Wilton Re (Canada) Limited

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

Wilton Re (Canada) Limited

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Board of Directors oversees management's responsibilities for financial reporting.

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 Wilton Re (Canada) Limited ("WRC") adheres to legislative and regulatory requirements. These systems include the communication of policies and standards of business conduct. Such policies and standards are designed to prevent conflicts of interest and unauthorized disclosure of information. Internal controls are reviewed and evaluated by WRC's internal auditors.

WRC has no employees and *ivari*, a subsidiary company, provides most of its operating services and management oversight.

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

The Approved Actuary, who is a member of management, is appointed by the Board of Directors to discharge the various actuarial responsibilities required and conducts the valuation of WRC's insurance contract liabilities.

WRC'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 Board to discuss the results of their audit. The Independent Auditor's Report to the shareholder accompanies these consolidated financial statements.

Todd Lawrence	Robin Fitzgerald
Todd Lawrence President and Chief Executive Officer	Robin Fitzgerald, FCIA, FSA EVP and Chief Financial Officer

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Independent Auditor's Report

To the Shareholder of
Wilton Re (Canada) Limited

We have audited the accompanying consolidated financial statements of Wilton Re (Canada) Limited (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of income (loss), the consolidated statement of comprehensive income (loss), the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 4, 2019
Toronto, Ontario

Wilton Re (Canada) Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

	Note	December 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	4,5	27,450	33,052
Short-term investments	3,4,5	581,321	784,447
Bonds and debentures	3,4,5	5,273,495	5,465,705
Exchange-traded and mutual funds	3,4,5	1,701,520	1,627,975
Mortgage loans	3,4	40	423
Derivative assets	3,4,5,6	4,171	594
Loans to policyholders	4	144,515	150,007
Other invested assets	4	51,767	31,696
Accrued investment income		26,526	60,576
Total Invested Assets		7,810,805	8,154,475
Reinsurance assets	3,8	2,424,656	2,440,288
Income tax recoverable	19	15,435	16,935
Other assets	7	150,854	150,712
Segregated funds net assets	5,21	1,184,834	1,442,133
Total Assets		11,586,584	12,204,543
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	8	8,356,202	8,504,692
Investment contract liabilities	8	33,112	40,888
Reinsurance payables		13,636	12,677
Derivative liabilities	4,5,6	1,082	2,910
Deferred tax liability	19	4,253	41,495
Other liabilities	10	944,479	915,921
Segregated funds net liabilities	5,21	1,184,834	1,442,133
Total Liabilities		10,537,598	10,960,716
Equity			
Capital stock	11	312	312
Contributed surplus	12	636,068	636,068
Retained earnings (deficit)		314,091	480,963
Accumulated other comprehensive income (loss)		98,515	126,484
Total Equity		1,048,986	1,243,827
Total Liabilities and Equity		11,586,584	12,204,543

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

Approved by the Board of Directors on April 4, 2019 and signed on its behalf by:

Todd Lawrence
Director, President and Chief Executive Officer

Robin Fitzgerald, FICA, FSA
Director and Chief Financial Officer

Wilton Re (Canada) Limited

CONSOLIDATED STATEMENT OF INCOME (LOSS)
For the Year Ended December 31
(thousands of dollars)

CONTINUING OPERATIONS	Note	2018	2017
Revenue			
Gross premiums	14	827,836	810,575
Less: Premiums ceded to reinsurers	14	423,088	429,080
Net premiums		404,748	381,495
Net investment income	4	(99,144)	659,222
Fee income		35,914	38,982
Other income		280	(863)
Total Revenue		341,798	1,078,836
Policy benefits and claims			
Gross benefits and claims	16	537,594	551,959
Claims ceded to reinsurers	16	(379,656)	(386,833)
Change in gross insurance contract liabilities	8	(123,950)	858,657
Change in insurance contract liabilities ceded to reinsurers	8	15,632	(251,660)
Change in investment contract liabilities	8	885	1,045
Total Policy Benefits and Claims		50,505	773,168
Expenses			
Sales commissions and bonuses		155,248	149,646
Interest expense		71,921	70,499
Marketing and operating expenses	17	117,881	113,860
Policy related taxes, licenses and fees		14,997	15,057
Total Expenses		360,047	349,062
Income (Loss) Before Income Taxes		(68,754)	(43,394)
Income tax expense (recovery)	19	(26,882)	(31,948)
Net Income (Loss) from Continuing Operations		(41,872)	(11,446)
DISCONTINUED OPERATIONS			
Net Income (Loss) and Gain On Sale from Canadian Premier Life and Legacy General Insurance Company classified as Discontinued Operations	20	-	84,486
Total Net Income (Loss)		(41,872)	73,040

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

Wilton Re (Canada) Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
For the Year Ended December 31

(thousands of dollars)

	2018	2017
Net income (loss)	(41,872)	73,040
Continuing operations: Other comprehensive income (loss), net of income taxes:		
Change in unrealized gains (losses) on available-for-sale assets arising during the year:		
Bonds and Short term investments	(27,643)	37,059
Equities and Other	(36)	32
Reclassification adjustment for losses (gains) included in net income (loss):		
Bonds and Short term investments	86	64
Re-measurement of Defined Benefit Plans	(376)	1,604
Total Other Comprehensive Income (Loss) from Continuing Operations	(27,969)	38,759
Discontinued operations: Other comprehensive income (loss), net of income taxes:		
Change in unrealized gains (losses) on available-for-sale assets arising during the year:		
Bonds and Short term investments	-	68
Reclassification adjustment for losses (gains) included in net income (loss):		
Bonds and Short term investments	-	(2,559)
Total Other Comprehensive Income (Loss) from Discontinued Operations	-	(2,491)
Total Comprehensive Income (Loss)	(69,841)	109,308

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

Wilton Re (Canada) Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31

(thousands of dollars)

	Note	2018	2017
Common shares			
Balance, January 1	11	312	312
Common shares issued		-	-
Balance, December 31		312	312
Contributed surplus			
Balance, January 1		636,068	611,068
Additional contributed surplus, contributed in cash during the year	12	-	25,000
Balance, December 31		636,068	636,068
Continuing operations: Retained earnings (deficit)			
Balance, January 1		480,963	1,335,554
Net income (loss)		(41,872)	(11,446)
Sale of discontinued operations		-	79,855
Dividends	12	(125,000)	(923,000)
Balance, December 31		314,091	480,963
Discontinued operations: Retained earnings (deficit)			
Balance, January 1		-	(4,631)
Net income (loss)		-	84,486
Dividends paid		-	-
Sale of discontinued operations		-	(79,855)
Balance, December 31		-	-
Continuing operations: Accumulated other comprehensive income (loss), net of income taxes			
Balance, January 1		126,484	87,725
Net change in unrealized gains (losses) on available-for-sale assets		(27,593)	37,155
Re-measurement of Defined Benefit Plans		(376)	1,604
Balance, December 31		98,515	126,484
Discontinued operations: Accumulated other comprehensive income (loss), net of income taxes			
Balance, January 1		-	2,491
Net change in unrealized gains (losses) on available-for-sale assets		-	(2,491)
Balance, December 31		-	-
Total Equity		1,048,986	1,243,827

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

Wilton Re (Canada) Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31

(thousands of dollars)

	2018	2017
OPERATING ACTIVITIES		
Net income (loss)	(41,872)	73,040
Items not affecting cash:		
Decrease (increase) in accrued investment income	34,050	22,829
Decrease (increase) in other assets	(142)	(15,034)
Decrease (increase) in tax provision on operating income	(25,678)	(6,487)
Increase (decrease) in insurance contract liabilities	(148,490)	796,285
Increase (decrease) in investment contract liabilities	(7,776)	(9,295)
Increase (decrease) in other liabilities	28,558	(78,714)
Decrease (increase) in reinsurance assets and liabilities (net)	16,591	(293,092)
Net unrealized losses (gains), including impairments	376,976	(307,516)
Net amortization of premium (accrual of discount) on invested assets	(117,834)	(126,627)
Ceded premium paid in kind with invested assets		
Total non-cash items	156,255	(17,649)
Net Cash Provided by (Used in) Operating Activities	114,383	55,389
INVESTING ACTIVITIES		
Sales, maturities and scheduled repayments of:		
Bonds and other fixed-term securities	613,421	1,034,798
Exchange-traded and mutual funds	226,307	216,465
Mortgage loans	382	458
Other invested assets	144,740	124,628
Derivatives	(2,194)	(4,362)
Purchases and issues of:		
Bonds and other fixed-term securities	(594,850)	(452,899)
Exchange-traded and mutual funds	(455,865)	(114,351)
Other invested assets	(164,413)	(122,600)
Short-term investments, net	231,995	112,211
Loans to policyholders, net	5,492	11,330
Net Cash Provided by (Used in) Investing Activities	5,015	805,678
FINANCING ACTIVITIES		
Contributed surplus	-	25,000
Dividends paid	(125,000)	(923,000)
Net Cash Provided by (Used in) Financing Activities	(125,000)	(898,000)
Net Increase (Decrease) in Cash and Cash Equivalents during the year	(5,602)	(36,933)
SUMMARY OF CHANGES IN CASH POSITION		
Cash and cash equivalents, beginning of year	33,052	60,985
Net increase (decrease) in cash and cash equivalents during the year[1]	(5,602)	(36,933)
Cash and Cash Equivalents, end of year	27,450	33,052

[1] Included in net increase (decrease) in cash and cash equivalents during the year is interest received of $587 (2017 - $1,069) and interest expense paid of $52,907 at December 31, 2018 (2017 - $48,659), as well as dividends received of $79,525 at December 31, 2018 (2017 - $74,143).

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

Wilton Re (Canada) Limited

CONSOLIDATED SCHEDULE OF CHANGES IN SEGREGATED FUNDS NET ASSETS
For the Year Ended December 31
(thousands of dollars)

	2018	2017
Segregated funds net assets, beginning of year	1,442,773	1,568,958
Additions to segregated funds:		
Deposits	42,690	57,383
Net realized and unrealized gains (losses)	(97,920)	70,245
Interest and dividend income	61,307	56,457
Total Additions	6,077	184,085
Deductions from segregated funds:		
Payments to policyholders and their beneficiaries	220,995	263,606
Management fees	29,938	33,444
Other expenses, including GST on management fees	12,492	13,220
Total Deductions	263,425	310,270
Segregated Funds Net Assets, end of year	1,185,425	1,442,773

CONSOLIDATED SCHEDULE OF SEGREGATED FUNDS NET ASSETS
As at December 31
(thousands of dollars)

	2018	2017
Investments, at market value:		
Cash and short-term investments	76,823	85,761
Bonds	87,746	106,986
Equities and mutual funds	1,019,706	1,219,385
Futures contracts	369	(170)
Other assets	1,723	32,608
Liabilities	(942)	(1,797)
Total Segregated Funds Net Assets	1,185,425	1,442,773
Seed units invested in segregated funds by the Company	591	640
Segregated funds net assets	1,184,834	1,442,133
Total Segregated Funds Net Assets	1,185,425	1,442,773

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – INDEX
December 31, 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(thousands of dollars)

1. Basis of Preparation

(a) Corporate Information

Wilton Re (Canada) Limited ("WRC") was incorporated under the laws of Bermuda on June 2, 2015, with its registered office at 14 Par-La-Ville Road, Hamilton, Bermuda. WRC holds a Long-Term Insurer License Class E under the Bermuda Insurance Act of 1978 ("the Act") and may reinsure business of its affiliate, Wilton Re Bermuda, or of its Canadian insurance subsidiary. WRC is a wholly owned subsidiary of Proj Fox Acquisition Inc. which is wholly owned by Wilton Re Ltd. ("WRL"), both of which are domiciled in Nova Scotia, Canada.

WRC owns 100% of *ivari* Holdings ULC ("iHULC"). iHULC owns 100% of *ivari*, a Canadian life insurance company and is the sponsor of pension plans that provide retirement benefits to the employees of *ivari*. Prior to April 1, 2017, iHULC owned 100% of Legacy General Insurance Company of Canada ("LGIC"), a Canadian property and casualty insurance company and *ivari* owned 100% of Canadian Premier Life Insurance Company ("CPL"). *ivari* is regulated by the Office of the Superintendent of Financial Institutions ("OSFI").

WRC was required to establish a Canadian life insurance branch ("the Branch") by the Department of Finance to reinsure certain policies written by *ivari* ("underlying policies"); the Branch is regulated by OSFI. WRC established the OSFI-required trust account for the Branch on March 10, 2017. The Branch received its Ontario insurance license effective April 24, 2017 and commenced operations on September 1, 2017. The Branch entered into a single reinsurance assumption contract with *ivari* on September 1, 2017 and it does not participate in any retrocession contracts.

WRC, including the Branch operations, is taxed as a single entity and is a resident of Canada for tax purposes. The Branch alone is not a taxpayer and consequently, it does not recognize any corporate income or capital taxes.

(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")

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

Assets and liabilities are translated using the closing exchange rate at the statement of financial position date, Shareholder's equity is translated using the exchange rate at the date of transaction, and income and expenses are translated using the average exchange rates over the period. The resulting gains and losses related to foreign exchange are included in investment income.

WRC's parent, Proj Fox Acquisition Inc. and its Board of Directors have the power to make changes to the consolidated financial statements after issuance, subject to materiality.

1. Basis of Preparation (continued)

(c) Use of Estimates and Judgments

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

(d) Basis of Consolidation

These consolidated financial statements include the financial results of WRC, iHULC and *ivari* (collectively “the Company”). Each entity has a board of directors and in some cases board committees (singularly or collectively “the Board”). In some instances, the notes to the financial statements specifically describe the activities of *ivari*.

On April 1, 2017, the sale of CPL and LGIC to Securian Financial Group, Inc. (“Securian”) was completed. The comparative period statement of income presented with these consolidated statements reflect CPL and LGIC as discontinued operations.

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.

ivari 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.

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

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.

Fair Value

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

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

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

- Invested Assets

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

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Measurement (continued)

Fair Value (continued)

- Derivative Financial Instruments

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

  The fair value of over-the-counter trading derivatives, including foreign exchange futures and credit swaps as well as equity call and put options, is estimated using established models which recognize the need to address market, liquidity and 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 portfolios 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.

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Measurement (continued)

Fair Value (continued)

- Bonds and Debentures (continued)

  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

  ivari 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

  ivari 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.

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Measurement (continued)

Fair Value (continued)

- Other Invested Assets

  ivari 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, *ivari* 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.

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Impairment (continued)

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.

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

(a) Significant Accounting Policies (continued)

(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.

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

- Amounts on Deposit from Reinsurers

  ivari 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.

- Retirement Benefit Plans

  iHULC has no employees, however it sponsors the retirement benefit plans and the post-retirement health benefit and post-employment disability plans for its Canadian operating affiliates. The defined benefit obligation is determined by the terms and conditions of the plan applicable on the reporting date. The Company does not provide any guarantee with respect to the performance of the defined contribution plans.

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

Derecognition

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

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

(a) Significant Accounting Policies (continued)

(v) Insurance Contracts

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

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

Insurance Contract Liabilities

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

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

For WRC's stand-alone business, the application of CALM has been estimated using the net level premium method utilizing actuarial assumptions for mortality, persistency, interest and expenses based on anticipated experience with margins for adverse deviation. Management considers WRC's reinsurance contract to be a long duration contract.

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. For WRC, such estimates are primarily based on historical experience and information provided by ceding companies. 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.

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

(a) Significant Accounting Policies (continued)

(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.

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

(a) Significant Accounting Policies (continued)

(ix) Reinsurance Assets and Liabilities

Ceded Reinsurance

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

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

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

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

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

Assumed Reinsurance

An assumed reinsurance contract was entered into by WRC to acquire a portion of the risk and provide proportionate compensation for claims and benefits on insurance contracts written by an affiliate insurance company. Premiums, benefits and the change in insurance contract liabilities on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business.

(x) Under Canadian tax law, each legal entity within the Company is taxed individually. The notes that follow describe the application of Canadian tax.

- 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.

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

(a) Significant Accounting Policies (continued)

- Current Income Taxes (continued)

  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.

- 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).

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

(a) Significant Accounting Policies (continued)

(xi) Segregated Funds

Segregated funds contracts provide minimum death, withdrawal and maturity value guarantees to the policyholders. *ivari* 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 *ivari* 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 *ivari*. 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.

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

(xii) 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, *ivari* 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. *ivari* 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. *ivari* 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.

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

(a) Significant Accounting Policies (continued)

(xiii) 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.

(xiv) 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.

(xv) 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.

(xvi) 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).

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

(a) Significant Accounting Policies (continued)

(xvii) Impairment of Property and Equipment and Intangible Assets (continued)

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.

Fee income earned over time from the management of segregated fund assets is determined based on asset values and previously established fee rates. The majority of such fee income is variable and is recognized as revenue when it is highly probable that a significant reversal will not occur.

Other income includes commissions earned by the Company’s captive brokerage channel for the sale of insurance products and is recognized when earned.

Premiums and commission revenues are recognized as revenue when due from the ceding companies. Commission revenues are reported as Other income.

Under the legal right of offset provision in the reinsurance treaties, the Company can withhold payments for allowances and claims for unpaid premiums.

(xix) Net Investment Income

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

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

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

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

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

(a) Significant Accounting Policies (continued)

(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 under which substantially all the risks and benefits of ownership of the asset are not transferred are classified as operating leases. Lease payments are recognized as operating expenses in the year to which they relate.

(xxii) Deferred Compensation Payments

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

(xxiii) Contributed Surplus

The Company records contributed additional capital in contributed surplus.

(xxiv) Policy Benefits and Claims

Gross Benefits and Claims

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

Claims Ceded to Reinsurers

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

(xxv) Sales Taxes and Premium Taxes

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

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

- Some receivables and payables include the related amount of sales tax.

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

(a) Significant Accounting Policies (continued)

(xxv) Sales Taxes and Premium Taxes (continued)

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

(b) Other Accounting Policy Changes

The following standards and amendments are effective for 2018:

(i) IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

Effective January 1, 2018, the Company adopted IFRS 15 which replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations. IFRS 15 establishes principles about the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The core principle of this standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenues related to insurance contracts are excluded from the scope of this standard. Fee income arising from the management of our segregated fund assets is within the scope of IFRS 15.

The company applied IFRS 15 using the retrospective method. While adoption of IFRS 15 did not result in any transitional adjustments to the Company's financial statements, additional disclosures have been added and prior year comparatives are provided within the Fee Income from Customers note.

The following standards and amendments will be applicable to the Company subsequent to 2018.

(ii) 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 will adopt the standard effective January 1, 2019 and is planning to use the modified retrospective approach and therefore comparative amounts for the year prior to adoption will not be restated. The Company is assessing the impact on the Company's January 1, 2019 equity related to the adoption of IFRS 16.

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

(b) Other Accounting Policy Changes (continued)

(iii) IFRS 9 *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39. IFRS 9 provides guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The classification and measurement of financial assets will depend on the financial asset's contractual cash flow characteristics and the entity's business model for managing the asset. For financial instruments not measured at FVTPL, IFRS 9 introduces an impairment model that requires recognition of expected loss from possible default events in the near term as well as recognition of lifetime expected loss if certain criteria are met. A new model for hedge accounting aligns hedge accounting more closely with the entity's risk management activities by increasing the eligibility of both hedged items and hedging instruments, and introducing a more principles-based approach to assess hedging effectiveness. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, 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. In December 2018, the IASB proposed to extend the exemption for one year. 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. WRC has assessed its business activities as required and determined that more than 90% of its liabilities were connected with insurance at the initial December 31, 2015 assessment and again at December 31, 2017, following the sale of CPL. In addition, OSFI requires that insurance companies defer implementation of IFRS 9 to coincide with the effective date of IFRS 17. The Company has applied the temporary exemption and expects to continue to apply IAS 39 until 2022.

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

In May 2017, the IASB issued IFRS 17 to establish a comprehensive global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. The standard is expected to be effective for years beginning on or after January 1, 2022, and is to be applied retrospectively, unless impracticable, in which case the insurer may elect to use a modified retrospective or fair value method. IFRS 17 will replace IFRS 4, and will change the fundamental principles used by the Company for recognizing and measuring insurance contract liabilities. IFRS 17 will also change the presentation and the related note disclosures of the Company's financial statements. Although permitted by the standard, OSFI does not allow early adoption.

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

The IASB issued other revised standards and exposure drafts effective for annual periods starting January 1, 2019 and beyond. The Company is analyzing the contemplated future revisions and their potential impact on the 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 Company follows specific risk management practices and these are described below. Risks that related only to *ivari* have been identified specifically. For *ivari*, the Investment and Risk Committee ("IRC") and the Audit and Conduct Review Committee ("ACRC") of the Board facilitate the Board's risk management monitoring as part of their mandates. Further, an Own Risk and Solvency Assessment Report has been approved by the Board. This report consolidates documentation and assessments of *ivari'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 IRC that risk taking is in compliance with the defined risk management framework, policies and guidelines.

Risk Management, under the direction of the Chief Risk Officers, 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 IRC, 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.

3. Risk Management and Control Practices (continued)

(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 the 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 the defined 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 IRC.

(thousands of dollars)

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, 2018		
	Fair Value Through Profit or Loss	Available-for-sale	Total
Government	1,287,712	550,850	1,838,562
Financial	470,323	67,029	537,352
Communications	514,907	47,931	562,838
Utilities	471,767	40,853	512,620
Consumer	702,903	21,886	724,789
Industrial	959,456	36,193	995,649
Other	101,685	-	101,685
Total	4,508,753	764,742	5,273,495

	December 31, 2017		
	Fair Value Through Profit or Loss	Available-for-sale	Total
Government	1,779,210	567,593	2,346,803
Financial	339,198	72,882	412,080
Communications	549,158	50,358	599,516
Utilities	493,041	42,930	535,971
Consumer	694,441	22,817	717,258
Industrial	706,460	41,585	748,045
Other	106,032	-	106,032
Total	4,667,540	798,165	5,465,705

(iii) Asset Default Risk

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

	December 31, 2018			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-sale	Total	Percent of Portfolio
AAA	179,056	109,805	288,861	5.48%
AA	1,196,228	457,040	1,653,268	31.35%
A	1,418,931	66,832	1,485,763	28.17%
BBB	1,714,538	131,065	1,845,603	35.00%
Total	4,508,753	764,742	5,273,495	100.00%

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(a) Credit Risk (continued)

(iii) Asset Default Risk (continued)

	December 31, 2017			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-sale	Total	Percent of Portfolio
AAA	187,284	109,340	296,624	5.43%
AA	1,497,291	474,508	1,971,799	36.08%
A	1,568,009	73,493	1,641,502	30.03%
BBB	1,414,956	140,824	1,555,780	28.46%
Total	4,667,540	798,165	5,465,705	100.00%

(iv) Loans Past Due

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received but management has reasonable assurance of the timely collection of the full amount of principal and interest due. As at December 31, 2018, there were no loans where either the principal or interest was past due (2017 - 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, 2018	December 31, 2017
AA	-	18
A	4,171	576
Total	4,171	594

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(a) Credit Risk (continued)

(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, 2018			December 31, 2017		
	Reinsurance Assets	Liabilities to Reinsurers[1]	Net Exposure	Reinsurance Assets	Liabilities to Reinsurers[1]	Net Exposure
AAA	-	-	-	-	-	-
AA	2,511,179	1,276,899	1,234,280	2,539,378	1,262,621	1,276,757
A	(86,523)	-	(86,523)	(99,090)	-	(99,090)
Total	2,424,656	1,276,899	1,147,757	2,440,288	1,262,621	1,177,667

[1] Includes funds withheld and amounts on deposit.

(b) Market Risk

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

Equity Risk

Equity risk is the potential adverse impact on the Company's earnings or capital due to movements in individual equity prices or general movements in the value of the stock market. *ivari* 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 *ivari*'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 *ivari*'s universal life contracts, summarized in Note 3 (b) (iii), represent one of the Company's most significant exposures to interest rate risk. If *ivari*'s investment returns fall below the guaranteed interest rates, it may have to increase liabilities in respect of its universal life contracts.

3. Risk Management and Control Practices (continued)

(b) Market Risk (continued)

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, 2018, 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 the Asset-Liability Risk Management and Risk Appetite Policies. Key controls utilized in the management and measurement of market risk are outlined below.

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

(thousands of dollars)

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 *ivari*'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	
	2018	2017 Re-stated	2018	2017 Re-stated	2018	2017 Re-stated
Change in equity markets[1]						
10% increase	68,700	49,400	-	-	68,700	49,400
10% decrease	(69,000)	(61,700)	-	-	(69,000)	(61,700)
20% increase	130,600	91,300	100	100	130,700	91,400
20% decrease	(139,600)	(122,400)	(100)	(100)	(139,700)	(122,500)
Changes in interest rates[2]						
1% increase in yield curve	46,300	36,900	(100,500)	(108,500)	(54,200)	(71,600)
1% decrease in yield curve	(58,200)	(49,200)	130,200	142,000	72,000	92,800
2% increase in yield curve	78,500	60,600	(178,400)	(191,900)	(99,900)	(131,300)
2% decrease in yield curve	(144,400)	(132,400)	299,800	328,200	155,400	195,800

[1] Represents the impact of an immediate change in the equity markets as at December 31. Income impacts are net of changes in the supporting assets and any hedge recoveries, including projected changes in future hedge costs. A 26.78% effective tax rate (2017 – 26.68%) is assumed to estimate after-tax income.

[2] Represents the impact of an immediate parallel shift in the yield curve for all durations, subject to a 0% floor. A 26.78% effective tax rate (2017 – 26.68%) for *ivari* was used to estimate after-tax income.

(ii) Segregated Funds Guarantees and Hedging Strategy

The guarantee provisions included in *ivari*'s segregated funds contracts represent one of *ivari*'s exposures to market risk. These guaranteed benefits are linked to underlying fund performance and may be triggered upon death, maturity or withdrawal. *ivari* 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.

ivari uses a semi-static hedge program to significantly reduce exposure to equity risk in its segregated funds. During 2013, *ivari* consolidated its dynamic hedge programs into a single semi-static program. *ivari* has hedged about 100% (2017 – 100%) of the segregated fund equity exposure and 100% of the currency exposure as measured on an economic basis.

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

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(b) Market Risk (continued)

(ii) Segregated Funds Guarantees and Hedging Strategy (continued)

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

	December 31, 2018			December 31, 2017		
	Guarantee Value	Fund Value	Amount at Risk	Guarantee Value	Fund Value	Amount at Risk
Maturity Benefit	753,859	1,184,834	5,354	848,128	1,442,133	701
Death Benefit	1,106,374	1,184,834	39,328	1,253,042	1,442,133	1,897
Withdrawal Benefit	377,014	1,184,834	83,136	402,827	1,442,133	54,434

(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, 2018	December 31, 2017
No guarantee	56,404	54,711
Up to 2%	94,149	88,107
Above 2% and up to 3%	170,838	167,885
Above 3% and up to 4%	579,089	549,491
Total	900,480	860,194

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

(iv) Exchange-traded funds

ivari invests in ETFs, tracking various global market indices, to support policyholder funds invested in such indices. *ivari* 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, 2018 is $402,683 (2017 - $254,637).

(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 *ivari*'s segregated fund contracts as well as the interest and market index guarantee provisions included in *ivari*'s universal life contracts have been identified as embedded derivatives, and represent *ivari*'s most significant exposure to market and interest rate risk.

3. Risk Management and Control Practices (continued)

(b) Market Risk (continued)

(v) Embedded Derivatives (continued)

The economic characteristics and risks associated with the death and maturity guarantee provisions in *ivari*'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 *ivari*'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 *ivari*'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 *ivari* 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 the 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.

- Cash management and asset-liability management programs ensure that sufficient cash flow and liquid assets are available to cover potential funding requirements. The Company invests in various types of assets with a view of matching them to its liabilities of various durations.

- Target capital levels exceed regulatory minimums. The Company actively manages and monitors capital and asset levels, and the diversification and credit quality of its investments.

- The Company maintains various credit facilities for general corporate purposes.

- The Company's contingency plan to mitigate the impact of a liquidity crisis includes the sale of highly liquid securities. If further action is required, WRC will work with its parent to facilitate capital contributions.

As at December 31, 2018 and 2017, the Company maintained sufficient liquidity to cover all cash flow needs for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(thousands of dollars)

3. Risk Management and Control Practices (continued)

(c) Liquidity Risk (continued)

(ii) Maturity of Assets, Liabilities and Commitments

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

	December 31, 2018				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Assets					
Cash and cash equivalents	27,450	-	-	-	27,450
Short-term investments	581,321	-	-	-	581,321
Bonds and debentures	18,129	223,497	410,726	4,621,143	5,273,495
Mortgage loans	8	32	-	-	40
Derivative assets	4,171	-	-	-	4,171
Other invested assets	51,115	652	-	-	51,767
Accrued investment income	26,526	-	-	-	26,526
Total	708,720	224,181	410,726	4,621,143	5,964,770
Liabilities[1] and Lease Commitments[3]					
Undiscounted Investment contract liabilities	11,131	22,117	1,475	534	35,257
Reinsurance payables	13,636	-	-	-	13,636
Derivative liabilities	1,082	-	-	-	1,082
Other liabilities	118,275	260,757	415,710	2,245,683	3,040,425
Undiscounted insurance contract liabilities[1, 2]	(62,321)	63,365	942,439	31,023,168	31,966,651
Other insurance contract liabilities[1]	-	-	-	-	79,728
Subtotal	81,803	346,239	1,359,624	33,269,385	35,136,779
Operating leases[3]	5,105	13,558	15,968	1,043	35,674
Total	86,908	359,797	1,375,592	33,270,428	35,172,453

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(c) Liquidity Risk (continued)

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

	December 31, 2017				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Assets					
Cash and cash equivalents	33,052	-	-	-	33,052
Short-term investments	784,447	-	-	-	784,447
Bonds and debentures	18,402	202,378	489,507	4,755,418	5,465,705
Mortgage loans	378	38	7	-	423
Derivative assets	594	-	-	-	594
Other invested assets	30,823	781	92	-	31,696
Accrued investment income	60,576	-	-	-	60,576
Total	928,272	203,197	489,606	4,755,418	6,376,493
Liabilities[1] and Lease Commitments[3]					
Undiscounted Investment contract liabilities	13,324	27,115	3,262	687	44,388
Reinsurance payables	12,678	-	-	-	12,678
Derivative liabilities	960	1,950	-	-	2,910
Other liabilities	106,027	244,058	397,943	2,335,485	3,083,513
Undiscounted insurance contract liabilities[1, 2]	(36,687)	153,424	963,179	31,561,327	32,641,243
Other insurance contract liabilities[1]	-	-	-	-	102,233
Subtotal	96,302	426,547	1,364,384	33,897,499	35,886,965
Operating leases[3]	8,360	3,885	471	-	12,716
Total	104,662	430,432	1,364,855	33,897,499	35,899,681

[1] Payments are based on maturity dates and actual settlement of the obligations could occur earlier than shown. Where timing cannot be estimated, only a total is shown.
[2] Undiscounted insurance contract liabilities are determined using the 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 *ivari*'s hedge program. For further information, see Note 6 (b).
[3] Operating leases are discussed in Note 9.

The composition of other assets and other liabilities is described in Note 7 and Note 10 respectively; all are expected to mature in less than 5 years, except amounts on deposit from reinsurers.

(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 the 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.

3. Risk Management and Control Practices (continued)

(d) Insurance Risk (continued)

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

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

3. Risk Management and Control Practices (continued)

(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 Insurance Subs 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 Insurance Subs 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 Insurance Subs' Chief Compliance Officer provides a quarterly report to the RCC and the ACRC which includes reasonable assurance that the Insurance Subs 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.

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(thousands of dollars)

4. Portfolio Investments (continued)

(a) Invested Assets and Derivative Liabilities (continued)

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

	Available-for-sale	Fair Value Through Profit or Loss	Held-for-Trading	Loans and Receivables	Other	December 31, 2018 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying and Fair Value
Cash and cash equivalents	500	26,950	-	-	-	27,450
Short-term investments	24,328	556,993			-	581,321
Bonds and debentures	764,742	4,508,753	-	-	-	5,273,495
Exchange-traded and mutual funds	-	1,701,520	-	-	-	1,701,520
Loans to policyholders	-	-	-	-	144,515	144,515
Mortgage loans	-	-	-	40	-	40
Derivative assets	-	-	4,171	-	-	4,171
Other invested assets:						
Segregated funds seed units	591	-	-	-	-	591
Land leases	-	-	-	677	-	677
Futures margins	-	50,499	-	-	-	50,499
Accrued investment income	-	-	-	-	26,526	26,526
Total Invested Assets	790,161	6,844,715	4,171	717	171,041	7,810,805
Derivative Liabilities	-	-	1,082	-	-	1,082

	Available-for-sale	Fair Value Through Profit or Loss	Held-for-Trading	Loans and Receivables	Other	December 31, 2017 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Balance	Carrying and Fair Value
Cash and cash equivalents	873	32,179	-	-	-	33,052
Short-term investments	40,682	743,765			-	784,447
Bonds and debentures	798,165	4,667,540	-	-	-	5,465,705
Exchange-traded and mutual funds	-	1,627,975	-	-	-	1,627,975
Loans to policyholders	-	-	-	-	150,007	150,007
Mortgage loans	-	-	-	423	-	423
Derivative assets	-	-	594	-	-	594
Other invested assets:						
Segregated funds seed units	640	-	-	-	-	640
Land leases	-	-	-	978	-	978
Futures margins	-	30,078	-	-	-	30,078
Accrued investment income	-	-	-	-	60,576	60,576
Total Invested Assets	840,360	7,101,538	594	1,401	210,583	8,154,475
Derivative Liabilities	-	-	2,910	-	-	2,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(thousands of dollars)

4. Portfolio Investments (continued)

(b) Cash and Cash Equivalents

Cash and cash equivalents are made up of the following:

	December 31, 2018	December 31, 2017
Cash, end of year	20,888	30,817
Cash equivalents, end of year	6,562	2,235
Cash and Cash Equivalents, End of Year	27,450	33,052

(c) Unrealized Gains (Losses)

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

	December 31, 2018			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	AOCI Before Tax
Cash equivalents	500	-	-	-
Short-term investments	24,328	5	(1)	4
Bonds and debentures	764,742	149,116	(1,796)	147,320
Segregated funds seed units	591	316	-	316
Total	790,161	149,437	(1,797)	147,640

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

(thousands of dollars)

4. Portfolio Investments (continued)

(d) Bonds and Debentures

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

	December 31, 2018				
	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	1,600	15,231	14,760	12,309	43,900
Average yield	1.79%	1.87%	1.92%	2.12%	1.95%
Government – Canadian Provincial					
Carrying value	1,023	43,821	124,376	1,072,785	1,242,005
Average yield	1.96%	2.42%	2.84%	3.26%	3.18%
Corporate					
Carrying value	15,506	75,871	203,758	2,590,302	2,885,437
Average yield	2.94%	3.16%	3.85%	4.52%	4.43%
Foreign Issuers					
Carrying value	-	3,086	43,627	290,698	337,411
Average yield	0.00%	2.84%	3.02%	4.29%	4.12%
Total	18,129	138,009	386,521	3,966,094	4,508,753
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	-	14,147	-	81,163	95,310
Average yield	0.00%	1.88%	0.00%	2.17%	2.13%
Government – Canadian Provincial					
Carrying value	-	6,959	-	448,581	455,540
Average yield	0.00%	2.34%	0.00%	3.15%	3.14%
Corporate					
Carrying value	-	64,382	24,205	125,305	213,892
Average yield	0.00%	2.90%	3.28%	4.47%	3.86%
Foreign Issuers					
Carrying value	-	-	-	-	-
Average yield	0.00%	0.00%	0.00%	0.00%	0.00%
Total	-	85,488	24,205	655,049	764,742
Grand Total	18,129	223,497	410,726	4,621,143	5,273,495

(thousands of dollars)

4. Portfolio Investments (continued)

(d) Bonds and Debentures (continued)

	December 31, 2017				
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Bonds and Debentures – Fair Value Through Profit or Loss					
Government – Federal					
Carrying value	4,984	11,768	10,397	12,995	40,144
Average yield	1.36%	1.70%	1.97%	2.20%	1.89%
Government – Canadian Provincial					
Carrying value	-	40,087	218,801	1,478,328	1,737,216
Average yield	0.00%	2.21%	2.93%	3.06%	3.03%
Corporate					
Carrying value	5,256	97,437	155,971	2,362,887	2,621,551
Average yield	1.91%	2.84%	3.53%	4.13%	4.04%
Foreign Issuers					
Carrying value	-	3,185	42,330	223,114	268,629
Average yield	0.00%	2.35%	3.07%	3.91%	3.76%
Total	10,240	152,477	427,499	4,077,324	4,667,540
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	3,259	11,072	-	80,535	94,866
Average yield	1.32%	1.83%	0.00%	2.26%	2.12%
Government – Canadian Provincial					
Carrying value	-	6,948	-	465,779	472,727
Average yield	0.00%	2.23%	0.00%	2.90%	2.89%
Corporate					
Carrying value	895	31,882	62,009	131,780	226,566
Average yield	2.27%	2.58%	2.78%	4.14%	3.54%
Foreign Issuers					
Carrying value	4,006	-	-	-	4006
Average yield	1.61%	0.00%	0.00%	0.00%	1.61%
Total	8,160	49,902	62,009	678,094	798,165
Grand Total	18,400	202,379	489,508	4,755,418	5,465,705

(thousands of dollars)

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, 2018 Fair Value	December 31, 2017 Fair Value
Exchange-traded funds	732,778	605,356
Mutual funds	968,742	1,022,619
Total	1,701,520	1,627,975

(f) Impairment

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

During 2018, there were no impairments on bonds held as AFS assets (2017 – nil). There was no recovery for 2018 (2017 – nil). During 2018, impairments on equities was $0 (2017 - nil) and impairments for segregated funds seed money was $0 (2017 – nil).

(g) Net Investment Income

	2018				
	Fair Value Through Profit or Loss	Held-for-Trading	Available-for-sale	Other	Total
Cash and short-term investments					
Interest income	12,362	-	526	-	12,888
Gains (losses)	17,296	-	5	-	17,301
Bonds and debentures					
Interest income	190,486	-	25,416	-	215,902
Gains (losses)	(241,529)	-	(123)	-	(241,652)
Exchange-traded and mutual funds					
Gains (losses)	(156,013)	-	-	-	(156,013)
Dividends	79,525	-	-	-	79,525
Derivatives					
Gains (losses)	-	(20,050)	-	-	(20,050)
Mortgage loans	-	-	-	21	21
Land leases	-	-	-	62	62
Loans to policyholders	-	-	-	9,993	9,993
Miscellaneous income (loss)	-	-	-	808	808
Impairment recovery (expense)	-	-	-	-	-
Investment income before investment expenses and investment income taxes					(81,215)
Less: Investment expenses					13,926
Less: Investment income taxes					4,003
Net Investment Income	(97,873)	(20,050)	25,824	10,884	(99,144)

(thousands of dollars)

4. Portfolio Investments (continued)

(g) Net Investment Income (continued)

	2017				
	Fair Value Through Profit or Loss	Held-for-Trading	Available-for-sale	Other	Total
Cash and short-term investments					
Interest income	6,175	-	243	-	6,418
Gains (losses)	(13,208)	-	3	-	(13,205)
Bonds and debentures					
Interest income	187,324	-	25,298	-	212,622
Gains (losses)	227,906	-	(92)	-	227,814
Exchange-traded and mutual funds					
Gains (losses)	94,978	-	-	-	94,978
Dividends	74,143	-	-	-	74,143
Derivatives					
Gains (losses)	-	63,101	-	-	63,101
Mortgage loans	-	-	-	73	73
Land leases	-	-	-	85	85
Loans to policyholders	-	-	-	10,384	10,384
Miscellaneous income (loss)	-	-	-	255	255
Impairment recovery (expense)	-	-	-	-	-
Investment income before investment expenses and investment income taxes					676,668
Less: Investment expenses					13,750
Less: Investment income taxes					3,696
Net Investment Income	577,318	63,101	25,452	10,797	659,222

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 *ivari* allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices or mutual funds. *ivari* 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.

ivari 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 2018, the net impact on net investment income from the segregated funds hedging strategy was a loss of $5,880 (2017 – ($11,739)).

4. Portfolio Investments (continued)

(i) Pledged Securities

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

The pledged assets will be returned to *ivari* when the underlying transaction is terminated. In the event of *ivari*'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, 2018, *ivari* pledged securities having a fair value of $50,499 (2017 - $30,078).

(ii) Assets in trust

OSFI requires Canadian life insurance branches to establish a trust account with an authorized federally regulated financial institution and maintain assets in the trust account up to a certain level based on OSFI's regulatory capital requirements. Most of the Branch's invested assets are held within a trust account.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(thousands of dollars)

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

(a) Fair Value Hierarchy (continued)

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

	December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,508,753	-	98%	2%
Exchange-traded and mutual funds	1,701,520	100%	-	-
Cash and cash equivalents	26,950	100%	-	-
Short-term investments	556,993	-	100%	-
Pledged securities	50,499	-	100%	-
Held-for-trading				
Forwards	2,416	-	100%	-
Options	1,755	-	100%	-
Available-for-sale				
Bonds and debentures[1]	764,742	-	100%	-
Cash and cash equivalents	500	-	100%	-
Short-term investments	24,328	-	100%	-
Seed units	591	100%	-	-
Financial Liabilities				
Forwards	1,082	-	100%	-
Options	-	-	-	-
Segregated Funds Net Assets	1,184,834	86%	14%	-
Segregated Funds Net Liabilities	1,184,834	86%	14%	-

[1] WRC reports bonds issued by Canadian governments as Level 2 consistent with Canadian industry practice.

(thousands of dollars)

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

(a) Fair Value Hierarchy (continued)

	December 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,667,540	-	98%	2%
Exchange-traded and mutual funds	1,627,975	100%	-	-
Cash and cash equivalents	32,179	100%	-	-
Short-term investments	743,765	-	100%	-
Pledged securities	30,078	-	100%	-
Held-for-trading				
Forwards	594	-	100%	-
Available-for-sale				
Bonds and debentures[1]	798,165	-	100%	-
Cash and cash equivalents	873	-	100%	-
Short-term investments	40,682	-	100%	-
Seed units	640	100%	-	-
Financial Liabilities				
Forwards	895	-	100%	-
Options	2,015	-	100%	-
Segregated Funds Net Assets	1,442,133	87%	13%	-
Segregated Funds Net Liabilities	1,442,133	87%	13%	-

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

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

There were no transfers between Level 1 and Level 2 financial instruments during 2018.

Within segregated funds, there were no material transfers between Levels 1 and 2 during 2018 (2017 – nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(thousands of dollars)

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

(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 2018.

	Available-for-sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	-	89,356	908	90,264
Total gains (losses) through profit or loss	-	5,093	1	5,094
Total unrealized gains (losses) through OCI	-	-	-	-
Purchases	-	-	660	660
Net transfers into (out of) Level 3	-	-	1,174	1,174
Closing Balance	-	94,449	2,743	97,192
Total gains (losses) in net income for assets held at end of year	-	473	-	473

The following table provides details of the movements in the fair value of financial instruments categorized within Level 3 during 2017.

	Available-for-sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	-	86,125	302	86,427
Total gains (losses) through profit or loss	-	3,231	3	3,234
Total unrealized gains (losses) through OCI	-	-	-	-
Purchases	-	-	603	603
Net transfers into (out of) Level 3	-	-	-	-
Closing Balance	-	89,356	908	90,264
Total gains (losses) in net income for assets held at end of year	-	(1,009)	-	(1,009)

(thousands of dollars)

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.

		2018	2017
	Valuation Technique	Fair Value	Fair Value
Fair value through profit or loss			
Bonds and debentures			
Corporate bonds	Discounted cash flows[1]	94,449	89,356

[1] Discounted cash flows are based on credit spread ranging between 78 bps and 111 bps and a yield curve ranging between 3.698% and 4.126% (weighted average of 4.052%) as the significant unobservable inputs.

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

For corporate bonds, the most significant unobservable input to the valuation is the credit spread. An increase in credit spread results in a lower valuation, while a decrease in credit spread results in a higher valuation. The impact of changes in inputs may not be independent. If alternate assumptions of plus or minus 50 basis points in credit spread were applied to the $94,449 of Level 3 Corporate Bonds, the fair value would change by approximately ($5,194) and $5,292, respectively.

(thousands of dollars)

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.

ivari 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).

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

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

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

	December 31, 2018			December 31, 2017		
	Positive Replacement Cost [1]	Credit Equivalent Amount	Capital Requirement	Positive Replacement Cost[1]	Credit Equivalent Amount	Capital Requirement
Foreign exchange forward contracts	2,416	3,621	11	594	1,901	5
Equity futures and other contracts	4,975	-	-	2,916	-	-
Interest rate futures contracts	9	-	-	6	-	-
Total	7,400	3,621	11	3,516	1,901	5

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

6. Derivatives (continued)

(a) Discussion of derivatives (continued)

(i) Credit Derivatives

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

ivari enters into credit derivatives to manage the credit exposure in its bond portfolio. *ivari* 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 *ivari* allow the policyholder to select an interest-credited rate that is tied to the movement of a synthetic global government bond fund. *ivari* 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 *ivari* 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.

ivari 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 *ivari* allow the policyholder to select an interest-credited rate that is tied to the movement of certain stock exchange indices. *ivari* 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.

(thousands of dollars)

6. Derivatives (continued)

(a) Discussion of derivatives (continued)

(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.

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

Certain universal life insurance policies issued by *ivari* 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, *ivari* 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 *ivari*'s derivative investments by term to maturity as at December 31, 2018 and in total as at December 31, 2017.

	Term to maturity			
	Within 1 Year	1-5 years	2018	2017
Exchange-traded Contracts				
Equity futures and other contracts[1]	87,802	-	87,802	384,433
Interest rate futures contracts	6,206	-	6,206	7,041
Over-the-counter Contracts				
Foreign exchange forward contracts	(24,539)	-	(24,539)	(45,281)
Total	69,469	-	69,469	346,193

[1] Equity futures and other contracts include one equity collar contract. The contract is made up of long puts and short calls with a notional amount of $1,405. The contract will mature on March 15, 2019.

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

	2018			2017		
	Within 1 Year	1-5 Years	Total	Within 1 Year	1-5 Years	Total
Foreign exchange forward contracts	2,416	-	2,416	594	-	594
Equity Collar	1,755	-	1,755	-	-	-
Derivative assets	4,171	-	4,171	594	-	594
Foreign exchange forward contracts	1,082	-	1,082	895	-	895
Equity Collar	-	-	-	2,015	-	2,015
Derivative liabilities	1,082	-	1,082	2,910	-	2,910

(thousands of dollars)

6. Derivatives (continued)

(a) Discussion of derivatives (continued)

(vi) Embedded Derivatives

The market index options included in *ivari'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, 2018 was $1,846,063 (2017 - $1,934,760).

(b) Hedges for Segregated Funds

ivari 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 *ivari*'s hedge programs as at December 31.

	2018			2017		
	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
Equity futures	(113,202)	March 19	-	(91,372)	March 18	-
Foreign exchange forwards	45,160	March 19	(1,055)	32,145	March 18	500
Total	(68,042)		(1,055)	(59,227)		500

7. Other Assets

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

	2018	2017
Accounts receivable	59,384	82,351
Business loans	21,249	10,316
Advisor receivables	301	274
Property and equipment	4,083	2,397
Intangible assets	11,378	8,414
Prepaid expenses	54,459	46,960
Total	150,854	150,712

There were property and equipment write-downs of $104 and no write-downs of intangible assets during the year ended December 31, 2018 (2017 – nil and nil). None of the intangible assets have been pledged as security for liabilities or have titles that are restricted.

8. Insurance Contract Liabilities and Investment Contract Liabilities

(a) Nature of Insurance Contract Liabilities

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

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

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

The determination of gross insurance contract liabilities is based on an explicit projection of cash flows many years into the future with respect to policies in-force. To that purpose, best estimates of future experience are determined by the Approved 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 Approved Actuary using a cash flow valuation method in order to determine the appropriate provision for adverse deviations.

(b) Best Estimate Assumptions and Methodology

The methods of determining the material best estimate assumptions used 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 within defined groups of 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.

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

(b) Best Estimate Assumptions and Methodology (continued)

Mortality and Morbidity Assumptions (continued)

The effect on insurance contract liabilities of a 1% increase in future mortality and morbidity rates would be a reduction of approximately $9,200 (2017 - $9,700). The effect on insurance contract liabilities of a 1% decrease in future mortality and morbidity rates would be an increase of approximately $9,300 (2017 - $9,900).

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 net of reinsurance assets 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 $166,300 (2017 - $173,000).

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.

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

(b) Best Estimate Assumptions and Methodology (continued)

Investment Income Assumptions (continued)

The impact of an immediate 1% increase in the general level of interest rates would reduce the insurance contract liabilities, net of changes in unrealized gains on supporting assets, by approximately $173,900 (2017 - $151,200). 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 $214,400 (2017 - $185,100).

The impact of an immediate 10% increase in the general level of equity markets would be a decrease in insurance contract liabilities of approximately$122,400 (2017 - $87,800). Conversely, a 10% decrease in the general level of equity markets would result in an increase in insurance contract liabilities of approximately $123,400 (2017 - $90,600).

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 the 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 in force policies 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 gross insurance contract liabilities of a 10% increase in future expense levels would be approximately $16,500 (2017 - $17,300).

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.

(thousands of dollars)

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

(b) Best Estimate Assumptions and Methodology (continued)

Adjustable Policies

Expected reductions in 2019 in policy benefits on applicable adjustable policies are immaterial (2018 - immaterial) and have not been used to reduce the December 31, 2018 insurance contract liabilities.

Segregated Funds Hedge Program

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

(c) Insurance Contract Liabilities and Supporting Assets

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

	2018				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	7,931,202	3,336	341,936	-	8,276,474
Other insurance contract liabilities	79,698	30	-	-	79,728
Total insurance contract liabilities	8,010,900	3,366	341,936	-	8,356,202
Invested assets backing insurance contract liabilities	5,819,188	3,264	347,219	1,635,901	7,805,572
Reinsurance assets	2,424,598	58	-	-	2,424,656
Total assets backing insurance contract liabilities	8,243,786	3,322	347,219	1,635,901	10,230,228

	2017				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	8,038,507	3,727	358,189	-	8,400,423
Other insurance contract liabilities	104,241	28	-	-	104,269
Total insurance contract liabilities	8,142,748	3,755	358,189	-	8,504,692
Invested assets backing insurance contract liabilities	6,014,992	2,161	370,146	1,767,177	8,154,476
Reinsurance assets	2,440,251	37	-	-	2,440,288
Total assets backing insurance contract liabilities	8.455,243	2,198	370,146	1,767,177	10,594,764

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

(d) Reinsurance Assets

The carrying value of reinsurance assets is calculated as the difference between the carrying value of insurance contract liabilities before and after taking into account existing ceded reinsurance arrangements. This calculation uses the same assumptions and margins as described above and no provision is made for possible default of reinsurance payments. As at December 31, 2018, reinsurance assets were $2,424,656 (2017 - $2,440,288).

There were no impairments of reinsurance assets in 2018 (2017- nil).

(thousands of dollars)

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

(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.

	2018			
	Gross Insurance Contract Liabilities	Reinsurance Assets	Net	
Opening Balance	8,400,424	2,440,288	5,960,136	
Change in market value of supporting assets	(600,237)	(179,081)	(421,156)	
Change in in-force business and market economics	338,132	113,589	224,543	includes recapture of treaty with Wilton Reinsurance Bermuda Limited
Changes in methods and assumptions:				
Persistency and lapse	188,765	34,434	154,331	
Mortality and mortality improvement	(14,951)	3,334	(18,285)	
Expenses	(1,038)	122	(1,160)	
Update to economic assumptions	(53,669)	11,970	(65,639)	includes corporate bond rating changes
Methodology changes and model refinements	2,148	-	2,148	
Segregated funds – internal model calibration and hedging	16,900	-	16,900	
Total changes	(123,950)	(15,632)	(108,318)	
Closing balance	8,276,474	2,424,656	5,851,818	

(thousands of dollars)

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

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

	2017			
	Gross Insurance Contract Liabilities	Reinsurance Assets	Net	
Opening Balance	7,541,877	2,188,628	5,353,249	
Change in market value of supporting assets	420,365	124,219	296,146	
Change in balances on new and in-force business	323,878	115,660	208,217	
Changes in methods and assumptions:				
Persistency and lapse	64,482	53,209	11,274	
Mortality and morbidity improvement	9,512	(28,946)	38,459	includes changes to rates promulgated by the ASB
Expenses and premium taxes	4,579	(11,013)	15,592	
Reinvestment rates	21,631	(398)	22,029	changes to ultimate reinvestment rates promulgated by the ASB
Fund allocations	11,143	(1,020)	12,163	reflects more recent mix of investments from UL policyholders in guaranteed and variable funds
Methodology changes and model refinements	3,781	(50)	3,832	
Segregated funds – internal calibration	(825)	-	(825)	
Total changes	858,546	251,660	606,886	
Closing balance	8,400,424	2,440,288	5,960,136	

(f) Other Insurance Contract Liabilities

Other insurance contract liabilities are shown in the following table. The change in other insurance contract liabilities is included in gross premiums and in gross benefits and claims on the Company's consolidated statement of income (loss). The portion of reinsurance assets related to other insurance contract liabilities is $0 (2017 – nil).

	December 31, 2018	December 31, 2017
Premiums received in advance	2,709	2,749
Policyholder amounts on deposit	13,966	14,641
Outstanding claims and adjustment expenses	63,053	86,879
Total	79,728	104,269

(thousands of dollars)

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

(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 their contractually guaranteed interest rates. This determination of the liabilities is a very close approximation to the amortized cost using the effective interest rate method. Details of the changes in investment contract liabilities are provided below.

For the period ended	December 31, 2018	December 31, 2017
Opening balance	40,888	50,183
New business and renewal deposits	1,331	1,581
Interest	885	1,045
Withdrawals	(4,866)	(6,793)
Claim payments	(5,126)	(5,128)
Total net changes	(7,776)	(9,295)
Closing balance	33,112	40,888

9. Lease Commitments

ivari enters into operating leases for office space and certain equipment with lease terms up to fifteen years. The Company's head office lease was renewed in 2018 and now extends to April 2029. The majority of lease agreements for office space contain renewal and escalation clauses.

ivari made operating lease payments of $10,591 in 2018 (2017 - $10,678) and recognized sub-lease income of $2,144 (2017 - $2,397). The total future sub-lease payments expected to be received under non-cancellable sub-leases as at December 31, 2018 was $670 (2017 - $3,083).

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

	2018	2017
2018	-	8,360
2019	5,105	3,013
2020	3,498	362
2021	3,442	306
2022	3,335	204
2023	3,283	153
Thereafter	17,011	318
Total	35,674	12,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(thousands of dollars)

10. Other Liabilities

	December 31, 2018	December 31, 2017
Amount on deposit from reinsurers	881,540	862,800
Accounts payable and accrued liabilities	26,113	19,854
Income taxes payable	842	-
Retirement benefit plans	14,882	14,360
Other	21,102	18,907
Total	944,479	915,921

(a) Amounts on Deposit from Reinsurers

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

During 2018, *ivari* recognized an interest expense for the funds withheld under this reinsurance treaty of $71,647 (2017 - $69,989).

Repayments made in accordance with the schedule during 2018 totaled $52,907 (2017 - $48,659). The table below provides the prescribed repayments for each of the next 5 years and the total repayments for each 5 year period thereafter through the remaining term of the loan.

Year	Repayment Amount	Years	Repayment Amount	Years	Repayment Amount
2019	55,335	2024 – 2028	415,710	2054 – 2058	171,802
2020	60,012	2029 – 2033	424,676	2059 – 2063	79,094
2021	62,178	2034 – 2038	458,750	2064 – 2068	25,890
2022	66,532	2039 – 2043	428,235	2069 – 2073	5,920
2023	72,035	2044 – 2048	373,487	2074 – 2077	415
5 Year Total	316,092	2049 – 2053	277,416		

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 $881,540 as at December 31, 2018 (2017 - $862,800). For disclosure purposes only, *ivari* has estimated the loan's fair value to be $1,224,358 (2017 - $1,234,215) by present valuing the expected future repayments at 5.65% (2017 – 5.50%), an appropriate discount rate given the current interest rate environment and adjusting for specific factors including *ivari*'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 $107,264 if 5.00% was used and decreased by $52,193 if 6.00% was used.

10. Other Liabilities (continued)

(b) Retirement Benefit Plans

iHULC sponsors the retirement benefit plans and the post-retirement health benefit and post-employment disability plans (“post-employment benefits”) for *ivari* and CPL as well as Foresters Asset Management Inc. (“FAM”) prior to its sale on May 4, 2016. There are two retirement benefit plans, each consisting of a defined benefit and defined contribution component.

(i) Defined Contribution (“DC”) Components

Under the DC component of each plan, the participating employers are responsible for contributing a predetermined amount to the 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.

(ii) Defined Benefit (“DB”) Components and Post-Employment Benefits

The DB components of the plans include both contributory and non-contributory arrangements and are provided to a subset of *ivari* employees. Access to participate in the DB components of the plans for new entrants was closed in December 2000. Under these arrangements, pension benefits are based on the employee’s years of service and average annual earnings over a period of time prior to retirement. *ivari* makes contributions to these DB components and, under the contributory arrangements, its employees also contribute a percentage of their salary up to a yearly maximum. iHULC is responsible for ensuring the defined benefit components have sufficient assets to pay the pension benefits upon retirement of the employees.

The obligations for the defined benefit components as well as the current service cost are determined using the projected unit credit actuarial method. Current service cost is the increase in the present value of defined benefit obligations resulting from employees’ service in the current period and is determined by an actuarial calculation which uses management’s best estimate of expected plan investment returns, salary escalation, employee retirement ages and future health care costs. Actuarial gains and losses arise from the difference between actual and expected long-term rates of return on plan assets or from changes in actuarial assumptions used to determine the accrued benefit obligation and are recognized in other comprehensive income as re-measurement of defined benefit plans. The annual net benefit expense of each defined benefit component is the current service cost, net of interest expense on the accrued benefit obligation and expected interest income on plan assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(thousands of dollars)

10. Other Liabilities (continued)

(b) Retirement Benefit Plans (continued)

(ii) Defined Benefit and Post-employment Benefits (continued)

ivari also pays costs related to the post-employment benefits. The post-employment benefit liability represents the present value of expected benefit payments for employees disabled as at December 31.

- Plan Assets, Benefit Obligation and Funded Status, at December 31:

	2018			2017		
	Defined Benefit	Post-retirement & employment	Total	Defined Benefit	Post-retirement & employment	Total
Change in Plan Assets						
Fair value of assets, beginning of year	40,086	-	40,086	38,842	-	38,842
Employee contributions	23	-	23	39	-	39
Employer contributions	1,093	170	1,263	2,087	182	2,269
Interest income on plan assets	1,397	-	1,397	1,449	-	1,449
Non-investment expense	(50)	-	(50)	-	-	-
Actuarial gains (losses) on plan assets	(2,345)	-	(2,345)	763	-	763
Benefits paid	(1,341)	(170)	(1,511)	(3,094)	(182)	(3,276)
Fair Value of Assets, end of year	38,863	-	38,863	40,086	-	40,086
Change in Benefits Obligation						
Benefits obligation, beginning of year	50,316	3,924	54,240	50,124	5,465	55,589
Employer current service cost	811	60	871	841	107	948
Employee contributions	23	-	23	39	-	39
Interest on accrued benefit obligation	1,735	135	1,870	1,847	200	2,047
Recognition of post-employment liability for disabled employees	-	-	-	-	-	-
Actuarial losses (gains)	(1,681)	(30)	(1,711)	559	(1,666)	(1,107)
Benefits paid	(1,341)	(208)	(1,549)	(3,094)	(182)	(3,276)
Benefits Obligation, end of year	49,863	3,881	53,744	50,316	3,924	54,240
Retirement Benefits Asset (Liability)	(11,000)	(3,881)	(14,881)	(10,230)	(3,924)	(14,154)
Retirement Benefits Asset (Liability)						
- wholly or partially funded	(4,572)	-	(4,572)	(4,213)	-	(4,213)
- wholly unfunded	(6,428)	(3,881)	(10,309)	(6,017)	(3,924)	(9,941)
Retirement Benefits Asset (Liability)	(11,000)	(3,881)	(14,881)	(10,230)	(3,924)	(14,154)

- The mix, as a percentage, of the fair value of plan assets by asset type as at December 31 is as follows:

Asset category	December 31, 2018	December 31, 2017
Money Market	4	1
Fixed Income	54	50
Canadian Equities	25	32
Global Equities	17	17
Total	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018
(thousands of dollars)

10. Other Liabilities (continued)

(b) Retirement Benefit Plans (continued)

(ii) Defined Benefit and Post-employment Benefits (continued)

- Benefit Expense

	2018			2017		
	Defined Benefit	Post-retirement & employment	Total	Defined Benefit	Post-retirement & employment	Total
Current service cost	811	60	871	841	107	948
Past service cost	-	-	-	-	-	-
Interest cost on retirement benefit obligation	1,735	135	1,870	1,847	200	2,047
Interest income on plan assets	1,397	-	1,397	(1,449)	-	(1,449)
Recognition of post-employment liability for disabled employees	-	(60)	(60)	-	(60)	(60)
Net benefit expense	3,943	135	4,078	1,239	247	1,486

- Experience Gains (Losses)

	2018	2017
Experience gains (losses) on plan liabilities	(1,711)	(1,107)
Experience gains (losses) on plan assets	(2,345)	763
Re-measurement of Retirement Benefit Plans	(4,056)	(344)

- Measurement and Valuation

The benefit obligations and the fair value of plan assets for accounting purposes are measured as at December 31 each year. The latest actuarial valuation for funding purposes was performed as of January 1, 2018 and it was determined that iHULC would increase its service contribution in 2018.

(iii) DB Retirement Benefit Plan Expenses

	2018	2017
Net benefit expense from Note 10(b)(ii)	4,078	1,486
Retirement benefit plan administration expenses	406	360
Total	4,484	1,846

(iv) DC Retirement Benefit Plans

	2018	2017
Employer contributions	2,313	2,376
Administration expense	191	180
Total	2,504	2,556

(c) At December 31, 2018, *ivari* and iHULC had access to a bank line of credit of $20,000 (2017 - $20,000) and $4,000 (2017 - $4,000) respectively against which no funds had been drawn.

(thousands of dollars)

11. Capital Stock

At its incorporation on June 2, 2015, WRC authorized 312,370 common shares each with a par value of $1.00. The shares were issued and fully paid in cash on July 7, 2015.

12. Dividends and Contributed Surplus

A dividend of $125,000 (2017 - $923,000) was declared and paid during 2018 by WRC. WRC received no cash contributions in 2018 (2017 - $25,000) from its parent.

BMA and OSFI regulations include restrictions that limit the amount of dividends or other distributions available to shareholders without their prior approval.

13. Capital Management

The Company manages its capital in accordance with the 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 the BMA and OSFI to maintain consumer confidence as well as ratings with external rating agencies. The Company's Management engages the Board with regards to actions necessary to maintain appropriate capital levels.

WRC uses the BMA's prescribed formula for measuring capital under its Long-term Business Solvency Margin framework and its capital ratios exceeded the required minimum as at December 31, 2018 and December 31, 2017.

In addition, *ivari* and the Branch measure capital following OSFI's LICAT and LIMAT Guidelines respectively. At each quarterly reporting period, both *ivari* and the Branch ratios exceeded the supervisory targets.

14. Premiums

	2018	2017
Gross premiums		
Life		
Universal	544,022	519,030
Traditional	278,573	287,841
Single premium immediate annuities	1,436	560
Health	3,805	3,144
Total	827,836	810,575
Ceded premiums		
Life		
Universal	(186,797)	(178,043)
Traditional	(235,360)	(250,274)
Single premium immediate annuities	-	-
Health	(931)	(763)
Total	(423,088)	(429,080)
Net Premiums	404,748	381,495

(thousands of dollars)

15. Fee Income from Customers

(a) Fee income earned from the management of Segregated Fund assets consists of the following:

	December 31, 2018	December 31, 2017
Fee income related to insurance contracts	7,611	8,313
Fund management and other asset-based fees	22,458	24,818
Fund administrative fees	5,845	5,851
Total	35,914	38,982

(b) Contract balances

Timing differences between revenue recognition and cash collection of management fees result in a receivable balance of $569 as at December 31, 2018 (2017 - $252). Amounts due to the Company primarily consist of fees deducted from funds under management by the Company. Other than fund administration fees, amounts are generally billed and collected within a short period of time and are not subject to conditions other than the passage of time. Amounts collected as administration fees are limited to the related fund operating costs incurred by the Company and in the event a refund is required, it is recognized in the year to which it relates. The Company has no significant related contract liabilities.

16. 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 the Outstanding Claims Method. As a result, 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.

(thousands of dollars)

16. Gross and Ceded Policy Benefits and Claims (continued)

(b) Gross and Ceded Policy Benefits and Claims

	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Insurance contracts						
Life	536,774	379,236	157,538	551,348	386,658	164,690
Health	827	420	407	608	175	433
Subtotal	537,601	379,656	157,945	551,956	386,833	165,123
Investment contracts	(7)	-	(7)	3	-	3
Total	537,594	379,656	157,938	551,959	386,833	165,126

17. Marketing and Operating Expenses

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

	2018	2017
Personnel-related	65,995	67,033
Premises	13,574	12,870
Outsourced services and professional fees	12,424	7,544
Systems	7,063	6,685
External underwriting fees	7,857	6,852
Marketing and travel	3,028	3,329
Project-related external costs	6,154	7,917
All other	2,267	3,614
Total	118,362	115,845
Less: recoveries from other companies	481	1,985
Marketing and operating expenses	117,881	113,860

(b) Personnel-Related

	2018	2017
Salaries, bonuses and other short-term benefits	59,501	60,134
Pension and post-retirement costs	3,687	3,676
Long term incentive plans	1,841	1,253
Other	966	1,970
Total	65,995	67,033

(thousands of dollars)

18. Related Party Transactions

(a) Services Provided by or to Related Parties

Related Parties

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

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

(iii) WRC assumed reinsurance from an affiliate, Wilton Reinsurance Bermuda Limited ("WRBe"), in 2015 which was recaptured in 2018.

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

Additional Related Parties, Prior To April 1, 2017

(v) CRI Canada Ltd. ("CRI") had the same ultimate parent as the Company and receives administrative services from the Company. In addition, CRI provided distribution services for the Company's, especially CPL's, affinity business for which it earned commissions.

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

(b) Non-capital Transactions with Related Party Companies

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

		December 31, 2018		December 31, 2017	
Related Party	Nature of transaction	(Revenue) Expense	Amount due (to) from related party	(Revenue) Expense	Amount due (to) from related party
CRI	Operating expenses	-	-	413	-
	Commissions	-	-	766	-
WRL and other affiliates	Operating expenses	(15)	16	(14)	(72)
	Reinsurance assumed activities, net	(6,118)	-	3,459	(1,206)

(thousands of dollars)

18. Related Party Transactions (continued)

(c) Key Management Personnel

The Company's key management personnel are also considered related parties and consist of the Company's Board of Directors and certain members of the Company's senior management. The following table summarizes the related compensation paid during 2018.

	2018	2017
Salaries, bonuses and other short-term benefits	3,329	3,310
Pension and other post-employment benefits	489	445
Other long-term benefits	8	-
	3,826	3,754

19. Income Taxes

Under Canadian tax laws, each legal entity within the Company files separate tax returns on a non-consolidated basis. The tax notes that follow present combined total amounts.

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

	2018	2017
Current income taxes:		
Current taxes (recovery) on income in the year	10,997	(11,948)
Current taxes referring to previous periods[1]	279	(18,261)
	11,276	(30,209)
Deferred income taxes:		
Origination and reversal of temporary differences	(37,274)	(7,311)
Impact of change in tax rates	(316)	303
Deferred taxes referring to previous periods	(568)	5,269
	(38,158)	(1,739)
Income tax expense (recovery) reported in net income	(26,882)	(31,948)

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

(a) The statutory income tax rate for each legal entity is a combination of the federal rate and the provincial rates determined by the proportion of business carried on by each entity in a province or territory. The effective tax rate will differ from the statutory income tax rate based on certain adjustments. For 2018, adjustments for exempt investment income and a return of capital reduced the effective tax rate while capital taxes increased it. For 2018, the combined total effective tax rate was 36.80% (2017 – 73.62%).

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

	December 31, 2018	December 31, 2017
Net unrealized gains (losses) on AFS securities	(10,096)	13,500
Less: reclassification of losses (gains) on AFS securities to income	32	25
Total income tax expense (benefit) included in OCI	(10,064)	13,525

(thousands of dollars)

19. Income Taxes (continued)

(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, 2018	December 31, 2017
Insurance contract liabilities	-	-
Investment gains recognized in retained earnings	-	-
Other	5,951	5,035
Deferred Tax Asset	5,951	5,035
Insurance contract liabilities	(39,052)	(6,930)
Investment gains recognized in retained earnings	52,901	57,447
Other	(9,596)	(9,022)
Deferred Tax Liability	4,253	41,495
Net Deferred Tax Liability	1,698	36,460

(ii) Reconciliation of Net Deferred Tax Liability

	2018	2017
Opening balance	36,460	30,022
Remove Discontinued Operations	-	-
Restated Opening Balance	36,460	30,022
Deferred tax expense (benefit) during the year recognized in net income	(38,158)	6,438
Deferred tax income during the year included in equity	-	-
Closing balance	(1,698)	36,460

(d) The Company paid income taxes in the amount of $4,000 in 2018 (2017 - $21,248).

20. Gain On Sale and Discontinued Operations

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

	March 31, 2017
Net income	997
Gain on sale	83,489
Net Income and Gain on Sale from Canadian Premier Life and Legacy General Insurance Company classified as discontinued operations	84,486

(a) Gain on Sale

The Company received $173,990 in proceeds, net of $3,856 of transaction costs. At the time of close, the carrying value of CPL and LGIC was $84,938 WRC recognized a pre-tax gain on disposition of $91,611. In addition, WRC recorded $2,559 of income for gains previously recognized within AOCI and a deferred tax expense of $8,122 for a net gain on sale of $83,489.

(thousands of dollars)

21. Segregated Funds Net Assets and Net Liabilities

ivari 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 is as follows:

	2018		2017	
Type of Fund	Total	Percent	Total	Percent
Money market	21,536	1.82%	25,345	1.76%
Fixed income	80,465	6.79%	99,700	6.91%
Balanced	1,059,165	89.35%	1,289,598	89.38%
Equity	24,259	2.05%	28,130	1.95%
Subtotal	1,185,425	100.00%	1,442,773	100.00%
Less: Seed units invested by the Company	591		640	
Segregated Fund Net Assets	1,184,834		1,442,133	

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

Asset Class	Total	Percent
Cash and cash equivalents	3,072	0.26%
Short-term investments	73,751	6.22%
Equities	174,676	14.74%
Bonds	87,746	7.40%
Mutual funds	845,399	71.32%
Other assets	781	0.07%
Subtotal	1,185,425	100.00%
Less: Seed units invested by the Company	591	
Segregated Fund Net Assets	1,184,834	

22. Contingencies

The Company is subject to legal actions arising from the normal course of business. *ivari* 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.

23. Comparative Figures

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