Annual Report 2016

ivari™

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ivari AND CANADIAN PREMIER LIFE INSURANCE

ivari is one of Canada's leading individual life insurance providers, with $10 billion ($9.8 billion for *ivari* stand-alone and $0.2 billion for Canadian Premier Life (CPL) stand-alone) in total assets under management and total consolidated gross premium revenue of $1,036 million (781 million for *ivari* stand-alone + $255 million for CPL stand-alone) in 2016.

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.

Canadian Premier Life maintains a strong industry-wide reputation for outstanding service and claims administration for the group life, accident, sickness and credit insurance provided to individuals through affinity programs with some of Canada's largest consumer brands.

With headquarters in Toronto, *ivari* and Canadian Premier Life have offices in Vancouver, Burnaby, Calgary, London and Montreal, employing more than 740 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* and Canadian Premier Life, visit ivari.ca and canadianpremier.ca.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Our first full year as ivari, owned by Wilton Re, a life reinsurance company, has been eventful as we continued to transition. As ivari, our corporate strategy centers around bringing an authentic, personable and engaging experience for customers, advisors, distributors and employees. We are partnering with aligned 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.

A number of important transitions and transactions took place in 2016 which helped us with our goal of strengthening our strategic focus on the life and protection business. These initiatives also helped to better position the company, our advisors and their distributors for profitable and sustainable growth in the sale and service of individual insurance products.

1. The transition from Transamerica and Aegon was largely completed, so that ivari now has a Canadian business infrastructure.
2. The sale of Aegon Capital Management and Aegon Fund Management to Foresters Financial was completed in May and the business operations were transitioned by the end of the year.
3. The acquisition of Canadian Premier Life, Legacy General Insurance Company, CRI Canada and Selient, Inc. by Securian Financial Group, Inc. was announced in November, and the sale is expected to close in early 2017.

We maintained a strong capital position in 2016. A significant change in accounting policy, accompanied by positive earnings, resulted in the Company's capital ratio at the end of the year being very high.

Thanks to a dedicated team, our business momentum remained high. We benefited from external factors including an increase in investment yields and solid stock markets. Our teams from across the organization have worked hard to ensure we give our customers the best possible experience which has helped strengthen our position among our direct competitors.

EARNINGS

A good year for stock markets and interest rates helped drive consolidated net income of $36.3 million for ivari, and our Affinity business recorded $14 million earnings for the year.

In 2016, we declared dividends totaling $600 million to be paid in the first quarter of 2017.

Our life sales are represented in the figures below:

- WFG declined 5% compared to 2015
- Brokerage sales declined 7% over last year
- Market share of 4.2%
- Affinity gross premium was down 6% over last year

THE CUSTOMER EXPERIENCE AND EMPLOYEE ENGAGEMENT

One of the key objectives of our corporate strategy is to deliver an industry leading customer experience. Delivering that experience means meeting – and exceeding – the expectations of our policyholders by anticipating their needs and proactively doing what it takes to make their experience with ivari a great one. Our advisors play a key role in reaching and serving our policyholders and are an integral part of delivering our customer experience.

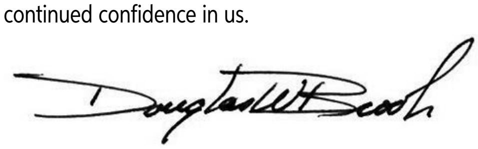
We are firm believers in leading by example and know that engaged employees deliver the best experience to our customers. We offer several employee-focused learning and development opportunities and try not to miss an opportunity to reward and recognize employees for a job well done.

OUR COMMITMENT TO IMPROVING THE QUALITY OF CANADIAN LIVES

We demonstrate active citizenship and encourage all employees to support the wellness and development of their community – whether local or global. In the last year alone, our giving back initiatives spanned many areas of social need from poverty alleviation to chronic disease prevention. 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. The monies raised by employees during our annual fundraising campaign are matched dollar-for-dollar by ivari, doubling our impact. We also hold events throughout the year to raise additional funds for our local United Way chapters.

In August, we launched ivari's Healthy Steps Program - our new donation program that 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. ivari's Healthy Steps Program replaces the previous charitable giving program, in the spirit of hope.

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



Doug Brooks
President and Chief Executive Officer

BUSINESS RESULTS

- Capital strength remained well above minimum OSFI requirements, as measured by the MCCSR ratio which is 256% at December 31, 2016.
- Net income in the year of $36.3 million.
- Life sales for ivari declined by 6%.
- Total assets under management of $10 billion as at December 31, 2016.
- 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 major source 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 are no longer required as the year passes and the Company is no longer exposed to these risks at the end of the 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, expenses and insurance contract liabilities established at the time of issue. This figure does not measure the ultimate profitability of the 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, as well as from higher or lower expenses. 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, mostly through changes in insurance contract liabilities. Typically, these actions would include changes in reinvestment strategy, asset transactions to optimize the risk profile of the company and the recapture of reinsurance treaties.

CHANGES IN METHODS AND ASSUMPTIONS

Changes in insurance contract liabilities, made as a result of revised assumptions, updates to provisions for adverse deviations, changes to Canadian actuarial standards of practice or OSFI guidelines, as well as changes due to improvements to the valuation systems, are all included in this source of earnings.

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, 2016, by line of business
(millions of dollars)

***ivari* Standalone**	Universal Life	Traditional Life	Annuities	Accident & Sickness	Segregated Funds	Surplus	Total	2015 Restated
Expected Profit on continuing In Force Operations	35.9	12.0	2.3	–	10.1	–	60.3	52.2
Impact of New Business	72.0	15.0	0.4	–	(2.5)	–	84.9	77.5
Experience Gains and Losses	98.0	24.4	0.6	(0.9)	(8.1)	–	114.0	(60.8)
Management Actions	25.6	115.6	(3.7)	–	–	(5.5)	132.0	5.4
Changes in Assumptions	(117.6)	(177.4)	(0.9)	–	(1.7)	–	(297.6)	(55.4)
Other Variances	(14.3)	(6.2)	(3.4)	(0.2)			(24.1)	–
Earnings on surplus						(43.6)	(43.6)	(40.6)
Income Before Taxes	99.6	(16.6)	(4.7)	(1.1)	(2.2)	(49.1)	25.9	(21.7)
Income Taxes	20.0	(4.8)	(1.2)	(0.3)	(0.6)	(12.2)	0.9	(7.8)
Net income from continuing operations	79.6	(11.8)	(3.5)	(0.8)	(1.6)	(36.9)	25.0	(13.9)
Net income from Canadian Premier Life classified as discontinued operations							11.3	16.4
Total Net income							36.3	2.5

Note: The consolidated results above represent the source of earnings for ivari on a standalone basis plus the net income after tax from Canadian Premier Life (CPL), classified as discontinued operations to reflect the sale of CPL announced in November, 2016 and expected to close early in the second quarter of 2017. Results for 2015 are presented on a restated basis to reflect a change in ivari's accounting policies implemented retrospectively.

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 $60 million in 2016 are fairly stable compared to $52 million for 2015, with the increase coming from the release of higher safety margins on strengthened actuarial assumptions.

The positive contribution of new business to financial results has further improved since last year from $78 million to $85 million, primarily on sales of universal life products.

The Experience gains of $114 million reflect the sensitivity of Company results to movements in interest rates, credit spreads and equity returns, with market movements contributing a $158 million experience gain. Adverse mortality and lapse experience as compared to expected experience caused an experience loss of ($28) million and higher expenses contributed an additional experience loss of ($17) million.

Management actions of $132 million were primarily related to a realignment of the various asset portfolios backing insurance contract liabilities. Transition costs related to moving systems from Transamerica following the sale transaction in 2015 were charged to Surplus.

Changes in methods and assumptions had a substantial negative impact on results. In addition to the annual updates related to emerging mortality, lapse assumptions were strengthened further in 2016 to reflect continued losses, especially on Traditional Life term products.

Earnings on Surplus includes net investment income on surplus assets of $26 million and interest expense on assets on deposit from reinsurers of $68 million.

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 Canada.

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 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 Canada 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, 2016 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 28, 2017

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, 2016, 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, 2016, 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 audits. We conducted our audits 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 in our audits 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements of *ivari* for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on February 26, 2016.

Deloitte LLP

Toronto, Ontario
February 28, 2017

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

			As At	
As at December 31	Note	December 31,	December 31,	January 1,
(thousands of dollars)		2016	2015 Restated	2015 Restated
ASSETS				
Cash and cash equivalents	4,5	$ 19,970	$ 49,568	$ 30,461
Short-term investments	3,4,5	877,909	679,038	630,396
Bonds and debentures	3,4,5	5,508,994	5,604,373	5,611,576
Exchange-traded and mutual funds	3,4,5	1,635,112	1,671,304	1,615,345
Mortgage loans	3,4,5	881	1,289	1,902
Derivative assets	3,4,5,6	245	4,328	488
Loans to policyholders	4	161,335	162,368	163,460
Other invested assets	4,5	33,505	37,356	32,653
Accrued investment income		82,455	24,377	24,867
Total Invested Assets		$ 8,320,406	$ 8,234,001	$ 8,111,148
Reinsurance assets	3,8	2,188,628	2,294,668	2,240,831
Deferred tax asset	11	–	–	–
Other assets	7	128,640	152,938	144,253
Segregated funds net assets	18,19	1,568,361	1,700,230	1,926,761
Canadian Premier Life assets classified as held-for-sale	2 (c)	215,102	–	–
Total Assets		$ 12,421,137	$ 12,381,836	$ 12,422,993
LIABILITIES AND EQUITY				
Liabilities				
Insurance contract liabilities	8	$ 7,619,164	$ 7,511,957	$ 7,279,788
Investment contract liabilities	8	50,183	61,420	79,631
Reinsurance payables		20,599	46,111	45,501
Derivative liabilities	4,5,6	1,212	1,707	1,031
Deferred tax liability	11	35,175	45,725	54,371
Other liabilities	9	1,554,049	885,361	852,723
Non-controlling interest in mutual funds liabilities	19	–	164,510	153,237
Segregated funds net liabilities	18,19	1,568,361	1,700,230	1,926,761
Canadian Premier Life liabilities classified as held-for-sale	2 (c)	140,114	–	–
Total Liabilities		$ 10,988,857	$ 10,417,021	$ 10,393,043
Equity				
Capital stock	14	911,750	911,750	911,750
Contributed surplus	13	860,500	830,000	832,976
Retained earnings (deficit)		(440,018)	123,669	189,121
Accumulated other comprehensive income (loss)		100,048	99,397	96,103
Total Equity		$ 1,432,280	$ 1,964,816	$ 2,029,950
Total Liabilities and Equity		$ 12,421,137	$ 12,381,837	$ 12,422,993

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

Approved by the Board of Directors on February 28, 2017 and signed on its behalf by:

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

George A. Wilson
Director

CONSOLIDATED STATEMENT OF INCOME (LOSS)

For the Year Ended December 31	Note	2016	2015
(thousands of dollars)			Restated
CONTINUING OPERATIONS			
Revenue			
Gross premiums	16	$ 780,728	$ 751,181
Less: Premiums ceded to reinsurers	16	422,433	406,906
Net premiums		358,295	344,275
Net investment income	4	419,274	288,183
Fee income		40,114	44,684
Other income		1,153	30
Total Revenue		$ 818,836	$ 677,172
Policy benefits and claims			
Gross benefits and claims	17	$ 454,333	$ 491,902
Claims ceded to reinsurers	17	(319,646)	(334,744)
Change in gross insurance contract liabilities	8	193,658	240,588
Change in insurance contract liabilities ceded to reinsurers		105,811	(54,060)
Change in investment contract liabilities	8	1,552	2,423
Experience rating refunds		-	-
Change in non-controlling interest		(3,939)	1,240
Total Policy Benefits and Claims		$ 431,770	$ 347,348
Expenses			
Sales commissions and bonuses		$ 158,914	$ 163,908
Interest expense		68,503	66,453
Marketing and operating expenses	10	119,508	109,327
Policy related taxes, licenses and fees		14,275	11,789
Total Expenses		$ 361,200	$ 351,477
Income (Loss) Before Income Taxes		$ 25,866	$ (21,653)
Income tax expense (recovery)	11	$ 861	$ (7,751)
Net Income (Loss) from continuing operations		$ 25,006	$ (13,902)
DISCONTINUED OPERATIONS			
Net Income (Loss) from Canadian Premier Life classified as discontinued operations	2 (c)	$ 11,307	$ 16,450
Total Net Income (Loss)		$ 36,313	$ 2,548

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31		2016		2015
(thousands of dollars)				Restated
Net income (loss)	$	36,313	$	2,548
Continuing operations: Other comprehensive income (loss), net of income tax:				
Change in unrealized gains (losses) on available-for-sale assets arising during the year:				
Bonds		3,542		4,336
Equities (Other)		45		(24)
Reclassification adjustment for losses (gains) included in net income (loss):				
Bonds		(1,303)		(587)
Equities (Other)		–		–
Total Other Comprehensive Income (Loss) from Continuing Operations	$	2,284	$	3,725
Discontinued operations: Other comprehensive income (loss), net of income tax:				
Change in unrealized gains (losses) on available-for-sale assets arising during the year:				
Bonds		(1,162)		319
Equities (Other)		–		–
Reclassification adjustment for losses (gains) included in net income (loss):				
Bonds		(471)		(750)
Equities (Other)		–		–
Total Other Comprehensive Income (Loss) from Discontinued Operations	$	(1,633)	$	(431)
Total Comprehensive Income (Loss)	$	36,965	$	5,842

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		2016		2015
(thousands of dollars)					Restated
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		$	830,000	$	832,976
Additional contributed surplus, contributed in cash during the year			30,500		–
Share-based payments	13		–		(2,976)
Balance, December 31		$	860,500	$	830,000
Continuing operations: Retained earnings (deficit)					
Balance, January 1		$	113,093	$	(493,938)
Effect of retrospective application of change in Accounting Policy	2 (b)		–		665,933
Balance, January 1, as restated			113,093		171,995
Net income (loss)			25,006		(13,902)
Dividends received from discontinued operations			18,000		23,000
Dividends Paid or declared			(600,000)		(68,000)
Balance, December 31		$	(443,901)	$	113,093
Discontinued operations: Retained earnings (deficit)					
Balance, January 1		$	10,576	$	17,126
Net income (loss)			11,307		16,450
Dividends paid			(18,000)		(23,000)
Balance, December 31		$	3,883	$	10,576
Continuing operations: Accumulated other comprehensive income (loss), net of income taxes					
Balance, January 1		$	95,371	$	91,646
Net change in unrealized gains (losses) on available-for-sale assets			2,284		3,725
Balance, December 31		$	97,655	$	95,371
Discontinued operations: Accumulated other comprehensive income (loss), net of income taxes					
Balance, January 1		$	4,026	$	4,457
Net change in unrealized gains (losses) on available-for-sale assets			(1,633)		(431)
Balance, December 31			2,393		4,026
Total Equity		$	1,432,280	$	1,964,816

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)	2016	2015 Restated
OPERATING ACTIVITIES		
Net income (loss)	$ 36,313	$ 2,548
Items not affecting cash:		
Decrease (increase) in accrued investment income	(59,001)	490
Decrease (increase) in other assets	7,176	(9,889)
Decrease (increase) in deferred tax provision on operating income	(10,291)	(8,646)
Increase (decrease) in insurance contract liabilities	192,375	232,169
Increase (decrease) in investment contract liabilities	(11,237)	(18,211)
Increase (decrease) in other liabilities	89,680	32,640
Decrease (increase) in reinsurance assets	114,045	(53,229)
Net realized losses (gains), including impairments	(110,463)	24,953
Net amortization of premium (accrual of discount) on invested assets	(119,640)	(162,204)
Total non-cash items	$ 92,644	$ 38,072
Net Cash Provided by (Used in) Operating Activities	$ 128,957	$ 40,620
INVESTING ACTIVITIES		
Sales, maturities and scheduled repayments of:		
Bonds and other fixed-term securities	$ 264,578	$ 218,676
Exchange-traded and mutual funds	266,121	81,621
Mortgage loans	408	613
Other invested assets	133,626	130,325
Derivatives	9,307	12,200
Purchases and issues of:		
Bonds and other fixed-term securities	(201,327)	(69,477)
Exchange-traded and mutual funds	(268,491)	(199,396)
Other invested assets	(129,663)	(135,039)
Short-term investments, net	(226,723)	8,847
Loans to policyholders, net	1,031	1,092
Net Cash Provided by (Used in) Investing Activities	$ (151,133)	$ 49,462
FINANCING ACTIVITIES		
Contributed surplus	$ 30,500	$ (2,976)
Dividends paid	–	(68,000)
Net Cash Provided by (Used in) Financing Activities	$ 30,500	$ (70,976)
Net Increase (Decrease) in Cash and Cash Equivalents during the Year	$ 8,324	$ 19,108
SUMMARY OF CHANGES IN CASH POSITION		
Cash and cash equivalents, beginning of year	$ 49,568	$ 30,461
Net increase (decrease) in cash and cash equivalents during the year[1]	8,324	19,108
Cash and Cash Equivalents, end of year	$ 57,892	$ 49,568
Less: Net cash and cash equivalents classified as held for sale as at December 31, 2016	37,922	
Net cash and cash equivalents, continuing operations, as at December 31, 2016	$ 19,970	

1 Included in net increase (decrease) in cash and cash equivalents during the year is interest received of $301 as at December 31, 2016 (2015 – $284) and interest expense paid of $43,869 as at December 31, 2016 (2015 – $40,326).

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

CONSOLIDATED STATEMENT OF CHANGES IN SEGREGATED FUNDS NET ASSETS

For the Year Ended December 31	2016	2015
(thousands of dollars)		
Segregated funds net assets, beginning of year	$ 1,700,766	$ 1,927,329
Additions to segregated funds:		
Deposits	81,624	74,907
Net realized and unrealized gains (losses)	27,386	(24,969)
Interest and dividend income	89,149	94,196
Total additions	$ 198,159	$ 144,134
Deductions from segregated funds:		
Seed units redemptions	$ –	$ –
Payments to policyholders and their beneficiaries	280,280	315,218
Management fees	35,642	41,389
Other expenses, including GST on management fees	14,045	14,090
Total deductions	$ 329,967	$ 370,697
Segregated funds net assets, end of year	$ 1,568,958	$ 1,700,766

CONSOLIDATED STATEMENT OF SEGREGATED FUNDS NET ASSETS

As at December 31		As At	
(thousands of dollars)	December 31, 2016	December 31, 2015	January 1, 2015
Investments, at market value:			
Cash and short-term investments	$ 83,111	$ 85,865	$ 93,759
Bonds	125,321	138,180	154,782
Equities and mutual funds	1,311,602	1,431,861	1,641,351
Futures contracts	(139)	(450)	(339)
Other assets	52,953	46,864	41,024
Liabilities	(3,890)	(1,554)	(3,248)
Total segregated funds net assets	$ 1,568,958	$ 1,700,766	$ 1,927,329
Seed units invested in segregated funds by the Company	596	536	568
Segregated funds net assets	1,568,362	1,700,230	1,929,761
Total segregated funds net assets	$ 1,568,958	$ 1,700,766	$ 1,927,329

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – INDEX

December 31, 2016

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* 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* is 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 includes all of WRL's affinity business in Canada. The sale is subject to regulatory approval and expected to close early in the second quarter of 2017. The basis of presentation used in preparing these consolidated statements and the following notes reflects the anticipated sale of CPL.

On July 31, 2015, WRL purchased the majority of the Aegon N.V. operations in Canada which included Transamerica Life Canada. On October 26, 2015, Transamerica Life Canada changed its name to *ivari* and Aegon Canada ULC changed its name to iCULC. On October 1, 2016, iCULC was amalgamated with its two immediate parents to become iHULC.

ivari and its subsidiary (collectively, "*ivari*" or the "Company") provide protection and wealth management solutions, including individual life insurance, annuities, segregated funds, and group involuntary unemployment, life 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 prescribed 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 include retrospective restatements to reflect the application of a change in accounting policy which unbundles the deposit component of the Company's reinsurance ceded contract whose nature is that of long-term debt. Prior periods have been restated to provide appropriate comparative information. Additional information about the accounting policy change is provided in Note 2 (b) and where applicable information about the impact of the change is included in the notes that follow.

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. The Company also uses judgment in determining whether the substance of its relationship with its SE constitutes control and in its treatment of non-controlling interests in mutual funds. 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. For 2015, the consolidated financial statements also included the imaxxFunds family of mutual funds ("imaxxFunds").

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 2016 statement of income (loss) presents the CPL pre-tax income within a single line, income from discontinued operations and the 2015 consolidated statement of income (loss) has been reclassified to be presented in the same manner. The consolidated statement of financial position presents CPL's total assets and total liabilities as separate lines for 2016 with no changes for 2015. See Note 2 (c) for additional details.

The Company has invested in imaxxFunds to support certain investment objectives. For 2016, the Company has determined that no portion of the imaxxFunds was under its substantive control, as the fund manager is no longer a related party. During 2015, some portion of this investment was assessed to be under substantive control and was therefore a consolidated structured entity ("SE") under IFRS.

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.

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

(a) Significant Accounting Policies *(continued)*

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

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

- Invested Assets

The fair value of securitiesinvested assets is based on quoted market prices or, where. 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.

- 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 (foreign exchange futures and credit swaps) is estimated using established models which recognize the need to address market, liquidity and model 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 model uncertainty are taken into account, as appropriate, when values are calculated 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 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 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 calculated 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 rights 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, assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts. Premiums and benefits on assumed reinsurance are 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.

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.

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

(a) Significant Accounting Policies *(continued)*

(xix) Net Investment Income *(continued)*

Investment expenses are comprised of administration expenses, both internal and external, expense 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

Under the new ownership, 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 at the point they are determined. The final award amount is payable in two equal parts approximately 3.5 years and 4 years following the end of year in which it is earned.

(xxiii) Share-based Compensation Plan

Under the 2015 change in ownership, the Company no longer has a share-based compensation plan.

The Company's previous ultimate parent Aegon N.V. had a share-based plan that entitled certain levels of management employees of the Company to receive Aegon N.V. common shares. The initial value of these shares was based on the Aegon N.V. share price on the grant date. The cost of the shares was expensed over the period until vested, with a corresponding increase in contributed surplus.

(xxiv) Contributed Surplus

The Company records contributed additional capital in contributed surplus. Prior to the sale, the cumulative expense related to the share-based long-term incentive plan was in contributed surplus. Under the terms of the sale agreement, Aegon N.V. has assumed the obligation to pay amounts related to this plan. At the close of the sale transaction, this portion of contributed surplus became an accrued liability payable to Aegon N.V.

(xxv) 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. Amounts recoverable from reinsurers are assessed at least annually for impairment.

(xxvi) 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) Accounting Policy Change and Retrospective Restatement

During 2016, the Company reviewed its chosen accounting policy for IFRS implementation in 2011 applicable to reinsurance contracts. It determined that unbundling the deposit component within reinsurance contracts, whose nature was that of long-term debt, would provide more relevant and reliable financial information. As a result, and in accordance with the requirements of IFRS, the Company has implemented this change in accounting policy retrospectively.

The following sections provide details of the change and the resulting $665,933 increase in the Company's January 1, 2015 total equity position, as well as the $57,928 increase in 2015 net income. The Company's 2015 OCI and January 1, 2015 AOCI were not impacted.

(i) Unbundling the long-term debt-type of Deposit Component of Reinsurance Contracts

The Company has one reinsurance treaty, with RGA Life Reinsurance Company of Canada (“RGA”), that is impacted by the voluntary change in accounting policy. The deposit component of that treaty is comprised of the funds withheld which are equivalent to the initial ceded premium amount as well as other specific amounts that together accrue interest at a fixed rate and are repaid to RGA in accordance with a repayment schedule set out in the treaty. The nature of the funds withheld deposit component is that of a long-term debt. See Note 9 (a) for further details.

IFRS 4 (10) sets out the instances under which an insurer is required or permitted to unbundle the deposit components of an insurance contract from the insurance component. Under that guidance, the Company is permitted to unbundle the deposit component since it is able to measure the deposit component separately. With the adoption of IFRS in 2011, the Company elected to maintain its approach of valuing the funds withheld deposit component using the CALM, and presented the carrying value within reinsurance assets on the consolidated statement of financial position and the in-period change in the carrying value within the change in insurance contract liabilities ceded to reinsurers on the consolidated statement of income (loss). Under the new accounting policy, the Company has retrospectively applied IFRS 4 (10) to unbundle the treaty with RGA, and apply IFRS 4 to the insurance component and account for the deposit component under IAS 39 at amortized cost.

The funds withheld deposit balances are now shown as amounts on deposit from reinsurers and the repayments are applied to reduce the funds withheld balances; interest on the funds withheld deposit amounts within a reporting period is reflected as interest expense in pre-tax income.

As a result of the accounting policy change and its retrospective impact on pre-tax income, the Company has also re-measured its tax provisions, including the deferred tax asset (“DTA”), and made adjustments as needed. Related adjustments have been made in the measurement of reinsurance assets.

(ii) More Reliable and Relevant Financial Information

The primary users of the financial statements include the shareholder, banks and other creditors, rating agencies, policyholders and regulators. It is in consideration of their needs that the change in accounting policy was evaluated.

Based on the facts below, the Company has determined that the new accounting policy presents information that users will find to be both more reliable and relevant in their assessment of the Company’s operations.

- Users are provided with separate disclosure information about the funds withheld deposit component, whereas under the previous accounting treatment the deposit component was included within Reinsurance Assets.
- The new accounting policy presents the deposit component interest expense as a component of pre-tax income instead of embedding it within the change in insurance contract liabilities as was done under the previous policy.
- Users are now provided with additional information to understand the nature of the future repayments as well as the fixed interest rate on the deposit and the resulting interest expense.
- Disclosure of the future repayments provides the predictive information users need in making economic decisions and the reported results would serve to confirm their understanding.
- Users now gain a better understanding of the Company’s reinsurance coverage as measured by the reinsurance assets since the deposit component is no longer embedded within the reinsurance assets.

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

(b) Accounting Policy Change and Retrospective Restatement *(continued)*

(iii) Reconciliation of total equity and total comprehensive income

The following table provides a reconciliation of the change in total equity:

		January 1, 2015
Total equity previously reported	$	1,364,017
Adjustments to total equity under the new policy:		
Reverse the (net negative) amount related to the deposit components previously reported in reinsurance assets	$	1,482,070
Establish the amounts on deposit from reinsures		791,519
Reverse the actuarial adjustment to liabilities for insurance contracts related to the deferred tax asset		208,378
Adjust the deferred tax asset to reflect the tax effects of the adjustments above		223,996
Total adjustments	$	665,933
Total equity under the new accounting policy, as restated	$	2,029,950

The following table provides a reconciliation of the change in total comprehensive income for the year ended December 31, 2015.

		2015
Net income (loss) previously reported	$	(55,380)
Adjustments to net income (loss):		
Reverse the related change in insurance contract liabilities ceded to reinsurers	$	30,078
Reverse the change in liabilities for insurance contracts liabilities related to the deferred tax asset		85,249
Reverse the amount of repayments made previously reported as premiums ceded to reinsurers		40,326
Record the interest expense on amounts on deposit from reinsurers		(66,044)
Adjust the income tax expense and change in the DTA		(31,680)
Total adjustments	$	57,929
Net income (loss) as restated under the new accounting policy		2,548
Total other comprehensive income (loss) as previously reported and unchanged	$	3,294
Total other comprehensive income (loss) as restated under the new accounting policy	$	5,842

(c) Discontinued Operations

On November 1, 2016, *ivari* announced the sale of CPL to Securian and the transaction is expected to close in the first quarter of 2017. As a result, CPL has been determined to be discontinued operations in accordance with IFRS 5.

The purchase price is expected to exceed the sum of the current carrying value of CPL and the costs related to the sale. Therefore, no impairment has occurred and the Company has not adjusted its carrying value in these consolidated financial statements.

The net income of CPL has been presented as a single line on the consolidated statement of income (loss). The following table provides additional details for the years ended December 31.

		2016		2015
REVENUE				
Gross premiums	$	254,977	$	270,615
Less: Premiums ceded to reinsurers		172,060		173,271
Net premiums		82,917		97,344
Net investment income		6,679		6,568
Other income		5,913		6,096
Total Revenue	$	95,509	$	110,008
POLICY BENEFITS AND CLAIMS				
Gross benefits and claims	$	49,176	$	40,487
Claims ceded to reinsurers		(20,323)		(11,767)
Change in gross insurance contract liabilities		(3,177)		(2,523)
Change in insurance contract liabilities ceded to reinsurers		33		118
Experience rating refunds		4,847		5,560
Total Policy Benefits and Claims	$	30,556	$	31,875
EXPENSES				
Gross sales commissions	$	31,274	$	35,857
Sales commissions ceded		(8,805)		(8,543)
Interest expense		(3)		(25)
Marketing and operating expenses		25,139		26,204
Policy related taxes, licenses and fees		1,920		2,229
Total Expenses	$	49,525	$	55,722
Income (Loss) Before Income Taxes	$	15,429	$	22,411
Income tax expense (recovery)	$	4,121	$	5,961
Net Income (Loss)	$	11,307	$	16,450

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

(c) Discontinued Operations *(continued)*

For 2016, the assets and liabilities of CPL have been reclassified to be presented on a separate line within the consolidated statement of financial position. The following table provides additional details as at December 31.

	2016
ASSETS	
Cash and cash equivalents	$ 37,922
Short term investments	25,269
Bonds and debentures	133,901
Policy loan	2
Accrued investment income	923
Total Invested Assets	$ 198,017
Reinsurance assets	$ 177
Property and equipment	–
Income taxes receivable	4,914
Other assets	11,994
Total Assets	$ 215,102
LIABILITIES AND EQUITY	
Liabilities	
Insurance contract liabilities	$ 85,168
Reinsurance payables	33,693
Income taxes payable	–
Deferred tax liability	259
Other liabilities	20,994
Total Liabilities	$ 140,114
Equity	
Capital stock	$ 1,000
Contributed surplus	67,712
Retained earnings (deficit)	3,883
Comprehensive income (loss)	2,394
Total Equity	$ 74,988
Total Liabilities and Equity	$ 215,102

As well, for 2016, the consolidated statement of cash flows includes activities of both the continuing operations of *ivari* and the discontinued operations of CPL. The table below provides additional details for the year ended December 31.

	2016	2015
Net cash provided by (used in)		
Net operating activities	$ 4,885	$ 18,545
Net investing activities	14,359	16,899
Net financing activities	(18,000)	(23,000)
Net increase (decrease) in cash and cash equivalents	$ 1,244	$ 12,444
Summary of changes		
Cash and cash equivalents, beginning of year	$ 36,677	$ 24,234
Net increase (decrease) in cash and cash equivalents during the year	1,244	12,444
Cash and Cash Equivalents, end of year	$ 37,922	$ 36,677

(d) Other Accounting Policy Changes

The following standards and amendments are effective for 2016:

(i) Amendments to IAS 1 *Presentation of Financial Statements*

As part of its Disclosure Initiative to enhance the presentation and disclosure in financial reports, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* in December 2014 that is effective for annual reporting periods beginning on or after January 1, 2016. The amendments clarify the materiality guidance and the requirements with respect to the presentation of the notes, as well as the list of line items that need to be presented in the statement of financial position and the statement of income (loss) and OCI. The Company has reviewed and adopted the revised standard with minimal impact on its presentation and disclosure practices.

(ii) IAS 27 *Equity Method in Separate Financial Statement*

In August 2014, the IASB published amendments to IAS 27 *Equity Method in Separate Financial Statement* ("amendments to IAS 27"). The amendments to IAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company has not adopted the equity method to account for its subsidiary.

(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, 2018January 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 expects to elect the temporary exemption and to 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 Company is analyzing the impact on the consolidated financial statements.

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

In November 2016, the IASB agreed on several amendments to the previous draft of IFRS 17 which will replace IFRS 4. The IASB tentatively decided that, provided the final standard is issued as planned by the end of June, 2017, an entity should apply IFRS 17 for annual periods beginning on or after January 1, 2021 and that early adoption would be permitted provided that the entity also applies IFRS 9 and IFRS 15 at the same time.

The Company continues to monitor the related ISAB developments and will plan its IFRS 17 implementation accordingly, including consideration of any OSFI requirements.

The IASB issued other revised standards and EDs effective for annual periods starting January 1, 2016 and beyond. Revisions effective in 2016 were reviewed and did not impact these consolidated financial statements. 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, 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

	December 31, 2015		
	Fair Value Through Profit or Loss	Available-for-Sale	Total
Government	$ 2,128,884	$ 515,805	$ 2,644,689
Financial	367,970	104,782	472,752
Communications	478,608	53,318	531,926
Utilities	314,083	41,567	355,650
Consumer	498,579	26,816	525,395
Industrial	942,164	76,144	1,018,308
Other	33,080	22,573	55,653
Total	$ 4,763,368	$ 841,005	$ 5,604,373

	January 1, 2015		
	Fair Value Through Profit or Loss	Available-for-Sale	Total
Government	$ 2,057,956	$ 520,955	$ 2,578,911
Financial	391,618	140,675	532,293
Communications	459,532	54,759	514,291
Utilities	305,032	46,259	351,291
Consumer	494,436	43,972	538,408
Industrial	933,022	86,977	1,019,999
Other	35,968	40,415	76,383
Total	$ 4,677,564	$ 934,012	$ 5,611,576

1 2016 excludes amounts related to discontinued operations.

2 The total amounts above include $154,766 as at December 31, 2015 and $166,440 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

(iii) Asset Default Risk

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

	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%

	December 31, 2015			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-Sale	Total	Percent of Portfolio
AAA	$ 218,733	$ 125,677	$ 344,410	6.15%
AA	1,226,205	72,332	1,298,537	23.17%
A	2,405,138	478,872	2,884,010	51.46%
BBB	913,293	164,123	1,077,416	19.22%
BB or Lower	–	–	–	–
Total	$ 4,763,369	$ 841,004	$ 5,604,373	100.00%

	January 1, 2015			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-Sale	Total	Percent of Portfolio
AAA	$ 238,571	$ 159,625	$ 398,196	7.10%
AA	1,291,078	81,977	1,373,055	24.47%
A	2,305,181	519,083	2,824,264	50.32%
BBB	840,129	173,327	1,013,456	18.06%
BB or Lower	2,605	–	2,605	0.05%
Total	$ 4,677,564	$ 934,012	$ 5,611,576	100.00%

1 2016 excludes amounts related to discontinued operations.

2 The total amounts above include $154,767 as at December 31, 2015 and $166,440 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

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 managements has reasonable assurance of the timely collection of the full amount of principal and interest due. As at December 31, 2016, there were no loans where either the principal or interest was past due (2015 – 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, 2016	December 31, 2015	January 1, 2015
AA	$ 57	$ 4,328	$ 61
A	188	–	427
Total	$ 245	$ 4,328	$ 488

(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, 2016			December 31, 2015			January 1, 2015		
	Gross Exposure	Collateral	Net Exposure	Gross Exposure	Collateral	Net Exposure	Gross Exposure	Collateral	Net Exposure
AAA	–	–	–	–	–	–	–	–	–
AA	$ 2,283,262	$ 1,163,032	$ 1,120,230	$ 2,391,304	$ 1,064,466	$ 1,326,838	$ 2,321,386	$ 1,065,109	$ 1,256,277
A	(94,634)	–	(94,634)	(96,636)	–	(96,636)	(80,637)	–	(80,637)
BB	–	–	–	–	–	–	–	–	–
Not Rated	–	–	–	–	–	–	82	81	1
Total	$ 2,188,628	$ 1,163,032	$ 1,025,596	$ 2,294,668	$ 1,064,466	$ 1,230,202	$ 2,240,831	$ 1,065,190	$ 1,175,641

1 2016 excludes amounts related to discontinued operations.

2 Amounts for 2015 have been restated as described in Note 2 (b).

3 The total amounts above include $229 as at December 31, 2015 and $371 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

(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, 2016 and 2015, 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 tolerance limits have been established for market risk.
- Ongoing monitoring and reporting of market risk sensitivities against established risk tolerance limits is performed.
- Related risk management policies, guidelines and procedures are in place.
- The Asset-Liability Management Committee 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	
	2016	2015	2016	2015	2016	2015
Change in equity markets[1]						
10% increase	$ 77,800	$ 66,600	$ –	$ –	$ 77,800	$ 66,600
10% decrease	(79,700)	(71,100)	–	–	(79,700)	(71,100)
20% increase	154,000	132,900	100	100	154,100	133,000
20% decrease	(165,600)	(149,000)	(100)	(100)	(165,700)	(149,100)
Changes in interest rates[2]						
1% increase in yield curve	$ (34,400)	$ (52,700)	$ (102,400)	$ (104,600)	$ (136,800)	$ (157,300)
1% decrease in yield curve	30,400	54,000	135,200	139,700	165,600	193,700
2% increase in yield curve	(57,200)	(96,600)	(180,500)	(183,500)	(237,700)	(280,100)
2% decrease in yield curve	18,200	80,800	312,800	324,700	331,000	405,500

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 flat 26.72% effective tax rate 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 flat 26.72% effective tax rate is assumed to estimate after-tax income.

3 2016 excludes amounts related to discontinued operations.

4 Amounts for 2015 have been restated as described in Note 2 (b). In addition, the tax rate applied has been adjusted to reflect the related impact on the tax position.

(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 maintains a hedge program to significantly reduce exposure to equity risk in its segregated funds. During 2013, the Company consolidated its dynamic hedge programs into a single semi-static program. The Company has hedged about 85% of the segregated fund equity 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 death benefit guarantees provided in the Company's in-force segregated fund policies as at December 31.

	December 31, 2016			December 31, 2015			January 1, 2015		
	Guarantee Value	Fund Value	Amount at Risk	Guarantee Value	Fund Value	Amount at Risk	Guarantee Value	Fund Value	Amount at Risk
Maturity Benefit	960,476	1,568,361	2,359	1,073,012	1,700,230	4,456	1,202,120	1,926,761	2,967
Death Benefit	1,387,675	1,568,361	4,814	1,542,283	1,700,230	22,564	1,633,043	1,926,761	4,926
Withdrawal Benefit	$ 416,352	$ 1,568,361	$ 48,519	$ 428,307	$ 1,700,230	$ 44,511	$ 433,486	$ 1,926,761	$ 23,915

(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, 2016	December 31, 2015	January 1, 2015
No guarantee	$ 71,424	$ 82,693	$ 79,381
Up to 2%	82,833	74,487	69,946
Up to 3%	122,164	112,948	105,816
Up to 4%	548,157	519,792	491,925
Total	$ 824,578	$ 789,920	$ 747,068

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, 2016 is $402,871 (2015 – $381,491).

(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 though 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 also maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

As at December 31, 2016 and 2015, 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 obligations fixed by agreement as to the timing and dollar amounts of payments. The Company's asset maturities, contractual obligations and commitments by period, on an undiscounted basis are shown below.

	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
Total	$ 934,322	$ 300,665	$ 695,966	$ 4,475,920	$ 6,406,873
Liabilities					
Undiscounted insurance contract liabilities[1, 2]	$ (35,965)	$ 125,838	$ 878,991	$ 30,097,233	$ 31,066,097
Other insurance contract liabilities	–	–	–	–	80,113
Investment contract liabilities	17,156	32,463	4,447	952	55,018
Amounts on deposit from reinsurers	48,659	230,432	376,506	2,423,457	3,079,054
Subtotal	29,850	388,733	1,259,944	32,521,642	34,280,282
Operating leases[3]	8,309	11,656	708	–	20,673
Total	$ 38,159	$ 400,389	$ 1,260,652	$ 32,521,642	$ 34,300,955

	December 31, 2015				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Assets					
Cash and cash equivalents	$ 49,568	$ –	$ –	$ –	$ 49,568
Short-term investments	679,038	–	–	–	679,038
Bonds and debentures	69,180	333,977	699,953	4,501,263	5,604,373
Total	$ 797,786	$ 333,977	$ 699,953	$ 4,501,263	$ 6,332,979
Liabilities					
Undiscounted insurance contract liabilities[1, 2]	$ (38,485)	$ 141,235	$ 947,716	$ 27,700,163	$ 28,750,629
Other insurance contract liabilities	–	–	–	–	106,837
Investment contract liabilities	48,274	37,310	4,800	1,045	91,429
Amounts on deposit from reinsurers	43,870	216,914	354,671	2,507,468	3,122,923
Subtotal	53,659	395,459	1,307,187	30,208,676	32,071,818
Operating leases[3]	8,297	26,685	–	–	28,153
Total	$ 61,956	$ 422,144	$ 1,307,187	$ 30,208,676	$ 32,099,971

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

	January 1, 2015				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Assets					
Cash and cash equivalents	$ 30,461	$ –	$ –	$ –	$ 30,461
Short-term investments	630,396	–	–	–	630,396
Bonds and debentures	64,940	339,087	734,534	4,473,015	5,611,576
Total	$ 725,797	$ 339,087	$ 734,534	$ 4,473,015	$ 6,272,434
Liabilities					
Undiscounted insurance contract liabilities[1, 2]	$ (42,189)	$ 139,077	$ 844,021	$ 24,173,359	$ 25,114,268
Other insurance contract liabilities	–	–	–	–	112,734
Investment contract liabilities	59,540	41,885	7,995	1,136	110,556
Amounts on deposit from reinsurers	40,326	200,772	335,424	2,586,728	3,163,250
Subtotal	57,677	381,734	1,187,440	26,761,223	28,500,808
Operating leases[3]	8,461	26,685	–	–	35,146
Total	$ 66,138	$ 408,419	$ 1,187,440	$ 26,761,223	$ 28,535,954

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 explained in Note 22.

4 2016 excludes amounts related to discontinued operations.

5 Amounts for 2015 have been restated as described in Note 2 (b).

6 The total amounts above include $211,408 assets; $60,226 liability as at December 31, 2015 and $216,034 assets; $53,638 liability as at January 1, 2015 for discontinued operations as described in Note 2 (c).

The composition of other assets and other liabilities is described in Note 7 and Note 9 respectively all are expected to mature in under 5 years, except amounts on the deposit from reinsurers which are shown above.

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.

Insurance Risk Management, Governance and Control

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 and its reinsurers.
- Diversification and risk pooling is managed by aggregation of broad exposures across product lines, geography, distribution channels, etc.
- 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.

(i) Operational Risk Management, Governance and Control

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[1]	Held-for-Trading[1]	Loans and Receivables[2]	Other[2]	December 31, 2016 Total	
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying Value	Fair Value
Cash and cash equivalents	6,324	13,646	–	–	–	$ 19,970	$ 19,970
Short–term investments	69,756	808,153				877,907	877,909
Bonds and debentures	748,536	4,760,458	–	–	–	5,508,994	5,508,994
Exchange-traded and mutual fund		1,635,112	–	–	–	1,635,112	1,635,112
Loans to policyholders	–	–	–	–	161,335	161,335	161,335
Mortgage loans	–	–	–	881	–	881	881
Derivative assets	–	–	245	–	–	245	245
Other invested assets:							
Segregated funds seed units	596	–	–	–	–	596	596
Land leases	–	–	–	1,180	–	1,180	1,180
Futures margins	–	31,729	–	–	–	31,729	31,729
Accrued investment income	–	–	–	–	82,455	82,455	82,455
Total Invested Assets	825,212	7,249,098	245	2,061	243,790	$ 8,320,406	$ 8,320,406
Derivative Liabilities	–	–	1,212	–	–	$ 1,212	$ 1,212

1 Investments can be FVTPL in two ways: designated as FVTPL or classified as held-for-trading if they are actively traded for the purpose of earning investment income. All derivative instruments must be classified as held-for-trading.

2 The amortized costs of these assets closely reflect their fair values.

3 2016 excludes amounts related to discontinued operations.

4. Portfolio Investments *(continued)*

(a) Invested Assets and Derivative Liabilities *(continued)*

	Available-for-Sale	Fair Value Through Profit or Loss[1]	Held-for-Trading[1]	Loans and Receivables[2]	Other[2]	December 31, 2015 Total	
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying Value	Fair Value
Cash and cash equivalents	4,236	45,332	–	–	–	$ 49,568	$ 49,568
Short-term investments	77,218	601,820				679,038	679,038
Bonds and debentures	841,005	4,763,368	–	–	–	5,604,373	5,604,373
Exchange-traded and mutual fund	–	1,671,304	–	–	–	1,671,304	1,671,304
Loans to policyholders	–	–	–	–	162,368	162,368	162,368
Mortgage loans	–	–	–	1,289	–	1,289	1,289
Derivative assets	–	–	4,328	–	–	4,328	4,328
Other invested assets:							
Segregated funds seed units	536	–	–	–	–	536	536
Land leases	–	–	–	1,320	–	1,320	1,320
Futures margins	–	35,500	–	–	–	35,500	35,500
Accrued investment income	–	–	–	–	24,377	24,377	24,377
Total Invested Assets	922,995	7,117,324	4,328	2,609	186,745	$ 8,234,001	$ 8,234,001
Derivative Liabilities	–	–	1,707	–	–	$ 1,707	$ 1,707

1 Investments can be FVTPL in two ways: designated as FVTPL or classified as held-for-trading if they are actively traded for the purpose of earning investment income. All derivative instruments must be classified as held-for-trading.

2 The amortized costs of these assets closely reflect their fair values.

3 The total amounts above include $212,460 as at December 31, 2015 for discontinued operations as described in Note 2 (c).

(a) Invested Assets and Derivative Liabilities *(continued)*

	Available-for-Sale	Fair Value Through Profit or Loss[1]	Held-for-Trading[1]	Loans and Receivables[2]	Other[2]	January 1, 2015 Total	
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying Value	Fair Value
Cash, cash equivalents and short-term investments	62,156	598,701	–	–	–	$ 660,857	$ 660,857
Bonds and debentures	934,012	4,677,564	–	–	–	5,611,576	5,611,576
Exchange-traded and mutual fund	–	1,615,345	–	–	–	1,615,345	1,615,345
Loans to policyholders	–	–	–	–	163,460	163,460	163,460
Mortgage loans	–	–	–	1,902	–	1,902	1,902
Derivative assets	–	–	488	–	–	488	488
Other invested assets:							
Segregated funds seed units	568	–	–	–	–	568	568
Land leases	–	–	–	1,558	–	1,558	1,558
Futures margins	–	30,527	–	–	–	30,527	30,527
Accrued investment income	–	–	–	–	24,867	24,867	24,867
Total Invested Assets	996,736	6,922,137	488	3,460	188,327	$ 8,111,148	$ 8,111,148
Derivative Liabilities	–	–	1,031	–	–	$ 1,031	$ 1,031

1 Investments can be FVTPL in two ways: designated as FVTPL or classified as held-for-trading if they are actively traded for the purpose of earning investment income. All derivative instruments must be classified as held-for-trading.

2 The amortized costs of these assets closely reflect their fair values.

3 The total amounts above include $217,233 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

(b) Cash and Cash Equivalents

Cash and cash equivalents are made up of the following:

	December 31, 2016	December 31, 2015	January 1, 2015
Cash, end of year	$ 13,646	$ 45,332	$ 26,169
Cash equivalents, end of year	6,324	4,236	4,292
Cash and Cash Equivalents, End of Year	$ 19,970	$ 49,568	$ 30,461

1 2016 excludes amounts related to discontinued operations.

2 The total amounts above include $36,677 as at December 31, 2015 and $24,234 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

4. Portfolio Investments *(continued)*

(c) Unrealized Gains (Losses)

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

	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

1 2016 excludes amounts related to discontinued operations.

	December 31, 2015			
	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	AOCI Before Tax
Bonds and debentures	$ 841,005	$ 136,799	$ (113)	$ 136,686
Mutual funds including seed units	–	–	–	–
Segregated funds seed units	536	5,561	(5,300)	261
Common stock	–	–	–	–
Total	$ 841,541	$ 142,360	$ (5,413)	$ 136,947

	January 1, 2015			
	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	AOCI Before Tax
Bonds and debentures	$ 934,012	$ 132,579	$ (424)	$ 132,155
Mutual funds including seed units	–	–	–	–
Segregated funds seed units	568	5,561	(5,267)	294
Common stock	–	–	–	–
Total	$ 934,580	$ 138,140	$ (5,691)	$ 132,449

2 The total amounts above include $5,395 as at December 31, 2015 and $5,995 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

(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, 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

1 2016 excludes amounts related to discontinued operations.

4. Portfolio Investments *(continued)*

(d) Bonds and Debentures *(continued)*

December 31, 2015	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	$ –	$ 18,301	$ 10,933	$ 14,614	$ 43,848
Average yield	–	0.55%	1.27%	2.16%	1.27%
Government – Canadian Provincial					
Carrying value	$ 3,234	$ 34,285	$ 342,438	$ 1,575,387	$ 1,955,344
Average yield	0.69%	1.41%	2.36%	3.32%	3.11%
Corporate					
Carrying value	$ 36,938	$ 197,855	$ 197,250	$ 2,063,923	$ 2,495,966
Average yield	1.32%	2.62%	2.94%	4.55%	4.22%
Foreign Issuers					
Carrying value	$ 7,818	$ 21,104	$ 13,368	$ 225,922	$ 268,212
Average yield	1.27%	1.95%	3.22%	3.56%	3.35%
Total	$ 47,990	$ 271,545	$ 563,989	$ 3,879,846	$ 4,763,370
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	$ –	$ 8,784	$ 32,538	$ 78,492	$ 119,814
Average yield	–	0.52%	1.11%	2.11%	1.72%
Government – Canadian Provincial					
Carrying value	$ 1,656	$ 1,773	$ 6,539	$ 386,022	$ 395,990
Average yield	0.69%	1.53%	1.88%	3.36%	3.31%
Corporate					
Carrying value	$ 16,976	$ 40,340	$ 96,887	$ 156,903	$ 311,106
Average yield	1.59%	2.04%	2.63%	4.39%	3.38%
Foreign Issuers					
Carrying value	$ 2,558	$ 11,535	$ –	–	$ 14,093
Average yield	1.75%	1.85%	–	–	1.83%
Total	$ 21,190	$ 62,432	$ 135,964	$ 621,417	$ 841,003
Grand Total	$ 69,180	$ 333,977	$ 699,953	$ 4,501,263	$ 5,604,373

1 The total amounts above include $154,766 as at December 31, 2015 for discontinued operations as described in Note 2 (c).

(d) Bonds and Debentures *(continued)*

January 1, 2015	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	$ 1,458	$ 16,858	$ 10,082	$ 22,409	$ 50,807
Average yield	1.02%	1.17%	1.58%	2.25%	1.72%
Government – Canadian Provincial					
Carrying value	$ –	$ 19,047	$ 310,843	$ 1,555,987	$ 1,885,877
Average yield	–	1.65%	2.68%	3.44%	3.30%
Corporate					
Carrying value	$ 16,201	$ 159,983	$ 230,791	$ 2,068,488	$ 2,475,463
Average yield	1.62%	2.53%	2.85%	4.45%	4.14%
Foreign Issuers					
Carrying value	$ 7,622	$ 26,059	$ 12,242	$ 219,494	$ 265,417
Average yield	1.94%	2.07%	2.92%	3.80%	3.53%
Total	$ 25,281	$ 221,947	$ 563,958	$ 3,866,378	$ 4,677,564
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	$ 11,248	$ 17,397	$ 36,306	$ 76,337	$ 141,288
Average yield	0.99%	1.15%	1.64%	2.33%	1.90%
Government – Canadian Provincial					
Carrying value	$ 1,615	$ 1,631	$ 10,311	$ 366,109	$ 379,666
Average yield	1.09%	1.27%	2.33%	3.43%	3.38%
Corporate					
Carrying value	$ 17,763	$ 81,520	$ 120,871	$ 164,191	$ 384,345
Average yield	1.74%	2.29%	2.88%	4.40%	3.35%
Foreign Issuers					
Carrying value	$ 9,032	$ 16,593	$ 3,088	–	$ 28,713
Average yield	2.02%	2.20%	2.56%	–	2.18%
Total	$ 39,658	$ 117,141	$ 170,576	$ 606,637	$ 934,012
Grand Total	$ 64,939	$ 339,088	$ 734,534	$ 4,473,015	$ 5,611,576

1 The total amounts above include $166,440 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

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, 2016	December 31, 2015	January 1, 2015
	Fair Value	Fair Value	Fair Value
Exchange-traded funds	$ 402,871	$ 381,491	$ 398,551
Mutual funds	1,232,241	1,125,303	1,063,557
Non-controlling interest in Mutual funds[1]	–	164,510	153,237
Total	$ 1,635,112	$ 1,671,304	$ 1,615,345

1 See Note 19 for additional information about non-controlling interest in mutual funds.

(f) Impairment

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

During 2016, there were no impairments on bonds held as AFS assets (2015 – nil). There was no recovery for 2016 (2015 – nil). During 2016, impairments for equities was $0 (2015 – nil) and impairments for segregated funds seed money was $0 (2015 – nil).

(g) Net Investment Income

2016	Fair Value Through Profit or Loss	Held for–Trading	Available–for–Sale	Other	Total
Cash and short–term investments					
Interest income	1,555	–	2,027	–	$ 3,582
Gains (losses)	(3,932)	–	(238)	–	(4,170)
Bonds and debentures					
Interest income	113,014	–	110,180	–	223,194
Gains (losses)	(29,274)	–	2,035	–	(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

1 2016 excludes amounts related to discontinued operations.

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)*

2015	Fair Value Through Profit or Loss	Held for–Trading	Available–for–Sale	Other	Total
Cash and short–term investments					
Interest income	1,518	–	2,033	–	$ 3,551
Gains (losses)	29,829	–	(232)	–	29,597
Bonds and debentures					
Interest income	109,817	–	110,721	–	220,538
Gains (losses)	14,574	–	1,041	–	15,615
Exchange–traded and mutual funds					
Gains (losses)	(72,979)	–	–	–	(72,979)
Dividends	82,683	–	–	–	82,683
Derivatives					
Gains (losses)	–	12,780	–	–	12,780
Mortgage loans	–	–	–	179	179
Land leases	–	–	–	102	102
Loans to policyholders	–	–	–	10,475	10,475
Miscellaneous income (loss)	–	–	–	97	97
Impairment expense	–	–	–	–	–
Investment income before investment expenses and investment income tax					$ 302,638
Less: Investment expenses					13,981
Less: Investment income tax					474
Net Investment Income					$ 288,183

1 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

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 2016, the net impact on net investment income from the segregated funds hedging strategy was a loss of ($17,958) (2015 – ($2,013)).

(i) Pledged Securities

As part of its derivatives activities, the Company has pledged short-term investments as futures margins. The assets pledged by the Company are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell or re-pledge the assets, they are classified on the consolidated statement of financial position as pledged collateral and included in 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, 2016, the Company pledged securities having a fair value of $31,728 (2015 – $35,500).

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 in each of Levels 1, 2 and 3 utilized by the Company to determine such fair value.

	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.

2 2016 excludes amounts related to discontinued operations.

(a) Fair Value Hierarchy *(continued)*

	December 31, 2015			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,763,369	–	97%	3%
Exchange–traded and mutual funds	1,671,304	100%	–	–
Cash and cash equivalents	45,332	100%	–	–
Short–term investments	601,820	–	100%	–
Pledged securities	35,500	–	100%	–
Held–for–trading				
Swaps	–	–	–	–
Forwards	4,328	–	100%	–
Available–for–sale				
Bonds and debentures[1]	841,005	–	100%	–
Mutual funds	–	–	–	–
Cash and cash equivalents	4,237	–	100%	–
Short–term investments	77,218	–	100%	–
Seed units	536	100%	–	–
Financial Liabilities				
Swaps	–	–	–	–
Forwards	1,707	–	100%	–
Segregated Funds Net Assets	1,700,230	87%	13%	–
Segregated Funds Net Liabilities	1,700,230	87%	13%	–

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

2 The total amounts above include $211,408 as at December 31, 2015 for discontinued operations as described in Note 2 (c).

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

(a) Fair Value Hierarchy *(continued)*

	January 1, 2015			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,677,564	–	98%	2%
Exchange–traded and mutual funds	1,615,345	100%	–	–
Cash and cash equivalents	26,169	100%	–	–
Short–term investments	572,532	–	100%	–
Pledged securities	30,526	–	100%	–
Held–for–trading				
Swaps	–	–	–	–
Forwards	488	–	100%	–
Available–for–sale				
Bonds and debentures[1]	934,012	–	99%	1%
Mutual funds	–	–	–	–
Cash and cash equivalents	4,292	–	100%	–
Short–term investments	57,864	–	100%	–
Seed units	568	100%	–	–
Financial Liabilities				
Swaps	415	–	100%	–
Forwards	616	–	100%	–
Segregated Funds Net Assets	1,926,761	87%	12%	1%
Segregated Funds Net Liabilities	1,926,761	87%	12%	1%

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

2 The total amounts above include $216,034 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

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

There were no transfers between Level 1 and Level 2 financial instruments during 2016.

Within segregated funds, there were no material transfers between Levels 1 and 2 during 2016 (2015 – 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 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[1]	–	(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)

1 2016 excludes amounts related to discontinued operations.

The following table provides details of the movements in the fair value of financial instruments categorized within Level 3 during 2015.

	Available–for–Sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	$ 5,026	$ 82,408	13,610	$ 101,044
Total gains (losses) through profit or loss	408	2,558	54	3,020
Total unrealized gains (losses) through OCI	(309)	–	(48)	(357)
Purchases	–	–	–	–
Sales	–	–	(2,356)	(2,356)
Settlements	(2,570)	(2,570)	–	(5,140)
Net transfers into (out of) level 3[1]	–	35,445	(10,946)	24,499
Closing Balance	$ 2,555	$ 117,841	314	$ 120,710
Total gains (losses) in net income for assets held at end of year	–	$ (1,045)	–	$ (1,045)

1 The Company has transferred certain financial assets from Level 3 to Level 2 as the Company is now able to obtain the fair value for them by applying valuation techniques for which all significant inputs are based on observable market data.

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

(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, 2016.

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

1 Discounted cash flows are based on credit spread ranging between 82 bps and 115 bps and a yield curve ranging between 3.444% and 4.176% (weighted average of 4.126%) as the significant unobservable inputs.

2 2016 excludes amounts related to discontinued operations.

(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 $86,125 of Level 3 Corporate Bonds, the fair value would be changed by approximately ($5,434) and $5,819, 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. 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.

(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.

6. Derivatives *(continued)*

(a) Discussion of Derivatives *(continued)*

(iv) Foreign Exchange Derivatives *(continued)*

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.

	Term to maturity		December 31, 2016	December 31, 2015	January 1, 2015
	Within 1 Year	1–5 years	Total	Total	Total
Exchange–traded Contracts					
Equity futures contracts	328,945	–	$ 328,945	$ 320,466	$ 322,980
Interest rate futures contracts	7,924	–	7,924	8,481	8,494
Over–the–Counter Contracts					
Foreign exchange forward contracts	(33,835)	–	(33,835)	(32,278)	(32,661)
Credit default swaps	–	–	–	–	(57,913)
Total	303,034	–	$ 303,034	$ 296,669	$ 240,900

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

	December 31, 2016			December 31, 2015			January 1, 2015		
	Within 1 Year	1-5 Years	Total	Within 1 Year	1-5 Years	Total	Within 1 Year	1-5 Years	Total
Foreign exchange forward contracts	245	–	$ 245	4,328	–	$ 4,328	488	–	$ 488
Credit default swaps	–	–	–	–	–	–	–	–	–
Derivative assets	245	–	245	4,328	–	4,328	488	–	488
Foreign exchange forward contracts	1,212	–	1,212	1,707	–	1,707	616	–	616
Credit default swaps	–	–	–	–	–	–	415	–	415
Derivative liabilities	1,212	–	$ 1,212	1,707	–	$ 1,707	1,031	–	$ 1,031

(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, 2016 was $1,755,219 (2015 – $1,642,024).

(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.

	December 31, 2016			December 31, 2015			January 1, 2015		
	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
Equity futures	$ (97,677)	March 17	$ –	$ (107,284)	March 16	$ –	$ (90,372)	March 15	$ –
Currency forwards	32,981	March 17	(110)	29,418	March 16	(1,206)	28,888	February 15	(252)
Total	$ (64,696)		$ (110)	$ (77,866)		$ (1,206)	$ (61,484)		$ (252)

7. Other Assets

Other assets and their amounts are shown in the following table.

	December 31, 2016	December 31, 2015	January 1, 2015
Accounts receivable	$ 62,504	$ 76,439	$ 72,621
Property and equipment	3,643	5,335	6,134
Intangible assets	9,289	13,084	15,765
Prepaid expenses	53,204	54,296	43,747
Income taxes recoverable	–	3,784	5,986
Total	$ 128,640	$ 152,938	$ 144,253

1 2016 excludes amounts related to discontinued operations.

2 The total amounts above include $14,257 as at December 31, 2015 and $9,221 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

There were property and equipment write-downs of $40 and nil write-downs of intangible assets during the year ended December 31, 2016 (2015 – $154 and $67). 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.

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

(b) Best Estimate Assumptions and Methodology

The methods of determining the material best estimate assumptions used by the Company 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 $9,100 (2015 – $9,200). The effect on insurance contract liabilities of a 1% decrease in future mortality and morbidity rates would be an increase of approximately $9,200 (2015 – $9,400).

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 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 $153,500 (2015 – $186,300).

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 of approximately $112,400 (2015 – $144,000). 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 $147,500 (2015 – $198,300).

The impact of an immediate 10% increase in the general level of equity markets would be a decrease in insurance contract liabilities of approximately $106,200 (2015 – $106,100). Conversely, a 10% decrease in the general level of equity markets would result in an increase in insurance contract liabilities of approximately $108,800 (2015 – $112,900).

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 $19,800 (2015 – $26,300).

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

Insurance contract liabilities include the present value of expected reductions in 2016 and 2017 in policy benefits on applicable adjustable policies.

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.

(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:

	December 31, 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[2]	$ 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

	December 31, 2015				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	$ 6,984,363	$ 19,713	$ 401,043	–	$ 7,405,119
Other insurance contract liabilities	86,595	20,242	–	–	106,838
Total insurance contract liabilities	$ 7,070,958	$ 39,956	$ 401,043	–	$ 7,511,957
Invested assets backing insurance contract liabilities	$ 6,634,046	$ 4,270	$ 472,938	$ 1,122,747[2]	$ 8,234,000
Reinsurance assets	2,294,267	172	–	229	2,294,668
Total assets backing insurance contract liabilities	$ 8,928,313	$ 4,441	$ 472,938	$ 1,122,976	$ 10,528,668

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

(c) Insurance Contract Liabilities and Supporting Assets *(continued)*

	January 1, 2015				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	$ 6,719,743	$ 15,836	$ 431,475	–	$ 7,167,055
Other insurance contract liabilities	90,883	21,851	–	–	112,734
Total insurance contract liabilities	$ 6,810,626	$ 37,687	$ 431,475	–	$ 7,279,788
Invested assets backing insurance contract liabilities	$ 6,346,175	$ 4,787	$ 486,233	$ 1,273,953[2]	$ 8,111,147
Reinsurance assets	2,240,232	146	–	452	2,240,831
Total assets backing insurance contract liabilities	$ 8,586,407	$ 4,934	$ 486,233	$ 1,274,405	$ 10,351,978

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

2 2016 excludes amounts related to discontinued operations.

3 The total amounts above include $212,460 assets and $83,650 liabilities as at December 31, 2015 and $217,233assets and $88,130 liabilities as at January 1, 2015 for discontinued operations as described in Note 2 (c). For 2015, CPL's assets were managed as a single portfolio and were all available to back its insurance contract liabilities. CPL's assets are included as corporate assets in this table.

(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.

There were no impairments of reinsurance assets in 2016 (2015 – nil).

	December 31, 2016			
	Life	Health	Annuity	Total
Reinsurance Assets	$ 2,188,555	$ 73	–	$ 2,188,628

	December 31, 2015			
	Life	Health	Annuity	Total
Reinsurance Assets	$ 2,294,488	$ 180	–	$ 2,294,668

	January 1, 2015			
	Life	Health	Annuity	Total
Reinsurance Assets	$ 2,240,676	$ 155	–	$ 2,240,831

1 2016 excludes amounts related to discontinued operations.

2 Amounts for 2015 have been restated as described in Note 2 (b).

3 The total amounts above include $229 as at December 31, 2015 and $452 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

(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.

	2016			
	Gross Insurance Contract Liabilities	Reinsurance Assets[1]	Net	
Opening Balance	$ 7,405,119	$ 2,294,668	$ 5,110,451	
Remove Discontinued Operations	59,726	229	59,497	
Restated 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)	(247,417)	(125,471)	Includes the impact of changes in the economic environment
Changes in methods and assumptions:				
Persistency	444,388	184,892	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
Bond defaults	–	–	–	
Methodology changes and model refinements	–	–	–	
Segregated funds	1,494	–	1,494	Various economic updates and calibration of segregated funds
Reinvestments	–	–	–	
Total changes from continuing operations	$ 193,658	$ (105,811)	$ 299,469	
Total changes from discontinued operations	–	–	–	
Closing Balance	$ 7,539,051	$ 2,188,628	$ 5,350,423	

1 2016 excludes amounts related to discontinued operations.

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

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

	2015			
	Gross Insurance Contract Liabilities	Reinsurance Assets[1]	Net	
Opening Balance	$ 7,167,054	$ 2,240,831	$ 4,926,223	
Change in market value of supporting assets	(32,025)	(9,924)	(22,101)	
Change in balances on new and in-force business	141,718	5,305	136,413	Includes the impact of changes in the economic environment
Changes in methods and assumptions:				
Persistency	178,185	55,215	122,970	Review of lapses, premium persistency and partial withdrawals
Mortality and morbidity improvement	8,006	2,481	5,525	Reflects emerging experience on individual life insurance and annuities
Taxes and Expenses	(4,011)	(1,243)	(2,768)	Update to maintenance expenses and changes in premium tax rates
Bond defaults	(26,733)	–	(26,733)	Reflects update to bond default assumption
Methodology changes and model refinements	7,184	2,226	4,958	Various model corrections
Segregated funds	5,200	–	5,200	Various economic updates and calibration of segregated funds
Reinvestments	(36,896)	–	(36,896)	Reinvestment frequency updated to reflect management practice
Total changes from continuing operations	$ 240,588	$ 54,060	$ 186,528	
Total changes from discontinued operations	(2,523)	(223)	(2,300)	
Closing Balance	$ 7,405,119	$ 2,294,668	$ 5,110,451	

1 Amounts for 2015 have been restated as described in Note 2 (b).

(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 gross benefits and claims on the Company's consolidated statements of income (loss). The portion of reinsurance assets related to other insurance contract liabilities is $0 (2015 – $69).

	December 31, 2016	December 31, 2015	January 1, 2015
Premiums received in advance	$ 3,292	$ 3,849	$ 2,735
Policyholder amounts on deposit	14,507	16,002	15,454
Outstanding claims and adjustment expenses	62,314	86,987	94,545
Total	$ 80,113	$ 106,838	$ 112,734

1 The total amounts above include $23,923 as at December 31, 2015 and $25,881 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

(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 during the years are provided below.

For the period ended	December 31, 2016	December 31, 2015
Opening balance	$ 61,420	$ 79,631
Remove Discontinued Operations	–	–
Restated Opening Balance	61,420	79,631
New business and renewal deposits	1,243	2,860
Interest	1,638	2,423
Withdrawals	(8,156)	(15,536)
Fees	–	–
Claim payments	(5,962)	(7,958)
Total net changes	$ (11,237)	$ (18,211)
Closing balance	$ 50,183	$ 61,420

For the years ended December 31, 2016 and 2015, the total net gains (losses) relating to investment contracts were ($271) and ($216) respectively.

9. Other Liabilities

Other liabilities and their amounts are shown in the following table.

	December 31, 2016	December 31, 2015	January 1, 2015
Amount on deposit from reinsurers	$ 841,471	$ 817,234	$ 791,519
Accounts payable and accrued liabilities	23,180	37,537	35,508
Income taxes payable	7,899	1,920	–
Dividends payable	600,000	–	–
Other	81,499	28,670	25,696
Total	$ 1,554,049	$ 885,361	$ 852,723

1 2016 excludes amounts related to discontinued operations.

2 Amounts for 2015 have been restated as described in Note 2 (b).

3 The total amounts above include $22,832 as at December 31, 2015 and $19,496 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

9. Other Liabilities (continued)

(a) Amounts on Deposit from Reinsurers

In late 1998, the Company entered into an agreement with RGA to reinsure its Term to 100 policies inforce 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 RGA. 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 2016, the Company recognized an interest expense for the funds withheld under this RGA treaty of $68,104 (2015 – 66,044).

Repayments made in accordance with the schedule during 2016 totaled $43,870 (2015 – $40,326). The table below provides the prescribed repayments for each of the next 5 years and a summary of the repayments for each 5 year period thereafter through the remaining term of the loan.

Year	Repayment Amount
2017	48,659
2018	52,907
2019	55,335
2020	60,012
2021	62,178
5 Year Total	279,091

Year	Repayment Amount
2022 – 2026	376,506
2027 – 2031	429,885
2032 – 2036	448,369
2037 – 2041	448,747
2042 – 2046	395,529
2047 – 2051	318,351

Year	Repayment Amount
2052 – 2056	214,041
2057 – 2061	113,405
2062 – 2066	42,217
2067 – 2071	11,419
2072 – 2076	1,484
2077	9

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 $841,471 as at December 31, 2016 (2015 – $817,237 and 2014 – $791,519). For disclosure purposes only, the Company has estimated the loan's fair value to be $1,176,923 (2015 – $1,132,033 and 2014 – $1,156,320) by present valuing the expected future repayments at 5.75% (2015 – 5.9% and 2014 – 5.6%), 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 $82,630 if 5.25% was used and decreased by $74,439 if 6.25% 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, 2016, 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.

	2016	2015
Employee expenses	$ 68,016	$ 66,249
Services provided by (to) related parties (net)	(2,796)	(971)
Building costs	13,670	13,471
Legal and professional fees	17,847	12,705
Contract resources and outsourced services	7,024	4,627
Systems costs	7,833	6,388
Other	21,610	21,544
Total	$ 133,203	$ 124,013
Less: investment expenses	13,022	13,981
Less: expenses related to claims settlement	673	705
Marketing and operating expenses	$ 119,508	$ 109,327

1 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

(b) Employee Expenses

	2016	2015
Salaries, bonus and other short-term benefits[2]	$ 61,595	$ 60,633
Pension and post-retirement costs	3,816	3,873
Share-based compensation	1,229	559
Other	1,376	1,184
Total	$ 68,016	$ 66,249

1 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

2 The Company operates an optional Employee Stock Savings Plan in which eligible employees can contribute between 1% and 6% of their annual earnings and the Company matches 75% of their contribution. The employee's contribution is invested in investment options selected by the employee. Prior to the close of the sale transaction in 2015, the Company's contribution was used to purchase Aegon N.V. shares on the open market which vest after three years of plan participation. Under the new ownership, the employee's and the Company's contributions are invested in mutual funds. Included in employee expenses is the amount recorded by the Company of $1,405 for the year ended December 31, 2016 (2015 – $1,179) for contribution matching. The Company makes no guarantees with respect to the performance of its matching contributions.

(c) Expense Impacts due to the 2015 Change in Ownership

(i) None of the external costs incurred to complete the sale transaction were paid by the Company.

(ii) Following the sale, the Company undertook a significant rebranding project at an external cost of $766 (2015 – $2,005).

(iii) At the close of the sale transaction, all unpaid amounts that the Company had previously expensed for its share-based long-term incentive compensation plan were assumed by Aegon N.V. at a cost of $868 as part of the sale agreement. This resulted in a reduction of 2015 expenses of $2,047.

11. Income Taxes

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

	2016	2015
Current income tax:		
Current taxes (recovery) on income in the year	$ 11,029	$ 390
Current taxes referring to previous periods	(23)	(32)
	11,006	358
Deferred income tax:		
Origination and reversal of temporary differences	(9,940)	(1,910)
Impact of change in tax rates	(205)	(3,451)
Deferred taxes referring to previous periods	–	(2,748)
	$ (10,145)	$ (8,109)
Income tax expense (recovery) reported in net income	$ 861	$ (7,751)

1 2016 excludes amounts related to discontinued operations.

2 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

3 Amounts for 2015 have been restated as described in Note 2 (b).

(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 2016 and 2015.

	2016	2015
Statutory rate	26.71%	26.72%
Adjustments:		
Exempt investment income	(20.76%)	31.57%
Capital taxes and other non-deductible items	2.54%	(21.90%)
True-up of prior years/Other	(0.09%)	(0.45%)
Return of Capital	(4.43%)	6.77%
Future federal and provincial tax rate changes	(0.65%)	(6.91%)
Effective tax rate	3.32%	35.80%

1 2016 excludes amounts related to discontinued operations.

2 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

3 Amounts for 2015 have been restated as described in Note 2 (b).

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

	December 31, 2016	December 31, 2015
Net unrealized gains (losses) on AFS securities	$ 1,286	$ 1,599
Less: reclassification of losses (gains) on AFS securities to income	(502)	227
Total income tax expense (benefit) included in OCI	$ 784	$ 1,372

1 2016 excludes amounts related to discontinued operations.

2 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

(c) Deferred Tax Asset and Deferred Tax Liability

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

	December 31, 2016	December 31, 2015	January 1, 2015
Insurance contract liabilities	$ –	$ –	$ –
Investment gains recognized in Retained Earnings	–	–	–
Other	–	–	–
Deferred Tax Asset	$ –	$ –	$ –
Insurance contract liabilities	$ (7,263)	$ 18,513	$ (12,702)
Investment gains recognized in Retained Earnings	56,327	67,065	70,817
Other	(13,890)	(39,853)	(3,744)
Deferred Tax Liability	$ 35,175	$ 45,725	$ 54,371
Net Deferred Tax Liability	$ 35,175	$ 45,725	$ 54,371

1 2016 excludes amounts related to discontinued operations.

2 The total amounts above include $405 as at December 31, 2015 and $494 as at January 1, 2015 for discontinued operations as described in Note 2 (c).

3 Amounts for 2015 have been restated as described in Note 2 (b).

(ii) Reconciliation of Net Deferred Tax Liability

	2016	2015
Opening balance	$ 45,726	$ 54,371
Remove Discontinued Operations for 2016	405	494
Restated Opening Balance	45,321	53,877
Deferred tax income (expense) during the period recognized in net income	(10,146)	(8,109)
Deferred tax income (expense) during the period included in equity	–	(447)
Closing balance	$ 35,175	$ 45,321

1 2016 excludes amounts related to discontinued operations.

2 Amounts for 2015 have been restated as described in Note 2 (b).

(d) The Company paid income taxes in the amount of $6,500 in 2016 (2015 – $5,261).

(e) As a consequence of the sale of CPL, the Company has recorded a deferred income tax (benefit) for the temporary difference of $(21,612) associated with its investment in CPL. A deferred income tax (benefit) was not recorded for the temporary difference of $(13,286) at December 31, 2015 because the Company is able to control the timing of the reversal of the temporary difference and it was probable at the time that the difference would not reverse in the foreseeable future.

(f) 2015 Change in Ownership

(i) The ownership change resulted in a decrease of the 2015 deferred tax recovery and deferred tax asset of $2,759.

(ii) The completion of the sale transaction resulted in a deemed year end for tax purposes. The Company filed additional tax returns, as required, for the period January 1, 2015 to July 31, 2015.

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) CRI Canada Ltd. ("CRI") has the same ultimate parent as the Company and receives administrative services from the Company. In addition, CRI provides distribution services for the Company's, specially CPL's, affinity business for which it earns commissions.

(iii) Selient Inc. has the same ultimate parent as the Company and receives administrative services from the Company.

(iv) Key management personnel, defined as those persons having authority and responsibility for overseeing, planning, directing and controlling the activities of the Company, are also considered related parties. Additional details on the Company's key management personnel are included in Note 12(c).

(v) WRL is a parent with the same ultimate parent as the Company to which the Company provides administrative services.

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

(vii) Wilton Re Canada is an affiliate with the same ultimate parent as the Company to which the Company provides administrative services.

(viii) Legacy General Insurance Company ("LGIC") is an affiliated company to which the Company provides administrative services.

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 provides investment management services to the Company and continues to receive administrative services from the Company.

(x) Foresters Fund Management Inc. ("FFMI") (formerly Aegon Fund Management Inc. "AFM") had the same ultimate parent as the company and received administrative services from the Company.

Additional Related Parties, Prior To August 1, 2015

(xi) Aegon USA, Inc. had the same ultimate parent as the Company and provided internal audit services and investment accounting services to the Company.

(xii) Transamerica International Holdings, Inc. and Transamerica Life Insurance Company ("TLIC") had the same ultimate parent as the Company and provided administrative services to the Company.

(xiii) World Financial Group Canada Inc. ("WFG") is an indirectly owned subsidiary of Aegon USA, LLC and had the same ultimate parent company as the Company. The Company pays commissions to WFG for insurance, annuity and segregated fund product sales.

(b) Transactions with Related Parties

The following table summarizes the Company's related party transactions during the year and the amounts due to or from related parties. Settlement takes place on a regular basis and outstanding balances are unsecured and interest free.

		December 31, 2016		December 31, 2015		January 1, 2015
Related Party	Nature of transaction	(Revenue) Expense	Amount due (to) from related party	(Revenue) Expense	Amount due (to) from related party	Amount due (to) from related party
iHULC[1]	Pension and post-retirement expenses	$ 756	$ (354)	$ 1,645	$ (114)	$ (421)
	Pension administrative expenses	430	(83)	353	(9)	(446)
	Operating expenses	(78)	20	(72)	17	–
LGIC	Operating expenses	(808)	128	(933)	145	124
	Reinsurance assumed activities, net	7,569	(589)	8,760	(1,164)	(754)
ACM	Investment management fees	1,104	–	4,941	(2,300)	(476)
	Operating expenses	(548)	–	(1,783)	462	209
AFM	Operating expenses	(405)	–	(1,234)	221	(39)
CRI[3]	Operating expenses	1,803	(200)	1,634	(186)	(62)
	Commissions	3,203	(280)	3,278	(287)	(298)
Selient	Operating expenses	(36)	1	(9)	9	–
Wilton Re. Ltd and other affiliates[2]	Operating expenses	1,264	66	51	(51)	–
Aegon USA Inc. and affiliates[2]	Operating expenses and commissions	–	–	26,698	–	(3,698)

1 In addition, the Company declared a dividend of $600,000 (2015 – $68,000) to be paid in Q1 2017.

2 While Aegon USA Inc. and its affiliates continued to provide services after the close of the sale transaction, amounts included in the table represent activities which occurred prior to August 1, 2015.

3 Commissions earned by CRI on CPL business were previously excluded from prior year's disclosure.

(c) Key Management Personnel

The Company's key management personnel 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 2016.

	2016	2015
Salaries, bonuses and other short-term benefits	$ 1,835	2,658
Pension and other post-employment benefits	345	338
Share-based compensation	1,444	1,293
	$ 3,624	$ 4,289

13. Dividends and Contributed Surplus

During 2016, iHULC made capital contributions in cash on March 31 of $10,500 and on June 30 of $20,000.

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.

The Company paid no dividends during the year, however on December 23, 2016, *ivari* declared two dividends totaling $600,000 to be settled with a combination of invested assets and cash in the first quarter of 2017. The first dividend of $80,000 was paid in January and the second of $520,000 will be paid on February 28.

On September 28, 2015, the Company paid a cash dividend of $68,000.

14. Capital Stock

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

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.

	December 31, 2016		December 31, 2015		January 1, 2015	
	Number of shares	$ Amount	Number of shares	$ Amount	Number of shares	$ Amount
Common Shares						
Authorized	Unlimited	$ –	Unlimited	$ –	Unlimited	$ –
Issued:						
Balance at beginning of year	14,810,959	911,750	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	14,810,959	$ 911,750
Preferred Shares						
Authorized:						
First preference shares	Unlimited	–	Unlimited	–	Unlimited	–
Preferred shares	1,000,000	–	1,000,000	–	1,000,000	–
		$ 911,750		$ 911,750		$ 911,750

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 Ratio has exceeded its Internal Target Capital Ratios, established in accordance with OSFI's Guideline A-4, at the end of each quarterly reporting period during 2015 and 2016 except for Q3, 2015 when the Tier 1 Ratio was less than the Company's Internal Target. The Internal Target Total MCCSR Capital Ratio is 190% (2015 – 190%).

The following table provides MCCSR-related information and ratios

	December 31, 2016	December 31, 2015	January 1, 2015
Available Capital			
Tier 1	$ 999,392	$ 711,233	$ 922,747
Tier 2	332,373	429,699	344,502
Total	$ 1,331,765	$ 1,140,932	$ 1,267,249
Total Required Capital	$ 520,494	$ 563,092	$ 572,537
MCCSR Ratios			
Tier 1	192%	126.31%	161.17%
Total	256%	202.62%	221.34%

1 Amounts for 2015 are reported as filed with OSFI for the periods ending December 31, 2015 and December 31, 2014.

OSFI issued the final version of its *Life Insurance Capital Adequacy Test* (LICAT), a capital adequacy guideline for federally regulated life insurance companies, in September 2016. Effective January 1, 2018, the LICAT guideline will replace the *Minimum Continuing Capital and Surplus Requirements* (MCCR) 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. Premiums

	2016	2015
Gross premiums		
Life		
Universal	$ 489,922	$ 462,880
Traditional	287,237	285,436
Other[3]	1,201	1,381
Health	2,368	1,484
Total	$ 780,728	$ 751,181
Ceded premiums		
Life		
Universal	$ (169,715)	$ (162,520)
Traditional	(252,134)	(244,053)
Other[3]	–	–
Health	(584)	(333)
Total	$ (422,433)	$ (406,906)
Net Premiums	$ 358,295	$ 344,275

1 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

2 Amounts for 2015 have been restated as described in Note 2 (b).

3 Other life premiums are for single premium individual annuities.

17. 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.

(b) Gross and Ceded Policy Claims

	2016			2015		
	Gross	Ceded	Net	Gross	Ceded	Net
Insurance contracts						
Life	$ 453,945	$ 320,075	$ 133,870	$ 491,557	$ 334,689	$ 156,868
Health	313	(429)	742	262	55	207
Other	67	–	67	88	–	88
Subtotal	454,325	319,646	134,679	491,906	334,744	157,163
Investment contracts	8	–	8	(5)	–	(5)
Total	$ 454,333	$ 319,646	$ 134,687	$ 491,902	$ 334,744	$ 157,158

1 The 2015 amounts presented above have been restated to exclude amounts related to discontinued operations as described in Note 2 (c).

18. 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, 2016 is as follows:

Type of Fund	Total	Percent
Money market	$ 31,270	1.99%
Fixed income	121,573	7.75%
Balanced	1,386,545	88.41%
Equity	28,974	1.85%
Total	$ 1,568,362	100.00%

The fair value of the underlying investments by asset class as of December 31, 2016 is as follows:

Asset Class	Total	Percent
Cash and cash equivalents	$ 3,004	0.19%
Short-terms investments	80,107	5.11%
Equities	182,719	11.65%
Bonds	125,321	7.99%
Mutual funds	1,128,287	71.94%
Other assets	48,924	3.12%
Total	$ 1,568,362	100.00%

19. Structured Entities and Non-controlling Interest in Mutual Fund Liabilities

The Company has invested in imaxxFunds to support the investment choices of its universal life and segregated fund policyholders.

Prior to May 4, 2016, the Company's SE consisted of the imaxxFunds. Funds over which the Company has substantive control are considered to be consolidated SE, otherwise they are unconsolidated SE.

Control is determined to exist if a company has: power over the investee; exposure or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of investor's return. *ivari* performs such control assessments for each imaxxFund on a quarterly basis and changes the consolidation of the imaxxFund from one quarter to the following quarter if the control assessment changes.

With the May 4, 2016 sale of FFMI, it ceased to be an *ivari* related party. As a result, the Company no longer considers the imaxxFunds to be its SE. Further, the Company has determined that it no longer has substantial control over the any of the imaxxFunds and therefore it is no longer reporting a non-controlling interest in them.

During 2015, the Company had substantive control of one imaxxFund, the Canadian Fixed Pay Fund and therefore included $164,510 in both exchange traded and mutual funds and non-controlling interest in mutual fund liabilities. The Company did not have substantial control over the imaxx Canadian Bond Fund, the imaxx Canadian Equity Growth Fund and the imaxx Global Sectors Fund, which together comprised the Company's unconsolidated SE.

The Company consolidates all the assets, liabilities, income and expenses of the controlled fund for as long as it has control. For each such fund, the related income and expenses are presented separately on the consolidated statement of income (loss). The portion of the controlled fund that is consolidated but not owned by the Company is referred to as a non-controlling interest and is presented as a liability on the consolidated statement of financial position.

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 $10,715 in 2016 (2015 – 10,816) and recognized sub-lease income of $1,770 (2015 – $1,740). The total future sub-lease payments expected to be received under non-cancellable sub-leases as at December 31, 2016 was $4,269 (2015 – $6,039).

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

	2016	2015
2016	–	8,297
2017	8,309	8,102
2018	8,252	8,097
2019	2,912	2,801
2020	269	153
Thereafter	931	703
Total	$ 20,673	$ 28,153

1 2016 excludes amounts related to discontinued operations.

22. Comparative Figures

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

With a national network of thousands of independent advisors, *ivari* provides a full range of insurance products designed to help Canadians make the right choice for their protection needs. The people, products and service that make up *ivari* have stood the test of time and have been around for over 80 years in the Canadian marketplace. Through our commitment to always being approachable and transparent in everything we do, we are dedicated to starting a fresh, new conversation about insurance. And we will stand by our word. Visit us at ivari.ca.

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