Wilton Re (Canada) Limited

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

Todd Lawrence

Todd Lawrence
President and Chief Executive Officer

Daniel Pellerin

Daniel Pellerin
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Wilton Re (Canada) Limited

Opinion

We have audited the consolidated financial statements of Wilton Re (Canada) Limited (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statement of income (loss), the consolidated statement of comprehensive income (loss), the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

April 22, 2022
Toronto, Ontario

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	4,5	63,957	120,086
Short-term investments	4,5	845,180	678,247
Bonds and debentures	3,4,5	5,937,605	6,359,416
Exchange-traded and mutual funds	3,4,5	2,874,992	2,426,875
Mortgage loans	4	16	25
Derivative assets	3,4,5,6	558	695
Accrued investment income	4	31,574	31,214
Other invested assets	4	123,238	139,709
Loans to policyholders	4	134,349	140,437
Total Invested Assets		10,011,469	9,896,704
Reinsurance assets	3,8	2,606,820	2,700,109
Deferred tax asset	20	5,992	5,980
Other assets	7	265,113	231,918
Segregated funds net assets	3,5,21	1,041,232	1,060,399
Total Assets		13,930,626	13,895,110
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	3,8	10,326,176	10,295,874
Investment contract liabilities	3,8	19,121	22,546
Reinsurance payables	3	6,924	5,079
Derivative liabilities	3,4,5,6	368	65
Deferred tax liability	20	55,834	68,135
Other liabilities	10	1,019,223	1,012,145
Segregated funds net liabilities	5,21	1,041,232	1,060,399
Total Liabilities		12,468,878	12,464,243
Equity			
Capital stock	11	400	312
Contributed surplus	12	886,068	886,068
Retained earnings (deficit)		394,091	322,820
Accumulated other comprehensive income (loss)		181,189	221,667
Total Equity		1,461,748	1,430,867
Total Liabilities and Equity		13,930,626	13,895,110

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

Approved by the Board of Directors on April 21, 2022 and signed on its behalf by:

Todd Lawrence
Director, President and Chief Executive Officer

Daniel Pellerin
Executive Vice President and Chief Financial Officer

CONSOLIDATED STATEMENT OF INCOME (LOSS)

For the Year Ended December 31

(thousands of dollars)

	Note	2021	2020
REVENUE			
Gross premiums	14	967,983	909,680
Less: Premiums ceded to reinsurers	14	441,797	435,473
Net premiums		526,186	474,207
Net investment income	4	252,886	808,758
Fee income	15	28,978	28,997
Other income	16	622	4,973
Total Revenue		808,672	1,316,935
POLICY BENEFITS AND CLAIMS			
Gross benefits and claims	17	641,303	581,469
Claims ceded to reinsurers	17	(418,186)	(400,256)
Change in gross insurance contract liabilities	8	2,305	1,173,034
Change in insurance contract liabilities ceded to reinsurers	8	93,289	(317,447)
Change in investment contract liabilities	8	305	306
Total Policy Benefits and Claims		319,016	1,037,106
EXPENSES			
Sales commissions and bonuses		188,475	172,794
Interest expense		75,912	74,387
Marketing and operating expenses	18	123,248	115,673
Policy related taxes, licenses and fees		16,726	15,719
Total Expenses		404,361	378,573
Income (Loss) Before Income Taxes		85,295	(98,744)
Income tax expense (recovery)	20	14,024	(35,597)
Total Net Income (Loss)		71,271	(63,147)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31
(thousands of dollars)

	2021	2020
Net income (loss)	71,271	(63,147)
Other comprehensive income (loss), net of income taxes:		
Change in unrealized gains (losses) on available-for-sale assets arising during the year:		
Bonds and short-term investments	(50,452)	48,308
Equities and Other	143	26
Reclassification adjustment for losses (gains) included in net income (loss):		
Bonds and short-term investments	(177)	(638)
Re-measurement of Defined Benefit Plans	10,008	(1,867)
Total Comprehensive Income (Loss)	30,793	(17,318)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31

(thousands of dollars)

	Note	2021	2020
Common shares			
Balance, January 1	11	312	312
Common shares issued		88	-
Balance, December 31		400	312
Contributed surplus			
Balance, January 1		886,068	636,068
Additional contributed surplus, contributed in cash during the year	12	-	250,000
Balance, December 31		886,068	886,068
Retained earnings (deficit)			
Balance, January 1		322,820	385,967
Net income (loss)		71,271	(63,147)
Dividends	12	-	-
Balance, December 31		394,091	322,820
Accumulated other comprehensive income (loss), net of income taxes			
Balance, January 1		221,667	175,838
Net change in unrealized gains (losses) on available-for-sale assets		(50,486)	47,696
Re-measurement of Defined Benefit Plans		10,008	(1,867)
Balance, December 31		181,189	221,667
Total Equity		1,461,748	1,430,867

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31

(thousands of dollars)

	2021	2020
OPERATING ACTIVITIES		
Net income (loss)	71,271	(63,147)
Items not affecting cash:		
Decrease (increase) in accrued investment income	(360)	(471)
Decrease (increase) in other assets	(33,195)	(3,790)
Decrease (increase) in tax provision on operating income	6,081	(38,002)
Increase (decrease) in insurance contract liabilities	30,302	1,188,267
Increase (decrease) in investment contract liabilities	(3,425)	(5,545)
Increase (decrease) in other liabilities	9,615	16,681
Decrease (increase) in reinsurance assets and liabilities (net)	95,134	(329,617)
Net unrealized losses (gains), including impairments	(32,846)	(572,786)
Net amortization of premium (accrual of discount) on invested assets	(91,571)	(94,644)
Total Non-Cash items	(20,265)	160,093
Net Cash Provided by (Used in) Operating Activities	51,006	96,946
INVESTING ACTIVITIES		
Sales, maturities and scheduled repayments of:		
Bonds and other fixed-term securities	327,877	207,226
Exchange-traded and mutual funds	168,463	276,283
Mortgage loans	9	7
Other invested assets	425,726	529,549
Derivatives	(5,958)	2,135
Purchases and issues of:		
Bonds and other fixed-term securities	(209,144)	(180,498)
Exchange-traded and mutual funds	(243,336)	(436,229)
Other invested assets	(408,493)	(614,390)
Short-term investments, net	(165,918)	(61,010)
Loans to policyholders, net	6,088	(460)
Net Cash Provided by (Used in) Investing Activities	(104,686)	(277,387)
FINANCING ACTIVITIES		
Principal portion of lease liabilities	(2,480)	(2,460)
Lease termination penalty	(57)	-
Common shares issued	88	-
Contributed surplus	-	250,000
Dividends paid	-	-
Net Cash Provided by (Used in) Financing Activities	(2,449)	247,540
Net Increase (Decrease) in Cash and Cash Equivalents during the year	(56,129)	67,099
SUMMARY OF CHANGES IN CASH POSITION		
Cash and cash equivalents, beginning of year	120,086	52,987
Net increase (decrease) in cash and cash equivalents during the year[1]	(56,129)	67,099
Cash and Cash Equivalents, end of year	63,957	120,086

[1] Included in net increase (decrease) in cash and cash equivalents during the year is interest received of $31 (2020 – $419) and interest expense paid of $62,901 at December 31, 2021 (2020 – $60,810), as well as dividends received of $137,586 at December 31, 2021 (2020 – $82,796).

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

CONSOLIDATED SCHEDULE OF CHANGES IN SEGREGATED FUNDS NET ASSETS

For the Year Ended December 31
(thousands of dollars)

	2021	2020
Segregated Funds net assets, beginning of year	1,061,144	1,160,645
Additions to segregated funds:		
Deposits	18,792	24,092
Net realized and unrealized gains (losses)	87,594	53,092
Interest and dividend income	54,662	37,297
Total Additions	161,048	114,481
Deductions from segregated funds:		
Payments to policyholders and their beneficiaries	145,047	179,257
Management fees	24,289	24,154
Other expenses, including GST on management fees	10,686	10,571
Total Deductions	180,022	213,982
Segregated Funds Net Assets, end of year	1,042,170	1,061,144

CONSOLIDATED SCHEDULE OF SEGREGATED FUNDS NET ASSETS

For the Year Ended December 31
(thousands of dollars)

	2021	2020
Investments, at market value:		
Cash and short-term investments	99,589	88,352
Bonds	73,020	85,045
Equities and mutual funds	868,743	884,451
Futures contracts	(206)	177
Other assets	1,710	3,685
Liabilities	(686)	(566)
Total Segregated Funds Net Assets	1,042,170	1,061,144
Seed units invested in segregated funds by the Company	938	745
Segregated Funds net assets	1,041,232	1,060,399
Total Segregated Funds Net Assets	1,042,170	1,061,144

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – INDEX

December 31, 2021

1. Basis of Preparation

(a) Corporate Information

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

WRC owns 100% of *ivari* Holdings ULC ("iHULC"). iHULC owns 100% of *ivari,* a Canadian life insurance company and is the sponsor of pension plans that provide retirement benefits to the employees of *ivari*. *ivari* is regulated by the Office of the Superintendent of Financial Institutions ("OSFI").

WRC was required to establish a Canadian life insurance branch ("the Branch") by the Department of Finance to reinsure certain policies written by *ivari* ("underlying policies"); the Branch is regulated by OSFI. The Branch entered into a single reinsurance assumption contract with *ivari* on September 1, 2017 and it does not participate in any retrocession contracts.

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

(b) Basis of Presentation

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

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

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

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

(c) Use of Estimates and Judgments

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

(d) COVID-19 Impact on the Use of Estimates and Judgments

On March 11, 2021, the World Health Organization declared COVID-19 a global pandemic. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. The Company has considered the impact of COVID-19 when preparing the consolidated financial statements and related note disclosures. While the effects of COVID-19 do not change the significant estimates, judgments and assumptions in the preparation of the consolidated financial statements, the Company has enhanced its procedures and governance practices where necessary and as considered below.

(e) COVID-19 Financial Reporting Considerations in the Preparation of the Consolidated Financial Statements

Given the increased economic uncertainties from COVID-19, the Company has enhanced its financial reporting procedures and governance practices surrounding the preparation of the consolidated financial statements. In addition to standard financial year end reporting practices, the Company has:

- Critically assessed estimates, judgments and assumptions used in the preparation of the consolidated financial statements in the context of COVID-19;
- Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the consolidated financial statements;
- Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the consolidated financial statements;
- Determined the impact COVID-19 has had on the reported amounts and disclosures in the consolidated financial statements and updated these disclosures accordingly; and
- Assessed the carrying value of the Company's assets and liabilities at reporting date in the context of COVID-19. Where there is a significant use of estimates and judgments in determining the carrying value of the Company's assets and liabilities, the procedures in determining the carrying value of these assets and liabilities are summarized below.

1. Basis of Preparation (continued)

(e) COVID-19 Financial Reporting Considerations in the Preparation of the Consolidated Financial Statements (continued)

(i) Valuation of Financial Instruments

The Company's investment securities are invested in high-quality liquid assets which are valued using inputs from observable market data as shown in the Company's fair value hierarchy disclosure in Note 5. The Company has ensured that the valuation of its trading and investment securities reflects a market participants' assumptions based on information available at the measurement date.

(ii) Impairment of intangible assets

The Company has reviewed the carrying value and estimated useful life of its finite life intangible assets at reporting date. There were no significant impairment concerns on the Company's intangible assets (refer to note 7).

(iii) Insurance Contract Liabilities

The Company has considered the impact from COVID-19 in its assumptions, as further detailed in Note 8, for measuring Insurance Contract Liabilities. In determining the adequacy of the Insurance Contract Liabilities the Company has reviewed policyholder behaviours during COVID-19, the severity of claims and how experience to date varies from existing assumptions about pandemic risk and how those risks are managed. As a result of this review, it was determined there were no significant impacts from COVID-19 on the assumptions used in determining the insurance contract liabilities at the reporting date.

(f) Basis of Consolidation

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

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

2. Significant Accounting Policies and Accounting Policy Changes

(a) Significant Accounting Policies

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

(i) Financial Assets Excluding Embedded Derivatives

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

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

Classification

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

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

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

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

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

Measurement

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

For FVTPL assets, all accrued income and realized and unrealized gains (losses) are recognized in net investment income in the consolidated statement of income (loss). For AFS assets, unrealized gains (losses) in fair value are recognized in other comprehensive income ("OCI").

Realized gains (losses) on the sale of AFS assets are reclassified from accumulated other comprehensive income ("AOCI") and recorded as gains (losses) in net investment income. Loans and receivables are carried at amortized cost using the effective interest rate method.

Fair Value

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

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

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

- Invested Assets

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

- Derivative Financial Instruments

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

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

The Company's financial assets include the following:

- Cash, Cash Equivalents and Short-term Investments

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

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

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

- Bonds and Debentures

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

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

- Mortgages

  Mortgages are carried at amortized cost which approximates fair value as described above.

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Measurement (continued)

Fair Value (continued)

- Exchange-traded Funds

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

- Mutual Funds

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

- Common Stock

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

- Loans to Policyholders

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

- Other Invested Assets

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

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

Impairment

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

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

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

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

Impairment losses on equity instruments classified as AFS are recognized in net income (loss).

Impairment reviews are conducted periodically throughout the year.

Derecognition

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

(ii) Financial Liabilities

Measurement

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

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

- Amounts on Deposit from Reinsurer

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

- Retirement Benefit Plans

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

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

Derecognition

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

(iii) Offsetting of Financial Assets and Financial Liabilities

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

(iv) Transaction Costs

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

(v) Insurance Contracts

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

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

Insurance Contract Liabilities

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

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

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

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

Other Insurance Contract Liabilities

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

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

(a) Significant Accounting Policies (continued)

(vi) Investment Contracts

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

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

(vii) Service Contracts

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

(viii) Embedded Derivatives

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

These financial instruments are measured at fair value with changes in fair value recognized in profit or loss.

Fair value of embedded derivatives is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available.

(ix) Reinsurance Assets and Liabilities

Ceded Reinsurance

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

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

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

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

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

Assumed Reinsurance

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

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

- Current Income Taxes

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

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

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

- Deferred Income Taxes

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

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

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

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

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

(xi) Segregated Funds

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

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

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

(xii) Derivatives Excluding Embedded Derivatives

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

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

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

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

Fair values of exchange-traded futures contracts are based on quoted market closing prices. Fair values of forward contracts, which are traded over-the-counter, are determined using pricing models which take into account current market prices of underlying instruments, interest rates and exchange rates.

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

(a) Significant Accounting Policies (continued)

(xii) Derivatives Excluding Embedded Derivatives (continued)

Fair values of swap contracts are determined by discounting expected future cash flows using current market interest rates and exchange rates for similar instruments. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available.

(xiii) Provisions

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

(xiv) Other Assets

Other assets are measured at amortized cost and include accounts receivable, business loans, property and equipment, right-of-use assets, intangible assets, unearned commissions, and prepaid assets. Additional notes on some categories appear below:

Accounts Receivable

Accounts receivable is comprised of amounts due from business partners, affiliates and brokers as well as premiums due.

Property and Equipment

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

Intangible Assets

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

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

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

Unearned Commissions

Commissions are paid when new business is placed but are incurred over a 2-year period and subject to recapture prior to 2 years.

Prepaid Assets

Prepaid Assets includes amounts paid to *ivari*'s primary outsourced services provider to modernize *ivari*'s legacy administration systems, while providing policy administration, customer support services and digital new business capabilities. The asset will be amortized over the remaining life of the related service agreement. As well, future system license and maintenance costs paid in advance are included as prepaid assets and will be amortized as the services are used.

(xv) Impairment of Accounts Receivable, Property and Equipment and Intangible Assets

Accounts receivable are tested annually for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due.

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

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

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

(xvi) Revenue Recognition

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

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

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

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

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

(xvii) Net Investment Income

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

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

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

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

(xviii) Related Party Transaction

The Company enters into transactions with related parties in the normal course of business. Transactions are at market terms and conditions, except for service fees, which are charged at a cost equivalent to the cost incurred in providing these services.

(xix) Leases

The Company recognizes right-of-use assets and lease liabilities at the commencement date of its lease and sublease agreements. The right-of-use assets are presented as part of other assets on the statement of financial position and lease liabilities are presented as other liabilities. Depreciation charges for the right-of-use assets and interest on the lease liabilities are recognized as operating expenses in the year to which they relate. Short-term leases and leases of low value assets are expensed.

(xx) Deferred Compensation Payments

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

(xxi) Contribution Surplus

The Company records contributed additional capital in contributed surplus at fair value.

(xxii) Policy Benefits and Claims

Gross Benefits and Claims

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

Claims Ceded to Reinsurers

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

(xxiii) Sales Taxes and Premium Taxes

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

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

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

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

(b) Other Accounting Policy Changes

The following standards and amendments will be applicable to the Company subsequent to 2021:

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

In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39. IFRS 9 provides guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The classification and measurement of financial assets will depend on the financial asset's contractual cash flow characteristics and the entity's business model for managing the asset. For financial instruments not measured at FVTPL, IFRS 9 introduces an impairment model that requires recognition of expected loss from possible default events in the near term as well as recognition of lifetime expected loss if certain criteria are met. A new model for hedge accounting aligns hedge accounting more closely with the entity's risk management activities by increasing the eligibility of both hedged items and hedging instruments, and introducing a more principles-based approach to assess hedging effectiveness. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however in September 2016, the IASB made amendments to IFRS 4 that provide a temporary exemption which permits eligible insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before January 1, 2021. In June 2020, the IASB amended IFRS 4 to permit eligible insurers to apply IFRS 9 effective January 1, 2023, alongside IFRS 17 *Insurance Contracts*. The temporary exemption is only available to entities with activities which are predominantly connected with insurance and which have not already adopted portions of IFRS 9. *WRC* and its consolidated entities have assessed its business activities as required and determined that more than 90% of its liabilities were connected with insurance at the initial December 31, 2015 assessment and again at December 31, 2017, following the sale of CPL. In addition, OSFI requires that insurance companies defer implementation of IFRS 9 to coincide with the effective date of IFRS 17. The Company has applied the exemption and continues to apply IAS 39.

The Company continues to assess the qualitative and quantitative impacts of its IFRS 9 implementation but does not expect any significant impact on the Company's Financial Statements.

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

In May 2017, the IASB issued IFRS 17 to establish a comprehensive global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. Amendments to IFRS 17 were issued in June 2020. IFRS 17 as amended, is effective for years beginning on January 1, 2023, and is to be applied retrospectively, unless impracticable, in which case the insurer may elect to use a modified retrospective or fair value method. IFRS 17 will replace IFRS 4, and will change the fundamental principles used by the Company for recognizing and measuring insurance contracts . IFRS 17 will also change the presentation and the related note disclosures of the Company's consolidated financial statements. Although permitted by the standard, OSFI does not allow early adoption.

While the Company continues its assessment of the quantitative implications of this standard, including consideration of any OSFI requirements, the following qualitative impacts are expected:

- The Company will now be required to defer new business gains on initial recognition of insurance contracts as contractual service margin ("CSM") and recognize the CSM into income over the service period of the insurance contracts. CSM will be a component of insurance contract liabilities. New business losses are recognized immediately as onerous contracts.
- The Company applies IFRS 17 retrospectively, unless impracticable, in which case the fair value approach will be used. On transition, the Company will use the fair value approach, using the principles of IFRS 13 Fair value. The fair value will have significant estimate uncertainty and assumptions are being evaluated by the Company. The recognition of CSM related to in-force business will result in a decrease to equity.
- Discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract. This will represent a significant difference in practice from the Canadian Asset Liability Method ("CALM") under IFRS 4. The Company continues to evaluate the impact on the measurement of insurance contracts as a result of a change in discount rate methodology.
- Certain assumptions around expenses are being evaluated by the Company given that IFRS 17 has broadened the definition of certain attributable costs.
- IFRS 17 does not change the cash flows inherent within insurance contracts, such as premiums and claims.
- There will be significant impacts to disclosures such as the Statement of Income, where Written Premiums will no longer be a measure of revenue. There will be significant additional disclosure requirements as a result of IFRS 17.

The IASB issued other revised standards and exposure drafts effective for annual periods starting beyond January 1, 2022. Adoption of these amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

3. Risk Management and Control Practices

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

The Board is ultimately responsible for the Company's risk management and it regularly monitors risk management policies and practices.

The Company follows specific risk management practices and these are described below. Risks that related only to *ivari* have been identified specifically. For *ivari*, the Investment and Risk Committee ("IRC") and the Audit and Conduct Review Committee ("ACRC") of the Board facilitate the Board's risk management monitoring as part of their mandates. Further, an Own Risk and Solvency Assessment Report ("ORSA") has been approved by the Board. This report consolidates documentation and assessments of *ivari's* ERM framework as well as documentation about the development of internal targets and capital needs.

Risk Identification, Monitoring and Measurement

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

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

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

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

(a) Risks relating to the COVID-19 Pandemic

The duration and impact of the COVID-19 outbreak cannot currently be determined. If the COVID-19 pandemic is prolonged, the adverse impact on the economy could deepen, augmenting financial market declines and/or volatility. This may result in heightening many of the other risks described in this section:

- Credit risk, including defaults, impairments and downgrades;
- Market risks such as equity, interest rates and spread; and
- Insurance risk, including higher than expected mortality and morbidity claims and adverse policyholder behaviour.

While Management's current activities, as outlined below, have enabled the Company to appropriately monitor these heightened risks, the Company increased the frequency of review of capital levels.

While there remains uncertainty in the Company's COVID-19-related mortality and morbidity claims experience, the Company benefited from reinsurance and has not experienced any large losses to date.

The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus, potential treatments and therapies, the availability of a vaccine and on actions taken by governments, businesses and individuals. Given the extent of the circumstances, it is difficult to reliably measure or predict the potential impact of this uncertainty on the Company's future financial results.

(b) Credit Risk

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

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(b) Credit Risk (continued)

(i) Credit Risk Governance and Control

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

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

(ii) Concentration of Credit Risk for Financial Instruments

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics, such as groups of debtors in the same economic or geographic regions or in similar industries. The following tables provide the carrying values of bonds and debentures by industry sector.

	December 31, 2021		
	Fair Value Through Profit or Loss	Available-for-sale	Total
Government	1,369,196	691,912	2,061,108
Financial	481,293	61,056	542,349
Communications	803,662	45,566	849,228
Utilities	781,026	34,926	815,952
Consumer	655,774	17,030	672,804
Industrial	420,904	21,258	442,162
Energy	473,407	-	473,407
Basic materials	-	-	-
Other	80,595	-	80,595
Total	5,065,857	871,748	5,937,605

	December 31, 2020		
	Fair Value Through Profit or Loss	Available-for-sale	Total
Government	1,481,397	740,317	2,221,714
Financial	491,565	56,172	547,737
Communications	761,051	51,879	812,930
Utilities	815,580	45,696	861,276
Consumer	821,474	15,912	837,386
Industrial	474,151	22,930	497,081
Energy	494,176	-	494,176
Basic materials	-	-	-
Other	87,116	-	87,116
Total	5,426,510	932,906	6,359,416

(iii) Assets Default Risk

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

	December 31, 2021			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-sale	Total	Percent of Portfolio
AAA	131,020	112,288	243,308	4.10%
AA	1,181,380	595,769	1,777,149	29.93%
A	1,363,154	53,405	1,416,559	23.86%
BBB	2,390,303	110,286	2,500,589	42.11%
Total	5,065,857	871,748	5,937,605	100.00%

	December 31, 2020			
Bond Ratings	Fair Value Through Profit or Loss	Available-for-sale	Total	Percent of Portfolio
AAA	144,783	142,871	287,654	4.52%
AA	1,449,702	614,177	2,063,879	32.46%
A	1,370,365	53,610	1,423,975	22.39%
BBB	2,461,660	122,248	2,583,908	40.63%
Total	5,426,510	932,906	6,359,416	100.00%

(iv) Loans Past Due

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received but management has reasonable assurance of the timely collection of the full amount of principal and interest due. As at December 31, 2021, there were no loans where either the principal or interest was past due (2020 - nil).

(v) Derivative Financial Instruments by Counterparty Credit Rating

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

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

	December 31, 2021	December 31, 2020
AA	-	-
A	558	695
Total	558	695

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(b) Credit Risk (continued)

(vi) Credit Risk for Reinsurance

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

	December 31, 2021			December 31, 2020		
	Reinsurance Assets	Liabilities to Reinsurers[1]	Net Exposure	Reinsurance Assets	Liabilities to Reinsurers[1]	Net Exposure
AA	2,718,555	1,379,137	1,339,418	2,824,688	1,598,643	1,226,045
A	(111,735)	-	(111,735)	(124,579)	-	(124,579)
Total	2,606,820	1,379,137	1,227,683	2,700,109	1,598,643	1,101,466

[1] Includes funds withheld and amounts on deposit.

(c) Market Risk

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

Equity Risk

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

Interest Rate Risk

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

Currency Risk

Currency risk is the potential for economic loss associated with fluctuations in the market values of assets or liabilities due to foreign exchange rate movements that are not fully passed through to the policyholders. As at December 31, 2021, the Company has minimal exposure to currency risk.

(i) Market Risk Management, Governance and Control

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

- Risk appetite and target ranges have been established for market risk.
- Ongoing monitoring and reporting of market risk sensitivities against established risk target ranges is performed.
- Related risk management policies, guidelines and procedures are in place.
- The Asset-Liability Management working group oversees key market risk strategies and tactics, reviews compliance with applicable policies and standards and reviews investment and hedging performance.
- Hedging and asset-liability management programs are maintained in respect of key market risks.
- Product development and pricing policies require a detailed risk assessment and pricing provisions for material market risks.
- Use of foreign exchange derivative contracts such as currency swaps and forwards to mitigate exposure outside of established risk target ranges.

- Stress testing techniques, such as FCT, are used to measure the effects of large and sustained adverse market movements.
- Insurance contract liabilities are established in accordance with standards set forth by the ASB and guidance provided by the CIA.
- Target capital levels that exceed regulatory minimums have been established.

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

	Estimated Impact on Net Income		Estimated Impact on OCI		Estimated Impact on Total Equity	
	2021	2020	2021	2020	2021	2020
Change in equity markets[1]						
10% increase	49,800	64,800	100	100	49,900	64,900
10% decrease	(53,600)	(69,200)	(100)	(100)	(53,700)	(69,300)
20% increase	101,900	131,100	100	100	102,000	131,200
20% decrease	(115,000)	(145,300)	(100)	(100)	(115,100)	(145,400)
Changes in interest rates[2]						
1% increase in yield curve	20,200	44,900	(114,900)	(129,000)	(94,700)	(84,100)
1% decrease in yield curve	(40,500)	(91,600)	146,000	165,900	105,500	74,300
2% increase in yield curve	37,300	74,900	(205,600)	(229,500)	(168,300)	(154,600)
2% decrease in yield curve	(110,000)	(136,200)	263,400	192,800	153,400	56,600

1 Represents the impact of an immediate change in the equity markets as at December 31. Income impacts are net of changes in the supporting assets and any hedge recoveries, including projected changes in future hedge costs. A 25.81% effective tax rate (2020 - 26.04%) is assumed to estimate after-tax income.

2 Represents the impact of an immediate parallel shift in the yield curve for all durations, subject to a 0% floor. A 25.81% effective tax rate (2020 - 26.04%) for *ivari* was used to estimate after-tax income.

(ii) Segregated Funds Guarantees and Hedging Strategy

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

ivari uses a semi-static hedge program to significantly reduce exposure to equity risk in its segregated funds. *ivari* has hedged about 100% (2020 - 100%) of the segregated fund equity exposure and 100% of the currency exposure as measured on an economic basis.

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

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

	December 31, 2021			December 31, 2020		
	Guarantee Value	Fund Value	Amount at Risk	Guarantee Value	Fund Value	Amount at Risk
Maturity Benefit	516,560	1,041,232	116	579,747	1,060,399	174
Death Benefit	855,407	1,041,232	851	889,182	1,060,399	1,056
Withdrawal Benefit	340,034	1,041,232	59,818	351,085	1,060,399	65,191

(iii) Universal Life Minimum Interest Guarantees

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

	Fund Value[1]	
	December 31, 2021	December 31, 2020
No guarantee	71,715	66,065
Up to 2%	110,208	107,967
Above 2% and up to 3%	181,617	184,628
Above 3% and up to 4%	660,771	627,297
Total	1,024,311	985,957

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

3. Risk Management and Control Practices (continued)

(c) Market Risk (continued)

(iv) Exchange-traded funds

ivari invests in ETFs, tracking various global market indices, to support policyholder funds invested in such indices. *ivari* also invests in ETFs on the Canadian equity market to support some of its longer duration insurance contract liabilities. The notional amount of the latter as at December 31, 2021 is $735,281 (2020- $667,097).

(v) Embedded Derivatives

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

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

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

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

(d) Liquidity Risk

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

(i) Liquidity Risk Management, Governance and Control

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

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

- Cash management and asset-liability management programs ensure that sufficient cash flow and liquid assets are available to cover potential funding requirements. The Company invests in various types of assets with a view of matching them to its liabilities of various durations.
- Target capital levels exceed regulatory minimums. The Company actively manages and monitors capital and asset levels, and the diversification and credit quality of its investments. Management continues to monitor capital levels with increased frequency through-out COVID-19 given the heightened financial risk.
- The Company maintains various credit facilities for general corporate purposes.
- The Company's contingency plan to mitigate the impact of a liquidity crisis includes the sale of highly liquid securities. If further action is required, WRC will work with its parent to facilitate capital contributions.

As at December 31, 2021 and 2020, the Company maintained sufficient liquidity to cover all cash flow needs.

(ii) Maturity of, Liabilities and Commitments

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

	December 31, 2021				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Liabilities[1] and Lease Commitments[3]					
Undiscounted Investment contract liabilities	6,700	11,887	1,226	374	20,187
Reinsurance payables	6,924	-	-	-	6,924
Derivative liabilities	368	-	-	-	368
Undiscounted other liabilities	136,165	309,973	429,885	1,993,569	2,869,592
Undiscounted insurance contract liabilities[1, 2]	(18,623)	250,682	1,507,182	36,949,132	38,688,373
Other insurance contract liabilities[1]	-	-	-	-	145,765
Subtotal	131,534	572,542	1,938,293	38,943,075	41,731,209
Leases[3]	3,161	13,629	8,094	-	24,884
Total	134,695	586,171	1,946,387	38,943,075	41,756,093

	December 31, 2020				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Liabilities[1] and Lease Commitments[3]					
Undiscounted Investment contract liabilities	7,256	14,567	1,444	519	23,786
Reinsurance payables	5,079	-	-	-	5,079
Derivative liabilities	65	-	-	-	65
Undiscounted other liabilities	135,663	292,494	441,780	2,065,687	2,935,624
Undiscounted insurance contract liabilities[1, 2]	(49,573)	131,724	1,211,800	32,336,379	33,630,330
Other insurance contract liabilities[1]	-	-	-	-	117,768
Subtotal	98,490	438,785	1,655,024	34,402,585	36,712,652
Leases[3]	3,203	13,360	11,578	-	28,141
Total	101,693	452,145	1,666,602	34,402,585	36,740,793

1 Payments are based on maturity dates and actual settlement of the obligations could occur earlier than shown. Where timing cannot be estimated, only a total is shown.

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

3 Leases are discussed in Note 9.

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

(e) Insurance Risk

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

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

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

- Insurance contract liabilities are established in accordance with standards set forth by the ASB and guidance provided by the Canadian Institute of Actuaries ("CIA").
- Target capital levels have been established that exceed regulatory minimums.
- Board-approved maximum retention limits mean that insurance amounts issued in excess of these limits are reinsured.
- Various limits, restrictions and fee structures may be introduced into plan designs in order to establish more homogeneous policy risk profiles and limit the potential for anti-selection.
- Well-defined underwriting and risk selection standards are regularly monitored and audited by the Company, its reinsurers and the Medical Insurance Bureau for Canadian risks.

3. Risk Management and Control Practices (continued)

(e) Insurance Risk (continued)

- Approval limits are established for underwriting staff based on education and experience.
- Review and monitoring are conducted of persistency, agents' conduct and complaints.
- Diversification and risk pooling is managed by aggregation of broad exposures across product lines, geography, distribution channels, etc.
- Well-defined claims adjudication procedures provide guidelines to effectively manage when claims are to be paid, declined or when further investigation is required to make a decision.
- Claims authority levels are based on staff qualifications and technical experience.
- Reviews and audits of submitted claims are performed by the Company's reinsurers.
- Periodic mortality reports providing detailed break-downs of settled claims are prepared.
- Experience studies (both Company specific and industry level) and Source of Earnings analyses are regularly conducted and factored into the valuation of insurance contract liabilities as well as product pricing practices.
- The Company is tracking COVID-19 related deaths and evaluating whether there are any trends that would need to be addressed.
- Stress testing techniques, such as FCT, are used to measure the effects of large and sustained adverse movements in insurance risk factors.

(f) Operational Risk

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

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

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

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

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

(g) Third-Party Risk

The Company engages in a variety of third-party relationships, including with distributors, outsourced service providers and suppliers. The Company's profitability or reputation could be impacted if these third parties are unable to meet their ongoing service commitments or fail to perform to expected standards.

Key controls utilized in the management of this risk are the implementation and assessed compliance of a Board-approved policy and guidelines which are consistent with OSFI's requirements to identify, assess, manage, monitor and report on third-party risk, and approval limits established on third-party arrangements. The Company monitors performance of its third parties in a manner that is commensurate to the size, risk, scope and complexity of the third-party relationship.

4. Portfolio Investments

(a) Invested Assets and Derivative Liabilities

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

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

	Available-for-sale	Fair Value Through Profit or Loss	Held-for-Trading	Loans and Receivables	December 31, 2021 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Carrying and Fair Value
Cash and cash equivalents	7,949	56,008	-	-	63,957
Short-term investments	11,141	834,039	-	-	845,180
Bonds and debentures	871,748	5,065,857	-	-	5,937,605
Exchange-traded and mutual funds	-	2,874,992	-	-	2,874,992
Loans to policyholders	-	-	-	134,349	134,349
Mortgage loans	-	-	-	16	16
Derivative assets	-	-	558	-	558
Other invested assets:					
Segregated funds seed units	938	-	-	-	938
Land leases	-	-	-	290	290
Futures margins	-	122,010	-	-	122,010
Accrued investment income	-	-	-	31,574	31,574
Total Invested Assets	891,776	8,952,906	558	166,229	10,011,469
Derivative Liabilities	-	-	368	-	368

	Available-for-sale	Fair Value Through Profit or Loss	Held-for-Trading	Loans and Receivables	December 31, 2020 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Carrying and Fair Value
Cash and cash equivalents	11,124	108,962	-	-	120,086
Short-term investments	8,899	669,348	-	-	678,247
Bonds and debentures	932,906	5,426,510	-	-	6,359,416
Exchange-traded and mutual funds	-	2,426,875	-	-	2,426,875
Loans to policyholders	-	-	-	140,437	140,437
Mortgage loans	-	-	-	25	25
Derivative assets	-	-	695	-	695
Other invested assets:					
Segregated Funds seed units	745	-	-	-	745
Land leases	-	-	-	439	439
Futures margins	-	138,525	-	-	138,525
Accrued investment income	-	-	-	31,214	31,214
Total Invested Assets	953,674	8,770,220	695	172,115	9,896,704
Derivative Liabilities	-	-	65	-	65

(thousands of dollars)

4. Portfolio Investments (continued)

(b) Cash and Cash Equivalents

Cash and cash equivalents are made up of the following:

	December 31, 2021	December 31, 2020
Cash, end of year	41,009	65,166
Cash equivalents, end of year	22,948	54,920
Cash and cash Equivalents, End of Year	63,957	120,086

(c) Unrealized Gains (losses)

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

	December 31, 2021			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	AOCI Before Tax
Cash equivalents	7,949	-	-	-
Short-term investments	11,141	-	(6)	(6)
Bonds and debentures	871,748	251,508	(128)	251,380
Segregated funds seed units	938	663	-	663
Total	891,776	252,171	(134)	252,037

	December 31, 2020			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	AOCI Before Tax
Cash equivalents	11,124	1	-	1
Short-term investments	8,899	-	-	-
Bonds and debentures	932,906	320,445	-	320,445
Segregated funds seed units	745	470	-	470
Total	953,674	320,916	-	320,916

(d) Bonds and Debentures

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

	December 31, 2021				
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Bonds and Debentures – Fair Value Through Profit or Loss					
Government – Federal					
Carrying value	-	20,171	11,092	6,233	37,496
Average yield	-	1.08%	1.29%	1.67%	1.24%
Government – Canadian Provincial					
Carrying value	-	30,986	54,478	1,243,643	1,329,107
Average yield	-	1.70%	2.14%	2.56%	2.52%
Government – Canadian Municipal					
Carrying value	-	649	691	1,255	2,595
Average yield	-	1.28%	1.82%	2.64%	2.08%
Corporate					
Carrying value	-	21,086	264,839	3,078,590	3,364,515
Average yield	-	2.33%	3.11%	3.63%	3.58%
Foreign Issuers					
Carrying value	-	-	-	332,144	332,144
Average yield	-	-	-	3.46%	3.46%
Total	-	72,892	331,100	4,661,865	5,065,857
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	9,840	3,235	9,746	89,466	112,287
Average yield	0.34%	0.79%	1.31%	1.67%	1.49%
Government – Canadian Provincial					
Carrying value	1,230	-	-	578,395	579,625
Average yield	0.77%	-	-	2.48%	2.47%
Government – Canadian Municipal					
Carrying value	-	-	-	-	-
Average yield	-	-	-	-	-
Corporate					
Carrying value	-	52,108	8,718	119,010	179,836
Average yield	-	1.48%	2.31%	3.47%	2.84%
Foreign Issuers					
Carrying value	-	-	-	-	-
Average yield	-	-	-	-	-
Total	11,070	55,343	18,464	786,871	871,748
Grand Total	11,070	128,235	349,564	5,448,736	5,937,605

(thousands of dollars)

4. Portfolio Investments (continued)

(d) Bonds and Debentures (continued)

	December 31, 2020				
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Bonds and Debentures – Fair Value Through Profit or Loss					
Government – Federal					
Carrying value	284	21,940	10,385	6,543	39,152
Average yield	0.21%	0.29%	0.49%	1.11%	0.48%
Government – Canadian Provincial					
Carrying value	-	14,249	50,235	1,375,285	1,439,769
Average yield	-	0.68%	1.13%	2.11%	2.07%
Government – Canadian Municipal					
Carrying value	329	246	702	1,199	2,476
Average yield	0.25%	1.09%	1.09%	2.23%	1.47%
Corporate					
Carrying value	193	17,807	236,356	3,260,121	3,514,477
Average yield	-	0.91%	2.28%	3.29%	3.21%
Foreign Issuers					
Carrying value	-	5,576	115,542	309,518	430,636
Average yield	-	1.65%	2.23%	3.07%	2.83%
Total	806	59,818	413,220	4,952,666	5,426,510
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	-	14,353	10,553	99,342	124,248
Average yield	-	0.19%	0.61%	1.13%	0.98%
Government – Canadian Provincial					
Carrying value	-	5,318	-	610,752	616,070
Average yield	-	0.31%	-	2.15%	2.14%
Government – Canadian Municipal					
Carrying value	-	-	-	-	-
Average yield	-	-	-	-	-
Corporate					
Carrying value	13,611	43,899	9,390	125,688	192,588
Average yield	0.64%	0.73%	1.52%	3.04%	2.27%
Foreign Issuers					
Carrying value	-	-	-	-	-
Average yield	-	-	-	-	-
Total	13,611	63,570	19,943	835,782	932,906
Grand Total	14,417	123,388	433,163	5,788,448	6,359,416

(e) Exchange-traded and Mutual Funds

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

	December 31, 2021	December 31, 2020
	Fair Value	Fair Value
Exchange-traded funds	1,406,590	1,175,743
Mutual funds	1,468,402	1,251,132
Total	2,874,992	2,426,875

(f) Impairment

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

During 2021, there were no impairments on bonds held as AFS assets (2020 - nil). There was no recovery for 2021 (2020 - nil). During 2021, impairments on equities was nil (2020 - nil) and impairments for segregated funds seed money was nil (2020 - nil).

(g) Net Investment Income

	2021				
	Fair Value Through Profit or Loss	Held-for-Trading	Available-for-sale	Amortized Cost	Total
Cash and short-term investments					
Interest income	984	-	29	-	1,013
Gains (losses)	598	-	2	-	600
Bonds and debentures					
Interest income	191,297	-	25,339	-	216,636
Gains (losses)	(324,824)	-	138	-	(324,686)
Exchange-traded and mutual funds					
Gains (losses)	373,244	-	-	-	373,244
Dividends	137,586	-	-	-	137,586
Derivatives					
Gains (losses)	-	(145,437)	-	-	(145,437)
Mortgage loans	-	-	-	1	1
Land leases	-	-	-	26	26
Loans to policyholders	-	-	-	9,290	9,290
Miscellaneous income (loss)	-	-	-	1,084	1,084
Impairment recovery (expense)	-	-	-	-	-
Investment income before investment expenses and investment income taxes					269,357
Less: Investment expenses					14,441
Less: Investment income taxes					2,030
Net Investment Income					252,886

	2020				
	Fair Value Through Profit or Loss	Held-for-Trading	Available-for-sale	Amortized Cost	Total
Cash and short-term investments					
Interest income	4,680	-	137	-	4,817
Gains (losses)	(6,663)	-	15	-	(6,648)
Bonds and debentures					
Interest income	189,733	-	25,333	-	215,066
Gains (losses)	389,110	-	860	-	389,970
Exchange-traded and mutual funds					
Gains (losses)	183,211	-	-	-	183,211
Dividends	82,796	-	-	-	82,796
Derivatives					
Gains (losses)	-	(54,850)	-	-	(54,850)
Mortgage loans	-	-	-	2	2
Land leases	-	-	-	10	10
Loans to policyholders	-	-	-	9,367	9,367
Miscellaneous income (loss)	-	-	-	1,729	1,729
Impairment recovery (expense)	-	-	-	-	-
Investment income before investment expenses and investment income taxes					825,470
Less: Investment expenses					12,947
Less: Investment income taxes					3,765
Net Investment Income					808,758

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

4. Portfolio Investments (continued)

(h) Pledged Securities

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

The pledged assets will be returned to *ivari* when the underlying transaction is terminated. In the event of *ivari*'s inability to make payment upon futures settlement, the counterparty would be entitled to apply the collateral in order to settle the liability. Collateral requirements are determined by changes in the market value of the futures contracts outstanding. As at December 31, 2021, *ivari* pledged securities having a fair value of $122,010 (2020 - $138,525).

(i) Assets in trust

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

5. Determination of Fair Value of Financial Instruments

(a) Fair Value Hierarchy

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

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

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

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

	December 31, 2021			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	5,065,857	-	100%	-
Exchange-traded and mutual funds	2,874,992	100%	-	-
Cash and cash equivalents	56,008	100%	-	-
Short-term investments	834,039	-	100%	-
Futures margins	122,010	-	100%	-
Held-for-trading				
Forwards	558	-	100%	-
Options	-	-	-	-
Available-for-sale				
Bonds and debentures[1]	871,748	-	100%	-
Cash and cash equivalents	7,949	-	100%	-
Short-term investments	11,141	-	100%	-
Segregated funds seed units	938	100%	-	-
Financial Liabilities				
Forwards	368	-	100%	-
Options	-	-	-	-
Segregated Funds Net Assets	1,041,232	83%	17%	-
Segregated Funds Net Liabilities	1,041,232	83%	17%	-

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

	December 31, 2020			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	5,426,510	-	98%	2%
Exchange-traded and mutual funds	2,426,875	100%	-	-
Cash and cash equivalents	108,962	100%	-	-
Short-term investments	669,348	-	100%	-
Futures margins	138,525	-	100%	-
Held-for-trading				
Forwards	695	-	100%	-
Options	-	-	-	-
Available-for-sale				
Bonds and debentures[1]	932,906	-	100%	-
Cash and cash equivalents	11,124	-	100%	-
Short-term investments	8,899	-	100%	-
Segregated funds seed units	745	100%	-	-
Financial Liabilities				
Forwards	65	-	100%	-
Options	-	-	-	-
Segregated Funds Net Assets	1,060,399	86%	14%	-
Segregated Funds Net Liabilities	1,060,399	86%	14%	-

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

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

There were no transfers between Level 1 and Level 2 financial instruments during 2021 (2020 – nil).

Within segregated funds, there were no material transfers between Levels 1 and 2 during 2021 (2020 - immaterial).

(thousands of dollars)

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

(c) Movements in Level 3 Financial Instruments

The following table provides details of the movements in the fair value of financial instruments categorized within Level 3 from the beginning to the end of 2021.

	Available-for-sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	-	121,118	1,571	122,689
Total gains (losses) through profit or loss	-	9,192	156	9,348
Total unrealized gains (losses) through OCI	-	-	-	-
Purchases	-	-	200	200
Sales	-	(130,310)	(169)	(130,479)
Net transfers into (out of) Level 3	-	-	(604)	(604)
Closing Balance	-	-	1,154	1,154
Total gains (losses) in net income for assets held at end of year	-	-	-	-

The following table provides details of the movements in the fair value of financial instruments categorized within Level 3 during 2020.

	Available-for-sale	Fair Value Through Profit or Loss	Segregated Funds Net Assets	Total
Opening Balance	-	104,991	170	105,161
Total gains (losses) through profit or loss	-	16,127	23	16,150
Total unrealized gains (losses) through OCI	-	-	-	-
Purchases	-	-	1,240	1,240
Sales	-	-	(505)	(505)
Net transfers into (out of) Level 3	-	-	643	643
Closing Balance	-	121,118	1,571	122,689
Total gains (losses) in net income for assets held at end of year	-	10,636	-	10,636

(d) Valuation of Level 3 Financial Instruments

Corporate bonds

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

The Company does not hold any Level 3 financial instruments as of December 31, 2021. The table below provides information about the valuation techniques and resulting fair values used for recurring and non-recurring fair value measurements for certain Level 3 financial instruments as at December 31.

	Valuation Technique	2021 Fair Value	2020[1] Fair Value
Fair value through profit or loss			
Corporate bonds	Discounted cash flows[1]	-	121,118

[1] For 2020, discounted cash flows are based on credit spread ranging between 29 bps and 62 bps and a yield curve ranging between 1.62% and 2.30% (weighted average of 2.20%) as the significant unobservable inputs.

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

For corporate bonds, the most significant unobservable input to the valuation is the credit spread. An increase in credit spread results in a lower valuation, while a decrease in credit spread results in a higher valuation. As of December 31, the Company does not hold any Level 3 financial instrument. In 2020, if alternate assumptions of plus or minus 30 basis points in credit spread were applied to the $121,118 of Level 3 Corporate Bonds, the fair value would change by approximately ($3,314) and $3,412 respectively.

6. Derivatives

(a) Discussion of Derivatives

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

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

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

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

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

	December 31, 2021			December 31, 2020		
	Positive Replacement Cost [1]	Credit Equivalent Amount	Capital Requirement	Positive Replacement Cost[1]	Credit Equivalent Amount	Capital Requirement
Foreign exchange forward contracts	558	1,800	5	695	1,786	5
Equity futures and other contracts	-	-	-	-	-	-
Interest rate futures contracts	-	-	-	-	-	-
Total	558	1800	5	695	1,786	5

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

(i) Credit Derivatives

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

ivari may enter into credit derivatives to manage the credit exposure in its bond portfolio and may also enter into credit derivatives that sell protection in an effort to make its credit derivative strategy revenue neutral.

(ii) Interest Rate Derivatives

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

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

(thousands of dollars)

6. Derivatives (continued)

(a) Discussion of Derivatives (continued)

(iii) Equity Derivatives

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

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

Certain universal life insurance policies issued by *ivari* allow the policyholder to select an interest-credited rate that is tied to the movement of certain stock exchange indices or mutual funds. *ivari* uses a combination of investments in Exchange-Traded Funds ("EFTs"), mutual funds and a derivatives strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of these indices plus a spread.

ivari also enters into equity index futures contracts for tactical investment management purposes aimed at reducing its exposure to equity movements.

(iv) Foreign Exchange Derivatives

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

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

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

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

The following table provides a summary of the notional amounts of *ivari*'s derivative investments by term to maturity as at December 31. All contracts mature within one year.

	2021	2020
Exchange-traded Contracts		
Equity futures and other contracts	(497,576)	(446,474)
Interest rate futures contracts	5,574	6,279
Over-the-counter Contracts		
Foreign exchange forward contracts	(74,011)	(54,475)
Total	(566,013)	(494,670)

The following table provides the fair value of *ivari*'s derivative investment by term to maturity as at December 31. All contracts mature within one year.

	2021	2020
Foreign exchange forward contracts	558	695
Derivative assets	558	695
Foreign exchange forward contracts	368	65
Derivative liabilities	368	65

(vi) Embedded Derivatives

The market index options included in *ivari's* universal life contracts have been identified as embedded derivatives. As the returns of the index are passed directly to the policyholders and client accounts are credited daily, the market value of these derivatives is zero. The notional amount of these embedded derivatives as at December 31, 2021 was $3,035,952 (2020 - $2,497,213).

(b) Hedges for Segregated Funds

ivari uses equity futures and currency forwards to hedge exposures related to the death benefit and maturity guarantees of its segregated fund contracts. The equity futures and currency forwards are carried at market value, with gains (losses) recognized immediately in investment income. In addition, interest is earned on short-term investments that are pledged as collateral for the futures.

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

	2021			2020		
	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
Equity futures	(59,089)	March 22	-	(87,094)	March 21	-
Foreign exchange forwards	16,907	March 22	(114)	27,295	March 21	7
Total	(42,182)		(114)	(59,799)		7

7. Other Assets

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

	2021	2020
Accounts receivable	110,484	103,042
Business loans	16,939	20,456
Property and equipment	7,625	9,742
Right-of-use assets[1]	20,172	23,054
Intangible assets	7,458	4,308
Unearned commission	59,622	51,569
Prepaid assets	42,507	19,445
Income tax receivable	306	302
Total	265,113	231,918

[1] See (a) below for additional details about property lease right-of-use assets.

There were no write-downs of property and equipment, and intangible assets during the year ended December 31, 2021 (2020 – nil). During 2021, dispositions of fully depreciated assets included $2,218 (2020 – $1,164) of property and equipment and $5,892 (2020 - $7,140) of intangible assets. None of the intangible assets have been pledged as security for liabilities or have titles that are restricted.

(a) Property lease right-of-use Assets

	2021	2020
Opening Balance	23,054	26,341
Depreciation charge for the year	(2,862)	(3,287)
Termination of lease contract	(20)	–
Additions to right-of-use assets	-	-
Closing Balance	20,172	23,054

8. Insurance Contract Liabilities and Investment Contract Liabilities

(a) Nature of Insurance Contract Liabilities

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

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

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

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

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

(a) Nature of Insurance Contract Liabilities (continued)

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

(b) Best Estimate Assumptions and Methodology

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

Mortality and Morbidity Assumptions

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

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

The effect on insurance contract liabilities of a 10% increase in future mortality and morbidity rates would be a reduction of approximately $81,000 (2020 - $98,600). The effect on insurance contract liabilities of a 10% decrease in future mortality and morbidity rates would be an increase of approximately $96,400 (2020 - $115,800).

Mortality Improvement Assumptions

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

Lapse Rate Assumptions

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

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

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

The effect on insurance contract liabilities from a 10% adverse change in the lapse rate assumptions would be an increase of approximately $212,300 (2020 - $219,600).

Premium Persistency Assumptions

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

Investment Income Assumptions

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

The impact of an immediate 1% increase in the general level of interest rates would reduce the insurance contract liabilities, net of changes in unrealized gains on supporting assets, by approximately $148,500 (2020 - $165,500). Conversely, a 1% decrease in the general level of interest rates would increase the insurance contract liabilities, net of changes in unrealized gains on supporting assets, by approximately $201,000 (2020 - $237,700).

The impact of an immediate 10% increase in the general level of equity markets would be a decrease in insurance contract liabilities of approximately $183,200 (2020 - $186,200). Conversely, a 10% decrease in the general level of equity markets would result in an increase in insurance contract liabilities of approximately $188,400 (2020 - $192,200).

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

Reinvestment Assumptions

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

Maintenance Expense Assumptions

Amounts are included in insurance contract liabilities to provide for the future costs of administering in force policies including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, related indirect expenses and overhead. Estimates of future policy maintenance expenses are based on the Company's experience as well as estimates of such factors as contractual reductions in outsourced unit costs, estimates for inflation, productivity changes, business volumes and tax rates. The increase in gross insurance contract liabilities of a 10% increase in future expense levels would be approximately $37,000 (2020 - $37,300).

Tax Assumptions

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

Participating Policies

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

Adjustable Policies

Expected reductions in 2022 in policy benefits on applicable adjustable policies are immaterial (2021 - immaterial) and have not been used to reduce the December 31, 2021 insurance contract liabilities.

Segregated Funds Hedge Program

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

(c) Insurance Contract Liabilities and Supporting Assets

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

	2021				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	9,890,142	7,173	283,096	-	10,180,411
Other insurance contract liabilities	145,672	93	-	-	145,765
Total insurance contract liabilities	10,035,814	7,266	283,096	-	10,326,176
Invested assets backing insurance contract liabilities	7,811,069	7,105	263,950	1,910,165	9,992,289
Reinsurance assets	2,606,706	114	-	-	2,606,820
Total assets backing insurance contract liabilities	10,417,775	7,219	263,950	1,910,165	12,599,109

	2020				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	9,827,706	6,192	344,208	-	10,178,106
Other insurance contract liabilities	117,709	59	-	-	117,768
Total insurance contract liabilities	9,945,415	6,251	344,208	-	10,295,874
Invested assets backing insurance contract liabilities	7,660,463	6,243	320,478	1,886,516	9,873,700
Reinsurance assets	2,699,985	124	-	-	2,700,109
Total assets backing insurance contract liabilities	10,360,448	6,367	320,478	1,886,516	12,573,809

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

(d) Reinsurance Assets

The carrying value of reinsurance assets is calculated as the difference between the carrying value of insurance contract liabilities before and after taking into account existing ceded reinsurance arrangements. This calculation uses the same assumptions and margins as described above and no provision is made for possible default of reinsurance payments as all are from reinsurers regulated by Canadian authorities. As at December 31, 2021, reinsurance assets were $2,606,820 (2020 - $2,700,109).

There were no impairments of reinsurance assets in 2021 (2020 - nil).

(thousands of dollars)

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

(e) Changes in Insurance Contract Liabilities and Reinsurance Assets

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

	2021		
	Gross Insurance Contract Liabilities	Reinsurance Assets	Net
Opening Balance	10,178,106	2,700,109	7,477,997
Change in market value of supporting assets	(153,657)	(40,177)	(113,480)
Change in in-force business and market economics	140,725	(42,914)	183,639
Changes in methods and assumptions:			
Persistency and lapse	-	-	-
Mortality and mortality improvement	-	-	-
Expenses	32,740	-	32,740
UL fund allocation, PH IDX returns, GIA starting rates	33,283	(702)	33,985
Update to economic assumptions	(46,863)	(7,239)	(39,624)
Methodology changes and model refinements	(3,923)	(2,257)	(1,666)
Reinvestment Assumptions	-	-	-
Segregated funds – internal model calibration and hedging	-	-	-
Total changes	2,305	(93,289)	95,594
Closing balance	10,180,411	2,606,820	7,573,591

	2020		
	Gross Insurance Contract Liabilities	Reinsurance Assets	Net
Opening Balance	9,005,072	2,382,662	6,622,410
Change in market value of supporting assets	593,719	160,999	432,720
Change in in-force business and market economics	486,742	178,421	308,321
Changes in methods and assumptions:			
Persistency and lapse	-	-	-
Mortality and mortality improvement	-	-	-
Expenses	14,052	-	14,052
UL fund allocation, PH IDX returns, GIA starting rates	-	-	-
Update to economic assumptions	52,668	10,342	42,326
Methodology changes and model refinements	20,653	(32,315)	52,968
Reinvestment Assumptions	4,000	-	4,000
Segregated funds – internal model calibration and hedging	1,200	-	1,200
Total changes	1,173,034	317,447	855,587
Closing balance	10,178,106	2,700,109	7,477,997

(f) Other Insurance Contract Liabilities

Other insurance contract liabilities are shown in the following table. The change in other insurance contract liabilities is included in gross premiums and in gross benefits and claims on the Company's consolidated statement of income (loss). The portion of reinsurance assets related to other insurance contract liabilities is nil (2020 – nil).

	December 31, 2021	December 31, 2020
Premiums received in advance	5,714	3,788
Policyholder amounts on deposit	22,195	15,212
Outstanding claims and adjustment expenses	117,856	98,768
Total	145,765	117,768

(g) Changes in Investment Contract Liabilities

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

For the period ended	December 31, 2021	December 31, 2020
Opening balance	22,546	28,091
New business and renewal deposits	-	27
Interest	305	306
Withdrawals	(1,739)	(3,324)
Claim payments	(1,991)	(2,554)
Total net changes	(3,425)	(5,545)
Closing balance	19,121	22,546

9. Commitments

(a) Leases

ivari enters into leases for office space and certain equipment with lease terms up to ten years. The majority of lease agreements for office space contain renewal and escalation clauses.

ivari made operating lease payments of $3,203 in 2021 (2020 - $3,258).

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

	2021	2020
2021	-	3,203
2022	3,161	3,215
2023	3,375	3,375
2024	3,385	3,385
2025	3,385	3,385
2026	3,484	3,484
Thereafter	8,094	8,094
Total	24,884	28,141

(b) Other Commitments

In 2020, *ivari* entered into a 25-year outsourcing arrangement, with a third party, to modernize ivari's legacy administration systems, while providing policy administration services and digital new business capabilities. The arrangement includes the following minimum service fee payable each year. These fees can be renegotiated subject to triggers relating to changes in ivari's business. In the event *ivari* terminates its agreement, a termination fee, equal to no greater than one year of the minimum service fee, would be payable in lieu of any remaining minimum service fees payments shown below.

	2021	2020
2021	-	21,855
2022	23,048	23,048
2023	20,901	20,901
2024	18,650	18,650
2025	16,876	16,876
2026	15,902	15,902
Thereafter[1]	256,569	256,569
Total	351,946	373,801

[1] Represents the sum of total minimum service fees until 2045.

(thousands of dollars)

10. Other Liabilities

	December 31, 2021	December 31, 2020
Amount on deposit from reinsurers	927,311	913,841
Accounts payable and accrued liabilities	22,033	21,220
Income taxes payable	11,005	11,515
Lease liabilities[1]	22,279	24,819
Retirement benefit plans	8,429	18,656
Other	28,166	22,094
Total	1,019,223	1,012,145

[1] See below for additional details about leases liabilities.

(a) Amounts on Deposit from Reinsurers

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

During 2021, *ivari* recognized an interest expense for the funds withheld under this reinsurance treaty of $75,648 (2020 - $74,495).

Repayments made in accordance with the schedule during 2021 totaled $62,178 (2020 - $60,012). The table below provides the prescribed repayments for each of the next 5 years and the total repayments for each 5 year period thereafter through the remaining term of the loan.

Year	Repayment Amount	Year	Repayment Amount	Year	Repayment Amount
		2027 – 2031	429,886	2057 – 2061	113,404
2022	66,532	2032 – 2036	448,369	2062 – 2066	42,217
2023	72,035	2037 – 2041	448,747	2067 – 2071	11,419
2024	74,667	2042 – 2046	395,529	2072 – 2076	1,485
2025	79,260	2047 – 2051	318,350	2077	9
2026	84,012	2052 – 2056	214,041		
5 Year Total	376,506				

Between 2003 when the loan repayments began and 2024, the repayments are less than the interest on the loan and therefore, the loan balance has grown and will continue to grow until 2025. The outstanding balance was $927,311 as at December 31, 2021 (2020 - $913,841). For disclosure purposes only, ivari has estimated the loan's fair value to be $1,351,092 (2020 - $1,532,853) by present valuing the expected future repayments at 5% (2020 – 4%), an appropriate discount rate given the current interest rate environment and adjusting for specific factors including ivari's own credit risk and the duration of the obligation. The fair value varies with the discount rate, and for example, it would increase by $85,425 if 4.5% were used and decrease by $77,544 if 5.5% were used.

(b) Lease Liabilities

	2021	2020
Lease liabilities included in Other Liabilities		
Current	5,337	5,060
Non-current	16,942	19,759
Total	22,279	24,819

(c) Retirement Benefit Plans

iHULC sponsors the retirement benefit plans and the post-retirement health benefit and post-employment disability plans ("post-employment benefits") for *ivari,* CPL, Foresters Asset Management Inc. ("FAM") prior to its sale on May 4, 2016 as well as a third party. In 2020, the Company entered into a 25-year outsourcing agreement with a third party to modernize the Company's legacy administration systems, while providing policy administration, customer support services and digital new business capabilities. As a result of this partnership, over 200 ivari employees were transitioned to the third party. Effective September 12, 2020, the Plan no longer accepts contributions from these transitioned employees or accrues benefits on their behalf.

There are two retirement benefit plans, each consisting of a defined benefit and defined contribution component.

(i) Defined Contribution ("DC") Components

Under the DC component of each plan, the participating employers are responsible for contributing a predetermined amount to the employee's retirement savings based on a percentage of that employee's salary. The benefits available to an employee upon retirement are dependent on the performance of the investments chosen by that employee.

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

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

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

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

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

	2021			2020		
	Defined Benefit	Post-retirement & employment	Total	Defined Benefit	Post-retirement & employment	Total
Change in Plan Assets						
Fair value of assets, beginning of year	44,215	-	44,215	42,867	-	42,867
Employee contributions	6	-	6	12	-	12
Employer contributions	716	203	919	1,137	211	1,348
Interest income on plan assets	1,091	-	1,091	1,274	-	1,274
Non-investment expense	(70)	-	(70)	(70)	-	(70)
Actuarial gains (losses) on plan assets	3,496	-	3,496	1,781	-	1,781
Benefits paid	(1,813)	(203)	(2,016)	(2,786)	(211)	(2,997)
Fair Value of Assets, end of year	47,641	-	47,641	44,215	-	44,215
Change in Benefits Obligation						
Benefits obligation, beginning of year	59,417	3,454	62,871	55,735	4,205	59,940
Employer current service cost	85	67	152	366	70	436
Employer past service cost	-	-	-	-	-	-
Employee contributions	6	-	6	12	-	12
Interest on accrued benefit obligation	1,464	84	1,548	1,647	124	1,771
Recognition of post-employment liability for disabled employees	-	-	-	-	-	-
Actuarial losses (gains)	(6,129)	(362)	(6,491)	4,443	(734)	3,709
Benefits paid	(1,813)	(203)	(2,016)	(2,786)	(211)	(2,997)
Benefits Obligation, end of year	53,030	3,040	56,070	59,417	3,454	62,871
Retirement Benefits Asset (Liability)	(5,389)	(3,040)	(8,429)	(15,202)	(3,454)	(18,656)
Retirement Benefits Asset (Liability)						
- wholly or partially funded	1,367	-	1,367	(7,881)	-	(7,881)
- wholly unfunded	(6,756)	(3,040)	(9,796)	(7,321)	(3,454)	(10,775)
Retirement Benefits Asset (Liability)	(5,389)	(3,040)	(8,429)	(15,202)	(3,454)	(18,656)

(thousands of dollars)

10. Other Liabilities (continued)

(c) Retirement Benefit Plans

(ii) Defined Benefit ("DB") Components and Post-Employment Benefits (continued)

- The Statement of Investment Policies and Procedures ("SIPP") was revised in November 2020 and permits the DB component's assets to be invested in six broad categories of assets (2020 – six broad categories of assets). The mix, as a percentage, of the fair value of plan assets by asset type as at December 31 is as follows:

	Asset allocation %			
		Permissible Asset Class Ranges		
Asset category	SIPP Target	Minimum	Maximum	As at December 31, 2021
Total Fixed Income / Cash	50.0	40	60	52
Canadian Bonds	40.0	30	50	44
Global Bonds	10.0	5	15	8
Total Equities	50.0	40	60	48
Canadian Stocks	15.0	10	20	14
Non-Canadian Stocks	20.0	15	25	19
Real Estate	7.5	3	13	8
Infrastructure	7.5	3	13	7
	100			100

	Asset allocation %			
		Permissible Asset Class Ranges		
Asset category	SIPP Target	Minimum	Maximum	As at December 31, 2020
Total Fixed Income / Cash	50.0	40	60	50
Canadian Bonds	40.0	30	50	40
Global Bonds	10.0	5	15	10
Total Equities	50.0	40	60	50
Canadian Stocks	15.0	10	20	15
Non-Canadian Stocks	20.0	15	25	20
Real Estate	7.5	3	13	8
Infrastructure	7.5	3	13	7
	100			100

- Benefit Expense

	2021			2020		
	Defined Benefit	Post-retirement & employment	Total	Defined Benefit	Post-retirement & employment	Total
Current service cost	85	67	152	366	70	436
Past service cost	-	-	-	-	-	-
Interest cost on retirement benefit obligation	1,464	84	1,548	1,647	124	1,771
Interest income on plan assets	(1,091)	-	(1,091)	(1,274)	-	(1,274)
Recognition of post-employment liability for disabled employees	-	-	-	-	-	-
Net benefit expense	458	151	609	739	194	933

- Experience Gains (Losses)

	2021	2020
Experience gains (losses) on plan liabilities	6,491	(3,709)
Experience gains (losses) on plan assets	3,496	1,781
Re-measurement of Retirement Benefit Plans	9,987	(1,928)

- Measurement and Valuation

  The benefit obligations and the fair value of plan assets for accounting purposes are measured as at December 31 each year.

  The latest actuarial valuation for funding purposes was performed as of August 1, 2021.

(iii) DB Retirement Benefit Plan Expenses

	2021	2020
Net benefit expense from Note 10(c)(ii)	609	933
Retirement benefit plan administration expenses	478	376
Total	1,087	1,309

(iv) DC Retirement Benefit Plans

	2021	2020
Employer contributions	1,740	2,244
Expense charges	205	214
Total	1,945	2,458

(d) At December 31, 2021, *ivari* and iHULC had access to a bank line of credit of $20,000 (2020 - $20,000) and $4,000 (2020 - $4,000) respectively against which no funds had been drawn (2020 – nil). In addition, the Company has access to a credit facility through WRL from a syndicate of banks in the amount of $500,000. The Company has not drawn on the facility in 2021 (2020 – nil).

11. Capital Stock

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

On December 14, 2021, WRC authorized 87,630 additional common shares each with a par value of $1.00. The shares were issued and fully paid in cash on December 20, 2021.

12. Dividends and Contributed Surplus

WRC received a cash contribution in 2021 of nil (2020 - $250,000) from its parent.

In 2021, the Company declared and paid a cash dividend of nil (2020 - nil).

13. Capital Management

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

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

WRC uses the BMA's prescribed formula for measuring capital under its Long-term Business Solvency Margin framework and its capital ratios exceeded the required minimum each quarter during 2021 and 2020.

In addition, *ivari* and the Branch measure capital following OSFI's LICAT and LIMAT Guidelines respectively. At each quarterly reporting period, in 2021 and 2020, both *ivari* and the Branch ratios exceeded the supervisory targets.

During 2020, in response to COVID-19, OSFI set expectations for all federally regulated financial institutions that dividend increases and share buybacks should be halted. During 2021, these restrictions were lifted.

(thousands of dollars)

14. Premiums

	2021	2020
Gross premiums		
Life		
Universal	699,822	631,426
Traditional	262,894	273,338
Single premium immediate annuities	527	497
Health	4,740	4,419
Total	967,983	909,680
Ceded premiums		
Life		
Universal	(217,655)	(205,458)
Traditional	(222,791)	(228,811)
Single premium immediate annuities	-	-
Health	(1,351)	(1,204)
Total	(441,797)	(435,473)
Net Premiums	526,186	474,207

15. Fee Income from Customers

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

	December 31, 2021	December 31, 2020
Fee income related to insurance contracts	5,787	5,941
Fund management and other asset-based fees	17,827	17,852
Fund administrative fees	5,364	5,204
Total	28,978	28,997

(b) Contract balances

Timing differences between revenue recognition and cash collection of management fees result in a receivable balance of $324 as at December 31, 2021 (2020 - $309). Amounts due to the Company primarily consist of fees deducted from funds under management by the Company. Other than fund administration fees, amounts are generally billed and collected within a short period of time and are not subject to conditions other than the passage of time. Amounts collected as administration fees are limited to the related fund operating costs incurred by the Company and in the event a refund is required, it is recognized in the year to which it relates. The Company has no significant related contract liabilities.

16. Other Income

Other income includes the sale in 2020 of *ivari*'s assets related to activities as a managing general agent to an unrelated party. The sale, in 2020, resulted in a net gain and *ivari* derecognized related assets from its statement of financial position. Performance related criteria included in the purchase price determination resulted in additional income being recognized in 2021.

17. Gross and Ceded Policy Benefits and Claims

(a) Methodologies and Assumptions

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

The best estimates of future claims and adjustment expenses have been determined using the Outstanding Claims Method. As a result, liabilities for outstanding claims include a component for claims incurred but not reported and a component for outstanding claims. The former is calculated on the basis of the Company's experience over the last few years and expressed as a percentage of expected claims, in-force amounts or earned premiums.

(b) Gross and Ceded Policy Benefits and Claims

	2021			2020		
	Gross	Ceded	Net	Gross	Ceded	Net
Insurance contracts						
Life	640,544	417,854	222,690	580,817	399,812	181,005
Health	760	332	428	655	444	211
Subtotal	641,304	418,186	223,118	581,472	400,256	181,216
Investment contracts	(1)	-	(1)	(3)	-	(3)
Total	641,303	418,186	223,117	581,469	400,256	181,213

18. Marketing and Operating Expenses

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

	2021	2020
Personnel-related[1]	48,065	59,946
Premises[2]	8,806	8,853
Outsourced services and professional fees[1]	42,002	21,114
Systems	8,716	8,562
External underwriting fees	4,474	5,065
Marketing and travel	1,304	1,587
Project-related external costs[1]	9,809	10,441
All other	707	512
Total	123,883	116,080
Less: recoveries from other companies	635	407
Marketing and operating expenses	123,248	115,673

[1] In 2020, the Company entered into an outsourcing arrangement with a third party to modernize the Company's legacy administration systems, while providing policy administration, customer support services and digital new business capabilities. The arrangement included the transfer, in September 2020, of over 200 staff from *ivari* to the third party, thus moving expenses that were previously part of Personnel-related costs and are now part of Outsourced services and professional fees. The Company has and will incur conversion costs related to the arrangement from 2020 to 2023.

[2] Premises include right-of-use asset depreciation charges of $2,861 (2020 - $2,891) and related interest costs of $710 (2020 - $782) in 2021.

(b) Personnel-Related

	2021	2020
Salaries, bonuses and other short-term benefits[1]	43,419	53,082
Pension and post-retirement costs	2,719	3,475
Long term incentive plans	1,258	2,629
Other	669	760
Total[2]	48,065	59,946

[1] *ivari* operates an optional Employee Stock Savings Plan in which eligible employees can contribute between 1% and 6% of their annual earnings and *ivari* matches 75% of their contributions. The employee's contribution is invested in certain investment options selected by the employee. The employee's and *ivari's* contributions are invested in mutual funds. Included in employee expenses is the amount recorded by the Company of $1,106 for the year ended December 31, 2021 (2020 - $1,344) for contribution matching. *ivari* makes no guarantees with respect to the performance of its matching contributions.

[2] See Note 18(a), footnote 1, for additional information.

19. Related Party Transactions

(a) Services Provided by or to Related Parties

Related Parties

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

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

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

(thousands of dollars)

19. Related Party Transactions (continued)

(b) Non-capital Transactions with Related Party Companies

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

		December 31, 2021		December 31, 2020	
Related Party	Nature of transaction	(Revenue) Expense	Amount due (to) from related party	(Revenue) Expense	Amount due (to) from related party
WRL and other affiliates	Operating expenses	(49)	25	(22)	28
	Reinsurance assumed activities, net	-	-	-	-

(c) Key Management Personnel

The Company's key management personnel are also considered related parties and consist of the Company's Board of Directors and certain members of the Company's senior management. The following table summarizes the related compensation paid during 2021 and 2020.

	2021	2020
Salaries, bonuses and other short-term benefits	2,884	2,949
Pension and other post-employment benefits	139	137
Other long-term benefits	417	964
	3,440	4,050

20. Income Taxes

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

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

	2021	2020
Current income taxes:		
Current taxes (recovery) on income in the year	24,004	(13,822)
Current taxes referring to previous periods	2,333	(1,110)
	26,337	(14,932)
Deferred income taxes:		
Origination and reversal of temporary differences	(8,287)	(23,303)
Impact of change in tax rates	90	(71)
Deferred taxes referring to previous periods	(4,116)	2,709
	(12,313)	(20,665)
Income tax expense (recovery) reported in net income	14,024	(35,597)

(a) The statutory income tax rate for each legal entity is a combination of the federal rate and the provincial rates determined by the proportion of business carried on by each entity in a province or territory. The effective tax rate will differ from the statutory income tax rate based on certain adjustments. For 2021, adjustments for exempt investment income increased it while prior year taxes and capital taxes decreased it. For 2021, the combined total effective tax rate was 15.8% (2020 – 34.5%).

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

	December 31, 2021	December 31, 2020
Net unrealized gains (losses) on AFS securities	(18,431)	17,574
Less: reclassification of losses (gains) on AFS securities to income	37	(237)
Total income tax expense (benefit) included in OCI	(18,394)	17,337

(c) Deferred Tax Asset and Deferred Tax Liability

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

	December 31, 2021	December 31, 2020
Insurance contract liabilities	-	-
Investment gains recognized in retained earnings	-	-
Other	5,992	5,980
Deferred Tax Asset	5,992	5,980
Insurance contract liabilities	25,166	32,873
Investment gains recognized in retained earnings	38,297	42,178
Other	(7,629)	(6,916)
Deferred Tax Liability	55,834	68,135
Net Deferred Tax Liability	49,842	62,155

(ii) Reconciliation of Net Deferred Tax Liability

	2021	2020
Opening balance	62,155	82,820
Deferred tax expense (benefit) during the year recognized in net income	(12,313)	(20,665)
Deferred tax expense (benefit) during the year included in equity	-	-
Closing balance	49,842	62,155

(d) The Company paid income taxes in the amount of $10,474 in 2021 (2020 - $923).

21. Segregated Funds Net Assets and Net Liabilities

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

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

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

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

	2021		2020	
Type of Fund	Total	Percent	Total	Percent
Money market	$ 20,065	1.93%	$ 21,781	2.05%
Fixed income	47,942	4.60%	56,487	5.32%
Balanced	954,188	91.55%	951,272	89.65%
Equity	19,975	1.92%	31,604	2.98%
Subtotal	1,042,170	100.00%	1,061,144	100.00%
Less: Seed units invested by the Company	938		745	
Segregated Fund Net Assets	$ 1,041,232		$ 1,060,399	

(thousands of dollars)

21. Segregated Funds Net Assets and Net Liabilities (continued)

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

	2021		2020	
Asset Class	Total	Percent	Total	Percent
Cash and cash equivalents	$ 6,233	0.60%	$ 10,437	0.98%
Short-terms investments	93,356	8.96%	77,915	7.34%
Equities	157,535	15.12%	150,312	14.17%
Bonds	73,020	7.01%	85,045	8.01%
Mutual funds	711,208	68.23%	734,139	69.19%
Other assets	818	0.08%	3,296	0.31%
Subtotal	1,042,170	100.00%	1,061,144	100.00%
Less: Seed units invested by the Company	938		745	
Segregated Fund Net Assets	$ 1,041,232		$ 1,060,399	

22. Contingencies

(a) Legal matters

The Company is primarily involved as a party to legal actions arising from the normal course of business. *ivari* is also defending a class action claim related to an alleged “tracking error” related to one segregated fund. It is not expected that these legal proceedings will have a material adverse effect on the Company’s financial position.

(b) Tax matters

The life insurance industry has long understood that the supply of insurance placement services provided by managing general agents (MGA) to insurers are in the nature of arranging for financial services, and therefore GST/HST exempt. Recent audit activity for one of the Company’s MGAs by the Canada Revenue Agency has called that position into question for the insurance industry.

The Company has reviewed its contractual arrangements with its MGAs together with the legal and tax treatment of these arrangements, and, based on the advice of counsel, has determined that an outcome favourable to the Company is probable. Therefore, the Company takes the position that the supply of insurance placement services are GST/ HST exempt. Accordingly, no provision for loss arising from such contingency has been recorded in these financial statements, nor is any future material adverse impact expected. Nevertheless should such contingency materialize, it should be noted that the Company would not receive reimbursement from any other party.

23. Subsequent Events

Subsequent to December 31, 2021, the escalating conflict between Ukraine and the Russian Federation has resulted in significant volatility and uncertainty in financial markets. In February 2022, a number of countries, including Canada, imposed new sanctions against Russian government entities, state-owned enterprises or sanctioned entities and individuals linked to Russia anywhere in the world. While it is still early days and the situation continues to evolve, the Company does not have any direct exposure to Russian investments in its general account and is prepared to manage through market impacts as they develop. The effect of this conflict remains a rapidly evolving issue, leading to a high degree of volatility and uncertainty that could impact worldwide financial markets while the conflict continues.