Wilton Re (Canada) Limited

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

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, 2022, the consolidated statements of income (loss), of comprehensive income (loss), of changes in equity and 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, 2022, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 21, 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	Note		2022		2021
(thousands of dollars)					
ASSETS					
Cash and cash equivalents	4,5	$	74,648	$	63,957
Short-term investments	4,5		1,014,176		845,180
Bonds and debentures	3,4,5		5,484,838		5,937,605
Exchange-traded and mutual funds	3,4,5		1,966,640		2,874,992
Mortgage loans	4		7		16
Derivative assets	3,4,5,6		1,096		558
Accrued investment income	4		33,416		31,574
Other invested assets	4		69,233		123,238
Loans to policyholders	4		132,980		134,349
Total Invested Assets		$	8,777,034	$	10,011,469
Reinsurance assets	3,8	$	2,215,816	$	2,606,820
Deferred tax asset	19		47,550		5,992
Other assets	7		296,687		265,113
Segregated funds net assets	3,5,20		822,275		1,041,232
Total Assets		$	12,159,362	$	13,930,626
LIABILITIES AND EQUITY					
Liabilities					
Insurance contract liabilities	3,8	$	8,651,178	$	10,326,176
Investment contract liabilities	3,8		15,046		19,121
Reinsurance payables	3		10,121		6,924
Derivative liabilities	3,4,5,6		498		368
Deferred tax liability	19		-		55,834
Other liabilities	10		1,035,378		1,019,223
Segregated funds net liabilities	5,20		822,275		1,041,232
Total Liabilities		$	10,534,496	$	12,468,878
Equity					
Capital stock	11	$	400	$	400
Contributed capital	12		1,237,113		886,068
Retained earnings			392,854		394,091
Accumulated other comprehensive income (loss)			(5,501)		181,189
Total Equity		$	1,624,866	$	1,461,748
Total Liabilities and Equity		$	12,159,362	$	13,930,626

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

Approved by the Board of Directors on April 20, 2023 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	Note		2022		2021
(thousands of dollars)					
REVENUE					
Gross premiums	14	$	989,373	$	967,983
Less: Premiums ceded to reinsurers	14		412,228		441,797
Net premiums			577,145		526,186
Net investment income (loss)	4		(1,290,380)		252,886
Fee income	15		25,444		28,978
Other income			1,095		622
Total Revenue (Loss)		$	(686,696)	$	808,672
POLICY BENEFITS AND CLAIMS					
Gross benefits and claims	16	$	664,121	$	641,303
Claims ceded to reinsurers	16		(458,659)		(418,186)
Change in gross insurance contract liabilities	8		(1,689,328)		2,305
Change in insurance contract liabilities ceded to reinsurers	8		391,003		93,289
Change in investment contract liabilities	8		149		305
Total Policy Benefits and Claims		$	(1,092,714)	$	319,016
EXPENSES					
Sales commissions and bonuses		$	201,172	$	188,475
Interest expense			76,909		75,912
Marketing and operating expenses	17		130,813		123,248
Policy related taxes, licenses and fees			19,327		16,726
Total Expenses		$	428,221	$	404,361
Income (Loss) Before Income Taxes		$	(22,203)	$	85,295
Income tax expense (recovery)	19	$	(20,966)	$	14,024
Total Net (Loss) Income		$	(1,237)	$	71,271

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31		2022		2021
(thousands of dollars)				
Net (loss) income	$	(1,237)	$	71,271
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		(189,697)		(50,452)
Equities and Other		(50)		143
Reclassification adjustment for losses (gains) included in net income (loss):				
Bonds and short-term investments		8		(177)
Re-measurement of Defined Benefit Plans		3,049		10,008
Total Comprehensive Income (Loss)	$	(187,927)	$	30,793

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31	Note		2022		2021
(thousands of dollars)					
Common shares					
Balance, January 1	11	$	400	$	312
Common shares issued			-		88
Balance, December 31		$	400	$	400
Contributed capital					
Balance, January 1		$	886,068	$	886,068
Additional contributed capital, contributed in cash during the year	12		351,045		-
Balance, December 31		$	1,237,113	$	886,068
Retained earnings					
Balance, January 1		$	394,091	$	322,820
Net (loss) income			(1,237)		71,271
Balance, December 31		$	392,854	$	394,091
Accumulated other comprehensive income (loss), net of income taxes					
Balance, January 1		$	181,189	$	221,667
Net change in unrealized gains (losses) on available-for-sale assets			(189,739)		(50,486)
Re-measurement of Defined Benefit Plans			3,049		10,008
Balance, December 31		$	(5,501)	$	181,189
Total Equity		$	1,624,866	$	1,461,748

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31		2022		2021
(thousands of dollars)				
OPERATING ACTIVITIES				
Net (loss) income	$	(1,237)	$	71,271
Items not affecting cash:				
Increase in accrued investment income		(1,842)		(360)
Decrease in other assets		(31,574)		(33,195)
Decrease (increase) in tax provision on operating income		(31,372)		6,081
Increase (decrease) in insurance contract liabilities		(1,674,998)		30,302
Decrease in investment contract liabilities		(4,075)		(3,425)
Increase in other liabilities		18,921		9,615
Decrease in reinsurance assets and liabilities, net		394,201		95,134
Net unrealized losses (gains), including impairments		1,550,945		(32,846)
Net accrual of discount on invested assets		(101,964)		(91,571)
Total Non-Cash items	$	118,242	$	(20,265)
Net Cash Provided by Operating Activities	$	117,005	$	51,006
INVESTING ACTIVITIES				
Sales, maturities and scheduled repayments of:				
Bonds and other fixed-term securities	$	850,724	$	327,877
Exchange-traded and mutual funds		815,764		168,463
Mortgage loans		9		9
Other invested assets		401,485		425,726
Derivatives		(3,245)		(5,958)
Purchases and issues of:				
Bonds and other fixed-term securities		(1,821,001)		(209,144)
Exchange-traded and mutual funds		(229,055)		(243,336)
Other invested assets		(278,534)		(408,493)
Short-term investments, net		(192,109)		(165,918)
Loans to policyholders, net		1,369		6,088
Net Cash Used in Investing Activities	$	(454,593)	$	(104,686)
FINANCING ACTIVITIES				
Principal portion of lease liabilities	$	(2,766)	$	(2,480)
Lease termination penalty		-		(57)
Common shares issued		-		88
Contributed capital		351,045		-
Net Cash Provided by (Used in) Financing Activities	$	348,279	$	(2,449)
Net Increase (Decrease) in Cash and Cash Equivalents during the year	$	10,691	$	(56,129)
SUMMARY OF CHANGES IN CASH POSITION				
Cash and cash equivalents, beginning of year	$	63,957	$	120,086
Net increase (decrease) in cash and cash equivalents during the year[1]		10,691		(56,129)
Cash and Cash Equivalents, end of year	$	74,648	$	63,957

[1] Included in net increase (decrease) in cash and cash equivalents during the year is interest received of $562 (2021 – $31) and interest expense paid of $67,681 at December 31, 2022 (2021 – $62,901), as well as dividends received of $63,237 at December 31, 2022 (2021 – $137,586).

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		2022		2021
(thousands of dollars)				
Segregated Funds net assets, beginning of year	$	1,042,170	$	1,061,144
Additions to segregated funds:				
Deposits		17,660		18,792
Net realized and unrealized gains (losses)		(112,769)		87,594
Interest and dividend income		22,457		54,662
Total (Deductions) Additions	$	(72,652)	$	161,048
Deductions from segregated funds:				
Payments to policyholders and their beneficiaries		116,130		145,047
Management fees		20,772		24,289
Other expenses, including GST on management fees		9,470		10,686
Total Deductions	$	146,372	$	180,022
Segregated Funds Net Assets, end of year	$	823,146	$	1,042,170

CONSOLIDATED SCHEDULE OF SEGREGATED FUNDS NET ASSETS

For the Year Ended December 31		2022		2021
(thousands of dollars)				
Investments, at market value:				
Cash and short-term investments	$	85,060	$	99,589
Bonds		59,937		73,020
Equities and mutual funds		677,663		868,743
Futures contracts		-		(206)
Other assets		1,292		1,710
Liabilities		(806)		(686)
Total Segregated Funds Net Assets	$	823,146	$	1,042,170
Seed units invested in segregated funds by the Company		871		938
Segregated Funds net assets		822,275		1,041,232
Total Segregated Funds Net Assets	$	823,146	$	1,042,170

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – INDEX

December 31, 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

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.

(c) Use of Estimates and Judgments

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

(d) Basis of Consolidation

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

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Classification (continued)

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.

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)

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.

- 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.

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

(a) Significant Accounting Policies (continued)

(i) Financial Assets Excluding Embedded Derivatives (continued)

Impairment (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

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

(a) Significant Accounting Policies (continued)

(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.

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

Other Insurance Contract Liabilities

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

(vi) Investment Contracts

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

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

(vii) Service Contracts

Contracts that have the legal form of an insurance contract but do not expose the insurer to significant insurance or financial risk, for example life insurance contracts in which the insurer bears no significant mortality 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.

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

(a) Significant Accounting Policies (continued)

(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.

(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.

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

(a) Significant Accounting Policies (continued)

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

- 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.

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

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

(a) Significant Accounting Policies (continued)

(xiii) Provisions

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

(xiv) 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 lower of lease terms of the associated leases and the useful life. 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.

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

(a) Significant Accounting Policies (continued)

(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 paid approximately 4 years following the end of year in which it is earned.

(xxi) Contributed Capital

The Company records contributed additional capital in contributed capital 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 and claims.

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 2022:

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

The Company will adopt IFRS 9 to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") effective January 1, 2023. Although permitted by the standard, *ivari's* regulator OSFI did not require adoption in advance of IFRS 17 and therefore the Company did not elect early adoption of the standard. As permitted by the standard, the Company has elected to adopt IFRS 9 with no restatement of comparative period financial information.

In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39 Financial Instruments: Recognition and Measurement ("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 fair value through profit or loss ("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.

The Company will apply the IFRS 9 requirements by adjusting our Statement of Financial Position as at January 1, 2023, the date of initial application.

The adoption of IFRS 9 is expected to result in differences in the classification of financial assets when compared to our classification under IAS 39. The most significant expected change includes approximately $600,000 of invested assets currently classified as AFS to be classified as FVTPL. As a result, there will be a $6,000 reclassification from AOCI to Retained Earning in Shareholder's Equity. The Company's invested assets are carried at fair value under IAS 39, so the transition to IFRS 9 will not result in any impairments being booked to retained earnings as at January 1, 2023.

(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 will replace IFRS 4 Insurance Contracts ("IFRS 4") changing the fundamental principles used by the Company for recognizing and measuring insurance contracts. IFRS 17 will also change the presentation and related note disclosures of the Company's financial statements.

IFRS 17 is effective beginning on January 1, 2023 with a transition date of January 1, 2022. Although permitted by the standard, *ivari's* regulator OSFI did not allow early adoption and therefore the Company did not elect early adoption of the standard. IFRS 17 requires that the Company apply the standard retrospectively unless impracticable, in which case the Company may elect to use a modified retrospective or fair value method. The Company has determined that it is impracticable to apply the retrospective method to business sold prior to January 1, 2021 and has elected to apply the fair value method for business in-force before that date.

The Company intends to present a full set of IFRS 17 based financial statements and results, including appropriate comparatives, with its December 31, 2023 results. Given the timing of this reporting, the Company has not yet completed its IFRS 17 calculations as at December 31, 2022. However, the Company has provided key highlights of the expected qualitative and estimated quantitative impacts of adopting IFRS 17, as well as a summary of its key IFRS 17 accounting policies to be adopted. The analysis below represents the Company's best estimates of outcomes, based on information currently available and is subject to change.

Overall, the Company expects that the impact to its equity upon transition on January 1, 2022 to IFRS 17 will be a reduction in the range of $682,000 to $755,000. The primary drivers of these changes include:

- Changing from the Canadian Asset Liability Method ("CALM") under IFRS 4 to the insurance contract liability valuation approaches required by IFRS 17, specifically related to discount rates, removal of the amount of discounted deferred tax liability, including the present value of tax credits related to Canadian equity dividend income, and changes to the provision for adverse deviation ("Pfads") related to financial risk, is expected to lead to an increase in insurance contract liabilities, net of reinsurance and income taxes, of between $380,000 to $420,000 before accounting for the CSM, described below; and

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

(b) Other Accounting Policy Changes (continued)

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

- Deferral of previously recognized gains on insurance contracts as contractual service margin ("CSM"). CSM will be a component of insurance contract liabilities which will subsequently be recognized into income over the remaining service period of the insurance contracts. However, any expected losses on onerous groups of contracts within the Company's in-force business have been recognized in the restated equity balance. The CSM balance, which also increases insurance contract liabilities, net of reinsurance and income taxes, is expected to be between $302,000 to $335,000.

The Company is still evaluating the impact of IFRS 17 on 2022 net income. However, current projections indicate notable movements in several income components with an overall increase in underlying net income during 2022, which will be presented as the comparative period in the 2023 financial statements. The primary drivers of this change include:

- Discount rates under IFRS 17 are no longer connected to asset yields. Accordingly, the accretion on insurance contract liabilities and asset returns emerge differently than under CALM.
- New business gains are not recognized upon initial recognition of an insurance contract, but rather deferred as CSM and amortized into profit over the life of the contract.
- The recognition of CSM into income in 2022 from insurance contracts written prior to the date of transition.
- The recognition of losses from any onerous contracts written in 2022.
- Risk Adjustment ("RA") under IFRS 17 is lower than the Pfads under IFRS 4 as they do not include a financial risk component. Accordingly, less income from the run-off of these provisions emerge into income and less is established on business sold during the year.

While the Company continues to finalize its application of the IFRS 17 standard the following transition and on-going accounting policy choices and elections are expected to be applied:

- Scope - IFRS 17 includes scope exemptions for specific types of contracts. The Company does not expect significant change in the scope of insurance contracts between IFRS 4 and IFRS 17.
- Transition - The Company has determined that a full retrospective application of IFRS 17 is impracticable for much of the Company's in-force business. The Company has assessed that for all insurance and reinsurance contracts, IFRS 17 can only be applied retrospectively from January 1, 2021 onward. The Company will use a fair value approach to determine a January 1, 2022 fair value of insurance contracts that were in-force both at December 31, 2020 and the transition date. The primary drivers of impracticability are related to gaps in data and the use of hindsight, consistent with the principles of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
- Level of aggregation - IFRS 17 requires groups of contracts to be aggregated and measured together provided they are managed together, are subject to similar risks and expected profitability and such that the grouped contracts were issued not more than one year apart. The Company will separate contracts issued after 2020 into annual cohorts based on their calendar year of issue. The Company determines contracts subject to similar risks and managed together based on primary coverage of the contract at issue. When an insurance contract is written, it will be assigned a profitability group based on the expected profitability on the date of initial recognition. As IFRS does not permit the offsetting of gains and losses between groups of insurance contracts, the Company will group newly issued policies expected to result in loss, separately from all others. While the IFRS 17 standard provides for a third profitability grouping, the Company does not issue contracts with no expected possibility for loss.
- Measurement models - IFRS 17 introduces three measurement models for groups of insurance contracts. Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. Each measurement model provides requirements around how to measure the liability for remaining coverage while the liability for incurred claims is generally measured consistently across the models.

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

(b) Other Accounting Policy Changes (continued)

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

- (continued)
  - General Measurement Model ("GMM"): The GMM measures groups of insurance contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as it fulfils insurance contract obligations, an explicit risk adjustment for non-financial risk and a CSM. The CSM represents the present value of the unearned profit for a group of insurance contracts and will be recognized into income over the coverage period as the Company provides insurance contract services. The Company expects that the GMM will be used for all insurance contracts except for those it manages as Segregated Funds.
  - Variable Fee Approach (VFA): The VFA is a modified model for insurance contracts that primarily provide investment related services to the policyholders. This model differs from the GMM upon subsequent measurement and reflects the nature of the Company's services being substantially investment related. Only the Company's Segregated Fund contracts are expected to be measured under the VFA model.
  - Premium Allocation Approach (PAA): Under IFRS 17, the PAA introduces an optional simplified measurement model compared to the GMM for short duration contracts. The Company does not have any short duration contracts and therefore will not apply PAA.
- Discounting - IFRS 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows. The methodology for determining the discount rate is not prescribed but the Company has established that they will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contracts. This will represent a significant difference in practice from the CALM under IFRS 4.
- Risk adjustment - The measurement of insurance contract liabilities includes a risk adjustment for non-financial risks which replaces the Pfad risk margin applied under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liability estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty that arises from non-financial risks. Similar to the risk margin under IFRS 4, the risk adjustment includes the benefits of diversification. The Company expects to apply a margin approach, similar to the IFRS 4 practice, for its non-financial variables (i.e. mortality, morbidity, lapse, expense, etc.).
- Onerous contracts - IFRS 17 requires the identification of groups of onerous contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of profit or loss along with an increase in the insurance contract liability known as a "loss component" to appropriately reflect the timing of losses.
- Reinsurance contracts held - The Company will apply GMM to reinsurance contracts held, adapted to reflect the characteristics of such contracts, including any risk of non-performance of the reinsurer. For reinsurance held using the GMM, the CSM reflects either a net cost or net gain on purchase of reinsurance instead of unearned profit, and if the treaty was in place prior to recognizing underlying direct insurance contracts that are onerous, GMM would offset a portion of those losses on initial recognition of those underlying direct insurance contracts. The Company does not reinsure risks related to its Segregated Fund contracts and therefore no reinsurance treaties will be measured under VFA.
- Presentation and disclosure - IFRS 17 introduces changes to the way in which the Company will present and disclose financial results. Similar to IFRS 4, reinsurance contracts held will be presented separately from the direct insurance contracts issued. On the statement of financial position, insurance contracts and reinsurance contracts held will be presented separately from those portfolios of insurance contracts that are in an asset versus a liability position. The statement of financial performance will no longer include premiums written, instead it will include an insurance service result comprising insurance revenue and insurance service expenses. Insurance finance income or expense will be presented within the investment results. The Company's notes to the financial statements are required to include certain disclosures including the insurance contract liability roll-forward schedules as well as disclosure information on discount rates, new business impacts and the expected emergence pattern of CSM.

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

(b) Other Accounting Policy Changes (continued)

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 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

ivari'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. *ivari's* 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.

ivari 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

Management continues to monitor the potential for heightened risk related to higher-than-expected mortality and morbidity claims and adverse policyholder behaviour from the COVID-19 pandemic.

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 significant losses to date.

(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.

3. Risk Management and Control Practices (continued)

(b) Credit Risk (continued)

(i) Credit Risk Governance and Control

- The Company manages exposure to credit risk by establishing concentration limits by counterparty, credit rating and asset class. To further minimize credit risk, the financial condition of the counterparties is monitored on a regular basis. These requirements are outlined in the Investment Policy and associated materials.

(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.

(thousands of dollars)

	December 31, 2022		
	Fair Value Through Profit or Loss	Available-for-sale	Total
Government	$ 1,572,368	$ 470,016	$ 2,042,384
Financial	335,617	54,514	390,131
Communications	750,828	39,458	790,286
Utilities	743,564	28,769	772,333
Consumer	544,761	13,732	558,493
Industrial	387,668	17,594	405,262
Energy	459,669	-	459,669
Other	66,280	-	66,280
Total	$ 4,860,755	$ 624,083	$ 5,484,838

	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
Other	80,595	-	80,595
Total	$ 5,065,857	$ 871,748	$ 5,937,605

(iii) Assets Default Risk

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

			December 31, 2022	
Bond Ratings	Fair Value Through Profit or Loss	Available-for-sale	Total	Percent of Portfolio
AAA	$ 192,697	$ 79,228	$ 271,925	4.96%
AA	1,346,912	406,372	1,753,284	31.97%
A	1,244,844	48,180	1,293,024	23.57%
BBB	2,058,489	90,303	2,148,792	39.18%
BB or Lower	17,813	-	17,813	0.32%
Total	$ 4,860,755	$ 624,083	$ 5,484,838	100.00%

			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%
BB or Lower	-	-	-	-
Total	$ 5,065,857	$ 871,748	$ 5,937,605	100.00%

3. Risk Management and Control Practices (continued)

(b) Credit Risk (continued)

(iv) Loans Past Due

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received but management has reasonable assurance of the timely collection of the full amount of principal and interest due. As at December 31, 2022, there were no loans where either the principal or interest was past due (2021 - 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.

(thousands of dollars)

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

	December 31, 2022	December 31, 2021
A	$ 1,096	$ 558
Total	$ 1,096	$ 558

(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, 2022			December 31, 2021		
	Reinsurance Assets	Collateral from Reinsurers	Net Exposure	Reinsurance Assets	Collateral from Reinsurers	Net Exposure
AA	$ 2,392,959	$ 1,141,556	$ 1,251,403	$ 2,718,555	$ 1,379,137	$ 1,339,418
A	(177,143)	-	(177,143)	(111,735)	-	(111,735)
Total	$ 2,215,816	$ 1,141,556	$ 1,074,260	$ 2,606,820	$ 1,379,137	$ 1,227,683

(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.

3. Risk Management and Control Practices (continued)

(c) Market Risk (continued)

Currency Risk

Currency risk is the potential for economic loss associated with fluctuations in the market values of assets or liabilities due to foreign exchange rate movements that are not fully passed through to the policyholders. As at December 31, 2022 and 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 its Asset-Liability Risk Management and Enterprise Risk Management Policies. Key controls defined by management, which are utilized in the management and measurement of market risk are outlined below.

- Risk appetite and target ranges have been established for market risk.

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(thousands of dollars)

- 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.
- *ivari's* 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 significant 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	
	2022	2021	2022	2021	2022	2021
Change in equity markets[1]						
10% increase	$ 72,700	$ 49,800	$ 100	$ 100	$ 72,800	$ 49,900
10% decrease	(75,300)	(53,600)	(100)	(100)	(75,400)	(53,700)
20% increase	145,900	101,900	100	100	146,000	102,000
20% decrease	(154,500)	(115,000)	(100)	(100)	(154,600)	(115,100)
Changes in interest rates[2]						
1% increase in yield curve	$ (62,900)	$ 20,200	$ (73,100)	$ (114,900)	$ (136,000)	$ (94,700)
1% decrease in yield curve	81,500	(40,500)	91,300	146,000	172,800	105,500
2% increase in yield curve	(110,100)	37,300	(131,800)	(205,600)	(241,900)	(168,300)
2% decrease in yield curve	173,600	(110,000)	205,800	263,400	379,400	153,400

[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 25.83% effective tax rate (2021 - 25.82%) 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 25.83% effective tax rate (2021 - 25.82%) for *ivari* was used to estimate after-tax income.

(thousands of dollars)

3. Risk Management and Control Practices (continued)

(c) Market Risk (continued)

Currency Risk (continued)

(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% (2021 - 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, 2022			December 31, 2021		
	Guarantee Value	Fund Value	Amount at Risk	Guarantee Value	Fund Value	Amount at Risk
Maturity Benefit	466,117	822,275	3,363	516,560	1,041,232	116
Death Benefit	771,420	822,275	42,800	855,407	1,041,232	851
Withdrawal Benefit	331,683	822,275	102,977	340,034	1,041,232	59,818

(iii) Universal Life Minimum Interest Guarantees

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

	Fund Value[1]	
	December 31, 2022	December 31, 2021
No guarantee	$ 69,496	$ 71,715
Up to 2%	113,283	110,208
Above 2% and up to 3%	194,492	181,617
Above 3% and up to 4%	685,804	660,771
Total	$ 1,063,075	$ 1,024,311

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

(iv) Exchange-traded funds

ivari invests in ETFs, tracking various global market indices, to support policyholder funds invested in such indices. *ivari* also invests in ETFs on the Canadian equity market to support some of its longer duration insurance contract liabilities. The notional amount of the latter as at December 31, 2022 is $0 (2021- $735,281).

(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.

3. Risk Management and Control Practices (continued)

(c) Market Risk (continued)

Currency Risk (continued)

(v) Embedded Derivatives (continued)

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

Key controls defined by management, which are utilized in the management and measurement of liquidity risk are outlined below.

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

As at December 31, 2022 and 2021, the Company maintained sufficient liquidity to cover all cash flow needs.

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3. Risk Management and Control Practices (continued)

(d) Liquidity Risk

(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, 2022				
	Less than 1 year	1-5 years	5-10 years	After 10 years	Total
Liabilities[1] and Lease Commitments[3]					
Undiscounted investment contract liabilities	$ 4,928	$ 9,603	$ 955	$ 301	$ 15,787
Reinsurance payables	10,121	-	-	-	10,121
Derivative liabilities	498	-	-	-	498
Other liabilities **	157,161	325,908	423,909	1,911,575	2,818,553
Undiscounted insurance contract liabilities[1, 2]	(60,254)	129,082	1,545,866	34,647,889	36,262,583
Other insurance contract liabilities[1]	-	-	-	-	160,095
Subtotal	112,454	464,593	1,970,730	36,559,765	39,267,637
Leases[3]	2,885	10,662	3,564	-	17,111
Total	$ 115,339	$ 475,255	$ 1,974,294	$ 36,559,765	$ 39,284,748

	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
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

[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 be settled in less than 5 years, except lease liabilities which is included in table above and amounts on deposit from reinsurers which is detailed in Note 10(a).

(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 its Underwriting Risk Management Policy, Claims Risk Management Policy, Reinsurance Risk Management Policy and Product Design and Pricing Risk Policy. These policies are approved annually by *ivari's* 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.

3. Risk Management and Control Practices (continued)

(e) Insurance Risk (continued)

- Insurance contract liabilities are established in accordance with standards set forth by the ASB and guidance provided by the CIA.

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

ivari'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.

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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, 2022 Total
	Fair Value	Fair Value	Fair Value	Amortized Cost	Carrying and Fair Value
Cash and cash equivalents	374	74,274	-	-	$ 74,648
Short-term investments	2,004	1,012,172	-	-	1,014,176
Bonds and debentures	624,083	4,860,755			5,484,838
Exchange-traded and mutual funds	-	1,966,640	-	-	1,966,640
Loans to policyholders	-	-	-	132,980	132,980
Mortgage loans	-	-	-	7	7
Derivative assets	-	-	1,096	-	1,096
Other invested assets:					
Segregated funds seed units	871	-	-	-	871
Land leases	-	-	-	70	70
Futures margins	-	68,292	-	-	68,292
Accrued investment income	-	-	-	33,416	33,416
Total Invested Assets	627,332	7,982,133	1,096	166,473	$ 8,777,034
Derivative Liabilities	-	-	498	-	$ 498

	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

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4. Portfolio Investments (continued)

(b) Cash and Cash Equivalents

Cash and cash equivalents are made up of the following:

	December 31, 2022	December 31, 2021
Cash, end of year	$ 42,559	$ 41,009
Cash equivalents, end of year	32,089	22,948
Cash and cash Equivalents, End of Year	$ 74,648	$ 63,957

(c) Unrealized Gains (losses)

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

	December 31, 2022			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	AOCI Before Tax
Cash equivalents	$ 374	$ -	$ -	$ -
Short-term investments	2,004	-	-	-
Bonds and debentures	624,083	12,999	(17,317)	(4,318)
Segregated funds seed units	871	596	-	596
Total	$ 627,332	$ 13,595	$ (17,317)	$ (3,722)

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

4. Portfolio Investments (continued)

(d) Bonds and Debentures

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

	December 31, 2022				
	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	$ -	$ 21,195	$ 12,675	$ 83,298	$ 117,168
Average yield	-	3.84%	3.29%	3.28%	3.39%
Government – Canadian Provincial					
Carrying value	$ -	$ 33,079	$ 37,230	$ 1,382,679	$ 1,452,988
Average yield	-	3.97%	4.15%	4.34%	4.32%
Government – Canadian Municipal					
Carrying value	$ -	$ 608	$ 672	$ 933	$ 2,213
Average yield	-	4.40%	4.10%	4.64%	4.41%
Corporate					
Carrying value	$ 1,483	$ 23,779	$ 227,818	$ 2,684,526	$ 2,937,606
Average yield	5.28%	5.27%	5.41%	5.47%	5.46%
Foreign Issuers					
Carrying value	$ -	$ -	$ -	$ 350,780	$ 350,780
Average yield	-	-	-	5.50%	5.50%
Total	$ 1,483	$ 78,661	$ 278,395	$ 4,502,216	$ 4,860,755
Bonds and Debentures – Available-for-sale					
Government – Federal					
Carrying value	$ 3,187	$ -	$ 8,468	$ 67,573	$ 79,228
Average yield	4.27%	-	3.30%	3.34%	3.38%
Government – Canadian Provincial					
Carrying value	$ -	$ -	$ -	$ 390,788	$ 390,788
Average yield	-	-	-	4.31%	4.31%
Corporate					
Carrying value	$ 30,046	$ 29,894	$ 1,148	$ 92,979	$ 154,067
Average yield	5.00%	5.03%	4.95%	5.54%	5.33%
Total	$ 33,233	$ 29,894	$ 9,616	$ 551,340	$ 624,083
Grand Total	$ 34,716	$ 108,555	$ 288,011	$ 5,053,556	$ 5,484,838

(thousands of dollars)

4. Portfolio Investments (continued)

(d) Bonds and Debentures (continued)

	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%
Corporate					
Carrying value	$ -	$ 52,108	$ 8,718	$ 119,010	$ 179,836
Average yield	-	1.48%	2.31%	3.47%	2.84%
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

(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, 2022 Fair Value	December 31, 2021 Fair Value
Exchange-traded funds	$ 600,712	$ 1,406,590
Mutual funds	1,365,928	1,468,402
Total	$ 1,966,640	$ 2,874,992

(f) Impairment

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

During 2022, there were no impairments on bonds held as AFS assets (2021 - nil). There was no recovery for 2022 (2021 - nil). During 2022, impairments on equities was nil (2021 - nil) and impairments for segregated funds seed money was nil (2021 - nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(thousands of dollars)

4. Portfolio Investments (continued)

(g) Net Investment Income

2022	Fair Value Through Profit or Loss	Held-for-Trading	Available-for-sale	Amortized Cost		Total
Cash and short-term investments						
Interest income	17,650	-	323	-	$	17,973
Gains (losses)	30,984	-	(14)	-		30,970
Bonds and debentures						
Interest income	216,099	-	25,787	-		241,886
Losses	(1,255,059)	-	-	-		(1,255,059)
Exchange-traded and mutual funds						
Losses	(321,643)	-	-	-		(321,643)
Dividends	63,237	-	-	-		63,237
Derivatives						
Losses	-	(60,671)	-	-		(60,671)
Mortgage loans	-	-	-	1		1
Land leases	-	-	-	10		10
Loans to policyholders	-	-	-	8,759		8,759
Miscellaneous income	-	-	-	1,621		1,621
Investment loss before investment expenses and investment income taxes					$	(1,272,916)
Less: Investment expenses						13,996
Less: Investment income taxes						3,468
Net Investment Loss					$	(1,290,380)

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

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

(thousands of dollars)

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, 2022, *ivari* pledged securities having a fair value of $68,292 (2021 - $122,010).

(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.

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, 2022			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets				
Fair Value Through Profit or Loss				
Bonds and debentures[1]	4,860,755	-	100%	-
Exchange-traded and mutual funds	1,966,640	100%	-	-
Cash and cash equivalents	74,274	100%	-	-
Short-term investments	1,012,172	-	100%	-
Futures margins	68,292	-	100%	-
Held-for-trading				
Forwards	1,096	-	100%	-
Available-for-sale				
Bonds and debentures[1]	624,083	-	100%	-
Cash and cash equivalents	374	-	100%	-
Short-term investments	2,004	-	100%	-
Segregated funds seed units	871	100%	-	-
Financial Liabilities				
Forwards	498	-	100%	-
Segregated Funds Net Assets	822,275	82%	18%	-
Segregated Funds Net Liabilities	822,275	82%	18%	-

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

(a) Fair Value Hierarchy (continued)

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

(b) Movements between Level 1, Level 2 and Level 3 Financial Instruments

There were no transfers between Level 1 and Level 2 financial instruments during 2022 (2021 – nil).

Within segregated funds, there were no material transfers between Levels 1 and 2 during 2022 (2021 – immaterial). The fair value of financial instruments categorized as level 3 within segregated funds at the end of 2022 is $3,477 (2021 – $1,154). The change in level 3 comprises of net transfers of $2,349 and net realized losses of $26.

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 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.

(thousands of dollars)

6. Derivatives (continued)

(a) Discussion of Derivatives (continued)

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, 2022			December 31, 2021		
	Positive Replacement Cost[1]	Credit Equivalent Amount	Capital Requirement	Positive Replacement Cost[1]	Credit Equivalent Amount	Capital Requirement
Foreign exchange forward contracts	$ 1,096	$ 2,222	$ 7	$ 558	$ 1,800	$ 5
Total	$ 1,096	$ 2,222	$ 7	$ 558	$ 1,800	$ 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.

(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 ETF, 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.

6. Derivatives (continued)

(thousands of dollars)

(a) Discussion of Derivatives (continued)

(iv) Foreign Exchange Derivatives

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

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

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

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

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

		2022		2021
Exchange-traded Contracts				
Equity futures and other contracts – long/ (short)	$	443,919	$	(497,576)
Interest rate futures contracts		4,772		5,574
Over-the-counter Contracts				
Foreign exchange forward contracts		(58,833)		(74,011)
Total	$	389,858	$	(566,013)

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.

		2022		2021
Foreign exchange forward contracts	$	1,096	$	558
Derivative assets	$	1,096	$	558
Foreign exchange forward contracts	$	498	$	368
Derivative liabilities	$	498	$	368

(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, 2022 was $2,769,860 (2021 - $3,035,952).

(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.

	2022					2021				
		Notional Amount	Expiry Date		Carrying Value		Notional Amount	Expiry Date		Carrying Value
Equity futures	$	(71,168)	Mar 23	$	–	$	(59,089)	Mar 22	$	–
Foreign exchange forwards		23,683	Mar 23		(91)		16,907	Mar 22		(114)
Total	$	(47,485)		$	(91)	$	(42,182)		$	(114)

7. Other Assets

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

(thousands of dollars)

		2022		2021
Accounts receivable	$	125,541	$	110,484
Business loans		13,820		16,939
Property and equipment		6,426		7,625
Right-of-use assets[1]		10,777		20,172
Intangible assets		14,509		7,458
Unearned commission		61,409		59,622
Prepaid assets[2]		63,902		42,507
Income tax receivable		303		306
Total	$	296,687	$	265,113

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

2 The prepaid assets include conversion costs from 2020 to 2023 related to an outsourcing arrangement with a 25-year agreement. The nature of the expense incurred will allow for the provision of the services in the future. The Company will amortize it over a roughly 22.17-year period of the contract (25 years contract term less the estimated 2.83 years needed to complete the conversion and begin actively using the new platform), effectively the benefits for its transformation project's useful life.

There were no write-downs of property and equipment, and intangible assets during the year ended December 31, 2022 (2021 – nil). During 2022, dispositions of depreciated assets included $192 (2021 – $2,218) of property and equipment and nil (2021 - $5,892) 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

		2022		2021
Opening Balance	$	20,172	$	23,054
Depreciation charge for the year		(2,624)		(2,862)
Termination of lease contract		-		(20)
Lease remeasurement		(6,771)		-
Additions to right-of-use assets		-		-
Closing Balance	$	10,777	$	20,172

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.

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

(a) Nature of Insurance Contract Liabilities (continued)

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

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

(b) Best Estimate Assumptions and Methodology

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

Mortality and Morbidity Assumptions

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

Morbidity relates to the occurrence of accidents and sickness defined groups for insured risks. Best estimate morbidity assumptions are based on internal as well as industry experience and are differentiated by age, gender, occupation class, smoking status 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 $61,200 (2021 - $81,000). The effect on insurance contract liabilities of a 10% decrease in future mortality and morbidity rates would be an increase of approximately $79,500 (2021 - $96,400).

Mortality Improvement Assumptions

As the current downward trend in mortality rates is assumed to continue for some years into the future, a best estimate mortality improvement assumption was established for longer duration individual life insurance contracts, on the basis of 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 margin for adverse deviation is determined dynamically at each policy duration by comparing the policy liability to the non-forfeiture value at that duration.

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 $205,800 (2021 - $212,300).

Premium Persistency Assumptions

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

Investment Income Assumptions

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

(thousands of dollars)

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

(b) Best Estimate Assumptions and Methodology (continued)

Investment Income Assumptions (continued)

The impact of an immediate 1% increase in the general level of interest rates would be a reduction in the insurance contract liabilities, net of changes in unrealized gains on supporting assets, of approximately $135,200 (2021 - $148,500). 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 $163,700 (2021 - $201,000).

The impact of an immediate 10% increase in the general level of equity markets would be a decrease in insurance contract liabilities of approximately $117,200 (2021 - $183,200). Conversely, a 10% decrease in the general level of equity markets would result in an increase in insurance contract liabilities of approximately $120,800 (2021 - $188,400).

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 and settlement of benefits and 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 $36,100 (2021 - $37,000).

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 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:

	2022				
	Life	Health	Annuity	Corporate[1]	Total
Gross insurance contract liabilities	$ 8,276,865	$ 7,929	$ 206,289	$ -	$ 8,491,083
Other insurance contract liabilities	159,997	98	-	-	160,095
Total insurance contract liabilities	$ 8,436,862	$ 8,027	$ 206,289	$ -	$ 8,651,178
Invested assets backing insurance contract liabilities	$ 6,515,783	$ 7,081	$ 198,098	$ 2,040,557	$ 8,761,519
Reinsurance assets	2,215,713	103	-	-	2,215,816
Total assets backing insurance contract liabilities	$ 8,731,496	$ 7,184	$ 198,098	$ 2,040,557	$ 10,977,335

(thousands of dollars)

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

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

	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

[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, 2022, reinsurance assets were $2,215,816 (2021 - $2,606,820).

There were no impairments of reinsurance assets in 2022 (2021 - nil).

(e) Changes in Insurance Contract Liabilities and Reinsurance Assets

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

	2022		
	Gross Insurance Contract Liabilities	Reinsurance Assets	Net
Opening Balance	10,180,411	2,606,820	7,573,591
Change in market value of supporting assets	(1,720,340)	(458,122)	(1,262,218)
Change in in-force business and market economics	(131,234)	(102)	(131,132)
Changes in methods and assumptions:			
Persistency and lapse	(86,798)	(184,739)	97,941
Mortality and mortality improvement	185,698	247,639	(61,941)
Expenses	(8,366)	-	(8,366)
UL fund allocation, PH IDX returns, GIA starting rates	15,364	-	15,364
Update to economic assumptions	47,498	2,437	45,061
Methodology changes and model refinements	8,850	1,883	6,967
Total changes	(1,689,328)	(391,004)	(1,298,324)
Closing balance	8,491,083	2,215,816	6,275,267

	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)
Total changes	2,305	(93,289)	95,594
Closing balance	10,180,411	2,606,820	7,573,591

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

(thousands of dollars)

(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 (2021 – nil).

	December 31, 2022	December 31, 2021
Premiums received in advance	$ 5,330	$ 5,714
Policyholder amounts on deposit	17,332	22,195
Outstanding claims and adjustment expenses	137,433	117,856
Total	$ 160,095	$ 145,765

(g) Changes in Investment Contract Liabilities

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

Details of the changes in investment contract liabilities, which consist primarily of fixed rate annuities, are provided below.

For the period ended	December 31, 2022	December 31, 2021
Opening balance	$ 19,121	$ 22,546
Interest	149	305
Withdrawals	(2,009)	(1,739)
Claim payments	(2,215)	(1,991)
Total net changes	$ (4,075)	$ (3,425)
Closing balance	$ 15,046	$ 19,121

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 $3,915 in 2022 (2021 - $3,203), which includes a termination fee of $754 in 2022 (2021 – nil).

ivari decided to exercise its option to terminate a floor at its head-office effective May 1, 2023. The lease modification resulted in a reassessment of its lease liability at the interest rate implicit in the lease.

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

	2022	2021
2022	-	3,161
2023	2,885	3,375
2024	2,650	3,385
2025	2,651	3,385
2026	2,688	3,484
2027	2,673	3,469
Thereafter	3,564	4,625
Total	$ 17,111	$ 24,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

9. Commitments

(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.

	2022	2021
2022	-	21,851
2023	20,722	19,704
2024	17,808	17,454
2025	15,997	15,680
2026	15,003	14,706
2027	14,555	14,267
Thereafter[1]	224,661	220,173
Total	$ 308,746	$ 323,835

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

10. Other Liabilities

	December 31, 2022	December 31, 2021
Amount on deposit from reinsurers	$ 937,409	$ 927,311
Accounts payable and accrued liabilities	29,824	22,033
Income taxes payable	19,607	11,005
Lease liabilities[1]	12,843	22,279
Retirement benefit plans	5,013	8,429
Other	30,682	28,166
Total	$ 1,035,378	$ 1,019,223

[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 2022, *ivari* recognized an interest expense for the funds withheld under this reinsurance treaty of $76,631 (2021 - $75,648).

Repayments made in accordance with the schedule during 2022 totaled $66,532 (2021 - $62,178). 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
2023	72,035
2024	74,667
2025	79,260
2026	84,012
2027	87,970
5 Year Total	397,944

Year	Repayment Amount
2028 – 2032	423,910
2033 – 2037	458,284
2038 – 2042	437,618
2043 – 2047	386,816
2048 – 2052	298,103
2053 – 2057	192,723

Year	Repayment Amount
2058 – 2062	95,404
2063 – 2067	33,369
2068 – 2072	8,424
2073 – 2077	835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

10. Other Liabilities (continued)

(a) Amounts on Deposit from Reinsurers (continued)

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 $937,409 as at December 31, 2022 (2021 - $927,311). For disclosure purposes only[1], ivari has estimated the loan's fair value to be $1,206,824 (2021 - $1,530,857) by present valuing the expected future repayments at 6.0% (2021 – 4.0%), 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 $68,576 if 5.5% were used and decrease by $62,676 if 6.5% were used.

[1] 2021 fair value and discount rate of the loan has been recalculated to be on the same basis as 2022.

(b) Lease Liabilities

	2022	2021
Lease liabilities included in Other Liabilities		
Current	$ 3,397	$ 5,337
Non-current	9,446	16,942
Total	$ 12,843	$ 22,279

(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,* Canadian Premier Life Insurance Company ("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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

10. Other Liabilities (continued)

(c) Retirement Benefit Plans (continued)

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

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

	2022			2021		
	Defined Benefit	Post-retirement & employment	Total	Defined Benefit	Post-retirement & employment	Total
Change in Plan Assets						
Fair value of assets, beginning of year	47,641	-	47,641	44,215	-	44,215
Employee contributions	3	-	3	6	-	6
Employer contributions	574	288	862	716	203	919
Interest income on plan assets	1,409	-	1,409	1,091	-	1,091
Non-investment expense	(70)	-	(70)	(70)	-	(70)
Actuarial gains (losses) on plan assets	(10,139)	-	(10,139)	3,496	-	3,496
Benefits paid	(2,317)	(288)	(2,605)	(1,813)	(203)	(2,016)
Fair Value of Assets, end of year	37,101	-	37,101	47,641	-	47,641
Change in Benefits Obligation						
Benefits obligation, beginning of year	53,030	3,040	56,070	59,417	3,454	62,871
Employer current service cost	88	59	147	85	67	152
Employee contributions	3	-	3	6	-	6
Interest on accrued benefit obligation	1,560	99	1,659	1,464	84	1,548
Actuarial losses (gains)	(12,664)	(496)	(13,160)	(6,129)	(362)	(6,491)
Benefits paid	(2,317)	(288)	(2,605)	(1,813)	(203)	(2,016)
Benefits Obligation, end of year	39,700	2,414	42,114	53,030	3,040	56,070
Retirement Benefits Asset (Liability)	(2,599)	(2,414)	(5,013)	(5,389)	(3,040)	(8,429)
Retirement Benefits Asset (Liability)						
- wholly or partially funded	2,633	-	2,633	1,367	-	1,367
- wholly unfunded	(5,232)	(2,414)	(7,646)	(6,756)	(3,040)	(9,796)
Retirement Benefits Asset (Liability)	(2,599)	(2,414)	(5,013)	(5,389)	(3,040)	(8,429)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

10. Other Liabilities (continued)

(c) Retirement Benefit Plans (continued)

(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 (2021 – 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, 2022
Total Fixed Income / Cash	50.0	40	60	52
Canadian Bonds	40.0	30	50	43
Global Bonds	10.0	5	15	9
Total Equities	50.0	40	60	48
Canadian Stocks	15.0	10	20	15
Non-Canadian Stocks	20.0	15	25	20
Real Estate	7.5	3	13	6
Infrastructure	7.5	3	13	7
	100.0			100

	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
	100.0			100

- Benefit Expense

	2022			2021		
	Defined Benefit	Post-retirement & employment	Total	Defined Benefit	Post-retirement & employment	Total
Current service cost	88	59	147	85	67	152
Interest cost on retirement benefit obligation	1,560	99	1,659	1,464	84	1,548
Interest income on plan assets	(1,409)	-	(1,409)	(1,091)	-	(1,091)
Net benefit expense	239	158	397	458	151	609

- Experience Gains (Losses)

	2022	2021
Experience gains (losses) on plan liabilities	13,160	6,491
Experience gains (losses) on plan assets	(10,139)	3,496
Re-measurement of Retirement Benefit Plans	3,021	9,987

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

10. Other Liabilities (continued)

(c) Retirement Benefit Plans (continued)

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

- 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

	2022	2021
Net benefit expense from Note 10(c)(ii)	397	609
Retirement benefit plan administration expenses	330	478
Total	727	1,087

(iv) DC Retirement Benefit Plans

	2022	2021
Employer contributions	1,735	1,740
Expense charges	197	205
Total	1,932	1,945

(d) At December 31, 2022, *ivari* and iHULC had access to a bank line of credit of $20,000 (2021 - $20,000) and $4,000 (2021 - $4,000) respectively against which no funds had been drawn (2021 – 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 2022 (2021 – 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 Capital

WRC received a cash contribution in 2022 of $351,045 (2021 - nil) from its parent.

In 2022, the Company declared and paid a cash dividend of nil (2021 - 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 2022 and 2021.

In addition, *ivari* and the Branch measure capital following OSFI's LICAT and LIMAT Guidelines respectively. At each quarterly reporting period, in 2022 and 2021, both *ivari* and the Branch ratios exceeded the supervisory targets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022
(thousands of dollars)

14. Premiums

	2022	2021
Gross premiums		
Life		
Universal	$ 734,655	$ 699,822
Traditional	249,772	262,894
Single premium immediate annuities	9	527
Health	4,937	4,740
Total	989,373	967,983
Ceded premiums		
Life		
Universal	$ (192,970)	$ (217,655)
Traditional	(217,779)	(222,791)
Health	(1,479)	(1,351)
Total	$ (412,228)	$ (441,797)
Net Premiums	$ 577,145	$ 526,186

15. Fee Income from Customers

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

	December 31, 2022	December 31, 2021
Fee income related to insurance contracts	$ 5,213	$ 5,787
Fund management and other asset-based fees	15,330	17,827
Fund administrative fees	4,901	5,364
Total	$ 25,444	$ 28,978

(b) Contract balances

Timing differences between revenue recognition and cash collection result in a management fee receivable balance of $278 as at December 31, 2022 (2021 - $324). Amounts due to the Company primarily consist of fees deducted from funds under management by the Company. Other than fund administration fees, amounts are generally billed and collected within a short period of time and are not subject to conditions other than the passage of time. Amounts collected as administration fees are limited to the related fund operating costs incurred by the Company and in the event a refund is required, it is recognized in the year to which it relates. The Company has no significant related contract liabilities.

16. Gross and Ceded Policy Benefits and Claims

(a) Methodologies and Assumptions

The establishment of liabilities for outstanding claims and 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 claims 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.

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

(thousands of dollars)

(b) Gross and Ceded Policy Benefits and Claims

	2022			2021		
	Gross	Ceded	Net	Gross	Ceded	Net
Insurance contracts						
Life	$ 661,766	$ 457,113	$ 204,653	$ 640,544	$ 417,854	$ 222,690
Health	2,361	1,546	815	760	332	428
Subtotal	664,127	458,659	205,468	641,304	418,186	223,118
Investment contracts	(6)	-	(6)	(1)	-	(1)
Total	$ 664,121	$ 458,659	$ 205,462	$ 641,303	$ 418,186	$ 223,117

17. Marketing and Operating Expenses

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

	2022	2021
Personnel-related[1]	$ 46,229	$ 48,065
Premises[2]	8,674	8,806
Outsourced services and professional fees[1]	42,013	42,002
Systems	9,539	8,716
External underwriting fees	4,262	4,474
Marketing and travel	3,259	1,304
Project-related external costs[1]	18,798	9,809
All other	(1,256)	707
Total	$ 131,518	$ 123,883
Less: recoveries from other companies	705	635
Marketing and operating expenses	$ 130,813	$ 123,248

1 The Company entered into a 25-year outsourcing arrangement with a third party in 2020 to modernize its legacy administration systems in providing policy administration, customer support services and digital new business capabilities. It incurs related conversion costs from 2020 to 2023.

2 Premises include right-of-use asset depreciation charges of $2,624 (2021 - $2,861) and related interest costs of $1,246 (2021 - $710) in 2022.

(b) Personnel-Related

	2022	2021
Salaries, bonuses and other short-term benefits[1]	$ 41,103	$ 43,419
Pension and post-retirement costs	2,483	2,719
Long term incentive plans	1,888	1,258
Other	755	669
Total[2]	$ 46,229	$ 48,065

1 *ivari* operates an optional Employee Stock Savings Plan in which eligible employees can contribute between 1% and 6% of their annual earnings in certain mutual funds and *ivari* matches 75% of their contributions. The employee's contribution is invested in certain investment options selected by the employee. Included in employee expenses is the amount recorded by the Company of $1,209 for the year ended December 31, 2022 (2021 - $1,106) for contribution matching. *ivari* makes no guarantees with respect to the performance of its matching contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(thousands of dollars)

18. Related Party Transactions

(a) Services Provided by or to Related Parties

Related Parties

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

(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, 2022		December 31, 2021	
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	$ (109)	$ 1,058	$ (49)	$ 25

(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 2022 and 2021.

	2022	2021
Salaries, bonuses and other short-term benefits	$ 2,999	$ 2,884
Pension and other post-employment benefits	142	139
Other long-term benefits	1,040	417
Total	$ 4,181	$ 3,440

19. Income Taxes

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

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

	2022	2021
Current income taxes:		
Current taxes on income in the year	$ 80,871	$ 24,004
Current taxes (recovery) referring to previous periods	(4,445)	2,333
	76,426	26,337
Deferred income taxes:		
Origination and reversal of temporary differences	$ (102,173)	$ (8,287)
Impact of change in tax rates	44	90
Deferred taxes (recovery) referring to previous periods	4,737	(4,116)
	(97,392)	(12,313)
Income tax expense (recovery) reported in net income	$ (20,966)	$ 14,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(thousands of dollars)

19. Income Taxes (continued)

(a) The statutory income tax rate that applies to the Company is adjusted as shown below to derive the effective tax rate in percentages for each of 2022 and 2021.

	2022	2021
Statutory Rate	25.80%	25.80%
Adjustments:		
Exempt Investment Income	36.00%	(14.69%)
Capital taxes, tax credits and other non-deductible income	87.72%	0.23%
True-up of prior years and other adjustments	(55.13%)	4.28%
Future federal and provincial tax rate changes	0.03%	0.82%
Effective tax rate	94.42%	16.44%

(b) The following income tax amounts are included in OCI as at December 31:

		2022		2021
Net unrealized losses on AFS securities	$	(66,026)	$	(18,431)
Less: reclassification of gains on AFS securities to income		6		37
Total income tax recovery included in OCI	$	(66,020)	$	(18,394)

(c) Deferred Tax Asset / (Liability)

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

		2022		2021
Insurance contract liabilities	$	43,213	$	-
Tax credits		32,268		3,577
Other		6,609		5,992
Deferred Tax Asset	$	82,090	$	9,569
Insurance contract liabilities	$	-	$	25,166
Investment gains recognized in retained earnings		34,540		38,297
Other		-		(4,052)
Deferred Tax Liability	$	34,540	$	59,411
Net Deferred Tax Asset / (Liability)	$	47,550	$	(49,842)

In 2022, the Company expects that it will realize sufficient future taxable income to allow it to use $20,544 of Ontario Capital Minimum Tax Credits (2021 - $0).

(ii) Reconciliation of Net Deferred Tax Asset / (Liability)

		2022		2021
Opening balance	$	(49,842)	$	(62,155)
Deferred tax benefit during the year recognized in net income		97,392		12,313
Closing balance	$	47,550	$	(49,842)

(d) The Company paid income taxes in the amount of $4,504 in 2022 (2021 - $10,474).

20. 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;

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(thousands of dollars)

- 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:

		2022			2021	
Type of Fund		Total	Percent		Total	Percent
Money market	$	17,766	2.16%	$	20,065	1.93%
Fixed income		37,391	4.54%		47,942	4.60%
Balanced		443,818	53.92%		556,416	53.39%
Equity		324,171	39.38%		417,747	40.08%
Subtotal	$	823,146	100.00%	$	1,042,170	100.00%
Less: Seed units invested by the Company		871			938	
Segregated Fund Net Assets	$	822,275		$	1,041,232	

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

		2022			2021	
Asset Class		Total	Percent		Total	Percent
Cash and cash equivalents	$	3,956	0.48%	$	6,233	0.60%
Short-terms investments		81,104	9.85%		93,356	8.96%
Equities		122,988	14.95%		157,535	15.12%
Bonds		59,937	7.28%		73,020	7.01%
Mutual funds		554,675	67.38%		711,208	68.23%
Other assets		486	0.06%		818	0.08%
Subtotal	$	823,146	100.00%	$	1,042,170	100.00%
Less: Seed units invested by the Company		871			938	
Segregated Fund Net Assets	$	822,275		$	1,041,232	

21. Contingencies

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” in respect of one segregated fund. It is not expected that these legal proceedings will have a material adverse effect on the Company’s financial position.

22. Subsequent Events

On August 24, 2022, Wilton Re Ltd. entered into an agreement to sell Proj Fox Acquisition Inc. and its subsidiaries to Sagicor Financial Company Ltd. As a result of the acquisition, no significant changes are expected to the business operations of i*vari*. However, a reorganization of intermediary and non-operating entities is planned after closing, which will result in the recapture of business of the Branch by *ivari* and the termination of the Branch’s operations. The transaction is expected to close within 12 months from August 24, 2022 and is subject to receipt of regulatory approvals and satisfaction of customary closing conditions.