Equitable Life of Canada®

Works for me.®

2017 ANNUAL REPORT

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ABOUT EQUITABLE LIFE OF CANADA

Canadians have turned to Equitable Life since 1920 to protect what matters most. We work with independent advisors across Canada to offer individual insurance, savings and retirement, and group benefits solutions to meet your needs.

Equitable Life is not your typical financial services company. We have the knowledge, experience and ability to find solutions that work for you. We're friendly, caring and interested in helping. The Company is owned by our participating policyholders, not shareholders, allowing us to focus on your interests and on providing you with personalized service, security and wellbeing.

Equitable Life is represented by independent advisors serving our policyholders. They are supported by more than 640 staff located at our Head Office in Waterloo and across Canada.

OUR COMMITMENT TO MUTUALITY

Equitable Life is proud to be one of Canada's largest mutual life insurance companies, meaning we are owned by our participating policyholders. Participating policyholders elect our Board of Directors and have a right to vote on various other Company matters.

We believe our mutual status best serves the long-term interests of all of our policyholders, participating and non-participating. We are not driven by shareholder pressures for quarterly results. Our mutual structure allows us to manage the Company with a focus on the long term, and on providing a high level of service at all times. We are able to offer continuity and stability and are dedicated to meeting our commitments to customers – now and in the future.

In addition, our mutual status has allowed us to prepare for and succeed in difficult market conditions. We have sufficient earnings and capital to meet our future growth targets, and we continue to grow steadily.

OUR HISTORY

Sydney Tweed started The Ontario Equitable Life and Accident Insurance Company in a second floor office in Waterloo, Ontario in November 1920. Within the first week, the Company had a solid footing with $300,000 of insurance in-force. By the end of the first year, the Company had more than $7 million of insurance in-force, a record unequalled by any Canadian life insurance company at that time.

A philosophy of growth and a commitment to our policyholders was instilled from the beginning. During the Great Depression the Company pioneered an inexpensive family income policy offering security to families during insecure times. In 1936 the Company name changed to The Equitable Life Insurance Company of Canada®, demonstrating the commitment to provide all Canadians with protection.

The following are some of Equitable Life's key milestones:

1963: Adopted a mutual ownership structure

1968: $1 billion of life insurance in-force

1999: $1 billion of assets under administration

2009: $50 billion of life insurance in-force

2016: $1 billion of premiums and deposits
$100 billion of life insurance in-force

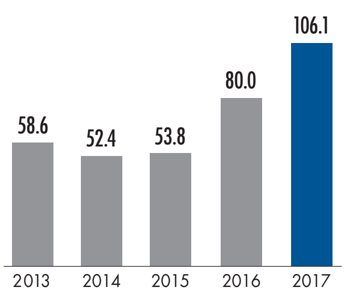
2017: $4 billion of assets under administration
$100 million of net income
$100 million of Individual sales

FIVE-YEAR REVIEW OF HIGHLIGHTS

As at December 31 (Dollar amounts in millions except where otherwise indicated)

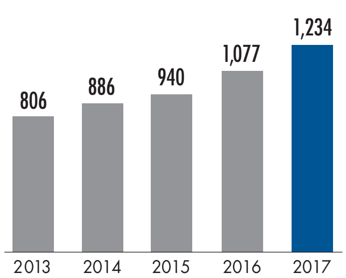
	2017	2016	2015	2014	2013
Net income	106.1	80.0	53.8	52.4	58.6
Return on policyholders' equity	16.8%	14.8%	11.4%	12.5%	16.1%
MCCSR ratio	231%	226%	216%	210%	228%
Participating policyholders' equity	686	580	500	446	394
Premiums and deposits					
Individual	496	409	352	312	276
Savings and Retirement	310	277	228	221	184
Group	428	391	360	353	346
Total premiums and deposits	1,234	1,077	940	886	806
Sales					
Individual	100.6	93.0	58.1	51.6	45.9
Savings and Retirement	311	278	230	223	185
Group	44.6	66.2	43.8	23.5	48.8
Assets (billions $)					
General fund	2.9	2.6	2.5	2.3	2.1
Segregated funds	1.2	1.1	1.0	1.0	0.9
Total assets under administration	4.1	3.7	3.5	3.3	3.0
Dividends to participating policyholders	27.2	20.6	17.9	15.6	13.0
Benefits and payments to policyholders	694	646	646	640	530
Life insurance in-force (billions $)	114.1	102.7	92.2	84.7	80.7

NET INCOME



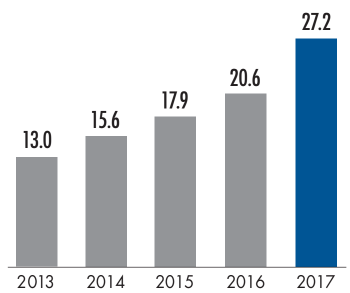
(Dollar amounts in millions)

PREMIUMS AND DEPOSITS



(Dollar amounts in millions)

DIVIDENDS TO PARTICIPATING POLICYHOLDERS



(Dollar amounts in millions)

MESSAGE TO POLICYHOLDERS

OUR STRATEGIC FOCUS

Equitable Life has established a strategic focus that includes:

- Delivering earnings consistent with a 12% return on policyholders' equity;
- Maintaining financial strength with a total Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio in excess of 200%;
- Increasing market share in all lines of business;
- Building out our product offering;
- Investing in technology to enhance service;
- Pursuing unit cost reductions, efficiency and scale; and
- Supporting our culture of employee engagement.

We are pleased to report that our strategy has served us well and the Company has delivered solid results against each of these objectives. We will maintain our focus on these priorities heading into the future.

OUR FINANCIAL RESULTS

Equitable Life had an outstanding year in 2017, surpassing previous records on almost all financial fronts and achieving several significant milestones over the course of the year.

Most notably, Equitable Life realized earnings of $106 million, an increase of 33% over last year's net income of $80 million, resulting in a return on policyholders' equity of 16.8%. These excellent results were driven by business growth, investment gains and positive claims experience. As in past years, Equitable Life's investment portfolio performed very well in 2017; a conservative approach continues to serve the Company, providing ongoing stability.

The Company also experienced exceptional growth, having achieved a new high of $1.2 billion for premiums and deposits and reaching $4.1 billion in assets under administration. Total life insurance in-force grew by 11% during the year to $114 billion, compared to $103 billion at the end of 2016.

In 2017, Equitable Life maintained a strong capital position, reporting a total Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 231%. As well, participating policyholders' equity, one of the key measures of a mutual life insurer's financial stability, increased by 18% to $686 million from $580 million at the end of 2016. We were proud to have received a Financial Strength Rating of "A" from DBRS Limited.

The Company issued a record $27.2 million in dividends to participating policyholders in 2017 and made benefit payments to policyholders of $694 million.

Equitable Life's Individual line of business experienced an outstanding year. Sales exceeded the previous year, reaching $101 million in new annualized premiums, up 8%. This growth was primarily due to increased sales of traditional participating whole life insurance, momentum generated from the January 1, 2017 policyholder tax change. The Individual line of business achieved net income of $71.2 million in 2017, achieved largely due to very strong sales results and positive investment experience from increasing equity markets. Earnings were also positively impacted by favourable claims and expense experience.

The Group Benefits line of business recorded sales of $45 million in 2017, down from $66 million in 2016. Lower sales in 2017 can be attributed to several factors including exiting the Creditor business, selling fewer large cases than the prior year and from the competitiveness in the market place. Group Benefits delivered earnings of $12 million in 2017 driven by good claims experience, retention of in-force business and favourable investment performance.

Savings and Retirement finished the year with record earnings of $6.7 million, and sales of $311 million, a 12% increase from 2016. These increases were driven by significant sales gains in our guaranteed interest account and segregated fund product lines, which allowed this line of business to eclipse $300 million in sales for the first time ever and increased our total Savings and Retirement assets under administration to a record $1.7 billion.

The Company's growth in sales has been driven by our ability to implement our strategic plan, placing a priority on products, service and execution. Our financial success reflects our continued commitment to profitable growth and our ability to navigate a changing regulatory and economic environment.

OUR PRODUCTS

A key tenet of our long-term strategy is to enhance and expand our product offering. In 2017, our Savings and Retirement line of business launched six new segregated funds. As well, our Individual line of business added a critical illness rider to our term and whole life products and raised the non-medical underwriting limits, making it easier for customers to obtain insurance coverage up to $500,000. Group Benefits emerged as a market leader in drug claims management, and invested in expanding anti-claim fraud capabilities with the aim of reducing costs that would otherwise be passed to clients.

OUR SERVICE

Every day, Equitable Life is focused on achieving operational excellence that allows us to meet our customers' needs. During a year with significant increases in sales volumes, all lines of business have remained keenly focused on meeting service standards and delivering on our customers' expectations. The Individual line of business expanded its distribution network and created a tax and estate planning function.

Our commitment to meeting customer needs has also been strengthened through our continued use of technology. In 2017, our Individual line of business launched enhancements to our web-based online application *EZ*Complete®, adding critical illness insurance as well as premium calculations and sales illustrations. For our Group Benefits clients, we have also delivered plan member web-site and mobile application improvements, and our Savings and Retirement line of business introduced improvements to our advisor and client portals.

In 2017, we also completed the migration to a two-site data centre model, which has Equitable Life operating two modern and resilient data centers that provide the core infrastructure to continue to grow our business.

INVESTING IN OUR PEOPLE AND OUR COMMUNITIES

At Equitable Life, we are committed to making the communities we serve better, healthier and more caring places to live. We demonstrated this in 2017 through many charitable efforts. With each initiative, our employees showed their commitment to giving back; they demonstrated generosity, donating both money and time to make our internal charitable campaigns a success, and to support countless other organizations in Kitchener-Waterloo and in communities across Canada.

Fostering an engaged workforce is one of our core values. Last year, we were proud to be named one of Waterloo Area's Top Employers for the tenth year in a row, and to have received the Platinum Award for workplace health for the second consecutive year from Waterloo Region, following four consecutive years as a Gold Award recipient.

Throughout 2017, our people demonstrated an unwavering drive and commitment to delivering against Company goals; it is only through these efforts that our accomplishments have been possible.

2017 Financial Highlights

- Net income of $106 million, for a return on policyholders' equity of 16.8%
- Capital strength, as measured by the total MCCSR ratio, ended the year at 231%
- Participating policyholders' equity increased to $686 million
- Premiums and deposits increased by 14.6% to $1.2 billion
- Record sales in Individual of $101 million, and Savings and Retirement of $311 million
- Assets under administration grew 11.0% to $4.1 billion
- Benefits and payments to policyholders of $694 million
- Dividends to participating policyholders increased by 32.5% to $27.2 million

A Look Ahead

We take great pride in the results we have achieved for 2017. Most key measures have greatly surpassed our previous results, delivering growth and stability that allows us to meet our commitments to all of our key stakeholders and, above all, to our policyholders.

With these achievements in mind, we look forward to the year ahead with confidence, focused on delivering profitable growth and financial stability.

Douglas S. Alexander, CPA, CA
Chairman of the Board

Ronald E. Beettam, FSA, FCIA
President and Chief Executive Officer

INVESTMENT OPERATIONS

FINANCIAL RESULTS

In 2017, total assets under administration reached $4.1 billion. General fund invested assets increased by $289 million to $2.9 billion in the year, and segregated funds increased $119 million to $1.2 billion.

Regular investment income of $77 million was consistent with 2016 as a result of higher income on asset growth offset by lower realized gains from asset sales, and foreign exchange losses. Foreign exchange losses are primarily offset by derivative market value changes and changes in contract liabilities. In 2017, positive market value changes contributed $89 million to total net investment income of $161 million while in 2016 market value changes contributed $40 million.

There were no impaired assets or assets in arrears in any of the portfolios, and investment operations continues to contribute positively to net income.

The Investment Division continues to focus on managing risk, taking into consideration industry and regulatory changes, while maintaining strong asset class and issuer diversification. There are no significant shifts expected in the investment mandate as a result of the new capital rules that will come into effect in 2018.

BONDS AND DEBENTURES

The bond and debenture portfolio increased to $1.2 billion in 2017 compared with $1.0 billion in 2016. The majority of the change was due to growth in assets under administration. The bonds and debenture portfolio represents 47% of total general fund managed assets. All of Equitable Life's bonds and debentures are rated investment grade.

EQUITIES

Equities supporting policyholders' funds in the Company's universal life products (linked equities) accounted for $412 million or 17% of total general fund managed assets.

The preferred share portfolio at the end of 2017 totaled $201 million, compared with $188 million at the end of 2016. The growth in preferred shares was attributable to changes in the market value of the portfolio. After significant declines in the market value of fixed reset preferred shares in 2016, the portfolio recovered most of the losses in 2017.

The direct equities portfolio includes public and private equities which totaled $126 million at the end of 2017 compared with $88 million at the end of 2016. Included within the direct equities portfolio is investment property fund units of $13 million.

MORTGAGES

The mortgage loan portfolio of $172 million in 2017, is slightly higher than 2016. Commercial mortgage loans represent 7% of total general fund managed assets, with 35% of the portfolio CMHC insured.

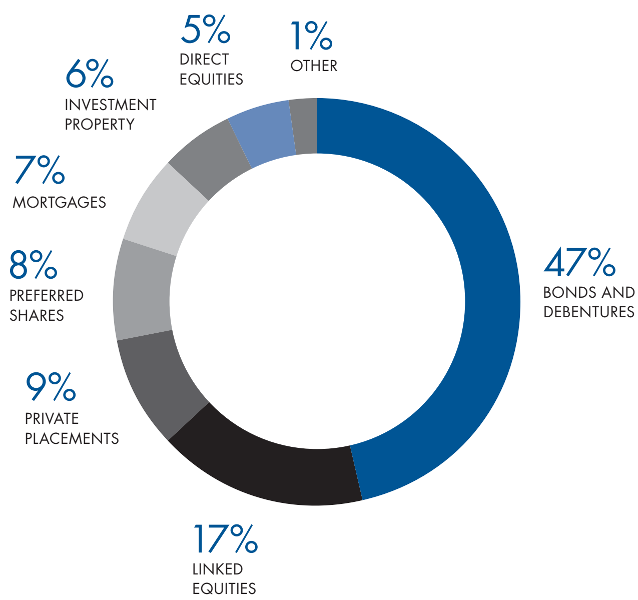
PRIVATE PLACEMENTS

Debt private placements at the end of 2017 totaled $226 million, compared with $207 million at the end of 2016. Private placements allow for sourcing of quality assets with higher yields and/or, better terms than are available in the public markets. The private placement portfolio is rated investment grade.

INVESTMENT PROPERTY

The investment property portfolio totaled $147 million at the end of 2017 compared with $133 million at the end of 2016. One new property was added to the portfolio in 2017. While fundamentals in the Canadian commercial real estate market were mixed, Equitable Life has a well-diversified portfolio and experienced solid appreciation and earnings over the year.

GENERAL FUND MANAGED ASSETS



SOURCE OF EARNINGS ANALYSIS

(Dollar amounts in thousands)

2017	Individual	Savings and Retirement	Group	Surplus	Total
Expected profit on in-force business	$ 25,481	$ 8,583	$ 11,060	$ —	$ 45,124
Impact of new business	41,345	(8,430)	—	—	32,915
Experience gains (losses)	22,889	8,892	5,390	—	37,171
Management actions and changes in assumptions	758	(1,637)	(412)	—	(1,291)
Earnings on operations	90,473	7,408	16,038	—	113,919
Earnings on surplus	—	—	—	21,052	21,052
Income before income taxes	90,473	7,408	16,038	21,052	134,971
Income taxes	19,240	675	4,062	4,901	28,878
Net income	$ 71,233	$ 6,733	$ 11,976	$ 16,151	$ 106,093

2016	Individual	Savings and Retirement	Group	Surplus	Total
Expected profit on in-force business	$ 22,152	$ 4,900	$ 9,396	$ —	$ 36,448
Impact of new business	41,460	(7,456)	816	—	34,820
Experience gains (losses)	16,069	8,407	(15,238)	—	9,238
Management actions and changes in assumptions	12,344	(8,126)	(5,050)	—	(832)
Earnings on operations	92,025	(2,275)	(10,076)	—	79,674
Earnings on surplus	—	—	—	21,359	21,359
Income before income taxes	92,025	(2,275)	(10,076)	21,359	101,033
Income taxes	20,725	(1,840)	(2,786)	4,975	21,074
Net income	$ 71,300	$ (435)	$ (7,290)	$ 16,384	$ 79,959

Expected profit on in-force business

The expected profit on in-force business represents the profit anticipated from business in-force if actual experience is in line with expected assumptions as to mortality, morbidity, lapse, investment returns and expenses.

Impact of new business

Profit (or loss) arises at issue for new insurance contracts. It represents the excess (or deficiency) of profit margins incorporated in the product pricing over the conservative margins for adverse deviation incorporated in the reserves. Profits in Individual were strong due to record sales, business mix and a continued favourable pricing environment. The impact of new business for Savings and Retirement is negative. This is primarily due to its relatively small size and hence lack of scale required to fully support the acquisition-related expenses allocated to the line of business.

The profit for new sales for Group business is not recognized at issue but over time and hence included with the expected profit on in-force business.

Experience gains (losses)

Experience gains or losses emerge when actual experience differs from the assumptions underlying the expected profit. Experience gains in Individual were due to favourable equity market performance, trading gains and favourable mortality experience. Savings and Retirement experience gains were primarily from favourable preferred share performance. Experience gains occurred in Group due to favourable claims experience and preferred shares performance.

Management actions and changes in assumptions

In 2017, there were a number of reserve assumption changes. Unfavourable lapse experience led to a reserve strengthening which was partially offset by favourable mortality, investment and expense experience in Individual. Savings and Retirement reserves were strengthened due to a change in the mortality improvement assumption. Overall, assumption changes strengthened reserves by $1.3 million. See also note 9 (d) to the financial statements.

Earnings on surplus

Earnings on surplus reflect the investment returns on assets supporting the Company's surplus.

CAPABILITY TO DELIVER RESULTS

Equitable Life maintains a strong financial position and adequate liquidity to ensure that it is well prepared to meet its obligations.

Capital

The Company is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI), which requires insurance companies to maintain minimum levels of capital calculated in accordance with the MCCSR. The MCCSR formula prescribes the calculation of available capital for regulatory purposes and the amounts of required capital to be maintained, based on the risk characteristics of the underlying assets and liabilities held by the Company. The ratio of available capital to required capital is the MCCSR ratio.

Equitable Life's ratio at December 31, 2017 was 231% as compared to 226% in 2016, which is well in excess of the minimum level required by OSFI. This ratio indicates a very strong capital position.

To assess capital adequacy and financial strength under adverse conditions, Dynamic Capital Adequacy Testing (DCAT) is performed on an annual basis. The DCAT process analyzes the Company's potential future financial condition over a five-year period by reviewing the impact of a number of adverse scenarios, including decreasing stock market levels, declining interest rates, decreasing real estate values, increased sales, adverse life insurance mortality, and decreasing stock market levels combined with lower interest rates. Testing in 2017 confirmed the Company's financial strength and ability to withstand adverse scenarios in the future.

Effective January 1, 2018 the Life Insurance Capital Adequacy Test (LICAT) guideline will replace the MCCSR guideline.

Source of funds

The primary source of funds for Equitable Life is cash provided by operating activities, including premiums, net investment income and fee income. These funds are used primarily to pay policyholder benefits and expenses. Net cash flows generated from operating activities are invested to support growth and future payment obligations.

Liquidity

Primary requirements for liquidity are for the payment of benefits and expenses as described above. The Company maintains a conservative liquidity position and actively manages the diversification, duration and credit quality of investments to ensure that the Company can meet its obligations.

RISK MANAGEMENT

A key corporate objective is to preserve and enhance policyholders' value at an acceptable level of risk. To manage the risks in its many business activities, the Company utilizes a comprehensive enterprise risk management framework that includes:

- identification and assessment of the risks,
- measurement, control and monitoring of risk, and
- regular reporting to Senior Management and to the Board of Directors (the Board).

The Board has overall responsibility for oversight of the Company's risk management framework, including approval of the Enterprise Risk Management Policy and overall risk appetite. The Board carries out its risk management mandate directly and through its five committees, as described further in the Corporate Governance section.

Management is responsible for identifying and managing risks in accordance with Company policies and controls. Management's Senior Risk and Capital Committee maintains the risk management framework, and has overall responsibility for monitoring risks. The Chief Risk Officer provides independent oversight of the Company's risk management framework, and completes an annual risk assessment for the Board. Internal Audit independently validates the effectiveness of risk management practices.

Discussion of the Company's key risks is in the following sections. Further disclosure on risk management, including quantifications, is included in note 5 to the financial statements.

MARKET AND CREDIT RISKS

Equitable Life acquires and manages portfolios of assets to produce investment returns in support of policyholder obligations and profitability. This exposes the Company to market and credit risks. Market risk includes equity risk, real estate risk, interest rate risk, and currency risk.

The Board annually approves investment and lending policies, as well as procedures and guidelines. The policies are designed to limit overall investment risk by defining eligible investments, diversification criteria, and limits with respect to asset exposures, concentration, and quality. Compliance with these policies, procedures and guidelines is monitored by the Senior Risk and Capital Committee and regularly reviewed with the Senior Credit and Investment Policy Committee of the Board.

Additional information on the risks associated with invested assets that the Company manages, monitors and controls are outlined below.

Equity risk

Equity risk is the potential for financial loss arising from declines in equity market prices. The Company derives a portion of its revenue from fee income generated by the segregated fund asset management business and from certain insurance contracts where fee income is levied on account balances that generally move in line with equity market levels. Accordingly, declines in the market value of such assets would result in corresponding reductions to fee income and net income. Declining and volatile equity markets may have a negative impact on sales and redemptions (surrenders) for this business, resulting in further adverse impacts on net income and the Company's financial position. In addition, segregated fund guarantee liabilities increase when equity markets decline. The Company also has direct exposure to equity markets from investments supporting general account liabilities and employee pension plans.

Additional information on equity risk is described in note 5 (b) to the financial statements.

Real estate risk

Real estate risk is the potential for financial loss arising from declines in real estate values and potential lease defaults. The Company has direct exposure to real estate from investments supporting general account liabilities.

Additional information on real estate risk is described in note 5 (b) to the financial statements.

Interest rate risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the assets and liabilities. For asset/liability management purposes, the general fund is divided into segments based on the characteristics of the liabilities the segment supports. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure, asset default and pace of asset acquisition are quantified and reviewed regularly.

Derivative products are used primarily to hedge imbalances in asset and liability positions. They may include interest rate and credit swaps, options, futures and forward contracts. Derivative products are only traded with counterparties approved by the Senior Credit and Investment Policy Committee of the Board or the Board itself.

Additional information on interest rate risk is described in notes 5 (b) and 9 b) to the financial statements.

Currency risk

Currency risk is the potential for financial loss arising from changes in foreign exchange rates. The Company minimizes currency risk as liabilities are generally matched with assets of the same currency. Cross-currency derivative contracts are used when a currency mismatch exists between an investment and a liability.

Additional information on currency risk is described in note 5 (b) to the financial statements.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due. Equitable Life's policy is to acquire primarily investment-grade assets and minimize undue concentration of assets in any single geographic area, industry or company. Investment guidelines specify minimum and maximum limits for each asset class and any individual issuer. Portfolio risk and the marginal risk contribution for each asset are evaluated using industry standard simulation techniques. Credit risk for bonds, equities, and mortgages is determined by recognized external credit rating agencies and/or internal credit reviews. These portfolios are monitored continuously and reviewed regularly with the Senior Credit and Investment Policy Committee of the Board or the Board itself.

Credit exposure also exists under reinsurance contracts. Products with mortality and morbidity risks have specific limits for the Company's risk retention approved by the Board. These limits are reviewed and updated from time to time. The financial soundness of companies to which the Company has ceded risk is monitored regularly.

Additional information on credit risk is described in note 5 (a) to the financial statements.

INSURANCE RISK

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. The risks vary depending on the product. Products are priced for target levels of return and as experience unfolds, pricing assumptions are validated and profits emerge in each accounting period. Policy liabilities reflect reasonable expectations about future experience, together with a margin. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires periodic updating of assumptions to reflect emerging experience. In this way, the statement of financial position reflects the current outlook for future policyholder obligations.

The Board approves policies with respect to product design and pricing and the use of reinsurance. These policies define approval processes, risk limits and reporting responsibilities. Management is responsible for ensuring compliance with these policies and establishing standards for underwriting and claims processes. The Appointed Actuary is required to value the policy liabilities and report annually on the financial condition of the Company. The Audit Committee and the Board review the work of the Appointed Actuary.

Insurance risks associated with the Company's products are outlined below.

Mortality and morbidity risk

Many of the Company's products provide benefits in the event of death (mortality) or benefits that depend on the policyholder's survival (longevity). Benefits due to disabling conditions, medical and dental costs (morbidity) are also important product features. Research and analysis is ongoing to provide the basis for pricing and valuation assumptions, which properly reflect the markets where the Company is actively doing business. These risks are actively managed through underwriting, retention limits, reinsurance, and claims management.

Lapse (policy termination) risk

Products are priced and valued to reflect the future expected lapse rates of contracts. The risk of higher lapses is important for expense recovery (higher costs are incurred in early contract years) and for products where the surrender benefits exceed actuarial reserves. The risk of lower lapses adversely affects income for products where reserves are higher than surrender benefits. Annual research studies support pricing and valuation assumptions for lapse experience.

Additional information on these risks is described in notes 9 (a) and (b) to the financial statements.

OPERATIONAL RISK

Operational risk arises from problems in the performance of business functions including deficiencies or breakdowns in internal controls or processes, most often due to technology failures, human error or dishonesty, and natural catastrophes.

To manage operational risk, there are policies and guidelines in place to help identify operational risks and ensure they are effectively mitigated. Management is responsible for identifying risks and managing them in accordance with Company policies, processes and controls. Operational risk exposures are monitored by management and the Senior Risk and Capital Committee. The Chief Risk Officer completes an annual review of operational risk exposures, which is discussed with management and the Board.

Management and the Human Resources department also seek to ensure that effective people are placed in key positions. Ongoing training through internal and external programs prepares staff at all levels for the responsibilities of their positions.

Key operational risks are described below.

Data security and privacy risk

Data security and privacy risk is the risk of theft or loss of Company or customer data through an external or internal breach. To mitigate this risk, a formal information security program focused on protection of Company systems, and detection of and response to security incidents is in place. An ongoing systems renewal and upgrade program is in place to ensure security upgrades are regularly deployed. There is regular staff education to ensure compliance with privacy and security policies, and promote awareness of cyber threats.

Market conduct risk

Market conduct risk relates to inappropriate sales practices within the independent advisor distribution channel. This includes misleading sales practices and fraudulent activities. To mitigate this risk, the Company has extensive monitoring of advisor activity in place.

Process error risk

Unexpected errors in the Company's business processes may have a material earnings or reputational impact. This includes risks arising from significant change management initiatives such as business process changes and major system implementations. A formal project management framework is used to mitigate this risk. Business areas are responsible for ensuring effective internal controls are in place.

Business continuity risk

Business continuity risk is the risk of an unexpected interruption of the business due to inaccessibility to key systems, loss of key staff, or inaccessibility to the head office building. The Company has a formal business continuity plan, with regular testing of recovery plans.

Regulatory compliance

Equitable Life's business operations involve a wide variety of activities that are subject to regulation. These activities include product design, sales and marketing practices, underwriting practices, financial reporting, employment practices, and employee conduct.

The Company's compliance management program is designed to facilitate and monitor compliance functions, providing assurance to management and the Corporate Governance, Compliance and Nominating Committee that all statutory and regulatory obligations are met. The program promotes awareness of legal and regulatory risks that affect the business and the status of compliance with laws and regulations. The program is supported by a reporting process that establishes accountability for compliance throughout the organization.

STRATEGIC RISK

Strategic risk arises from unexpected changes in key elements of the Company's business strategy as a result of changes in the external environment. The Company has a well-established planning process from which it determines strategic direction and business objectives. Plans and objectives are carefully monitored to ensure their implementation and effectiveness.

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management, who is responsible for their integrity, objectivity and reliability. The accounting policies utilized are appropriate in the circumstances and fairly reflect the financial position, results of operations, and cash flows of the Company within reasonable limits of materiality. Management is responsible for ensuring that the annual report information is consistent with these consolidated financial statements.

Management has established and maintains a system of internal controls that provides reasonable assurance that financial records are complete and accurate, assets are safeguarded and the organizational structure provides for effective segregation of responsibilities. The Company's Internal Audit department and Chief Compliance Officer monitor the systems of internal control for compliance. The control environment is enhanced by the selection and training of competent management, and a code of conduct policy adhered to by all employees.

The Board of Directors oversees management's responsibilities for financial reporting and has ultimate responsibility for reviewing and approving the consolidated financial statements.

The Board of Directors is assisted in its responsibilities for these consolidated financial statements by its Audit Committee. This Committee consists of independent, outside directors not involved in the daily operations of the Company. The function of this Committee is to:

- review and recommend approval to the Board of Directors of all financial statements,
- review and assess the Company's risk management processes,
- review the Company's internal audit and financial control systems,
- meet separately in camera with the internal and external auditors, the Chief Risk Officer and the Appointed Actuary,
- recommend the nomination of the external auditors to the Board of Directors and approve their fee arrangements, and
- review other accounting and financial matters as required.

In carrying out this function, the Committee meets with management and both the external and internal auditors to approve the scope and timing of the respective audits, to review the findings, and to satisfy itself that the audit responsibilities have been properly discharged.

The Appointed Actuary is named by the Board of Directors pursuant to Section 165 of the Insurance Companies Act to carry out an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice in Canada for the purpose of issuing reports to the policyholders and to the Superintendent of Financial Institutions Canada. The Appointed Actuary's report appears with these consolidated financial statements. KPMG LLP have been appointed external auditors pursuant to Section 337 of the Insurance Companies Act to report to the policyholders and to the Superintendent of Financial Institutions Canada regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual financial statements. Their report appears with these consolidated financial statements.

The Office of the Superintendent of Financial Institutions Canada performs regular examinations on the affairs of the Company. Statutory reports are filed with insurance regulatory authorities in various jurisdictions and facilitate further review of operating results and enquiry by regulatory authorities.

Ron Beettam

Ronald E. Beettam, FSA, FCIA
President and Chief Executive Officer

SHart

Sheila Hart, FSA, FCIA
Senior Vice-President and Chief Financial Officer

Waterloo, Ontario, February 13, 2018

APPOINTED ACTUARY'S REPORT TO THE POLICYHOLDERS

To the policyholders of The Equitable Life Insurance Company of Canada:

I have valued the policy liabilities and reinsurance assets of The Equitable Life Insurance Company of Canada for its Consolidated Statements of Financial Position at December 31, 2017, and their changes in the Consolidated Statements of Operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Phil K Watson

Phillip K. Watson, Fellow, Canadian Institute of Actuaries
Vice-President & Appointed Actuary
Waterloo, Ontario, February 13, 2018

INDEPENDENT AUDITORS' REPORT

To the Policyholders

We have audited the accompanying consolidated financial statements of The Equitable Life Insurance Company of Canada, which comprise the Consolidated Statements of Financial Position and Statements of Segregated Funds Financial Position as at December 31, 2017 and December 31, 2016, the Consolidated Statements of Operations, Comprehensive Income, Changes in Equity and Cash Flows and Changes in Segregated Funds Financial Position for the years ended December 31, 2017 and December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Equitable Life Insurance Company of Canada as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Waterloo, Canada, February 13, 2018

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31	(thousands of dollars)	
	2017	2016
REVENUES		
Gross premiums	$ 903,639	$ 795,144
Premiums ceded to reinsurers	(140,063)	(136,463)
Net premiums	763,576	658,681
Regular investment income	77,363	78,774
Change in fair value through profit or loss	86,978	34,049
Change in fair value of investment property	2,438	5,215
Investment expenses	(5,549)	(5,632)
Net investment income (note 4)	161,230	112,406
Fee income	38,550	34,725
	963,356	805,812
BENEFITS AND EXPENSES		
Death and disability benefits	154,561	146,111
Health insurance benefits	190,094	174,544
Maturity and surrender benefits	48,426	48,916
Annuity payments	28,694	27,751
Interest on amounts on deposit	438	444
Dividends to participating policyholders	27,241	20,567
Claims ceded to reinsurers	(89,677)	(82,335)
	359,777	335,998
Net transfers to segregated funds	99	866
Gross change in contract liabilities	154,770	66,176
Change in contract liabilities ceded to reinsurers	10,046	18,249
Net change in contract liabilities	164,816	84,425
Commissions	181,047	171,697
General expenses	104,518	97,513
Premium and investment income taxes	19,618	15,571
Reinsurance premium tax recovery	(2,914)	(2,816)
Financing expenses	1,424	1,525
	828,385	704,779
Income before income taxes	134,971	101,033
Income taxes (note 11)	28,878	21,074
Net income	$ 106,093	$ 79,959

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31		(thousands of dollars)
	2017	2016
Net income	$ 106,093	$ 79,959
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale assets	5,163	(699)
Reclassifications to net income for available-for-sale assets	(356)	(3,640)
Remeasurement of pension and other post-employment plans	(1,546)	1,141
Income tax (expense) recovery (note 11)	(864)	1,603
Total other comprehensive income (loss)	2,397	(1,595)
Total comprehensive income	$ 108,490	$ 78,364

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(thousands of dollars)

	Participating Policyholders' Equity	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2015	$ 500,233	$ (1,345)	$ 498,888
Net income	79,959	–	79,959
Other comprehensive income (loss)	–	(1,595)	(1,595)
Balance as at December 31, 2016	$ 580,192	$ (2,940)	$ 577,252
Net income	106,093	–	106,093
Other comprehensive income (loss)	–	2,397	2,397
Balance as at December 31, 2017	$ 686,285	$ (543)	$ 685,742

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

The balance of accumulated other comprehensive income at end of year consists of unrealized gains (losses) on available-for-sale assets and remeasurements related to employee future benefits, net of applicable income taxes of $57 (2016 – $921). All accumulated other comprehensive income is attributed to participating policyholders' equity.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31		(thousands of dollars)
	2017	2016
ASSETS		
Cash, cash equivalents and short-term investments	$ 26,930	$ 14,185
Bonds and debentures	1,164,952	1,026,020
Equities	739,437	641,222
Mortgages	171,785	170,778
Private placements	225,815	206,569
Seed capital – segregated funds	885	2,994
Derivatives	22,657	23,328
Loans to policyholders	67,508	60,678
Investment property	147,416	132,700
Total invested assets (note 4)	2,567,385	2,278,474
Accrued investment income	11,135	10,054
Reinsurers' share of insurance contract liabilities (note 9)	272,719	282,765
Other assets (note 6)	39,399	33,238
Property, plant and equipment (note 7)	19,077	16,545
Total general fund assets	2,909,715	2,621,076
Segregated funds assets	1,197,868	1,079,015
Total assets	$ 4,107,583	$ 3,700,091
LIABILITIES		
Insurance contract liabilities (note 9)	$ 1,976,462	$ 1,821,425
Other contract liabilities (note 9)	130,577	114,046
Derivatives	5,823	8,077
Other liabilities	57,306	52,625
Taxes payable	25,104	18,653
Deferred income taxes (note 11)	8,360	7,596
Mortgage loans (note 10)	3,341	4,614
Subordinated debentures (note 12)	17,000	16,788
Total general fund liabilities	2,223,973	2,043,824
Segregated funds liabilities	1,197,868	1,079,015
Total liabilities	3,421,841	3,122,839
POLICYHOLDERS' EQUITY		
Participating policyholders' equity	686,285	580,192
Accumulated other comprehensive income (loss)	(543)	(2,940)
	685,742	577,252
Total liabilities and policyholders' equity	$ 4,107,583	$ 3,700,091

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

On behalf of the Board

Douglas S. Alexander, CPA, CA
Chairman of the Board

Ronald E. Beettam, FSA, FCIA
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31	(thousands of dollars)	
	2017	2016
OPERATING CASH INFLOWS		
Premiums received	$ 769,180	$ 673,361
Interest income received	47,083	44,308
Dividend income received	14,923	16,714
Investment property income received	6,990	6,377
Fee income received	38,550	34,725
	876,726	775,485
OPERATING CASH OUTFLOWS		
Benefit and annuity payments	333,333	311,918
Dividends paid to policyholders	21,642	18,303
Operating expenses	286,358	273,418
Income, premium and other taxes	39,231	19,422
Financing expenses	1,212	1,367
	681,776	624,428
Cash provided by operating activities	194,950	151,057
INVESTING CASH INFLOWS (OUTFLOWS)		
Purchase of investments	(549,351)	(624,142)
Proceeds from sale of investments	379,265	488,113
Other	(10,846)	(9,536)
Cash used in investing activities	(180,932)	(145,565)
FINANCING CASH OUTFLOWS		
Mortgage loans and other	(1,273)	(9,945)
Cash used in financing activities	(1,273)	(9,945)
Increase (decrease) in cash during the year	12,745	(4,453)
Cash, cash equivalents and short-term investments - beginning of year	14,185	18,638
Cash, cash equivalents and short-term investments - end of year	$ 26,930	$ 14,185

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

SEGREGATED FUNDS STATEMENTS OF FINANCIAL POSITION

As at December 31	(thousands of dollars)	
	2017	2016
ASSETS		
Mutual/pooled units	$ 1,064,519	$1,002,102
Cash and short-term investments	17,872	23,475
Bonds and debentures	113,335	53,575
Private placements	4,886	4,440
Investment property fund	7,721	7,584
Other assets	1,084	712
Total segregated funds net assets	$ 1,209,417	$1,091,888
COMPOSITION OF SEGREGATED FUNDS NET ASSETS		
Held by contractholders (note 16(a))	$ 1,197,868	$1,079,015
Held by the Company	11,549	12,873
Total segregated funds net assets	$ 1,209,417	$1,091,888

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

STATEMENTS OF CHANGES IN SEGREGATED FUNDS FINANCIAL POSITION

For the years ended December 31	(thousands of dollars)	
	2017	2016
Net assets - beginning of year	$ 1,091,888	$1,012,694
Additions to (deductions from) assets:		
Amounts received from contractholders	224,835	196,561
Net transfers from general fund	99	866
Amounts withdrawn by contractholders	(178,969)	(161,637)
Net contributions by contractholders	45,965	35,790
Interest and dividends	23,085	22,600
Net realized gains	42,506	25,957
Unrealized investment gains (losses)	37,644	23,687
Net investment income	103,235	72,244
Management fees and other operating costs	(31,671)	(28,840)
Net assets - end of year	$ 1,209,417	$1,091,888

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Equitable Life Insurance Company of Canada is a mutual company domiciled in Canada and incorporated under the Insurance Companies Act (Canada). Together with its subsidiaries (collectively, "the Company"), it operates in the life insurance industry. Operations cover the development, marketing, and servicing of life, health and annuity business to individuals and groups and the management of investments including segregated funds. The head office is located at One Westmount Road North, Waterloo, Ontario, Canada.

The publication of these audited financial statements was approved by the Company's Board of Directors on February 13, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The consolidated financial statements have been prepared on the fair value basis except for the following significant items in the Consolidated Statements of Financial Position:

- mortgages,
- private placements,
- loans to policyholders,
- property, plant and equipment,
- reinsurers' share of insurance contract liabilities,
- insurance contract and other contract liabilities,
- current and deferred taxes,
- mortgage loans, and
- subordinated debentures.

(a) Critical estimates, assumptions and judgments

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Areas of significant accounting estimates and assumptions include valuation of insurance and investment contract liabilities, determination of fair value of financial instruments, impairment of financial instruments, provisions and liabilities for pension plans and other post-employment benefits and provision for income taxes.

Management has applied judgments in the classification of insurance and investment contracts and financial instruments within the financial statements. In addition, the financial statements required management's judgment in accounting for the level of componentization of property, plant and equipment.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies for the reporting period ended December 31 for each period presented. Subsidiaries are entities controlled by the Company.

(c) Invested assets

Invested assets are accounted for on the following bases:

Cash, cash equivalents and short-term investments

Cash equivalents consist of investments with a term to maturity of less than three months. Short-term investments consist of investments with a term to maturity exceeding three months but less than one year.

Bonds and debentures

Bonds are designated as either fair value through profit or loss or available-for-sale. Purchases and sales of bonds are recognized or derecognized in the Consolidated Statements of Financial Position on their settlement dates.

Fair value through profit or loss ("FVTPL"):

FVTPL bonds are recorded in the Consolidated Statements of Financial Position at fair value, with changes in fair value recorded to the change in fair value through profit or loss in the Consolidated Statements of Operations. Interest income earned on FVTPL bonds is recorded as other net investment income. Transaction costs related to the purchase of these bonds are recognized immediately in net income.

Available-for-sale ("AFS"):

AFS bonds are recorded at fair value with changes in the fair value of these bonds recorded to unrealized gains and losses in other comprehensive income ("OCI"). Realized gains and losses on the sale of AFS bonds are reclassified from accumulated OCI and recorded as realized gains (losses) in the Consolidated Statements of Operations. Interest income earned is recorded to other net investment income. Transaction costs related to the purchase of these bonds are recorded as part of the carrying value of the bond at the date of purchase.

AFS bonds are tested for impairment at least on a quarterly basis. When there is objective evidence that an AFS bond is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to other net investment income. Impairment is reversed only if the conditions that caused the impairment no longer exist. Reversals of impairment charges are only recognized to the extent that increases in fair value can be attributed to events subsequent to the impairment loss being recorded. If, in a subsequent period, the fair value of an impaired security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in income, then the impairment loss is reversed, with the amount of the reversal recognized in income.

Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI, and tested for further impairment quarterly. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal.

Equities

Equities are designated as either FVTPL or AFS. Equity investment transactions are recognized or derecognized in the Consolidated Statements of Financial Position on their settlement dates.

Certain universal life insurance products permit a policyholder to deposit amounts in one or more linked accounts which are credited or debited interest at least equal to the performance of the relevant fund or index. To support this liability, the Company normally simulates these investment returns by the use of derivative financial instruments or by investing in the same or similar equity investments. These shares, mutual funds and derivative financial instruments are accounted for at market value in order to match the market value of the liability.

FVTPL equities are recorded in the Consolidated Statements of Financial Position at fair value, with changes in fair value recorded to the change in fair value through profit or loss in the Consolidated Statements of Operations. Dividends received are recorded as other net investment income. Transaction costs related to the purchase of these equities are recognized immediately in net income.

AFS equities are recorded in the Consolidated Statements of Financial Position at their fair values with changes in the fair value of these equities recorded to unrealized gains and losses in OCI. Realized gains and losses on the sale of AFS equities are reclassified from accumulated OCI and recorded as realized gains and losses in the Consolidated Statements of Operations. Dividends received are recorded to other net investment income. Transaction costs related to the purchase of these equities are recorded as part of the carrying value of the equity at the date of purchase.

AFS equities are tested for impairment at least on a quarterly basis. The accounting for other-than-temporarily impaired equities is the same as described previously for bonds. Objective evidence of impairment for equities include a significant or prolonged decline in fair value of the equity below cost or changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying value will not recover. Impairment testing for fixed reset preferred shares uses the debt model.

Mortgages

Mortgages are classified as loans and receivables and carried at their amortized cost. Realized gains and losses on the sale of mortgages as well as interest income earned, are recorded in other net investment income in the Consolidated Statements of Operations. Transaction costs related to the purchase of mortgages are expensed when incurred. Provisions for potential losses on mortgages in arrears and in the process of realization are recognized immediately as a charge for loan impairment.

The investment in restructured impaired loans is reduced as at the restructuring date to an amount which does not exceed the estimated realizable value under the modified loan terms. Any write-off is recognized immediately as a charge for loan impairment. When collection of the scheduled future cash flows in accordance with the modified loan terms is reasonably assured, interest income is recognized at the effective interest rate inherent in the loan at the time it was initially recognized as being impaired.

Private placements

Private placements are classified as loans and receivables and carried at amortized cost. Realized gains and losses on the sale of private placements as well as interest income earned, are recorded in other net investment income in the Consolidated Statements of Operations. Transaction costs related to the purchase of private placements are recorded as part of the carrying value of the private placement at the date of purchase. Provisions for potential losses on private placements in arrears, and in the process of realization, are recognized immediately as a charge for loan impairment.

Derivatives

Derivative investments are recorded in the Consolidated Statements of Financial Position at fair value with changes in fair value recorded to change in fair value through profit or loss in the Consolidated Statements of Operations. Income earned on these derivatives, such as interest income, is recorded to other net investment income. Derivatives with a positive fair value are recorded as derivative assets while derivatives with a negative fair value are recorded as derivative liabilities.

Loans to policyholders

Loans to policyholders are classified as loans and receivables and are carried at their unpaid balances, fully secured by the cash surrender value of policies on which the respective loans are made.

Investment property

Investment properties are real estate held to earn rental income and are not owner-occupied. Investment properties are initially recognized at transaction price including transaction costs. These properties are subsequently measured at fair value in the Consolidated Statements of Financial Position with changes in fair values recorded to the change in fair value on investment property in the Consolidated Statements of Operations. Fair value is supported by market evidence, as assessed by qualified appraisers. All assets are appraised by an external appraiser at least once every three years and reviewed quarterly for material changes. Rental income from investment properties is recorded to other net investment income on a linear basis over the term of the lease.

Securities Lending

The Company engages in securities lending to generate additional income. The Company's securities custodian is used as the lending agent. Loaned securities are not derecognized, and continue to be reported within invested assets, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities.

(d) Provisions for asset defaults

Asset default provisions include principal, interest, and collection expenses for all invested assets. The provisions are management's best estimates based on such factors as past trends and current experience, forecasts of future market conditions, surveys of specific markets and inspections of properties on which the Company has provided mortgage loans. Provisions are established where, in the opinion of management, there is reasonable doubt concerning the repayment of principal amounts. Further, where there is reasonable doubt concerning the receipt of interest and, in all cases where interest is 90 days past due, interest ceases to be accrued and interest previously accrued is reversed.

The provisions consist of: (i) provisions against specific assets for the current year which are deducted from the related assets and (ii) a provision which is the present value of estimated expected future asset default losses reported as a component of actuarial policy liabilities, including an amount as a provision for adverse deviations.

When a loan is identified as impaired, the carrying value of the investment is reduced to the estimated realizable amount and a charge is included in income immediately. Subsequent payments are recorded in interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required; otherwise, they are recorded as a reduction in principal.

Impairment of a loan is recognized by full or partial write-off of the recorded investment in the loan. Establishment of an allowance for loan impairment or partial write-off supplemented by an allowance. Loan impairment is assessed on an individual loan basis.

(e) Property, plant and equipment

Owner-occupied property and all other items classified as property, plant and equipment are carried at historical cost less accumulated depreciation and impairment. Depreciation of property and equipment, excluding land which is not depreciated, is calculated using a straight-line method and amortized over their estimated useful lives as follows:

Owner-occupied properties	20 – 40 years
Furniture and fixtures	5 – 10 years
Equipment	3 – 5 years

(f) Contract classification

The Company's products are classified at contract inception, for accounting purposes, as insurance, service or investment contracts depending on the existence of significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder, where the amount and timing is unknown. When significant insurance risk exists the contract is accounted for as an insurance contract. In the absence of significant insurance risk, the contract is classified as an investment contract or a service contract.

(g) Insurance contract liabilities

Insurance contract liabilities are determined using accepted actuarial practices as established by the Actuarial Standards Board (ASB), using the Canadian Asset Liability Method ("CALM"). Insurance contract liabilities, net of reinsurance assets, represent an estimate of the amount which, together with estimated future premiums and investment income, will be sufficient to pay outstanding claims and future benefits, projected dividends, expenses and taxes on policies in-force.

Best estimate reserve assumptions are made for the lifetime of the policies and include assumptions related to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. To recognize the uncertainty that is involved in establishing these best estimate reserve assumptions, the Appointed Actuary is required to include a margin in each assumption to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities are adequate to pay future benefits. The impact of these margins is to increase actuarial liabilities and decrease the income that is recognized at inception of the policy.

A range of allowable margins is prescribed by the ASB. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent that they are not required to cover adverse experience. If estimates of future conditions change throughout the life of a policy, the present value of those changes is recognized in income immediately. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that such actuarial liabilities will be adequate to meet the Company's future obligations under insurance contracts at each valuation date. Assumptions are regularly reviewed and updated where appropriate.

The reinsurance asset represents the benefit derived from reinsurance arrangements in-force at the statement of financial position date. The reinsurance asset is measured on the same basis as the amounts associated with the insurance contracts and in accordance with the terms of each reinsurance contract.

Gross premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due.

(h) Investment contract liabilities

Investment contract liabilities are financial liabilities that transfer financial risk from the contract holder to the Company. These amounts are carried at fair value. Changes in the fair value of investment contract liabilities are recorded as a change in policy liabilities. Deposits collected from and payments made to contractholders are recorded as an increase and decrease in the investment contract liabilities. Investment contract liabilities are included in other contract liabilities.

(i) Income taxes

The Company provides for income taxes using the liability method of tax accounting. Current income tax expense represents the expected payable resulting from the current year's operations. Deferred income tax expense represents the tax effect of the movement during the year in the cumulative temporary differences between the carrying value of the Company's assets and liabilities in the Consolidated Statements of Financial Position and their values for tax purposes.

The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the dates of the Consolidated Statements of Financial Position.

(j) Employee future benefits

Equitable Life provides a defined benefit pension plan to eligible employees upon retirement. These benefits reflect compensation history and length of service. Pension plan assets, carried at market value, are held in a separate segregated fund of the Company for the benefit of all members. The excess of pension assets over pension obligations is included in other assets; the excess of pension obligations over pension assets is included in other liabilities. Plan assets and the accrued benefit obligation are measured as of December 31.

The Company has also established a defined contribution pension plan for eligible employees. Generally, employer contributions are a set percentage of employees' annual income and matched against employee contributions.

In addition to the Company's pension plans, health and dental benefits are provided to qualifying employees upon retirement. The liability for these benefits is included in other liabilities and is supported by the general fund assets of the Company.

An independent actuary performs regular valuations of the Company's accrued benefit obligation for employee future benefits. This method involves the use of estimates concerning such factors as expected plan investment performance, future salary increases, employee turnover rates, retirement ages of plan members and expected health care costs.

The Company's net benefit plan expense includes:

Service cost: The cost of benefits accrued in the current period and benefit changes including past service costs, curtailment effects and gains/losses from non-routine settlements.

Finance cost: Interest on the accrued benefit obligation less interest on plan assets is recorded as a component of financing and is valued using the same discount rate.

Remeasurements include gains and losses arising from experience adjustments and changes to actuarial assumptions, the difference between the actual return achieved on the assets and the return implied by the net interest income, and the effect of changes to asset ceilings. Remeasurements are recorded in OCI.

The calculation of employee future benefits requires management to make assumptions that are long-term in nature, consistent with the nature of these benefits. Actual results could differ from these estimates.

(k) Subordinated debentures

Subordinated debentures are recorded at amortized cost using the effective interest rate method.

(l) Fair value disclosures

The fair values of investments are determined as disclosed in note 4. The fair values of mortgage loans are determined as disclosed in note 10. The fair values of subordinated debentures are determined as disclosed in note 12. The fair values of other financial instruments, including accrued investment income, other accounts receivable included in other assets, and other liabilities, are considered to equal their carrying values due to the nature of these instruments. To the extent that invested assets are well matched to policy liabilities, changes in the fair values of the assets due to interest rate changes will have a similar effect on the policy liabilities and will not materially affect future corporate earnings.

(m) Segregated funds

Certain contracts allow contractholders to invest in segregated funds of the Company for their benefit. Substantially all risks and rewards of ownership accrue to these contractholders; consequently, assets held in segregated fund accounts are not consolidated with the assets of Equitable Life, but are presented as a single line item in the Consolidated Statements of Financial Position. Segregated fund assets are carried at year-end market values. The obligation to pay the value of the net assets held under these contracts is considered a financial liability and is measured based on the value of the net segregated fund assets. Market value movements in the underlying segregated fund net assets along with any investment income earned and expenses incurred are directly attributed to contractholders. The Company does not present these amounts as revenue in the Consolidated Statements of Operations; however separate audited financial statements are available to contractholders for each of the segregated funds.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees and minimum maturity value guarantees. The liability associated with these minimum guarantees is recorded in insurance contract liabilities in the general fund.

3. CHANGES IN ACCOUNTING POLICIES

On July 24, 2014 the IASB issued the complete amended IFRS 9, Financial Instruments to replace IAS 39, Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The standard also introduces additional changes relating to financial liabilities.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

On September 12, 2016, the IASB issued amendments to IFRS 4 to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard, IFRS 17, issued in May 2017. The amendments apply in the same period in which the Company adopts IFRS 9.

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9, January 1, 2018, and the effective date of IFRS 17, January 1, 2021:

- overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption – an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of IFRS 17 or January 1, 2021.

In March 2017, the Office of the Superintendent of Financial Institutions (OSFI) issued a final advisory requiring life insurers, whose activities are predominantly connected with insurance, to apply the temporary exemption from IFRS 9 in annual periods beginning before January 1, 2021. The Company will adopt the temporary exemption for IFRS 9. The extent of the impact of adoption of the standard has not yet been determined.

On May 18, 2017 the IASB issued IFRS 17, Insurance Contracts. The new standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will replace IFRS 4, Insurance Contracts. This standard introduces consistent accounting for insurance contracts across jurisdictions applying IFRS. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums. The Company intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2021. The extent of the impact of adoption of the standard has not yet been determined.

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2018. The standard prescribes a single model that applies to contracts with customers based on a five-step analysis of the transaction to determine whether, how much, and when revenue is recognized. The new standard does not apply to revenue from insurance contracts, financial instruments or lease contracts, which fall in the scope of other standards. The Company will adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The standard has been assessed and the Company has determined there will not be any material impact on the financial statements upon adoption.

On January 13, 2016, the IASB issued IFRS 16, Leases, effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The standard has been assessed and the Company has determined there will not be any material impact on the financial statements upon adoption.

4. INVESTMENTS

(thousands of dollars)

(a) Carrying and fair values of invested assets

	2017		2016	
	Carrying Value Net of Provisions	Fair Value	Carrying Value Net of Provisions	Fair Value
Cash, cash equivalents and short-term investments	$ 26,930	$ 26,930	$ 14,185	$ 14,185
Bonds and debentures – AFS	417,483	417,483	337,530	337,530
Bonds and debentures – FVTPL	747,469	747,469	688,490	688,490
Equities – AFS	36,384	36,384	37,845	37,845
Equities – FVTPL	703,053	703,053	603,377	603,377
Mortgages	171,785	172,265	170,778	173,717
Private placements	225,815	234,685	206,569	215,114
Seed capital – segregated funds	885	885	2,994	2,994
Derivatives	22,657	22,657	23,328	23,328
Loans to policyholders	67,508	67,508	60,678	60,678
Investment property	147,416	147,416	132,700	132,700
	$ 2,567,385	$ 2,576,735	$2,278,474	$2,289,958

Valuation techniques used to measure and disclose the fair value of the assets and liabilities are:

Short-term investments are comprised of securities due to mature within one year of the date of purchase. Carrying value of these instruments approximates fair value due to their short-term maturities.

Bonds and debentures are valued by independent pricing vendors using proprietary pricing models, incorporating current market inputs for similar instruments with comparable terms and credit quality (matrix pricing). The significant inputs include, but are not limited to, yield curves, credit risks and spreads, measures of volatility and prepayment rates.

The equity portfolio is comprised of preferred shares; public and private equities; and investment property fund units. Public equities and preferred shares are valued based on quoted market prices. Private equities and investment property fund units have fair values provided by external fund managers.

Mortgages are valued based on a discounted cash flow model using market inputs including contractual maturities and current market discount rates based on term and property type.

Private placements are valued based on techniques and assumptions which reflect changes since origination of both interest rates and creditworthiness of the individual borrower. The valuation also includes an unobservable liquidity adjustment and any applicable provision for credit losses.

Seed capital – segregated funds are based on the market value of the segregated funds.

Derivatives valuations can be affected by changes in interest rates, currency exchange rates, financial indices, credit spreads, default risk (including the counterparties to the contract) and market volatility. Fair values are based on market standard valuation methodologies consistent with what a market participant would use when pricing the instruments.

Loans to policyholders are considered to have fair values equal to their carrying value.

Investment property is supported by market evidence, as assessed by qualified appraisers. All assets are appraised by an external appraiser at least once every three years and reviewed quarterly for material changes.

(b) Provisions for asset defaults

The provisions for impaired assets and the provisions for potential future asset default losses, which include a provision for adverse deviations, reflected as a component of the insurance contract liabilities are $184,491 (2016 - $139,130).

(c) Significant terms and conditions, exposures to interest rate and credit risks on investments

		2017	2016
Bonds and debentures	Term to Maturity	Carrying Value	Carrying Value
Government of Canada	Less than 1 year	$ —	$ —
	1 to 5 years	34,221	5,959
	Over 5 years	62,841	49,405
Provincial governments	Less than 1 year	1,191	375
	1 to 5 years	38,401	26,446
	Over 5 years	467,021	442,890
Municipal governments	Less than 1 year	—	—
	1 to 5 years	2,133	2,192
	Over 5 years	12,644	15,025
Corporate	Less than 1 year	23,584	18,898
	1 to 5 years	141,484	123,056
	Over 5 years	371,617	331,880
Foreign governments	Less than 1 year	—	—
	1 to 5 years	—	—
	Over 5 years	9,815	9,894
		$ 1,164,952	$ 1,026,020
Mortgages	Less than 1 year	$ 12,218	$ 12,516
	1 to 5 years	85,346	82,061
	Over 5 years	74,221	76,201
		$ 171,785	$ 170,778
Private placements	Less than 1 year	$ 17,451	$ 24,398
	1 to 5 years	29,038	28,830
	Over 5 years	179,326	153,341
		$ 225,815	$ 206,569

(d) Analysis of net investment income

	2017	2016
Short-term investments	$ 338	$ 269
Bonds and debentures – fair value changes on FVTPL assets	31,817	(105)
Bonds and debentures – regular investment income	35,428	33,113
Bonds and debentures – realized gains on AFS assets	497	3,990
Equities – fair value changes on FVTPL assets	57,631	30,383
Equities – regular investment income	16,571	17,112
Equities – realized gains (losses) on AFS assets	(141)	(351)
Mortgages	6,870	6,696
Private placements	9,222	8,754
Seed capital – segregated funds	91	92
Derivatives – fair value changes on FVTPL assets	(2,470)	3,771
Derivatives – regular investment income	4,150	(155)
Loans to policyholders	3,422	2,967
Investment property – rental income	7,985	7,401
Investment property – fair value changes	2,438	5,215
Other investment income (losses)	14	(151)
Foreign exchange gains (losses)	(7,084)	(963)
	166,779	118,038
Investment expenses	(5,549)	(5,632)
Net investment income	$ 161,230	$ 112,406

(e) Derivative financial instruments

Derivatives are financial contracts, the value of which is derived from underlying interest rates, foreign exchange rates, other financial instruments, commodities prices or indices. The Company may use derivatives including swaps, futures agreements, and options to manage current and anticipated exposures to changes in interest rates, foreign exchange rates, and equity market prices.

Swaps are over-the counter contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed or a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency swaps are transactions in which two counterparties exchange cash flows of the same nature and denominated in two different currencies.

Futures are contractual obligations to buy or sell a financial instrument, foreign currency or other underlying commodity on a predetermined future date at a specified price. Futures are contracts with standard amounts and settlement dates that are traded on regulated exchanges.

Options are contractual agreements traded on regulated exchanges whereby the holder has the right, but not the obligation, to buy or to sell a financial asset at a predetermined price within a specified time.

The counterparties for the Company's derivative contracts are major Canadian financial institutions highly rated by independent rating agencies. The fair values of these financial instruments are recognized in the Consolidated Statements of Financial Position. Gains and losses on these instruments are included in net investment income. A credit support agreement is in place with a counterparty for collateral held/pledged against the mark to market exposure of the net derivatives. In 2017 the gross collateral held was $21,013 (2016 - $20,848).

The notional amount represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Positive replacement value represents the amount of loss that the Company would suffer if every counterparty to which the Company is exposed defaulted immediately. Credit equivalent amount represents the positive replacement value plus an amount for possible future credit exposure based on a formula prescribed by the Office of the Superintendent of Financial Institutions Canada (OSFI). Risk weighted equivalent represents the regulatory capital required to support the Company's derivative activities. This amount is calculated using the credit equivalent amount weighted according to the creditworthiness of the counterparty as prescribed by OSFI. The fair market value represents the estimated amount that the Company should pay or receive on the statement of financial position date to reverse its position.

Certain bonds are pledged as collateral against derivative contract liabilities. As at December 31, 2017, gross collateral of $4,121 (2016 - $5,203) was pledged to a counterparty. Certain equities are pledged as security against derivative contract liabilities. As at December 31, 2017, gross security pledged was $1,208 (2016 - $8,267).

The Company's derivative portfolio, remaining maturity and related credit exposure are as follows:

2017

	Term to Maturity (Notional Amounts)				Fair Value					
	Less Than 1 Year	1 to 5 Years	Over 5 Years	Total	Asset	Liability	Total	Positive Replacement Value	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate contracts										
Swaps	$ 18,000	$ 39,100	$ 58,100	$ 115,200	$ 21,391	$ (1,269)	$ 20,122	$ 21,462	$ 22,529	$ 1,408
	$ 18,000	$ 39,100	$ 58,100	$ 115,200	$ 21,391	$ (1,269)	$ 20,122	$ 21,462	$ 22,529	$ 1,408
Foreign exchange contracts										
Swaps	$ 18,539	$ –	$ 32,356	$ 50,895	$ 1,259	$ (4,511)	$ (3,252)	$ 1,261	$ 3,873	$ 227
	$ 18,539	$ –	$ 32,356	$ 50,895	$ 1,259	$ (4,511)	$ (3,252)	$ 1,261	$ 3,873	$ 227
Equity contracts										
Options purchased	$ 950	$ –	$ –	$ 950	$ 7	$ –	$ 7	$ –	$ –	$ –
Options written	1,188	–	–	$ 1,188	–	(43)	(43)	$ –	$ –	$ –
	$ 2,138	$ –	$ –	$ 2,138	$ 7	$ (43)	$ (36)	$ –	$ –	$ –
Total	$ 38,677	$ 39,100	$ 90,456	$ 168,233	$ 22,657	$ (5,823)	$ 16,834	$ 22,723	$ 26,402	$ 1,635

2016

	Term to Maturity (Notional Amounts)				Fair Value					
	Less Than 1 Year	1 to 5 Years	Over 5 Years	Total	Asset	Liability	Total	Positive Replacement Value	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate contracts										
Swaps	$11,000	$46,100	$59,100	$116,200	$22,699	$ (994)	$21,705	$22,779	$23,896	$ 1,494
	$11,000	$46,100	$59,100	$116,200	$22,699	$ (994)	$21,705	$22,779	$23,896	$ 1,494
Foreign exchange contracts										
Swaps	$12,607	$ –	$33,124	$ 45,731	$ 531	$(6,759)	$ (6,228)	$ 525	$ 3,136	$ 183
	$12,607	$ –	$33,124	$ 45,731	$ 531	$(6,759)	$ (6,228)	$ 525	$ 3,136	$ 183
Equity contracts										
Options purchased	$ 6,584	$ –	$ –	$ 6,584	$ 98	$ –	$ 98	$ –	$ –	$ –
Options written	8,373	–	–	8,373	–	(324)	(324)	$ –	$ –	$ –
	$14,957	$ –	$ –	$ 14,957	$ 98	$ (324)	$ (226)	$ –	$ –	$ –
Total	$38,564	$46,100	$92,224	$176,888	$23,328	$(8,077)	$15,251	$23,304	$27,032	$ 1,677

(f) Determination of fair values and fair value hierarchy

The table below sets out fair value measurements using the fair value hierarchy.

	2017			
	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and short-term investments	$ 26,930	$ –	$ –	$ 26,930
Bonds and debentures	–	1,164,952	–	1,164,952
Equities	713,837	25,600	–	739,437
Mortgages	–	–	172,265	172,265
Private placements	–	234,685	–	234,685
Seed capital – segregated funds	885	–	–	885
Derivatives	7	22,650	–	22,657
Loans to policyholders	–	67,508	–	67,508
Investment property	–	–	147,416	147,416
Segregated funds assets	1,056,279	135,619	–	1,191,898
Assets at fair value	$ 1,797,938	$ 1,651,014	$ 319,681	$ 3,768,633
Derivatives	$ 43	$ 5,780	$ –	$ 5,823
Mortgage loans	–	3,537	–	3,537
Subordinated debentures	–	17,000	–	17,000
Liabilities at fair value	$ 43	$ 26,317	$ –	$ 26,360

	2016			
	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and short-term investments	$ 14,185	$ —	$ —	$ 14,185
Bonds and debentures	—	1,026,020	—	1,026,020
Equities	632,970	8,252	—	641,222
Mortgages	—	—	173,717	173,717
Private placements	—	215,114	—	215,114
Seed capital – segregated funds	2,994	—	—	2,994
Derivatives	98	23,230	—	23,328
Loans to policyholders	—	60,678	—	60,678
Investment property	—	—	132,700	132,700
Segregated funds assets	989,689	84,174	—	1,073,863
Assets at fair value	$1,639,936	$1,417,468	$ 306,417	$3,363,821
Derivatives	$ 324	$ 7,753	$ —	$ 8,077
Mortgage loans	—	4,954	—	4,954
Subordinated debentures	—	17,595	—	17,595
Liabilities at fair value	$ 324	$ 30,302	$ —	$ 30,626

Categorization within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 – valued using quoted prices in active markets for identical assets
Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1
Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data

(g) Investment property

	2017	2016
Balance, beginning of year	$ 132,700	$ 125,610
Acquisitions	11,236	—
Dispositions	—	—
Change in fair value of assets	3,480	7,090
Balance, end of year	$ 147,416	$ 132,700

Certain investment properties are encumbered by mortgage loans as discussed in note 10.

5. FINANCIAL RISK MANAGEMENT

(thousands of dollars)

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

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, market risk (equity, real estate, interest rate and currency), and liquidity risk. Enterprise-wide investment portfolio level targets and limits are established to ensure that portfolios are widely diversified across asset classes and individual investment risks. The following sections describe how the Company manages each of these risks.

(a) Credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due. Equitable Life's policy is to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry or company. Investment guidelines specify minimum and maximum limits for each asset class and any individual issuer. Portfolio risk and the marginal risk contribution for each asset are evaluated using industry standard simulation techniques. Credit risk for bonds, equities and mortgages is determined by recognized external credit rating agencies and/or internal credit reviews. These portfolios are monitored continuously and reviewed regularly with the Senior Credit and Investment Policy Committee of the Board of Directors or the Board itself.

The Company engages in securities lending to generate additional income. The Company's securities custodian is used as the lending agent. Collateral, which exceeds the fair value of the loaned securities is deposited by the borrower with the lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2017 the Company had loaned securities, which are included in invested assets, with a fair value of $243,188 ($191,410 at December 31, 2016), and collateral of $250,897 ($196,393 at December 31, 2016).

The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any. Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an annual assessment of the creditworthiness of reinsurers.

(i) Maximum exposure to credit risk

The Company's maximum credit exposure related to financial instruments is summarized in the following table. Maximum credit exposure is the carrying value of the asset net of any allowances for losses. Government issued bonds held by the Company are assumed to have no credit exposure. The credit exposure related to Universal Life linked accounts is passed through to policyholders and therefore not included in the total credit exposure. The credit risk exposure on derivatives is net of collateral from a counterparty. Loans to policyholders do not have credit exposure as the loans are supported by the cash value of the policy.

	2017	2016
Bonds and debentures	$ 536,685	$ 454,963
Equities	200,872	188,205
Mortgages	171,785	170,778
Private placements	225,815	206,569
Derivatives	1,637	2,382
Other assets	37,600	31,138
Total Consolidated Statements of Financial Position maximum credit exposure	$1,174,394	$1,054,035

(ii) Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

	2017		2016	
Bonds issued or guaranteed by:				
Canadian federal government	$ 97,062	8.3%	$ 68,203	6.6%
Canadian provincial governments	506,613	43.5	475,743	46.4
Canadian municipal governments	14,777	1.3	17,217	1.7
Foreign governments	9,815	0.8	9,894	1.0
Total government bonds	$ 628,267	53.9%	$ 571,057	55.7%
Corporate bonds by industry sector:				
Financials	$ 205,466	17.6%	$ 174,736	17.0%
Utilities and energy	127,759	11.0	99,136	9.7
Industrials	90,462	7.8	69,344	6.8
Telecom	27,405	2.4	29,034	2.8
Other	85,593	7.3	82,713	8.0
Total corporate	$ 536,685	46.1%	$ 454,963	44.3%
Total bonds and debentures	$1,164,952	100.0%	$1,026,020	100.0%

(iii) Asset quality

The Company's accounting policies for the recording and assessing of impairment are described in note 2. Details concerning the credit quality of financial instruments held and considered impaired or temporarily impaired as at the current statement of financial position date are described in the following sections.

	2017	2016
Bonds and debentures portfolio quality:		
AAA	$ 130,442	$ 108,435
AA	265,673	222,687
A	626,575	568,660
BBB	142,262	126,238
Total bonds and debentures	$1,164,952	$1,026,020

The Company provides for credit risk by establishing allowances against the carrying value of impaired loans and recognizing other than temporary impairments on available-for-sale securities in the Consolidated Statements of Operations. In addition, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities. No allowances for impairments were required as at December 31, 2017 or 2016.

(b) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. Market risk includes equity risk, real estate risk, interest rate risk and currency risk.

(i) Equity risk
Equity risk is the potential for financial loss arising from declines in equity market prices.

The majority of FVTPL equities are held to back participating or universal life products where investment returns are passed through to policyholders through routine changes in the amount of dividends declared or to the rate of interest credited; in these cases equity market movements are largely offset by changes in actuarial liabilities. Much of the remainder of FVTPL equities are held to back long-term fixed liabilities. In addition, there are products such as segregated funds where the liabilities are affected by movements in equity markets.

Overall, it is estimated the impact on the Company of an immediate 10% increase in equity markets would be an increase in net income of approximately $12,600 (2016 - $10,100). The impact of a decrease of 10% would be an estimated decrease in net income of approximately $12,600 (2016 – $9,800). The impact of a 35% increase in equity markets would be an increase in net income of approximately $44,200 (2016 - $34,900), and the impact of a 35% decrease would be a decrease in net income of approximately $45,500 (2016 - $34,900).

(ii) Real estate risk
Real estate risk is the potential for financial loss arising from declines in real estate values and potential lease defaults. The impact of a 10% drop in real estate values would be an estimated decrease in net income of approximately $9,800 (2016 - $8,500). The impact of a 10% increase in real estate values would be an estimated increase in net income of approximately $9,800 (2016 - $8,500).

(iii) Interest rate risk
Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. For asset/liability management purposes, the general fund is divided into segments based on the characteristics of the liabilities the segment supports.

The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure, asset default and the pace of asset acquisition are quantified and reviewed regularly. Projected cash flows from the current assets and liabilities are used to determine the interest rate risk. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk. One way of measuring interest rate risk is to determine the impact on net income of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. These impacts are included in note 9 (b)).

Bonds designated as AFS are held in Surplus. Changes in fair value of AFS bonds are recorded in OCI.

(iv) Currency risk
Currency risk is the potential for financial loss arising from changes in foreign exchange rates. The Company minimizes currency risk as liabilities are generally matched with assets of the same currency. The impact of a 10% strengthening in the Canadian dollar would be an estimated decrease in net income of approximately $4,500 (2016 - $3,600). The impact of a 10% weakening in the Canadian dollar would be an estimated increase in net income of approximately $4,500 (2016 - $3,600).

(c) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. A conservative liquidity position is maintained that exceeds all the liabilities payable on demand. The Company's asset/liability management strategy allows it to maintain its financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Company invests in various types of assets with a view to matching them with its liabilities of various durations. To strengthen its liquidity further, the Company actively manages and monitors its capital and asset levels, the diversification and credit quality of its investments, forecasts cash and maintains liquidity above established targets. In the event of a liquidity crisis, contingency plans are in place.

(d) Insurance risk
Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims and policyholder behaviour are based on Company and industry experience. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. Additional information on insurance risk can be found in note 9 (a).

6. OTHER ASSETS

(thousands of dollars)

	2017	2016
Due from reinsurers	$ 14,349	$ 15,759
Premiums and other receivables	23,251	15,379
Intangible assets	1,799	2,100
	$ 39,399	$ 33,238

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of dollars)

	2017	2016
Cost		
Balance, beginning of year	$ 25,715	$ 24,003
Additions	4,204	3,031
Dispositions	(692)	(1,319)
Balance, end of year	$ 29,227	$ 25,715
Accumulated depreciation		
Balance, beginning of year	$ 9,170	$ 9,126
Depreciation for the year	1,672	1,363
Dispositions	(692)	(1,319)
Balance, end of year	$ 10,150	$ 9,170
Net book value	$ 19,077	$ 16,545

8. EMPLOYEE FUTURE BENEFITS

(thousands of dollars)

Equitable Life maintains a defined contribution plan, providing pension benefits to eligible employees. The assets of the plan are held separately from those of the Company in funds under the control of trustees. The total cost recognized for the defined contribution plan is $2,109 (2016 - $1,786). These amounts are not included in the pension benefits information below.

The Company also provides defined benefit pension and other post-employment benefits to eligible employees. The defined benefit plan assets for the staff plan are held in a Fund that is legally separated from the entity. The Company has adopted a funding policy to make the minimum required contributions as required by law or such greater amount as may be deemed appropriate. Total cash payments for employee future benefits for 2017, consisting of cash contributed by the Company to its funded pension plan and cash payments directly to beneficiaries for other benefits, were $2,356 (2016 - $9,264).

(a) Information about the Company's defined benefit pension, defined contribution pension, and other post-employment benefits

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Accrued benefit obligation				
Balance, beginning of year	$ 95,043	$ 90,341	$ 16,043	$ 15,841
Current service cost	3,248	3,233	39	61
Past service cost	(1,296)	—	—	—
Interest cost	3,875	3,698	634	625
Benefits paid	(2,794)	(2,253)	(474)	(484)
Actuarial loss (gain) from changes in demographic assumptions	404	—	(832)	—
Actuarial loss (gain) from changes in plan experience	2,076	24	(6,592)	—
Actuarial loss (gain) from changes in financial assumptions	9,151	—	(160)	—
Balance, end of year	$ 109,707	$ 95,043	$ 8,658	$ 16,043
Fair value of assets				
Balance, beginning of year	$ 91,695	$ 80,294	$ —	$ —
Actual return on assets	5,804	4,132	—	—
Employer contributions	1,882	8,780	474	484
Employee contributions	744	742	—	—
Benefits paid	(2,795)	(2,253)	(474)	(484)
Balance, end of year	$ 97,330	$ 91,695	$ —	$ —
Fair value of assets	$ 97,330	$ 91,695	$ —	$ —
Accrued benefit obligation	109,707	95,043	8,658	16,043
Net accrued benefit obligation	$ (12,377)	$ (3,348)	$ (8,658)	$ (16,043)

Composition of fair value of pension benefits assets (note 16 a)

	2017	2016
Bonds	$ 55,224	$ 53,575
Beutel Goodman Canadian Equity Fund	12,068	10,008
Bentall Kennedy Prime Canadian Property Fund Ltd.	7,721	7,584
Beutel Goodman International Equity Fund	7,134	5,835
Beutel Goodman American Equity Fund	6,180	6,241
Private placements	4,886	4,440
Amounts on deposit with the Receiver General of Canada	1,821	1,749
MFS MB Balanced Fund	1,360	1,418
Accrued investment income	577	470
Cash	359	375
Total plan assets	$ 97,330	$ 91,695

The fair value of plan assets are determined on the same basis as disclosed in note 4 (a). The bond portfolio is invested in both corporate and government bonds with ratings that range from BBB to AAA. At each reporting date, the investment mix of the plan assets are reviewed and compared to the target mix. The target mix has been established in order to balance interest rate risk, equity risk and longevity risk.

The defined benefit plan has two separate investment mandates:

(i) Rate of return mandate

The rate of return assets address the future benefit obligations for Pension Fund members including consideration for future compensation and future service for active Pension Fund members. The rate of return assets are invested within the following guidelines:

Asset categories	Minimum	Benchmark	Maximum
Canadian equities	38%	54%	70%
U.S. equities	9%	22%	35%
International equities	12%	24%	36%

(ii) Liability driven mandate

The liability driven assets address the accrued benefit obligations for Pension Fund members. The liability driven asset strategy was selected to enhance management of the defined benefit fund assets in relation to the pension obligations, which is expected to result in a closer matching of the Pension Fund's assets to its pension liabilities. The liability driven assets are invested within the following guidelines:

Asset categories	Minimum	Benchmark	Maximum
Cash	0%	1%	20%
Fixed income	50%	82%	95%
Investment property	5%	17%	30%

(b) Net accrued benefit obligation included in the Consolidated Statements of Financial Position

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Other liabilities	$ 12,377	$ 3,348	$ 8,658	$ 16,043

(c) Net benefit plan expense

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Current service cost	$ 2,854	$ 2,743	$ 39	$ 61
Past service cost	(1,296)	—	—	—
Interest cost	210	479	634	625
	$ 1,768	$ 3,222	$ 673	$ 686

(d) Significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation

	2017	2016
Discount rate used to determine accrued benefit obligation	3.50%	4.00%
Discount rate used to determine net benefit cost	4.00%	4.00%
Rate of compensation increase	3.25%	3.25%

The assumed health care trend rates used in measuring the accrued benefit obligation in 2017 was 6% per annum for the first year, decreased by 0.25% per annum until 4.5% per annum in 2024 and thereafter. The assumed dental care trend rates used in measuring the accrued benefit obligation in 2017 was 2.75% per annum for the first year and thereafter.

(e) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions would have the following effect on the accrued benefit obligation as at December 31, 2017:

	Pension Benefits	Other Benefits
3.25% discount rate (instead of 3.50%)	$ 4,937	$ 263
1.90% inflation rate (instead of 2.15%) and salary rate reduced by 0.25%	(1,164)	Included below*
1.00% increase in health and dental care trend rates	N/A	1,169*

9. POLICY LIABILITIES

(thousands of dollars)

(a) Policy assumptions

The nature and method of determining the significant assumptions made by the Company in the computation of policy liabilities are described in the following paragraphs. In all cases, the assumptions are supplemented by the addition of margins for adverse deviation.

Policy claims and benefits

Estimates of the amounts and timing of future claims and benefit payments are updated regularly based on both Company and industry experience.

Policy lapse rates

Policyholders may allow their policies to lapse by choosing not to continue to pay premiums. The Company bases its estimate of future lapse rates on previous experience for a block of policies and industry experience where available. A block of policies is considered to be lapse-supported if an increase in ultimate lapse rates significantly increases profitability.

Investment income

The computation of policy liabilities takes into account projected net investment income on assets supporting policy liabilities and income expected to be earned or foregone on reinvestments or financing of mismatched cash flows. Uncertainties exist with respect to the projections of interest rates and the magnitude of credit losses from asset defaults. The Company accounts for such uncertainties by projecting multiple scenarios of future reinvestment rates, selecting an adverse scenario for use in the valuation and by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of the invested assets).

Policy maintenance expenses

Amounts are included in policy liabilities to provide for the costs of administering policies in-force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial valuations, certain policyholder related taxes, preparation and mailing of policy statements, related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of such factors as salary rate increases, productivity changes, inflation, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the Company's experience.

Policyholder dividends

Policy liabilities include estimated future policyholder dividends which reflect the expectation that future dividends will be adjusted to take account of future experience attributable to participating policies. Actual future dividends will be higher or lower than those used in determining the policy liabilities depending on future experience.

(b) Sensitivity to assumptions

The sensitivity of two key assumptions is shown below.

Policy lapse rates

For lapse-supported policies in-force at December 31, 2017, a 10% decrease in lapse rates would decrease net income by approximately $17,500 (2016 -$16,300). For non-lapse-supported policies in-force at December 31, 2017, a 10% increase in lapse rates would decrease net income by approximately $66,100 (2016 - $57,500).

Interest rates

The Company manages its sensitivity to interest rate changes by being well-matched in terms of its asset and liability cash flows. A 1% increase in the general level of interest rates would increase net income by approximately $6,000 (2016 - $7,600). A 1% decrease would reduce net income by approximately $10,600 (2016 - $9,000).

(c) Composition of insurance contract liabilities

	2017	2016
Annuity contracts	$ 474,131	$ 440,133
Life insurance contracts	1,277,267	1,183,199
Health insurance contracts	225,064	198,093
Total insurance contract liabilities	$ 1,976,462	$ 1,821,425

(d) Change in policy liabilities

2017	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities	Other contract liabilities	Net policy liabilities
Balance, beginning of year	$ 1,821,425	$ 282,765	$ 114,046	$ 1,652,706
New policies	(93,821)	31,022	9,992	(114,851)
Change in balances on in-force policies	300,545	11,910	6,539	295,174
Method and assumption changes	(51,687)	(52,978)	—	1,291
Balance, end of year	$ 1,976,462	$ 272,719	$ 130,577	$ 1,834,320

2016	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities	Other contract liabilities	Net policy liabilities
Balance, beginning of year	$1,754,803	$ 301,014	$ 97,100	$1,550,889
New policies	(54,149)	29,628	2,565	(81,212)
Change in balances on in-force policies	194,524	26,708	14,381	182,197
Method and assumption changes	(73,753)	(74,585)	—	832
Balance, end of year	$1,821,425	$ 282,765	$ 114,046	$1,652,706

Valuation assumptions are reviewed and updated annually. Changes in assumptions can increase or decrease policy liabilities. The most significant assumption changes are set out in the table below.

	2017	2016
Lapse	$ 28,954	$ 18,764
Expense	(1,183)	(6,693)
Investment	(2,014)	17,008
Mortality/morbidity	(24,466)	(28,247)
Total method and assumption changes	$ 1,291	$ 832

(e) Composition of assets supporting liabilities and surplus

2017	Individual	Savings and Retirement	Group	Surplus	Total
Bonds and debentures	$ 333,258	$ 282,785	$ 90,741	$ 458,168	$ 1,164,952
Equities	552,668	103,175	13,054	70,540	739,437
Mortgages	49,383	27,180	25,787	69,435	171,785
Private placements	55,949	112,743	7,980	49,143	225,815
Seed capital – segregated funds	—	—	—	885	885
Derivatives	19,837	(2,405)	—	5,225	22,657
Loans to policyholders	67,508	—	—	—	67,508
Investment property	91,503	19,395	—	36,518	147,416
Reinsurers' share of insurance contract liabilities	158,034	—	114,685	—	272,719
Other	26,884	4,837	10,435	54,385	96,541
Total	$ 1,355,024	$ 547,710	$ 262,682	$ 744,299	$ 2,909,715

2016	Individual	Savings and Retirement	Group	Surplus	Total
Bonds and debentures	$ 319,246	$ 263,825	$ 77,000	$ 365,949	$ 1,026,020
Equities	479,050	91,787	11,704	58,681	641,222
Mortgages	46,257	28,553	24,164	71,804	170,778
Private placements	47,522	103,921	8,386	46,740	206,569
Seed capital – segregated funds	—	—	—	2,994	2,994
Derivatives	22,708	261	—	359	23,328
Loans to policyholders	60,678	—	—	—	60,678
Investment property	83,707	18,910	—	30,083	132,700
Reinsurers' share of insurance contract liabilities	174,278	—	108,487	—	282,765
Other	7,642	(9,422)	8,909	66,893	74,022
Total	$ 1,241,088	$ 497,835	$ 238,650	$ 643,503	$ 2,621,076

10. MORTGAGE LOANS

(thousands of dollars)

The mortgage loan of $3,341 bears interest at 6.14% with maturity in 2020. This mortgage loan is secured by investment property with a carrying value of $8,200.

	2017	2016
Balance, beginning of year	$ 4,614	$ 14,559
Cash flows	(1,273)	(9,945)
Non-cash changes	—	—
Balance, end of year	$ 3,341	$ 4,614

The repayment of the mortgage loan will occur over the next three years:

2018	2019	2020
$192	$204	$2,945

The interest expense on the mortgage loan was $209 (2016 - $362). The fair value of the mortgage loan is $3,537 (2016 - $4,954). Fair values are estimated based on the present value of future cash flows discounted at current market rates of interest for loans of similar term and quality.

11. INCOME TAXES

(thousands of dollars)

(a) Income tax expense

Components of income tax expense included in the Consolidated Statements of Operations and Comprehensive Income are:

	2017	2016
Current taxes on income for the reporting period	$ 28,602	$ 19,678
Current taxes referring to previous periods	(900)	478
Current income taxes	$ 27,702	$ 20,156
Origination and reversal of temporary differences	$ 1,110	$ 920
Impact of change in tax rates	66	7
Prior year reversal of temporary differences	—	(9)
Deferred income taxes	$ 1,176	$ 918
Total income tax expense reported in net income	$ 28,878	$ 21,074
Income tax recognized on unrealized gain (loss) on AFS assets	$ 1,373	$ (186)
Income tax recognized on reclassification from OCI to net income on AFS assets	(98)	(1,721)
Income tax recognized on remeasurement of pension and other post-employment plans	(411)	304
Total income tax expense (recovery) reported in OCI	$ 864	$ (1,603)

(b) Reconciliation of income tax expense and income tax rates

	2017		2016	
Provision for income taxes at statutory rates	$ 35,889	26.59%	$ 26,883	26.61%
Increase (decrease) in tax due to:				
Tax exempt investment income	(6,516)	(4.83)%	(5,562)	(5.51)%
Other	(495)	(0.36)%	(247)	(0.24)%
Income tax expense and effective income tax rate	$ 28,878	21.40%	$ 21,074	20.86%

(c) Deferred income taxes

(i) The Company's deferred income tax liabilities arise from temporary differences on the following items:

	2017	2016
Loans to policyholders	$ 15,716	$ 13,627
Investment property	10,562	9,844
Insurance and investment contract liabilities	(16,350)	(14,564)
Employee future benefits	1,858	1,897
Other comprehensive income related to employee future benefits	(7,529)	(7,058)
Other	4,103	3,850
	$ 8,360	$ 7,596

(ii) Reconciliation of deferred income tax liability:

	2017	2016
Balance, beginning of year	$ 7,596	$ 6,374
Tax expense (recovery) during the period recognized in net income	1,176	918
Tax expense (recovery) during the period recognized in OCI	(411)	304
Other	(1)	—
Balance, end of year	$ 8,360	$ 7,596

12. SUBORDINATED DEBENTURES

(thousands of dollars)

Subordinated debentures consist of the following:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Debentures – due November 29, 2022, unsecured	$ 17,000	$ 17,000	$ 16,788	$ 17,595

The Company issued $17,000 in subordinated debentures in 2007. The subordinated debentures are redeemable by the Company at the principal amount plus any accrued and unpaid interest at any time. The carrying value includes capitalized transaction costs and deferred interest expense. The subordinated debentures bear interest at an annual rate of 5.91% until December 31, 2017. Fair values are estimated based on the present value of future cash flows discounted at current market rates of interest for debentures of similar term and quality.

These debentures were repaid on January 2, 2018.

13. CONTINGENT LIABILITIES

From time to time in connection with its operations, the Company and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts accrued. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

14. LINE OF BUSINESS INFORMATION

(thousands of dollars)

The Company operates in various lines of business, each offering different products and services to meet clients' needs. The Individual line of business provides participating whole life and universal life insurance products, non-participating term products and critical illness products. The Savings and Retirement line of business provides individual savings and annuity products as well as administration and management of the segregated funds. The Group line of business provides group life, dental, prescription drug, long- and short-term disability, accidental death and dismemberment and supplemental health care insurance and administrative services. The Surplus line of business manages assets not required to back liabilities in the above three lines of business.

2017	Individual	Savings and Retirement	Group	Surplus	Total
Revenues					
Net premiums	$ 405,138	$ 74,888	$ 283,550	$ —	$ 763,576
Net investment income	102,848	28,603	6,276	23,503	161,230
Fee income	7,002	25,773	5,667	108	38,550
Total revenues	$ 514,988	$ 129,264	$ 295,493	$ 23,611	$ 963,356
Net income	$ 71,233	$ 6,733	$ 11,976	$ 16,151	$ 106,093
Total general fund assets	$ 1,355,024	$ 547,710	$ 262,682	$ 744,299	$ 2,909,715

2016	Individual	Savings and Retirement	Group	Surplus	Total
Revenues					
Net premiums	$ 320,376	$ 84,334	$ 253,971	$ —	$ 658,681
Net investment income	66,827	18,160	3,560	23,859	112,406
Fee income	6,053	22,953	5,681	38	34,725
Total revenues	$ 393,256	$ 125,447	$ 263,212	$ 23,897	$ 805,812
Net income	$ 71,300	$ (435)	$ (7,290)	$ 16,384	$ 79,959
Total general fund assets	$1,241,088	$ 497,835	$ 238,650	$ 643,503	$2,621,076

15. CAPITAL ADEQUACY

(thousands of dollars)

Equitable Life is subject to regulation by the Office of the Superintendent of Financial Institutions Canada (OSFI), which prescribes guidelines requiring the Company to maintain levels of capital which are dependent on the type and amount of policies and contracts in-force and the nature of the Company's assets.

The minimum levels of capital are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements (MCCSR) issued by OSFI. The MCCSR formula prescribes the calculation of available capital for regulatory purposes and the amounts of required capital to be maintained, based on the risk characteristics of the underlying assets and liabilities held by the Company. The ratio of available capital to required capital is the MCCSR ratio. At December 31, 2017, the Company's MCCSR ratio was 231% (2016 - 226%), which is well in excess of the minimum level required by OSFI. This ratio indicates a strong capital position.

Effective January 1, 2018 the Life Insurance Capital Adequacy Test (LICAT) guideline will replace the MCCSR guideline.

	2017	2016
Capital Available:		
Capital available before subordinated debentures	$ 677,851	$ 577,016
Subordinated debentures	17,000	16,788
Total Capital Available	$ 694,851	$ 593,804
Capital Required:		
Lapse risk	$ 169,185	$ 146,974
Mortality and morbidity risk	65,777	62,030
Asset default risk	42,922	35,681
Interest rate risk	13,794	12,549
Other	9,648	5,355
Total Capital Required	$ 301,326	$ 262,589
MCCSR Ratio	231%	226%

16. RELATED PARTIES

(thousands of dollars)

(a) The Company has related party transactions with The Group Pension Fund for the Employees of The Equitable Life Insurance Company of Canada, a defined benefit pension plan for eligible employees. The Company provides fund management and administration services to the defined benefit pension plan. During the year the pension plan was charged $177 (2016 - $151) for these services. Included in the segregated funds of the Company are $94,148 (2016 - $88,525) invested in a separate segregated fund on behalf of The Group Pension Fund for the Employees of The Equitable Life Insurance Company of Canada.

(b) Key management personnel, which includes Senior Management and the Board of Directors, are considered related parties. Transactions with these related parties are outlined below.

(i) Senior Management

The Human Resources and Compensation Committee (HRCC) of the Board of Directors (Board) annually reviews and recommends to the Board the compensation program for Senior Management. The HRCC is made up of five directors, all of whom are independent. Nine of the ten Board members are also independent.

As part of the review, an independent third party consultant is engaged to provide market data and analysis on comparable positions within the Insurance industry. This information is taken into consideration in determining the annual base salary and incentive compensation programs.

Total Senior Management compensation for 2017 was $11,769 (2016 - $9,636). The compensation program consists of five components: base salary, short term incentive plan, long term incentive plan, post-employment benefits and other benefits. Each component is addressed below.

Short term compensation in 2017of $7,028 (2016 - $6,269) is comprised of:

- Base salary, is paid bi-weekly. It is reviewed annually through an analysis of third party market data, performance of the incumbent and the overall projected salary administration program for the organization. All items related to senior management base salary including changes are reviewed by the HRCC and subject to approval by the Board.
- The short term incentive plan is an annual bonus program which compensates employees a percentage of their base salary based on the achievement of full year results as compared to pre-approved targets and goals. Pre-approved targets relate to earnings, sales, net growth and expenses are incorporated into the business plan, which is set and approved by the Board annually. Individual performance is also considered. Upon approval of the financial results by the Board the HRCC reviews and recommends the payment of the annual incentive plan. This recommendation is subject to approval by the Board.
- Other benefits include automobile allowances and government remittances (CPP, EI and EHT). All other benefits are reviewed and recommended by the HRCC, and subject to approval by the Board.

Long term compensation in 2017 of $3,802 (2016 - $2,399) is comprised of:

- The long term incentive plan is awarded annually based on the Company's performance as it relates to profitability and net growth. The historical three-year averages of return on equity and net growth are compared to the averages projected at the commencement of the period. Upon approval of the financial results by the Board the HRCC reviews and recommends the payment of the annual incentive plan. This recommendation is subject to approval by the Board.

Post-employment benefits in 2017 of $939 (2016 - $968) is comprised of:

- Post-employment benefits include pension and health and dental benefits.

All members of Senior Management are participating policyholders of the Company. All policies were paid for by the individual using their own resources, and receive dividends at levels consistent with all other participating policyholders.

(ii) Board of Directors

Total Board of Directors compensation for 2017 was $674 (2016 - $689).

Compensation paid to the Board is governed by the Company's By-laws which are approved by policyholders. By-law 46 limits the aggregate amount to be paid to all directors who are not full-time employees to $750. The By-law was last approved by policyholders at the Annual General Meeting in May 2008.

All Directors are participating policyholders of the Company. All policies were paid for by the individual using their own resources, and receive dividends at levels consistent with all other participating policyholders.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

The Participating Account Management Policy applies to all participating policies of the Company, which include Traditional Participating Life, Participating Universal Life and Participating Adjustable Premium Life policies.

Traditional Participating Life policies and Participating Adjustable Premium Life policies are backed by the Traditional Participating Account. Participating Universal Life policies are backed by the Universal Life Account. Each Participating Account records the assets, liabilities, transactions and earnings associated with the corresponding participating policies. The investment income, net of investment expenses, earned on the assets within each segment determines the investment return for the account. The Company follows the portfolio average approach rather than the investment generation approach for allocating investment income between classes within the Traditional Participating Account.

The Company has Board of Directors approved investment policies. These policies dictate the investment objectives and investment philosophy for the Company's assets. These policies also specify the required controls and monitoring of the assets. The Participating Accounts are managed within the guidelines and constraints established by these policies. The Participating Accounts are invested in a diversified portfolio of fixed income and non-fixed income assets.

Expenses that are directly attributable to a Participating Account are charged directly to the corresponding Participating Account. Indirect expenses are allocated to Accounts based on studies and Management's best estimate of the incidence of the cost by line of business or in some cases by standard indices. Premium taxes are allocated directly to the appropriate Participating Account. Investment income taxes are allocated to the appropriate Participating Account in accordance with the Canada Revenue Agency tax formulae. Income tax is allocated based on the taxable income earned.

Income from all lines of business is used to support the Company's capital and surplus position. The Company's current and projected capital and surplus position is considered in the dividend scale setting process.

This Policy has been established by the Board of Directors and is subject to amendment from time to time at the discretion of the Board of Directors. The principal factors that may cause the Board of Directors to review and amend this Policy include corporate restructuring, regulatory or legislative changes, material unanticipated events, or clarifications of this Policy.

DIVIDEND POLICY

This Dividend Policy applies to all participating policies of the Company which includes Traditional Participating Life, Participating Universal Life and Participating Adjustable Premium Life policies.

Traditional Participating Life policies and Participating Adjustable Premium Life policies are eligible to receive annual experience dividends. Traditional Participating Life policies are reviewed and have their dividends declared at least annually. Participating Adjustable Premium Life policies are reviewed and have their dividends declared at least quinquennially. Participating Universal Life policies are not eligible for experience dividends.

Experience dividends are determined based on the distributable earnings of the Participating Account. The distributable earnings are earnings on the Participating Account adjusted to maintain consistency in distribution across periods. Earnings include all participating policyholder related sources of gains or losses relative to experience factors such as investment returns, mortality, expenses, policy surrenders, policy loan rate utilization, taxes and other policyholder experience. Earnings arise when the experience on these factors is collectively more favourable than the assumptions used in calculating the guaranteed policy values. Since dividends reflect actual experience, they cannot be known in advance and are not guaranteed. Dividends will fluctuate with actual experience over time. Experience may deteriorate over time and as a result, dividends may be reduced. No terminal dividends are paid on policies. The Company follows a permanent contribution to surplus philosophy. Income from all lines of business is used to support the Company's capital and surplus position. The Company's current and projected capital and surplus position is considered in the dividend scale setting process.

An objective of the dividend distribution is to maintain reasonable equity between classes and generations of policyholders. The Company follows the Contribution Principle in the calculation of individual policy dividends for classes of its participating policy owners. The Contribution Principle (Source of Earnings Method) is a generally accepted method of determining dividends in Canada. Under this principle, distributable earnings are to be distributed among policies over the long term in the same proportion as the policies are considered to have contributed to distributable earnings, subject to practical considerations and constraints. In order to determine the contribution, policies are grouped into classes with common experience factors. Dividend classes are established at issue. These classifications would not be expected to change. The effect of policy loan utilization, and the rates charged for such loans are reflected by the class of policyholder.

The method for determining dividends is based on objective quantifications, to the extent practicable. Actual dividends are to be consistent with policy contracts, this Policy and applicable law. This Policy would be applied consistently over time.

All participating policies are eligible for ownership dividends. These dividends may be paid based on the overall earnings of the Company and when the Company has a strong capital position at the time an ownership dividend is being considered and into the foreseeable future. Ownership dividends are paid at the discretion of the Board of Directors, based on the recommendation of Management, and may be credited in any manner deemed appropriate by the Company.

Dividends are declared at the discretion of the Board of Directors in accordance with this Policy and applicable law. This Policy has been established by the Board of Directors and is subject to amendment from time to time at the discretion of the Board of Directors. The principal factors that may cause the Board of Directors to review and amend this Policy include corporate restructuring, regulatory or legislative changes, material unanticipated events, or clarification of this Policy.

SENIOR MANAGEMENT

Ronald E. Beettam, FSA, FCIA
President and Chief Executive Officer

Dave Bennett, FIA
Senior Vice-President, Group

Paul English, CFA, MBA
Senior Vice-President, Investments

Sheila Hart, FSA, FCIA
Senior Vice-President and Chief Financial Officer

Karen Mason, MBA, FLMI
Senior Vice-President, Individual

Christopher Brown, BA
Vice-President, Human Resources

Campbell Crosbie, MBA, FICB
Vice-President, Information Technology and Chief Information Officer

Randy Howell, BA, LLB
Vice-President, Legal and Corporate Secretary

Tara Proper, CFA
Vice-President, Capital Markets

Phillip K. Watson, FSA, FCIA, CQF
Vice-President and Appointed Actuary

Judy Williams, ASA
Vice-President, Savings and Retirement

SUBSIDIARIES

The subsidiaries of the Company are:

		Book Value
262695 Holdings Limited One Westmount Road North Waterloo, Ontario N2J 4C7	1,000 common shares	$ 1,000
Equilife Investment Management Inc. One Westmount Road North Waterloo, Ontario N2J 4C7	85,000 common shares	$ 85,000

CORPORATE GOVERNANCE

The Board of Directors ("the Board"), either directly or through its Committees, is ultimately responsible for the supervision and oversight of the management of the Company's business and affairs. The Company's corporate governance processes, structures and information are designed to strengthen the ability of the Board to oversee management and to enhance long-term policyholder value.

Board independence

Demonstrating evidence of independence is at the heart of effective governance. Independence is normally a matter of the Board demonstrating its ability to act independently of management when appropriate. Currently, only the Chief Executive Officer is "affiliated" or "related" to the Company.

Board composition

Annually, the Board reviews its composition to determine whether or not the Board is optimally structured to provide stewardship. Critical to the review is an assessment of the expertise, skills, experience and perspectives present on the Board.

Board responsibilities

The basic oversight responsibilities of the Board include:

- overseeing the development and implementation of an encompassing and effective corporate governance program;
- establishing, overseeing and receiving regular updates on the strategic direction, business objectives, policies, programs, plans and priorities of the Company and monitoring the implementation and effectiveness of those plans;
- ensuring that policies and practices exist to orient new directors and regularly assess the effectiveness of the Board, the Board Committees, the Board and Board Committee Chairs and individual Directors in the discharge of its/their responsibilities;
- ensuring that the independent oversight functions ("IOSFs") – the Appointed Actuary, the Chief Risk Officer, the External Auditor, the internal audit function and the compliance function - have adequate authority, independence and resources to discharge their mandates;
- approving the offices of the Company and supervising the succession planning process of the Company, including the selection, appointment, professional development, performance management and compensation of the Chief Executive Officer and Senior Management;
- monitoring and assessing the procedures implemented for identifying the principal risks of the Company's businesses and receiving regular updates on the status of risk management activities and initiatives; and
- ensuring policies and processes are in place to ensure the integrity of the Company's internal controls, financial reporting, audit functions and management information systems.

The Board is assisted in fulfilling these responsibilities through the following Committees:

- *Audit Committee* – Oversees the financial reporting systems, integrity of financial statements, risk management and the audit function. The Audit Committee is comprised of only unrelated directors.
- *Conduct Review Committee* – Reviews the "related party" policies and practices of the Company in accordance with statutory requirements. The Conduct Review Committee is comprised of only unrelated directors.
- *Corporate Governance, Compliance and Nominating Committee* – Evaluates the effectiveness of governance structures, processes and information used for directing and overseeing the management of the Company, the Board and the compliance function. Develops the criteria for identifying and recommending prospective Board candidates.
- *Human Resources and Compensation Committee* – Reviews and approves policies and procedures for recommendation to the Board relating to various human resource functions, including compensation, benefits, employee pension plan, performance and succession planning.
- *Senior Credit and Investment Policy Committee* – Recommends investment and lending policies and objectives for Board approval, and reviews investment portfolio performance and compliance.

The corporate governance processes and mandate are derived, in part, from the Insurance Companies Act of Canada, the OSFI Corporate Governance Guideline and regulatory "best practices".

BOARD OF DIRECTORS

Board Committees

1. Audit
2. Conduct Review
3. Corporate Governance, Compliance and Nominating
4. Human Resources and Compensation
5. Senior Credit and Investment Policy

The numbers following the Director's place of residence indicate current Board Committee memberships. The numbers in parentheses indicate the total number of Board and Committee meetings which the Director actually attended in the year, and the number eligible to attend.

Douglas S. Alexander, CPA, CA
Chairman, Equitable Life of Canada
Corporate Director
London, Ontario
(28/28)

Robert Badun, MBA
Corporate Director
Toronto, Ontario
4, 5 (19/19)

Les Dakens, CHRE
Corporate Director
Dwight, Ontario
1, 2, 3, 4 (18/18)

Dikran Ohannessian, FCIA
Corporate Director
Toronto, Ontario
1, 2, 3, 5 (21/22)

A. David Pelletier, FSA, FCIA, Hon FIA
Corporate Director
Toronto, Ontario
1, 2, 5 (20/20)

Ronald E. Beettam, FSA, FCIA
President and Chief Executive Officer
Equitable Life of Canada
Waterloo, Ontario
(28/28)

Andrea Bolger, MBA, ICD.D
Corporate Director
Toronto, Ontario
1, 2, 3, (10/10)

Laura I. Formusa, LL.B, ICD.D
Corporate Director
Toronto, Ontario
3, 4, 5 (21/21)

Neil Parkinson, FCPA, FCA, ICD.D
Corporate Director
Cambridge, Ontario
4, 5 (13/13)

Craig Richardson
Chief Executive Officer
Canadian General Tower
Cambridge, Ontario
1, 2, 4 (18/18)

The Equitable Life Insurance Company of Canada is a member of the Canadian Life and Health Insurance Compensation Corporation (Assuris). Assuris administers the Consumer Protection Plan, which was established to provide protection to the policyholders of member companies. The Assuris brochure, which provides details and limitations of coverage, is available from your Equitable Life representative or the Company's head office.

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Group Services	1.800.265.4556		Individual Services	1.800.668.4095	