating Expenses

(a) Expenses for the years ended December 31 are shown by nature of expense in the following table.

	2017	2016
Employee expenses	$ 66,383	$ 68,016
Services provided by (to) related parties, net	(951)	(2,796)
Building costs	13,203	13,670
Legal and professional fees	19,846	17,847
Contract resources and outsourced services	6,272	7,024
Systems costs	7,447	7,833
Other	15,831	21,610
Total	$ 128,031	$ 133,203
Less: investment expenses	13,719	13,022
Less: expenses related to claims settlement	1,234	673
Marketing and operating expenses	$ 113,078	$ 119,508

(b) Employee Expenses

	2017	2016
Salaries, bonus and other short-term benefits	$ 59,466	$ 61,595
Pension and post-retirement costs	3,684	3,816
Long term incentive plans	1,253	1,229
Other	1,980	1,376
Total	$ 66,383	$ 68,016

11. Income Taxes

The Company's income tax expense (recovery) includes provisions for current and deferred taxes as outlined below.

	2017	2016
Current income tax:		
Current taxes (recovery) on income in the year	$ (11,948)	$ 11,029
Current taxes referring to previous periods[1]	(18,316)	(23)
	(30,264)	11,006
Deferred income tax:		
Origination and reversal of temporary differences	(7,373)	(9,940)
Impact of change in tax rates	303	(205)
Deferred taxes referring to previous periods	5,268	–
	$ (1,802)	$ (10,145)
Income tax expense (recovery) reported in net income	$ (32,066)	$ 861

1 2017 includes a favourable legal settlement relating to taxes of prior years of $10,650.

(a) The statutory income tax rate that applies to the Company is adjusted as shown below to derive the effective tax rate in percentages for each of 2017 and 2016.

	2017	2016
Statutory rate	26.68%	26.71%
Adjustments:		
Exempt investment income	14.44%	(20.76%)
Capital taxes and other non-deductible items[1]	0.14%	2.54%
True-up of prior years and other adjustments[2]	29.89%	(0.09%)
Return of Capital	2.99%	(4.43%)
Future federal and provincial tax rate changes	(0.69%)	(0.65%)
Effective tax rate	73.45%	3.32%

1 Excludes the tax on the sale of CPL of $8,122 or (18.61)%.
2 2017 includes a favourable legal settlement relating to taxes of prior years of ($10,650) or 24.4%.

(b) The following income tax amounts are included in OCI:

	December 31, 2017	December 31, 2016
Net unrealized gains (losses) on AFS securities	$ 13,500	$ 1,286
Less: reclassification of losses (gains) on AFS securities to income	25	(502)
Total income tax expense (recovery) included in OCI	$ 13,525	$ 784

(c) Deferred Tax Liability

(i) The net deferred tax liability includes temporary differences as at December 31 as follows:

	December 31, 2017	December 31, 2016
Insurance contract liabilities	$ (6,930)	$ (7,263)
Investment gains recognized in retained earnings	57,447	56,327
Other	(9,022)	(13,890)
Deferred Tax Liability	$ 41,495	$ 35,175

(ii) Reconciliation of Net Deferred Tax Liability

	2017	2016
Opening Balance	$ 35,175	$ 45,726
Remove Discontinued Operations	–	405
Restated Opening Balance	35,175	45,321
Deferred tax expense (benefit) during the year recognized in net income	(1,802)	(10,146)
Deferred tax expense (benefit) during the year recognized in discontinued operations	8,122	–
Deferred tax income during the year included in equity	–	–
Closing Balance	$ 41,495	$ 35,175

(d) The Company paid income taxes in the amount of $21,248 in 2017 (2016 – $6,500).

(e) As a consequence of the sale of CPL, the Company recorded a deferred income tax (benefit) in 2016 for the temporary difference of $(21,612) associated with its investment in CPL.

12. Related Party Transactions

(a) Services Provided by or to Related Parties

Related Parties

(i) iHULC is the plan sponsor of the defined benefit and contribution pension plans provided for *ivari* and CPL employees.

Under the defined contribution pension plans, the Company is responsible for contributing a predetermined amount to the participating employee's retirement savings based on a percentage of that employee's salary. The benefits available to an employee upon retirement are dependent on the performance of the investments chosen by that employee.

iHULC has contributory and non-contributory defined benefit arrangements under which it provides pension benefits based on the participating employee's years of service and average annual earnings over a period of time prior to retirement. The Company makes contributions to these plans and, under the contributory arrangements, employees also contribute a percentage of their salary up to a yearly maximum. iHULC is responsible for ensuring the defined benefit pension plans have sufficient assets to pay the pension benefits upon retirement of the employees. The defined benefits plans are not open to new hires.

iHULC also provides a supplementary pension benefit to qualifying executives.

(ii) Key management personnel, defined as those persons having authority and responsibility for overseeing, planning, directing and controlling the activities of the Company, are considered related parties.

(iii) WRL is a parent to which the Company provides administrative services.

(iv) Proj Fox Acquisition Inc. is a parent with the same ultimate parent as the Company to which the Company provides administrative services.

(v) Wilton Re (Canada) Limited together with its Canadian branch operations ("WRC"), is a parent with the same ultimate parent as the Company to which the Company provides administrative services. In addition the Company reinsures certain policies to the Canadian Branch of WRC.

Additional Related Parties Prior To April 1, 2017

(vi) Legacy General Insurance Company ("LGIC") was an affiliated company to which the Company provided administrative services.

(vii) CRI Canada Ltd. ("CRI") had the same ultimate parent as the Company and received administrative services from the Company. In addition, CRI provided distribution services for CPL for which it earned commissions.

(viii) Selient Inc. had the same ultimate parent as the Company and received administrative services from the Company

Additional Related Parties, Prior To May 4, 2016

(ix) Foresters Asset Management Inc. ("FAMI") (formerly Aegon Capital Management Inc. "ACM") had the same ultimate parent as the Company. It provided investment management services to the Company.

(x) Foresters Fund Management Inc. ("FFMI") (formerly Aegon Fund Management Inc. "AFM") had the same ultimate parent as the Company.

(b) Non-capital Transactions with Related Party Companies

The following table summarizes the Company's related party non-capital transactions during the year and the amounts due to or from related party companies, other than with respect to key management personnel. Settlement takes place on a regular basis and outstanding balances are unsecured and interest free.

		December 31, 2017		December 31, 2016	
Related Party	Nature of transaction	(Revenue) Expense	Amount due (to) from related party	(Revenue) Expense	Amount due (to) from related party
iHULC	Pension and post-retirement expenses	$ 1,486	$ (427)	$ 756	$ (354)
	Pension administrative expenses	291	(31)	430	(83)
	Operating expenses	(66)	229	(78)	20
LGIC	Operating expenses	(192)	–	(808)	128
	Reinsurance assumed activities, net	1,765	–	7,569	(589)
FAMI	Investment management fees	–	–	1,104	–
	Operating expenses	–	–	(548)	–
FFMI	Operating expenses	–	–	(405)	–
CRI	Operating expenses	413	–	1,803	(200)
	Commissions	766	–	3,203	(280)
Selient	Operating expenses	–	–	(36)	1
WRC	Operating expenses	(213)	91	(132)	30
	Reinsurance ceded activities, net	(50,197)	1,652	–	–
WRL and other affiliates	Operating expenses	(14)	(72)	1,396	36

(c) Key Management Personnel

The Company's key management personnel are also considered related parties and consist of the Company's Board of Directors and certain members of the Company's senior management. The following table summarizes the related compensation paid during 2017.

	2017	2016
Salaries, bonuses and other short-term benefits	$ 3,310	1,835
Pension and other post-employment benefits	445	345
Other long-term benefits	900	1,444
	$ 4,655	$ 3,624

13. Dividends and Contributed Surplus

During April 2017, the Company declared and paid cash dividends of $323,000. As well, the Company paid the two dividends totaling $600,000 which were declared in 2016.

iHULC made cash capital contributions to *ivari* of $10,000 in September and of $15,000 in December. During 2016, iHULC made capital contributions in cash of $10,500 in March and of $20,000 in June.

On April 4, 2016, CPL paid a dividend to *ivari* of $18,000 which included $16,908 of invested assets and $1,092 of cash.

Returns of capital to the shareholder and dividends to participating policyholders are determined by the Board.

The net income available to the shareholder includes the net income of all non-participating business, investment earnings on surplus and distributions from the par fund. The distribution of net earnings and returns of capital are restricted by regulations of the *Insurance Companies Act*. The accumulated retained earnings of the participating fund are not significant.

14. Capital Stock

Preferred shares, including both First preference shares and regular preferred shares, are without nominal or par value.

	December 31, 2017		December 31, 2016	
	Number of shares	$ Amount	Number of shares	$ Amount
Common Shares				
Authorized	Unlimited	$ –	Unlimited	$ –
Issued:				
Balance at beginning of year	14,810,959	911,750	14,810,959	911,750
Balance at end of year	14,810,959	$ 911,750	14,810,959	$ 911,750
Preferred Shares				
Authorized:				
First preference shares	Unlimited	–	Unlimited	–
Preferred shares	1,000,000	–	1,000,000	–
Balance at end of year		$ –		$ –

15. Capital Management

The Company manages its capital in accordance with its Capital Risk Management Policy and other related policies, which are reviewed and approved by the Board annually.

The Company's goal is to maintain adequate levels of available capital to provide sufficient margin over capital levels required by OSFI to maintain consumer confidence as well as ratings with external rating agencies. The Company's senior management engages the Board with regards to actions necessary to maintain appropriate capital levels.

The Company uses OSFI's prescribed formula for measuring capital under its Minimum Continuing Capital and Surplus Requirements ("MCCSR") framework. The Company's MCCSR Ratios have exceeded its Internal Target Capital Ratios, established in accordance with OSFI's Guideline A-4, at the end of each quarterly reporting period during 2016 and 2017. The Internal Target Total Capital Ratio is 190% (2016 – 190%).

The following table provides MCCSR-related information and ratios.

	December 31, 2017	December 31, 2016
Available Capital		
Tier 1	$ 725,925	$ 999,392
Tier 2	373,724	332,373
Total	$ 1,099,649	$ 1,331,765
Total Required Capital	$ 533,266	$ 520,494
MCCSR Ratios		
Tier 1	136%	192%
Total	206%	256%

1 Amounts for 2016 reflect the consolidated results of *ivari* and CPL.

OSFI issued the final version of its *Life Insurance Capital Adequacy Test* (LICAT), a capital adequacy guideline for federally regulated life insurance companies, in November 2017. Effective January 1, 2018, the LICAT guideline will replace the MCCSR guideline, in place since 1992. OSFI developed the LICAT to better align capital and risk measures with the economic realities of the life insurance business, while taking into account international advancements in the development of solvency frameworks. The Company is analyzing the impact of the new regulatory capital framework on its capital levels and on its business and capital management practices.

16. Gain On Sale and Discontinued Operations

On November 1, 2016, *ivari* announced the sale of CPL to Securian and the transaction closed on April 1, 2017. Details of the CPL net income and the gain on sale are shown in the following table for the period ended March 31, 2017 and December 31, 2016.

	March 31, 2017	December 31, 2016
Net income	$ 978	$ 11,307
Gain on sale	75,788	–
Net Income and Gain on Sale from Canadian Premier Life, classified as Discontinued Operations	76,766	11,307

(a) Gain on Sale

The Company received $157,482 in proceeds, net of $3,455 of transaction costs. At the time of close, the carrying value of CPL was $76,028 and as a result the Company recognized a pre-tax gain on disposition of $81,454. In addition, the Company recorded $2,456 of income for gains previously recognized within AOCI and a deferred tax expense of $8,122 for a net gain on sale of $75,788.

(b) Discontinued Operations

The net income of CPL presented as a single line on the consolidated statement of income (loss) is detailed as follows:

	March 31, 2017	December 31, 2016
REVENUE		
Gross premiums	$ 62,203	$ 254,977
Less: Premiums ceded to reinsurers	41,739	172,060
Net premiums	20,464	82,917
Net investment income	2,174	6,679
Other income	1,451	5,913
Total Revenue	$ 24,089	$ 95,509
POLICY BENEFITS AND CLAIMS		
Gross benefits and claims	$ 11,633	$ 49,176
Claims ceded to reinsurers	(4,207)	(20,323)
Change in gross insurance contract liabilities	1,439	(3,177)
Change in insurance contract liabilities ceded to reinsurers	1	33
Experience rating refunds	1,522	4,847
Total Policy Benefits and Claims	$ 10,388	$ 30,556
EXPENSES		
Gross sales commissions	$ 7,619	$ 31,274
Sales commissions ceded	(2,150)	(8,805)
Interest expense	–	(3)
Marketing and operating expenses	6,078	25,139
Policy related taxes, licenses and fees	796	1,920
Total Expenses	$ 12,343	$ 49,525
Income (Loss) Before Income Taxes	$ 1,358	$ 15,429
Income tax expense (recovery)	$ 380	$ 4,121
Net Income (Loss)	$ 978	$ 11,307

16 Gain On Sale and Discontinued Operations *(continued)*

(b) Discontinued Operations *(continued)*

The assets and liabilities of CPL, each presented on a separate line within the consolidated statement of financial position, are detailed below.

	March 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 34,337	$ 37,922
Short-term investments	27,635	25,269
Bonds and debentures	131,234	133,901
Policy loan	2	2
Accrued investment income	1,558	923
Total Invested Assets	$ 194,766	$ 198,017
Reinsurance assets	175	177
Property and equipment	–	–
Income taxes receivable	6,134	4,914
Other assets	12,832	11,994
Total Assets	$ 213,908	$ 215,102
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities	$ 86,846	$ 85,168
Reinsurance payables	32,728	33,693
Income taxes payable	–	–
Deferred tax liability	213	259
Other liabilities	18,094	20,994
Total Liabilities	$ 137,880	$ 140,114
Equity		
Capital stock	1,000	1,000
Contributed surplus	67,712	67,712
Retained earnings (deficit)	4,860	3,883
Comprehensive income (loss)	2,456	2,394
Total Equity	$ 76,028	$ 74,988
Total Liabilities and Equity	$ 213,908	$ 215,102

The cash flows of the discontinued operations of CPL, included in the consolidated statement of cash flows, are detailed below.

	March 31, 2017	December 31, 2016
Net cash provided by (used in)		
Net operating activities	$ (4,864)	$ 4,885
Net investing activities	1,279	14,359
Net financing activities	–	(18,000)
Net increase (decrease) in cash and cash equivalents	$ (3,585)	$ 1,244
Summary of changes		
Cash and cash equivalents, beginning of year	$ 37,922	$ 36,677
Net increase (decrease) in cash and cash equivalents during the year	(3,585)	1,244
Cash and Cash Equivalents, end of year	$ 34,337	$ 37,922

17. Premiums

	2017	2016
Gross premiums		
Life		
Universal	$ 519,030	$ 489,922
Traditional	285,004	287,237
Single premium immediate annuities	560	1,201
Health	3,144	2,368
Total	$ 807,738	$ 780,728
Ceded premiums		
Life		
Universal	$ (178,043)	$ (169,715)
Traditional	(301,482)	(252,134)
Single premium immediate annuities	–	–
Health	(763)	(584)
Total	$ (480,288)	$ (422,433)
Net Premiums	$ 327,450	$ 358,295

18. Gross and Ceded Policy Benefits and Claims

(a) Methodologies and Assumptions

The establishment of liabilities for outstanding claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's own experience with similar cases and historical trends involving benefit payments patterns, loss payments, pending levels of other insurance contract liabilities and adjustment expenses, product mix and concentration, benefits severity and benefits frequency patterns. Other factors include the regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claims department personnel and independent adjusters retained to handle individual benefits, existing claims management practices including claims handling settlement practices, the effect of inflationary trends on future claims settlement costs, investment rate of return, court decisions, economic conditions and public attitude. In addition, time can be a critical part of the determination, since the longer the span between the incidence of a loss and the settlement of the claim, the more variable the ultimate settlement amount can be. The process reflects expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, together with a review of historical settlement patterns, estimates of trends in benefits severity and frequency, legal theories of liability and other factors.

The best estimates of future claims and adjustment expenses have been determined using one or a combination of the methods described below. Considerations in the choice of methods to estimate ultimate benefits included, among other factors, the line of business, the number of years of experience and the age of the accident years being developed.

(i) Reported/paid Claims Development Method

The distinguishing characteristic of the development method is that the ultimate benefits for each accident year are produced from recorded values assuming the future benefit development is similar to the prior years' development. The underlying assumption is that benefits recorded to date will continue to develop in a similar manner in the future.

(ii) Expected Claims Method

Using the expected claims method, ultimate benefits projections are based on prior measures of the anticipated benefits. An expected benefits ratio is applied to the measure of exposure to determine estimated ultimate benefits. This method is more commonly used in lines of business with low frequency and high severity, which typically have longer emergence and settlement patterns.

Claims paid and reported, gross and net of reinsurance recoveries and subrogation, were tracked by lines of business, accident years and development periods in a format known as benefits development triangles.

(iii) Outstanding Claims Method

Liabilities for outstanding claims include a component for claims incurred but not reported and a component for outstanding claims. The former is calculated on the basis of the Company's experience over the last few years and expressed as a percentage of expected claims, in-force amounts or earned premiums. Outstanding claims are assessed individually and assigned a probability of payment.

18. Gross and Ceded Policy Benefits and Claims *(continued)*

(b) Gross and Ceded Policy Benefits and Claims

	2017			2016		
	Gross	Ceded	Net	Gross	Ceded	Net
Insurance contracts						
Life	$ 545,125	$ 387,669	$ 157,456	$ 454,012	$ 320,075	$ 133,937
Health	608	175	433	313	(429)	742
Subtotal	545,733	387,844	157,889	454,325	319,646	134,679
Investment contracts	3	–	3	8	-	8
Total	$ 545,736	$ 387,844	$ 157,892	$ 454,333	$ 319,646	$ 134,687

19. Segregated Funds Net Assets and Net Liabilities

The Company manages a range of segregated funds on behalf of policyholders. The funds fit into the following four types, based on the investments each fund holds:

- Money market funds consist of investments that have a term to maturity of less than one year.
- Fixed income funds are funds that invest primarily in investment-grade income securities and up to 25% can be invested in diversified equities or high-yield bonds.
- Balanced funds are a combination of fixed income securities and equities and the maximum equity component allowed in the portfolio is 75%.
- Equity funds consist primarily of broad-based diversified funds that invest in a mix of Canadian, U.S. and/or global equities with low, intermediate or high volatility.

In many cases, the funds invest in mutual funds with the appropriate investment objectives rather than individual securities.

The composition of net assets by type of segregated fund as at December 31, 2017 is as follows:

Type of Fund	Total	Percent
Money market	$ 25,345	1.76%
Fixed income	99,700	6.91%
Balanced	1,289,598	89.38%
Equity	28,130	1.95%
Subtotal	1,442,773	100.00%
Less: Seed units invested by the Company	640	
Segregated Fund Net Assets	$ 1,442,133	

The fair value of the underlying investments by asset class as of December 31, 2017 is as follows:

Asset Class	Total	Percent
Cash and cash equivalents	$ 1,584	0.11%
Short-terms investments	84,177	5.83%
Equities	184,030	12.76%
Bonds	106,986	7.42%
Mutual funds	1,035,185	71.74%
Other assets	30,811	2.14%
Subtotal	1,442,773	100.00%
Less: Seed units invested by the Company	640	
Segregated Fund Net Assets	$ 1,442,133	

20. Contingencies

The Company is subject to legal actions arising from the normal course of business. The Company is also defending a class action claim related to an alleged "tracking error" related to one segregated fund. It is not expected that these legal proceedings will have a material adverse effect on the Company's financial position.

21. Lease Commitments

The Company enters into operating leases for office space and certain equipment with lease terms up to fifteen years. The Company's largest operating lease for office space expires in 2019. The majority of lease agreements for office space contain renewal and escalation clauses.

The Company made operating lease payments of $10,678 in 2017 (2016 – $10,715) and recognized sub-lease income of $1,830 (2016 – $1,770). The total future sub-lease payments expected to be received under non-cancellable sub-leases as at December 31, 2017 was $2,439 (2016 – $4,269).

The table below shows the future operating lease payments by year as at December 31.

	2017	2016
2017	–	8,309
2018	8,360	8,252
2019	3,013	2,912
2020	362	269
2021	306	–
Thereafter	675	931
Total	$ 12,716	$ 20,673

22. Comparative Figures

The comparative consolidated financial statement figures, including the accompanying notes, may include reclassifications to be consistent with the presentation of the current year consolidated financial statements.

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