The Wawanesa Life Insurance Company

Consolidated Financial Statements
December 31, 2017

February 22, 2018

Independent Auditor's Report

To the Shareholder and Policyholders of
The Wawanesa Life Insurance Company

We have audited the accompanying consolidated financial statements of The Wawanesa Life Insurance Company and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and the consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

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February 22, 2018

Appointed Actuary's Report

To the Shareholder and Policyholders of
The Wawanesa Life Insurance Company

I have valued the policy liabilities of **The Wawanesa Life Insurance Company** for its consolidated balance sheet at December 31, 2017 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Jacques Tremblay
Fellow, Canadian Institute of Actuaries
Toronto, Ontario

The Wawanesa Life Insurance Company

Consolidated Balance Sheets

As at December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes		2017		2016
Assets					
Cash and cash equivalents	6	$	18,988	$	32,930
Investments including securities on loan	7		1,057,774		801,605
Receivables	8		64,726		4,192
Accrued investment income			5,801		5,286
Income taxes receivable			6,006		-
Reinsurance assets	12		62,869		5,971
Deferred income taxes	14		1,238		394
Property and equipment	9		369		316
Intangible assets	10		4,624		7,936
General fund assets			1,222,395		858,630
Segregated funds net assets	11		307,907		289,350
Total assets		$	1,530,302	$	1,147,980

Approved by the Board of Directors

"S. Jeffrey Goy"	"Catherine M. Best"
S. Jeffrey Goy	Catherine M. Best
Chief Executive Officer	Chair, Audit Committee

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

The Wawanesa Life Insurance Company

Consolidated Balance Sheets

As at December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes	2017	2016
Liabilities			
Trade and other payables		$ 24,095	$ 5,950
Income taxes payable		1,526	1,170
Insurance contract liabilities	12	923,284	698,009
Deferred income taxes	14	1,708	1,280
General fund liabilities		950,613	706,409
Segregated funds contract liabilities		307,907	289,350
Total liabilities		1,258,520	995,759
Equity			
Share capital	15	158,246	36,500
Shareholder's retained earnings		78,102	78,765
Shareholder's accumulated other comprehensive income		1,331	2,558
Total shareholder's equity		237,679	117,823
Participating policyholders' account	17	34,103	34,398
Total equity		271,782	152,221
Total liabilities and equity		$ 1,530,302	$ 1,147,980

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

The Wawanesa Life Insurance Company

Consolidated Statements of Operations

For the years ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes	2017	2016
Revenue			
Gross premiums		$ 218,764	$ 130,033
Premiums ceded to reinsurers		(45,826)	(22,870)
Net premiums		172,938	107,163
Fee income		5,512	4,895
Net investment income	7	48,672	36,956
Total revenue		227,122	149,014
Benefits and expenses			
Gross claims and benefits incurred	13	126,607	97,115
Claims ceded to reinsurers		(30,689)	(15,403)
Gross change in insurance contract liabilities	12	44,197	47,929
Change in insurance contract liabilities ceded to reinsurers	12	1,381	(22,883)
Net insurance claims and benefits		141,496	106,758
Expenses incurred	16	86,303	30,774
Total benefits and expenses		227,799	137,532
Profit (loss) before income taxes		(677)	11,482
Provision for (recovery of) income taxes	14	(372)	3,624
Profit (loss) for the year		$ (305)	$ 7,858
Profit (loss) for the year attributed to:			
Shareholder		$ (639)	$ 1,893
Participating policyholders		334	5,965
		$ (305)	$ 7,858

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

The Wawanesa Life Insurance Company

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

		2017		2016
Profit (loss) for the year	$	(305)	$	7,858
Other comprehensive loss, net of taxes				
Items that are or may be reclassified subsequently to profit:				
Net unrealized gains (losses) on available-for-sale financial assets, net of income taxes of ($621) (2016 - $85)		(1,682)		857
Net reclassifications to profit for available-for-sale financial assets, net of income taxes of $80 (2016 - ($2,710))		251		(3,397)
Total other comprehensive loss		(1,431)		(2,540)
Total comprehensive income (loss) for the year	$	(1,736)	$	5,318
Total comprehensive income (loss) for the year attributed to:				
Shareholder	$	(1,866)	$	(229)
Participating policyholders		130		5,547
	$	(1,736)	$	5,318

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

The Wawanesa Life Insurance Company

Consolidated Statements of Changes In Equity

For the years ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Attributed to Shareholder					
	Share capital (note 15)	**Retained earnings**	**Accumulated other comprehensive income**	**Total Shareholder's equity**	**Participating policyholders' account (note 17)**	**Total equity**
Balance at January 1, 2017	$ 36,500	$ 78,765	$ 2,558	$ 117,823	$ 34,398	$ 152,221
Profit (loss) for the year	-	(639)	-	(639)	334	(305)
Other comprehensive loss	-	-	(1,227)	(1,227)	(204)	(1,431)
Shares issued	121,746	-	-	121,746	-	121,746
Transfer from participating policyholders' account to shareholder's equity (note 17)	-	425	-	425	(425)	-
Transfer of employee share ownership plan liabilities from related party (note 18)	-	(449)	-	(449)	-	(449)
Balance at December 31, 2017	$158,246	$ 78,102	$ 1,331	$ 237,679	$ 34,103	$ 271,782
Balance at January 1, 2016	$ 36,500	$ 76,459	$ 4,680	$ 117,639	$ 29,264	$ 146,903
Profit for the year	-	1,893	-	1,893	5,965	7,858
Other comprehensive loss	-	-	(2,122)	(2,122)	(418)	(2,540)
Transfer from participating policyholders' account to shareholder's equity (note 17)	-	413	-	413	(413)	-
Balance at December 31, 2016	$ 36,500	$ 78,765	$ 2,558	$ 117,823	$ 34,398	$ 152,221

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

The Wawanesa Life Insurance Company

Consolidated Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars, except as otherwise noted)

	Notes	2017	2016
Cash provided by (used in)			
Operating activities			
Receipts			
Premiums		$ 218,264	$ 129,694
Reinsurance claims and recoveries		37,658	17,257
Interest		24,833	22,020
Fee income		5,512	4,895
		286,267	173,866
Payments			
Claims and benefits		123,602	98,505
Reinsurance premiums		45,965	22,896
Insurance expenses and taxes		81,431	32,029
Other operating cash flows		746	(406)
Income taxes		2,443	(2,774)
		254,187	150,250
Net cash provided by operating activities		32,080	23,616
Investing activities			
Fixed income securities purchased		(553,814)	(382,783)
Fixed income securities sold, redeemed or matured		494,762	348,797
Stocks purchased		(13,146)	(4,040)
Stocks sold or redeemed		21,205	30,767
Acquisition	5	(121,746)	-
Policy loans advanced		(1,794)	(1,801)
Policy loans repaid		1,441	1,788
Property and equipment purchased		(5)	(2)
Intangible assets acquired		(522)	(2,432)
Net cash used in investing activities		(173,619)	(9,706)
Financing activities			
Proceeds from issuance of share capital	15	121,746	-
Net cash provided by financing activities		121,746	-
Increase (decrease) in net cash and cash equivalents		(19,793)	13,910
Net cash and cash equivalents - at January 1	6	31,359	17,449
Net cash acquired	5	3,689	-
Net cash and cash equivalents - at December 31	6	$ 15,255	$ 31,359

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

(in thousands of Canadian dollars, except as otherwise noted)

1 Corporate information

The Wawanesa Life Insurance Company (Life Company) is a company federally incorporated by an Act of Parliament and domiciled in Canada. Life Company develops, markets and distributes individual insurance and annuity products as well as group life and health insurance products in all provinces of Canada, except in Quebec, and the Northwest Territories.

Life Company has one wholly-owned operating subsidiary, Western Life Assurance Company (Western Life), which manufactures and distributes life and non-life insurance products and services throughout Canada. These entities comprise the consolidated entity of The Wawanesa Life Insurance Company (the Company).

The Company is a wholly-owned subsidiary of The Wawanesa Mutual Insurance Company (Parent Company), its ultimate parent and controlling shareholder.

The executive office of the Company is 400 - 200 Main Street, Winnipeg, Manitoba, Canada.

The Company is regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). These consolidated financial statements were approved by the Board of Directors on February 22, 2018.

2 Reporting responsibilities

The consolidated financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the policyholders and shareholder as to whether the consolidated financial statements present fairly, in all material respects, the financial position and financial performance of the Company in accordance with International Financial Reporting Standards (IFRS).

The Appointed Actuary (the Actuary) is appointed by the Board of Directors pursuant to the Insurance Companies Act. The Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policy obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities, also referred to as insurance contract liabilities, include policyholder amounts on deposit, benefits payable and provision for unreported claims.

The Actuary uses the work of the external auditors in verifying data files for valuation purposes.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). In addition, the consolidated financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by OSFI, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles as set out in Part 1 – IFRS of the CPA Canada Handbook. None of the accounting requirements of OSFI are exceptions to IFRS. The significant accounting policies used in the preparation of these consolidated financial statements are summarized in this note. These accounting policies conform, in all material respects, to IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss (FVTPL) and available-for-sale (AFS) financial assets, with the exception of insurance contract liabilities and reinsurance assets which are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value) as explained throughout this note.

The consolidated financial statement values, including the notes to the consolidated financial statements, are presented in Canadian dollars ($) which is the Company's functional and presentation currency rounded to the nearest thousand ($'000), unless otherwise indicated.

The Company presents its consolidated balance sheets on a liquidity basis and each balance sheet line item includes both current and non-current balances, as applicable. The distinction between current and non-current is based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), as presented in the notes.

The following balances are generally classified as current: cash and cash equivalents, investments in stocks and fixed income securities with maturities within one year, receivables, accrued investment income, income taxes receivable and/or payable, and trade and other payables.

The following balances are generally classified as non-current: investments in fixed income securities with maturities greater than one year, reinsurance assets, property and equipment, intangible assets, insurance contract liabilities and deferred income taxes.

Financial assets and financial liabilities are offset and the net amount reported on the consolidated balance sheets only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Revenue, benefits and expenses are not offset in the consolidated statements of operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method when the definition is met under IFRS. The identifiable assets and liabilities acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the assets and liabilities acquired is recognized as goodwill. Acquisition related costs are expensed as incurred and included in profit (loss).

Basis of consolidation

The Company's consolidated financial statements include the assets, liabilities, equity, revenues, expenses, other comprehensive income (OCI) and cash flows of Life Company and its wholly-owned subsidiary, Western Life, from the date at which control commenced.

Subsidiaries are all entities which the Company controls. For accounting purposes, control is established by an investor when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial accounting records of the subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies.

All intercompany balances, transactions, and profits and losses are eliminated in full.

Product classification

Contracts issued by the Company are classified at contract inception as insurance, investment or service contracts, depending on the existence of significant insurance risk. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is more than the benefits payable if the insured event did not occur. When significant insurance risk exists, the contract is accounted for in accordance with IFRS 4 – "Insurance Contracts" (IFRS 4). Contracts under which the Company does not accept significant insurance risk are classified as either investment contracts or service contracts. No contracts have been classified as investment contracts. Contracts issued by the Company that do not transfer significant insurance risk and do not transfer financial risk from the policyholder to the Company are classified as service contracts. Service contracts are accounted for in accordance with IAS 18 – "Revenue" (IAS 18). Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Financial instruments

The Company has classified or designated its financial assets and financial liabilities in the following categories:

i) cash and cash equivalents;

ii) FVTPL financial assets;

iii) AFS financial assets;

iv) loans and receivables;

v) other financial assets;

vi) insurance contract liabilities; and

vii) other financial liabilities

The Company's financial assets and financial liabilities are described below.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at the bank and short-term deposits. Short-term deposits include highly liquid investments that are readily convertible into cash and have maturities of less than three months when purchased. The carrying values of cash and cash equivalents approximate fair value.

Investments including securities on loan

Investments including securities on loan consist of fixed income securities, stocks, and policy loans. Fixed income securities include bonds, asset-backed securities, units in institutional pooled fixed income funds, and short-term securities such as treasury bills. Stocks are comprised of units in institutional pooled equity funds, which include investments in stock of major Canadian, U.S. and International companies.

Fixed income securities and stocks are designated as FVTPL or classified as AFS based on management's intentions or characteristics of the instrument. The Company has designated all of its investments in fixed income securities and stocks as FVTPL, with the exception of fixed income securities and stocks that support capital and surplus, which have been classified as AFS. The Company uses trade date accounting for purchases and sales of all investments.

Policy loans are classified as loans and receivables.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

FVTPL financial assets

FVTPL financial assets are initially measured at fair value on the consolidated balance sheets from the trade date. Subsequent to initial recognition, FVTPL financial assets are carried at fair value on the consolidated balance sheets with changes in the fair value recorded in profit (loss) in the period in which they occur.

AFS financial assets

AFS financial assets are initially measured at fair value on the consolidated balance sheets from the trade date. Subsequent to initial recognition, AFS financial assets are carried at fair value with changes in fair values recorded, net of income taxes, in OCI until the AFS financial asset is disposed of or has become impaired. When the AFS financial asset is disposed of or has become impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the consolidated statements of operations.

Loans and receivables

Financial assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment losses, if any.

Fair value of financial instruments

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of fixed income securities are determined with reference to market prices primarily provided by third party independent pricing sources. Stocks are valued at the pooled funds' transactional net asset values per unit. The outstanding balance for policy loans approximates fair value since interest rates are set annually and approximate market rates.

Financial assets and financial liabilities recorded at fair value on the consolidated balance sheets are classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.*

  The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition for institutional pooled funds and uses the size of the bid/ask spread as an indicator of market activity for fixed income securities. Assets measured at fair value and classified as Level 1 include actively traded institutional pooled funds and all federal government and federal government backed fixed income securities and cash equivalents. These fixed income securities and cash equivalents are classified as Level 1 as they are traded using quoted prices in an active market, which is reflected in their narrow bid/ask spread. Units in institutional pooled funds held on account for annuity contractholders with segregated funds investment options are also classified as Level 1. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

- *Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).*

  Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include provincial, municipal and corporate fixed income securities, and all other cash equivalents. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

- *Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.*

  Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

Receivables

Receivables include amounts due from individual and group policyholders for insurance premiums, amounts due from reinsurers on paid claims and other receivables and advances. These receivables are recognized when due and are carried at the fair value of the consideration receivable.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Reinsurance assets

In the normal course of business, the Company uses reinsurance to limit exposure to large losses. Reinsurance assets represent the benefit derived from reinsurance arrangements in force at the consolidated balance sheet dates. The reinsurance assets are measured consistently with the amounts associated with the insurance contracts and in accordance with the terms of each reinsurance contract. The Company's retention limits are disclosed in note 20.

Impairment of financial assets

All financial assets other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in profit (loss) when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset.

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through profit (loss). Subsequent declines in value continue to be recorded in profit (loss). Impairment losses previously recorded through net investment income are to be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

An AFS equity security would be identified as impaired if there has been a significant or prolonged decline in the fair value of the investment below its cost, or if there is objective evidence of a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in profit (loss) is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in profit (loss) cannot be subsequently reversed until the instrument is disposed. Any subsequent increase in value is recorded in OCI.

Loans and receivables

These financial assets are considered impaired when there is objective evidence of deterioration in credit quality that indicates the Company no longer has reasonable assurance that the full amount of principal and interest will be collected. The Company then establishes specific provisions for losses and balances are subsequently measured at their net realizable amount based on discounting the cash flows at the original effective interest rate inherent in the loan or the fair value of the underlying security.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Changes in the net realizable value of impaired loans are recognized in profit (loss). Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

Reinsurance assets

Impairment occurs when there is objective evidence that the Company may not receive all the outstanding amounts due under the terms and conditions of the contract as a result of an event that occurred after initial recognition of the reinsurance asset. The Company must be able to reliably measure the impact from the event on the amounts that it will receive from the reinsurer. If impaired, the carrying value is reduced accordingly on the consolidated balance sheets and an impairment loss is recorded in profit (loss).

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, if any. Replacement costs are capitalized when incurred if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit (loss) during the period in which they occur.

Depreciation is calculated on a diminishing balance basis over the useful lives at a rate of 20% for furniture and equipment and 30% for computer hardware.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit (loss) in the period the asset is derecognized.

Intangible assets

Intangible assets consist of distributor relationships and computer software and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition.

Computer software consist of certain acquired and internally developed computer software, some of which may not have been put into use. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. Research costs related to computer software are recognized as an expense in the period incurred.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

The Company assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include computer software and distributor relationships and are amortized using the straight-line method over their estimated useful lives. The expected useful lives of intangible assets are as follows:

Computer software	10 - 15 years
Distributor relationships	10 years

The Company does not hold any indefinite life assets.

Following initial recognition, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any.

Impairment of non-financial assets

Property and equipment

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the asset's fair value less cost to sell. Impairment is recognized in profit (loss) when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in profit (loss) at that time. The recovery is limited to the original carrying amount of the asset at the time of impairment, net of any depreciation that would have been recorded had the asset not been impaired.

Intangible assets with finite lives

Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. In addition, computer software not yet in use are tested for impairment annually. When the recoverable amount is less than the net carrying value an impairment loss is recognized in profit (loss).

Trade and other payables

Trade and other payables are classified as other financial liabilities. Financial liabilities, other than insurance contract liabilities, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Insurance contract liabilities

Contract classification

Insurance contracts are those contracts where the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder for specified uncertain future insured events that adversely affect the policyholder.

Insurance contracts are issued by the Company with or without discretionary participation features (DPF). DPF is a contractual right to receive potentially significant additional benefits based on the experience of blocks of similar products. This experience includes investment, mortality, policy termination rates and expenses. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of the Company's obligation to the policyholder. The contracts issued by the Company contain constructive obligations to the policyholder with respect to the DPF of the contracts. Therefore the Company has elected to classify these features as a liability and they have been included within insurance contract liabilities.

Measurement

The Company's insurance contract liabilities represent the estimated amounts that, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends, commissions, expenses and taxes (other than income taxes) on policies in force. The Actuary is responsible for determining the amount of insurance contract liabilities using accepted actuarial practices according to the standards established by the Canadian Institute of Actuaries (CIA) and any requirements of OSFI. Insurance contract liabilities, net of reinsurance assets, are determined using the Canadian Asset Liability Method (CALM), as permitted by IFRS 4.

Liabilities are set equal to the consolidated balance sheet value of the assets that would be required to support them. Under CALM, changes in the market value of assets supporting liabilities due to fluctuating credit spreads are offset in the insurance contract liabilities, except to the extent they are the result of changes in credit ratings. Changes in credit ratings that reflect higher or lower defaults will increase or decrease insurance contract liabilities accordingly.

In calculating the insurance contract liabilities, the Actuary is required to make assumptions about future mortality, morbidity, policyholder behaviour, expenses and taxes, investment returns, policyholder dividends, reinsurance and currency over the life of the product. CALM also requires assumptions about future asset purchases when projected cash inflows exceed cash outflows, and assumptions about asset divestitures (or asset borrowing) when projected liability cash flows exceed cash inflows.

These assumptions are made up of two components: best estimate of future experience and margins for uncertainty. Best estimate assumptions represent the most likely outcome as determined by the Actuary based on Company and industry experience, and other external factors where appropriate. Margins for uncertainty are applied to the best estimate assumptions to allow for misestimation of those best estimate assumptions and

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

for the potential deterioration from those best estimates. Ranges for margins for uncertainty are prescribed by the CIA in its actuarial Standards of Practice. The Actuary determines the appropriate margins based on the risk characteristics of the business. These margins vary by assumption and by type of business.

Margins for uncertainty are released into profit as the risk for misestimation reduces over time. They represent, therefore, deferred profit so long as actual experience is equal to, or better than, the expected experience. The process of determining insurance contract liabilities necessarily involves the risk that actual results will deviate from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Insurance contract liabilities are presented gross of reinsurance assets on the consolidated balance sheets. Any adjustment is recorded as a change in insurance contract liabilities in profit (loss).

Income taxes

Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in profit (loss), except to the extent that they are related to items recognized in OCI or directly in equity. In this case, the tax is recognized in OCI or directly in equity, respectively.

Current tax assets and/or liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods. The tax rates and tax laws used to compute these amounts are those that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and/or liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are determined using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes have been enacted or substantively enacted.

In determining the impact of taxes, the Company is also required to comply with the standards of the CIA. Deferred income tax assets and/or liabilities arising from temporary timing differences are computed without discounting. The insurance contract liabilities include an amount to convert deferred income taxes to a discounted basis for timing differences related to these liabilities.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Segregated funds

Segregated funds are investment options available to annuity contractholders in which the benefit amount is directly linked to the fair value of the units held in the particular segregated fund. The underlying assets are registered in the name of Life Company and the annuity contractholders have no direct access to the specific assets. The contractual arrangements are such that the annuity contractholders bear the risks and rewards of the funds' investment performance, subject to any applicable minimum maturity value and death benefit guarantees.

The values reported on the consolidated balance sheets represent the accumulation of all segregated funds offered by the Company. Segregated funds net assets are legally separated from the general fund assets of the Company and cannot be used to settle its obligations. As a result, segregated funds net assets are presented as a single line item outside of general fund assets on the consolidated balance sheets. The obligation to pay the value of the net assets held under these contracts is considered a financial liability and is measured based on the value of the segregated funds net assets. Investments held in segregated funds are carried at fair value and the change in market values in the underlying segregated funds net assets along with any investment income earned and expenses incurred are directly attributed to the annuity contractholders. The Company does not present these amounts in its consolidated statements of operations; however, they are disclosed in note 11.

The Company receives management fees from its segregated funds for services provided to annuity contractholders, which is included in fee income on the consolidated statements of operations. Annuity contractholder transfers between general funds and segregated funds are included in gross claims and benefits incurred on the consolidated statements of operations. In addition, certain annuity contracts have minimum maturity value and death benefit guarantees from the Company. Payments for such guarantees are included in amounts paid or credited to annuity contractholders and their beneficiaries in the consolidated statements of operations. Additional liabilities, if any, associated with these minimum guarantees are recorded in insurance contract liabilities.

Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in profit (loss) net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Revenue recognition

Revenue is comprised of net premiums, fee income, and net investment income.

Gross premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due. Premiums ceded on insurance contracts are recognized as a reduction of gross premiums when payable or on the date the policy is effective. Expenses are recognized when incurred. Insurance contract liabilities are computed at the end of each period, resulting in benefits and expenses matching with the premium income.

Fee income is recognized when earned. Fee income includes fees earned from the management of segregated fund assets and fees earned on service contracts, specifically administrative services only (ASO) group health contracts.

Investment income is recorded as it accrues. Distributions on pooled funds are recorded on the income distribution dates. Realized gains and losses are recorded on the trade date and calculated as the net proceeds less average cost. Unrealized gains and losses are calculated by the change in fair value compared to the change in average cost on the period end date. The effective interest rate method is used to amortize premiums or discounts over the life of fixed income securities. Investment and interest expenses are recognized when incurred.

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars using the exchange rate in effect on the dates they occur. Gains and losses arising as a result of foreign currency transactions are recognized in profit (loss).

Employee future benefits

Employees of Life Company are provided with pension and post employment benefits on a defined benefit basis through membership in plans sponsored by the Parent Company. The Parent Company owns 100% of the issued and outstanding shares of Life Company. The obligation for funding of these plans rests with the Parent Company. Life Company is charged appropriate annual service costs for all benefits and remits these amounts to the Parent Company.

Western Life has established a virtual share program where by employees of Western Life may contribute a portion of their earnings to virtual shares of Western Financial Group Inc. (Western Financial). Virtual shares do not provide the holder with rights as a shareholder of Western Financial. Employee contributions up to 5% of earnings are matched by Western Life in the form of a deferred cash bonus (DCB) subject to a three year vesting period. Upon vesting the DCB is paid out to the employee in the form of additional salary.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

Western Life has established a group retirement savings plan for its employees. These group savings plan assets are held in trust and are not recorded in these financial statements. Contributions are subject to certain vesting conditions. Western Life has no further liability or obligation for future contributions to fund future benefits to its plan members.

Comprehensive income

Comprehensive income consists of profit (loss) and OCI. OCI includes unrealized gains or losses on AFS financial assets, net of amounts reclassified to profit.

Adoption of new and amended accounting standards

Effective January 1, 2017, the Company adopted the following new and amended standards:

IAS 7 – "Statement of Cash Flows"

IAS 7 was amended to clarify guidance in the standard related to disclosures around financing activities and liquidity. These amendments require disclosures around changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company has determined that there were no significant impacts to the consolidated financial statements.

IAS 12 – "Income Taxes"

IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable income, and the assessment of deferred tax assets in combination with other deferred tax assets. The Company has determined that there were no significant impacts to the consolidated financial statements.

Annual Improvements Cycles

The annual improvement cycle for 2014-2016 was issued in December 2016 by the IASB and included minor amendments to IFRS 12 – "Disclosure of Interests in Other Entities". The Company has determined there were no significant impacts to the consolidated financial statements.

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual reporting periods beginning on or after January 1, 2018. The standards impacted that may be applicable to the Company are:

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

IFRS 7 – "Financial Instruments: Disclosures"

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 – "Financial Instruments: Recognition and Measurement" (IAS 39) to IFRS 9 – *"Financial Instruments" (*IFRS *9)*. The amendments are effective on adoption of IFRS 9 which was finalized in July 2014 and is effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17 - "Insurance Contracts" (IFRS 17). The Company will qualify for the temporary exception; thus the amended IFRS 7 is effective for annual periods beginning on or after January 1, 2021. The Company is evaluating the impact this amendment will have on the consolidated financial statements.

IFRS 9 – "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9 which will replace IAS 39 for annual periods beginning on or after January 1, 2018. This standard provides guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39. This standard requires financial assets to be recorded at amortized cost or fair value depending on the Company's business model for managing the financial assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the consolidated balance sheets if they are not measured at amortized cost. IFRS 9 allows financial assets or financial liabilities not classified as amortized cost to be recognized as FVTPL or as fair value through OCI (FVOCI).

At initial recognition, the Company may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. For equity investments measured at FVOCI, dividends that do not clearly represent a return of investment are recognized in profit (loss) under net investment income. Other gains and losses associated with such instruments remain in AOCI indefinitely.

This standard introduces an expected credit loss model, which applies to all financial assets unless designated or classified as FVTPL. This impairment model requires a 12 month expected credit loss provision at initial recognition. Subsequently, a significant increase to credit risks of a financial asset will result in an increase of the impairment provision to the financial asset's lifetime expected credit loss. In the event that significant credit risks are reduced, the impairment model allows for the provision to return to the financial asset's 12 month expected credit loss. Changes in the impairment provision will flow through profit (loss).

Requirements for financial liabilities were added in October 2010 which largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated as FVTPL would generally be recorded in OCI.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

This standard also replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

Early adoption is permitted, however, OSFI has indicated that it will not allow early adoption of this standard for federally regulated financial institutions. The Company is evaluating the impact this standard will have on the consolidated financial statements.

In September 2016, the IASB issued amendments to IFRS 4 to address concerns regarding the different effective dates of IFRS 9 and the forthcoming new insurance contract standard IFRS 17.

Entities that issue insurance contracts within the scope of IFRS 4 will be provided with two options, the overlay and the deferral approaches. The overlay approach will permit insurers to exclude from profit (loss) and recognize in OCI the difference between the amounts that would be recognized in profit (loss) in accordance with IFRS 9 and the amounts recognized in profit (loss) in accordance with IAS 39. The deferral approach will allow insurers whose activities are predominantly connected with insurance the option to temporarily defer adoption of IFRS 9 until the effective date of IFRS 17.

In March 2017, OSFI issued the final version of its Advisory requiring life insurers to apply the deferral approach if they qualify. An entity will be granted an exception to this requirement if their parent does not qualify for the deferral of IFRS 9.

The IASB considers entities with a "predominance ratio" greater than 90% at December 31, 2015 to qualify for the deferral approach. Both the Company and the Parent Company exceeded the 90% ratio at that date, and as a result the Company will be required to apply the deferral approach.

Note disclosures that both explain how an entity qualified for the temporary exemption and allow for comparison with other entities applying IFRS 9 will be required during the deferral period. The Company is evaluating the impact the amendment will have on the disclosures within the consolidated financial statements.

IFRS 15 – "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014, and is intended to replace IAS 18, IAS 11 – "Construction Contracts", and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles, and applies to revenue arising from contracts with customers, including service contracts. IFRS 15 excludes insurance contracts and revenue arising from financial instruments, therefore this standard will have a limited impact on the Company. This standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

IFRS 16 – "Leases"

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 – "Leases", and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted only when also applying IFRS 15. The Company is evaluating the impact this standard will have on the consolidated financial statements.

IFRS 17 – "Insurance Contracts"

In May 2017, the IASB issued the final version of IFRS 17 which will replace IFRS 4. The standard represents a comprehensive IFRS accounting model for insurance contracts and provides revised principles for recognition, measurement, and presentation and disclosure. The standard aims to define clear and consistent rules that will increase the comparability of financial statements among entities issuing insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin (CSM), which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the CSM becomes negative, the contract is considered onerous and the excess is recognized immediately in the consolidated statement of operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements. IFRS 17 differs significantly from the Company's current practices under CALM, and is expected to have a significant impact on the financial reporting of insurers.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. Early adoption is permitted where entities have also adopted IFRS 15 and IFRS 9, however, OSFI has indicated that it will not allow early adoption of this standard for federally regulated financial institutions. The Company is evaluating the impact this standard will have on the consolidated financial statements.

IFRIC 23 – "Uncertainty over Income Tax Treatments"

IFRIC 23 was issued in June 2017 and is intended to clarify the accounting for uncertainties in income taxes. The standard addresses the determination of taxable income (loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers whether tax treatments should be considered collectively, assumptions for taxation authorities' examinations, and the effect of changes in facts and circumstances. The standard is effective for annual periods

(in thousands of Canadian dollars, except as otherwise noted)

3 Significant accounting policies (continued)

beginning on or after January 1, 2019. The Company is evaluating the impact this standard will have on the consolidated financial statements.

Annual Improvement Cycles

The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects.

The annual improvement cycle for 2014-2016 was issued in December 2016 by the IASB and included minor amendments to IFRS 1 – “First-time Adoption of International Financial Reporting Standards”, and IAS 28 – “Investments in Associates and Joint Ventures”. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The Company does not expect these amendments to significantly impact the consolidated financial statements.

The annual improvement cycle for 2015-2017 was issued in December 2017 by the IASB and included minor amendments to IFRS 3 – “Business Combinations”, IFRS 11 – “Joint Arrangements”, IAS 12, and IAS 23 “Borrowing Costs”. The amendments are effective for annual periods beginning on or after January 1, 2019. The Company does not expect these amendments to significantly impact the consolidated financial statements.

4 Significant accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods covered by the consolidated financial statements.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in estimates are recorded in the accounting period in which they are determined.

(in thousands of Canadian dollars, except as otherwise noted)

4 Significant accounting judgements, estimates and assumptions (continued)

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, aside from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

a) Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Company is subject to income tax laws in federal and various provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgement is also required to determine the deferred income tax balances. Management is required to determine the amount of deferred income tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable income will exist in the future.

b) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. Determining the fair value of assets and liabilities acquired, as well as intangible assets, involves professional judgement and is ultimately based on acquisition models and management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party assessments. Changes in any of the assumptions or estimates used in determining fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation.

Estimates and assumptions

The estimation of the insurance contract liabilities is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of these liabilities. The liabilities have been determined by the Actuary using CALM. This method requires the use of assumptions for future experience including those related to mortality, morbidity, policyholders behaviour, expenses and taxes (other than income taxes), interest rates and equity market performance. Sensitivity of these assumptions and the impact on net insurance contract liabilities and profit (loss) for the year are disclosed in note 20.

(in thousands of Canadian dollars, except as otherwise noted)

5 Acquisition

On July 1, 2017, Trimont Financial Ltd. (Trimont), a related party, acquired 100% of the common shares of Western Life from Desjardins Financial Corporation Inc. as part of the acquisition of Western Financial. Trimont immediately sold all of the common shares in Western Life to Life Company for net cash consideration of $69,728 (note 18b). Western Life manufactures and distributes life and non-life insurance products and services throughout Canada. The acquisition contributes to the Company's growth strategy, and strengthens the support of the Parent company and the broker channel.

The acquisition has been accounted for as a business combination using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair value as of the acquisition date of July 1, 2017. The fair value of the identifiable assets and liabilities of Western Life and the aggregate consideration paid were as follows:

	Fair value Recognized on acquisition
Cash and cash equivalents	$ 3,689
Investments	182,257
Receivables	8,297
Accrued investment income	256
Reinsurance assets	56,219
Deferred income taxes	4,254
Property and equipment (note 9)	130
Intangible assets (note 10)	4,762
Total assets	259,864
Trade and other payables	11,455
Insurance contract liabilities	177,097
Deferred income taxes	1,584
Total liabilities	190,136
Total identifiable net assets	**$ 69,728**
Total consideration	**$ 69,728**
Receivable from Trimont (Note 18b)	52,018
Total cash transferred to Trimont	**$ 121,746**

(in thousands of Canadian dollars, except as otherwise noted)

5 Acquisition (continued)

The Company has completed the initial accounting for the acquisition. The total acquisition date fair value of the consideration was $69,728 consisting of $121,746 in cash partially offset by a promissory note receivable of $52,018.

Since the date of acquisition, total revenue of $67,360 and loss of $2,024 contributed by Western Life have been included in the Company's consolidated statements of operations and consolidated statements of comprehensive income (loss) for the year ended December 31, 2017. Had the acquisition occurred on January 1, 2017, estimated contributed revenues would have been $139,566 and estimated contributed profit would have been $4,822 for the year ended December 31, 2017.

6 Cash and cash equivalents

Cash and cash equivalents presented on the consolidated balance sheets and the consolidated statements of cash flows consist of the following:

	2017	2016
Cash	$ 18,988	$ 6,430
Cash equivalents	-	26,500
Cash and cash equivalents	18,988	32,930
Less: Outstanding cheques, included in trade and other payables	(4,806)	(1,571)
Add: Outstanding deposits, included in receivables	1,073	-
Net cash and cash equivalents	$ 15,255	$ 31,359

(in thousands of Canadian dollars, except as otherwise noted)

7 Investments and net investment income

a) Carrying and fair value of investments

The carrying and fair values of the Company's investment portfolio by financial instrument classification are as follows:

					2017
	Designated as FVTPL	**Classified as AFS**	**Classified as loans and receivables**	**Total carrying value**	**Total fair value**
Fixed income securities	$ 732,836	$ 209,218	$ -	$ 942,054	$ 942,054
Stocks	97,257	-	-	97,257	97,257
Policy loans	-	-	18,463	18,463	18,463
	$ 830,093	$ 209,218	$ 18,463	$ 1,057,774	$ 1,057,774

					2016
	Designated as FVTPL	**Classified as AFS**	**Classified as loans and receivables**	**Total carrying value**	**Total fair value**
Fixed income securities	$ 545,097	$ 142,879	$ -	$ 687,976	$ 687,976
Stocks	95,887	-	-	95,887	95,887
Policy loans	-	-	17,742	17,742	17,742
	$ 640,984	$ 142,879	$ 17,742	$ 801,605	$ 801,605

(in thousands of Canadian dollars, except as otherwise noted)

7 Investments and net investment income (continued)

Interest rates, maturity dates and dividend yields are as follows:

		2017
	Interest rates ranging from	**Maturity dates ranging from**
Fixed income securities	0.0% - 9.4%	Less than 1 year - 60 years
Policy loans	5.5% - 8.0%	-

		2016
	Interest rates ranging from	**Maturity dates ranging from**
Fixed income securities	0.5% - 9.4%	Less than 1 year - 46 years
Policy loans	5.5% - 5.5%	-

Dividend yields on stocks range from 1.83% to 3.03% (2016 - 2.09% to 3.11%).

b) Fair value hierarchy

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized in the following table, based upon the priority of the inputs to the respective valuation technique as defined in note 3.

			2017
	Level 1	**Level 2**	**Total**
FVTPL			
Fixed income securities	$ 107,444	$ 625,392	$ 732,836
Stocks	97,257	-	97,257
AFS			
Fixed income securities	39,792	169,426	209,218
Segregated funds net assets	307,907	-	307,907
	$ 552,400	$ 794,818	$ 1,347,218

			2016
	Level 1	**Level 2**	**Total**
FVTPL			
Cash equivalents	$ 26,500	$ -	$ 26,500
Fixed income securities	87,567	457,530	545,097
Stocks	95,887	-	95,887
AFS			
Fixed income securities	28,483	114,396	142,879
Segregated funds net assets	289,350	-	289,350
	$ 527,787	$ 571,926	$ 1,099,713

(in thousands of Canadian dollars, except as otherwise noted)

7 Investments and net investment income (continued)

The Company has not adjusted the quoted price for any instruments included in Level 1 or Level 2. There are no investments that meet the Level 3 fair value measurement criteria. No investments were transferred between levels in 2017 or 2016.

Policy loans are measured at amortized cost. The fair value of policy loans, for disclosure purposes, is approximated by their carrying value, as policy loans are fully secured by policy values on which the loans are made and would be categorized in Level 2 of the fair value hierarchy.

c) Net investment income

		2017		2016
Change in fair value of FVTPL financial assets (note 7d)	$	21,201	$	4,985
Net realized gain (loss) on sale of AFS financial assets (note 7e)		(331)		6,107
Other net investment income (note 7f)		27,802		25,864
	$	48,672	$	36,956

d) Change in fair value of FVTPL financial assets

		2017		2016
Fixed income securities	$	14,616	$	(3,385)
Stocks		6,585		8,370
	$	21,201	$	4,985

Net fair value gains (losses) on FVTPL financial assets relate entirely to assets designated to be in this category upon initial recognition.

(in thousands of Canadian dollars, except as otherwise noted)

7 Investments and net investment income (continued)

e) Net realized gain (loss) on sale of AFS financial assets

	2017	2016
Fixed income securities	$ (331)	$ 180
Stocks	-	5,927
	$ (331)	$ 6,107

The Company did not have any write-downs for impaired AFS assets in the current or prior years. Recovery of previously recognized write-downs for impaired AFS debt securities in the current and prior years was nil.

General provisions made for anticipated future losses of principal and interest on investments are included as a component of insurance contract liabilities and are $14,199 (2016 - $11,607).

AFS fixed income securities where the underlying cost is greater than the fair value represents $96,654 fair value and $2,323 unrealized losses (2016 – $42,367 and $975). However, the loss has not been recognized in profit (loss) either because management has concluded there is no objective evidence of impairment or because the loss is not considered to be significant or prolonged.

f) Other net investment income

	2017	2016
Interest income		
FVTPL fixed income securities	$ 19,148	$ 17,732
AFS fixed income securities	5,287	4,192
Policy loans	1,064	969
Cash, cash equivalents and other interest income	255	69
Dividend and distribution income		
FVTPL stocks	2,843	3,401
Other income	163	172
	28,760	26,535
Investment expenses	(957)	(670)
Interest expense	(1)	(1)
	(958)	(671)
Other net investment income	$ 27,802	$ 25,864

(in thousands of Canadian dollars, except as otherwise noted)

7 Investments and net investment income (continued)

g) Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its fixed income securities portfolios are loaned to other institutions for short periods. These loaned securities are recognized on the consolidated balance sheets as Investments including securities on loan. An agreement between the Company and its custodian limits lending activity to approved creditors and specifies suitable types of collateral. The collateral pledged by the borrower exceeds the value of the assets on loan.

When securities are loaned, the Company is exposed to counterparty risk which is the risk that the borrower will not return the loaned securities, or if the collateral is liquidated, it may be for less than the value of the loan. The Company mitigates this risk through a guarantee provided by its custodian. When cash is used as collateral for securities lending, some additional risks exist. A Common Investment Account (Account) is created and managed by the custodian for all participating clients. Yield risk, which is the risk that the yield earned on the Account is insufficient to cover the rate committed to the borrower, is shared with the custodian and mitigated by the relatively short duration of the investment pool and the short duration of the loans. Principal risk is the risk that the Account is impaired in some way. This risk is shared by participants in the Account. Gap or duration risk exists should borrowers return loans, forcing liquidation of the Account, potentially at a loss. This risk is borne by the Company, but is mitigated by the custodian managing the Account with appropriate levels of liquidity.

At December 31, 2017, the Company had securities on loan with a fair value of $156,181 (2016 - $141,052) backed by collateral with a fair value of $161,402 (2016 - $146,298).

8 Receivables

		2017		2016
Insurance receivables				
Due from policyholders	$	2,596	$	962
Due from reinsurers on paid claims		2,710		880
Other receivables		59,420		2,350
	$	64,726	$	4,192
Current	$	64,518	$	3,971
Non-current		208		221
	$	64,726	$	4,192

Other receivables include $55,035 (2016 - $1,880) due from related parties (note 18).

(in thousands of Canadian dollars, except as otherwise noted)

9 Property and equipment

						2017
		Furniture and equipment		Computer hardware		Total
Cost						
At January 1	$	1,062	$	210	$	1,272
Acquisition (note 5)		2		128		130
Additions		-		5		5
Disposals		(3)		-		(3)
At December 31		1,061		343		1,404
Accumulated depreciation						
At January 1		784		172		956
Depreciation		57		25		82
Disposals		(3)		-		(3)
At December 31		838		197		1,035
Net book value at December 31	$	223	$	146	$	369

						2016
		Furniture and equipment		Computer hardware		Total
Cost						
At January 1	$	1,060	$	210	$	1,270
Additions		2		-		2
At December 31		1,062		210		1,272
Accumulated depreciation						
At January 1		715		155		870
Depreciation		69		17		86
At December 31		784		172		956
Net book value at December 31	$	278	$	38	$	316

No impairments were recognized during the year (2016 - nil).

(in thousands of Canadian dollars, except as otherwise noted)

10 Intangible assets

						2017
		Computer software		**Distributor relationships**		**Total**
Cost						
At January 1	$	8,307	$	-	$	8,307
Acquisition (note 5)		-		4,762		4,762
Additions		522		-		522
Impairment		(8,645)		-		(8,645)
At December 31		184		4,762		4,946
Accumulated amortization						
At January 1		371		-		371
Amortization		151		238		389
Impairment		(438)		-		(438)
At December 31		84		238		322
Net book value at December 31	$	100	$	4,524	$	4,624

						2016
		Computer software		**Distributor relationships**		**Total**
Cost						
At January 1	$	5,875	$	-	$	5,875
Additions		2,432		-		2,432
At December 31		8,307		-		8,307
Accumulated amortization						
At January 1		46		-		46
Amortization		325		-		325
At December 31		371		-		371
Net book value at December 31	$	7,936	$	-	$	7,936

Intangible assets of nil (2016 - $231) have not yet been put into use and are currently not being amortized.

An impairment loss of $8,207 was recognized during the year in relation to computer software no longer in use (2016 – nil).

(in thousands of Canadian dollars, except as otherwise noted)

11 Segregated funds

a) Segregated funds net assets by category

		2017		2016
Institutional pooled fund units	$	307,922	$	289,351
Less:				
Due to (from) the Company		15		(155)
Due to the investment manager		-		156
Segregated funds net assets	$	307,907	$	289,350

b) Changes in segregated funds net assets

		2017		2016
Segregated funds net assets - at January 1	$	289,350	$	259,839
Additions				
Proceeds from sale of redeemable units		43,230		38,495
Net unrealized gains		15,434		19,447
Net realized gains		6,711		3,505
Investment income		8,027		8,078
		73,402		69,525
Deductions				
Payments on redemption of redeemable units		49,598		35,187
Management fees		4,867		4,437
Withholding taxes		380		390
		54,845		40,014
Net increase to segregated funds for the year		18,557		29,511
Segregated funds net assets - at December 31	$	307,907	$	289,350

(in thousands of Canadian dollars, except as otherwise noted)

12 Insurance contract liabilities and reinsurance assets

a) Insurance contract liabilities and reinsurance assets composition

	2017	2016
Insurance contract liabilities		
Gross insurance contract liabilities	$ 888,305	$ 682,505
Reinsurance assets	(55,612)	(2,086)
Insurance contract liabilities (note 12b)	832,693	680,419
Other policy liabilities		
Gross other policy liabilities [1]	34,979	15,504
Reinsurance assets [2]	(7,257)	(3,885)
Other policy liabilities	27,722	11,619
Net insurance contract liabilities	$ 860,415	$ 692,038
Total insurance contract liabilities	$ 923,284	$ 698,009
Total reinsurance assets	(62,869)	(5,971)
Net insurance contract liabilities	$ 860,415	$ 692,038

(1) Consist of policyholder amounts on deposit, benefits payable and provision for unreported claims.
(2) Reinsured benefits payable and provision for unreported claims.

b) Insurance contract liabilities

	2017			2016		
	Gross liabilities	Reinsurance (assets) liabilities	Total liabilities	Gross liabilities	Reinsurance (assets) liabilities	Total liabilities
Participating						
Individual	$ 295,346	$ 43,063	$ 338,409	$ 279,985	$ 36,792	$ 316,777
Annuity	31,538	-	31,538	36,986	-	36,986
Non-participating						
Individual	328,162	(34,757)	293,405	199,718	(9,527)	190,191
Annuity	105,048	-	105,048	106,031	-	106,031
Group	128,211	(63,918)	64,293	59,785	(29,351)	30,434
	$ 888,305	$ (55,612)	$ 832,693	$ 682,505	$ (2,086)	$ 680,419

(in thousands of Canadian dollars, except as otherwise noted)

12 Insurance contract liabilities and reinsurance assets (continued)

c) Assets supporting liabilities and capital and surplus

The following table shows the general fund assets supporting liabilities for the product lines shown (including insurance contract and other policy liabilities), and assets supporting capital and surplus as at December 31:

						2017
	Fixed income securities		Stocks			
	FVTPL	AFS	FVTPL	Policy loans	Other	Total
Participating						
Individual	$ 232,726	$ -	$ 87,106	$ 16,305	$ 2,272	$ 338,409
Annuity	31,285	-	-	-	253	31,538
Non-participating						
Individual	280,309	-	10,151	2,158	787	293,405
Annuity	104,049	-	-	-	999	105,048
Group	64,222	-	-	-	71	64,293
Other, including capital and surplus	20,245	209,218	-	-	160,239	389,702
	$ 732,836	$ 209,218	$ 97,257	$ 18,463	$164,621	$ 1,222,395

						2016
	Fixed income securities		Stocks			
	FVTPL	AFS	FVTPL	Policy loans	Other	Total
Participating						
Individual	$ 211,870	$ -	$ 86,533	$ 15,962	$ 2,412	$ 316,777
Annuity	29,171	-	-	-	7,815	36,986
Non-participating						
Individual	176,046	-	9,354	1,780	3,011	190,191
Annuity	86,726	-	-	-	19,305	106,031
Group	30,329	-	-	-	105	30,434
Other, including capital and surplus	10,955	142,879	-	-	24,377	178,211
	$ 545,097	$ 142,879	$ 95,887	$ 17,742	$ 57,025	$ 858,630

(in thousands of Canadian dollars, except as otherwise noted)

12 Insurance contract liabilities and reinsurance assets (continued)

d) Change in insurance contract liabilities

	2017			2016		
	Gross liabilities	Reinsurance (assets) liabilities	Total liabilities	Gross liabilities	Reinsurance (assets) liabilities	Total liabilities
At January 1	$ 682,505	$ (2,086)	$ 680,419	$ 634,576	$ 20,797	$ 655,373
Acquisition	161,603	(54,907)	106,696	-	-	-
Normal change						
New business	357	(4,418)	(4,061)	4,045	(3,430)	615
In force	55,672	(4,833)	50,839	33,135	(5,648)	27,487
Management action and assumption changes (note 12e)	(11,832)	10,632	(1,200)	10,749	(13,805)	(3,056)
Change in year	205,800	(53,526)	152,274	47,929	(22,883)	25,046
At December 31	$ 888,305	$ (55,612)	$ 832,693	$ 682,505	$ (2,086)	$ 680,419

The amount recorded on acquisition (note 5) of $177,097 for insurance contract liabilities includes amounts for policyholder funds on deposit and a provision for unreported claims of $15,494. The reinsurance assets of $56,219 include an amount of $1,312 related to these policy liabilities. As these amounts are classified as other policy liabilities they have not been included in the amounts recorded above.

Gross change in insurance contract liabilities recorded in the consolidated statements of operations of $44,197 does not include the acquisition amount of gross liabilities of $161,603. Similarly, the amount recorded for the change in insurance contract liabilities ceded to reinsurers of $1,381 does not include the acquisition amount of reinsurance assets of $54,907.

e) Management action and assumption changes

Each assumption is reviewed annually for continued appropriateness. Management action and assumption changes can increase or decrease insurance contract liabilities. The full impact of management action and assumption changes is recognized in profit (loss) immediately. The impact and description of these actions and changes are shown below:

(in thousands of Canadian dollars, except as otherwise noted)

12 Insurance contract liabilities and reinsurance assets (continued)

2017

	Gross liabilities	Total liabilities	Impact on profit	Description
Mortality	$ (10,490)	$ 230	$ (168)	Update of the individual life mortality assumptions and strengthening of term persistency
Investment	(6,263)	(6,099)	4,454	Change in reinvestment assumptions for all lines of business, plus change in asset mix related to individual insurance long-term liabilities
Other	4,921	4,669	(3,415)	Update of the general expense assumptions, term premium expenses and whole life 20 pay cash values
	$ (11,832)	$ (1,200)	$ 871	

2016

	Gross liabilities	Total liabilities	Impact on profit	Description
Mortality	$ 14,315	$ (835)	$ 610	Update of the individual life mortality assumptions
Morbidity	(1,560)	120	(87)	Refinement of disability assumptions
Policy termination	(825)	20	(15)	Update of renewable term and universal life lapse rates
Investment	(4,971)	(6,151)	4,490	Change in asset mix related to long-term liabilities
Other	3,790	3,790	(2,766)	Update of the general expense assumptions
	$ 10,749	$ (3,056)	$ 2,232	

(in thousands of Canadian dollars, except as otherwise noted)

13 Gross claims and benefits incurred

	2017	2016
Death, disability and health benefits	$ 75,525	$ 48,959
Annuity payments	3,604	3,620
Maturities and surrenders	43,005	40,185
Dividends and interest	4,473	4,351
	$ 126,607	$ 97,115

14 Income taxes

a) Effective tax rate

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2017	2016
Profit (loss) before income taxes	$ (677)	$ 11,482
Combined statutory tax rate	26.98%	27.00%
Tax payable (receivable) based on statutory tax rate	(183)	3,100
Effect of:		
Permanent differences	(396)	616
Impact of prior year assessments	(161)	(286)
Deferred income tax rate changes	2	1
Capital taxes	306	206
Other	60	(13)
	$ (372)	$ 3,624
Provision for (recovery of) income taxes		
Current	$ (2,697)	$ 2,787
Deferred	2,325	837
	$ (372)	$ 3,624

In fiscal 2017, the enacted statutory tax rate for the Company decreased from 27.00% to 26.98% (2016 – 26.71% to 27.00%) due to changes in the federal and provincial tax rates and in the proportion of the business carried out in each province where the Company carries on business.

All income taxes payable and/or receivable are due within one year.

(in thousands of Canadian dollars, except as otherwise noted)

14 Income taxes (continued)

b) Deferred income taxes

Deferred income tax assets and liabilities are comprised of:

		2017		2016
Deferred income tax assets				
Insurance contract liabilities	$	875	$	394
Employee future benefits		71		-
Tax credit carryforwards		137		-
Capital and intangible assets		86		-
Other		69		-
Total deferred income tax assets	$	1,238	$	394
Deferred income tax liabilities				
Investments	$	758	$	273
Capital and intangible assets		950		1,007
Total deferred income tax liabilities	$	1,708	$	1,280

The Company expects that the deferred income tax assets will be realized in the normal course of operations.

The net movement of the deferred income taxes is as follows:

		2017		2016
At January 1	$	(886)	$	(49)
Deferred tax asset recognized on acquisition (note 5)		2,670		-
Recovery of deferred income taxes through equity on employee future benefits (note 18)		71		-
Provision for deferred income taxes through profit and loss		(2,325)		(837)
At December 31	$	(470)	$	(886)

(in thousands of Canadian dollars, except as otherwise noted)

15 Share capital

Authorized - unlimited number of common shares without par value.

Issued and outstanding – 158,246 (2016 - 36,500) common shares, all of which have been issued for cash to the Parent Company. During the year, 121,746 shares were issued to the Parent Company for $121.7 million.

16 Expenses incurred

	2017	2016
Commissions and other acquisition expenses	$ 51,826	$ 11,709
Operating and administrative expenses	29,159	16,931
Premium and other taxes	4,919	2,926
Depreciation and amortization expense	471	411
Impairment of intangible asset	8,207	-
Reinsurance recoveries	(8,279)	(1,203)
	$ 86,303	$ 30,774

17 Participating policyholders' account

The Company has both participating and non-participating policies. The Company maintains its participating business separately from the non-participating business. The participating policyholders' account is $34,103 (2016 - $34,398), which includes AOCI of $409 (2016 - $613).

Participating policies are those that entitle the holder of the policy to participate in the profits of the participating business. Each year, the Board of Directors sets apart a portion of participating policyholders' account to be paid as dividends to the participating policyholders. The dividends paid to the participating policyholders during the year were $4,254 (2016 - $4,125).

A portion of the participating policyholders' account is also transferred to the shareholder's retained earnings each year. The amount transferred, which is limited by legislation, was $425 (2016 - $413).

(in thousands of Canadian dollars, except as otherwise noted)

18 Related party transactions

The Company's related parties include the Parent Company and its subsidiaries, the segregated funds, and the Company's key management personnel. Western Financial is a related party as at July 1, 2017 and the following reflects related party transactions from this date to December 31, 2017.

In December 2017, as part of an asset transfer agreement with Western Financial, Western Life acquired liabilities recorded at book value related to the virtual share plan and DCB for $659. In consideration for the transfer, Western Life received cash of $139 and recorded an adjustment to retained earnings in the statement of changes in equity related to the DCB liability for $449 (net of deferred tax of $71).

a) Parent Company and Western Financial

The Company entered into the following transactions with the Parent Company and Western Financial:

	2017		2016
	Parent company	Western Financial	Parent company
Insurance contracts purchased	$ 5,335	$ 14,115	$ 3,157
Service contracts purchased	8,703	43	7,732
Reimbursement (payment) of expenses incurred	4,788	(925)	5,001
Commissions paid (received)	14,880	(3,000)	14,802

All transactions were performed at normal market terms, in the normal course of business.

The following amounts are outstanding in the consolidated balance sheets as at December 31, 2017 and 2016.

	2017		2016
	Parent company	Western Financial	Parent company
Amounts receivable	$ (1,968)	$ (919)	$ (1,880)

Balances are settled on a regular basis. Amounts receivable are included in other receivables (note 8) and amounts payable are included in trade and other payables.

(in thousands of Canadian dollars, except as otherwise noted)

18 Related party transactions (continued)

b) Trimont

On June 29, 2017 Trimont issued an on demand promissory note payable to Life Company in exchange for $121,746.

On July 1, 2017 Trimont transferred 547,648 shares of Western Life and $52,018 in the form of a note receivable to Life Company as repayment in full of the promissory note. As at December 31, 2017 interest of $130 was included in the note receivable totaling $52,148.

c) Segregated funds

The Company provides investment management and administrative services to its segregated funds and charged management fees for these services totalling $4,501 (2016 - $4,103).

Balances between the Company and its segregated funds are settled on a regular basis and the outstanding amount is insignificant at December 31, 2017 and 2016.

d) Key management personnel

The Company enters into transactions with its key management personnel in the normal course of business. Key management personnel of the Company include all directors and senior management.

The summary of compensation for key management personnel is as follows:

	2017	2016
Salaries, fees and other short-term employment benefits	$ 2,474	$ 2,448
Post-employment benefits	315	354
	$ 2,789	$ 2,802

(in thousands of Canadian dollars, except as otherwise noted)

19 Capital management

The Company's Capital Management Policy is designed to ensure that a strong financial position is maintained for the financial security of policyholders and to enhance the reputation of the Company in the marketplace.

OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). The Company defines capital in accordance with the Capital Available components set out in the MCCSR. The main components of Capital Available consist of share capital, retained earnings, elements of participating policyholders' account and AOCI. The Company's Capital Required is determined by its risk profile and includes an assessment for asset default risk, market risk, insurance risk and change in interest rate risk. The capital ratio is calculated by dividing Capital Available by Capital Required. OSFI expects life insurance companies to establish internal target capital ratios above the supervisory target capital ratios. As at December 31, 2017 and 2016, the Company, Life Company and Western Life's MCCSR ratios were in compliance with the supervisory target capital ratios required by OSFI as well as their respective internal targets.

The MCCSR guideline will be replaced by the Life Insurance Capital Adequacy Test (LICAT) guideline effective January 1, 2018. The Company is following its LICAT implementation plan and expects to be prepared to report on results for periods after the effective date. Results as measured under LICAT are fundamentally different from results as measured under MCCSR, and therefore will not be directly comparable.

The responsibility for capital management has been assigned by the Board of Directors to management. Management has established policies and procedures designed to identify, measure and report all material risks. Management reports to the Board of Directors changes in the capital ratio and the reason for the change, projections of the MCCSR ratio for 5 years under a variety of scenarios and general observations regarding future capital adequacy.

The consolidated MCCSR ratio for the Company is as follows:

	2017	2016
Capital available		
Share capital	$ 158,246	$ 36,500
Retained earnings	78,102	78,765
Participating policyholders' account, less AOCI	33,694	33,785
Other	(177)	-
	$ 269,865	$ 149,050
Capital required		
Asset default and market risks	$ 20,055	$ 14,121
Insurance risks	58,470	34,454
Interest rate risks	14,330	10,998
	$ 92,855	$ 59,573
Ratio	291%	250%

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and financial risk management

As a key principle of the Company's Enterprise Risk Management practice, the Board of Directors and senior management have identified the importance of risk management in the achievement of the Company's objectives. The Risk Committee of the Board of Directors ensures that management has appropriate risk management processes in place. The Chief Risk Officer, the President, and the Vice President & Chief Operating Officer operate in support of the responsibilities of the Risk Committee of the Board of Directors. A process of identification, documentation, and quantification involving the risks facing the Company has been adopted. Particular interest is taken in those risks that pose the largest threat to the long-term growth and financial

Risk Committee of the Board of Directors

The Board of Directors has overall responsibility for the Enterprise Risk Management Policy, framework, and risk appetite. Additionally, the Board of Directors has responsibility to ensure that a process is in place to identify risks and that appropriate means of monitoring those risks are established, and that the Company's risk management practice has the appropriate level of independence and visibility. To fulfill these responsibilities, the Board of Directors has created a Risk Committee devoted to the governance of the Company's Enterprise Risk Management practice.

Risk management oversight

The Chief Risk Officer, the President, and the Vice President & Chief Operating Officer have overall responsibility for the risk management activities within the Company. These include reviewing and approving the Enterprise Risk Management Policy, Risk Framework, and Statement of Risk Appetite. Other responsibilities include the identification of material risks, establishing a program for stress testing, establishing a mechanism for escalating risk relevant concerns, and ensuring that risk management principles, as provided within the Enterprise Risk Management Policy, are organizationally "front of mind" when formulating the strategic plan.

Senior management

Senior management acts as risk owners, facilitating the creation and review of risk assessments, reinforcing the Company's culture of risk awareness, and providing input into the continuing development and improvement of the overall approach to risk management.

Insurance risk management

Insurance risk is the uncertainty of product performance due to differences between the actual experience and expected assumptions affecting amounts of claims, benefits payments, expenses and the cost of embedded options and guarantees related to insurance risks.

As an insurer, the Company is in the business of accepting risk associated with insurance contract liabilities. The objective of the Company is to mitigate, where possible, its exposure to risk arising from these contracts through product design, product and geographical diversification throughout Canada, the implementation of the Company's underwriting guidelines, and reinsurance arrangements.

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

The Company utilizes reinsurance primarily to limit the mortality or morbidity exposure on a single life. Additional amounts of mortality risk may also be reinsured where it is in the financial interest of the Company to do so. The maximum retention for individual life insureds is $250 (2016 - $250). Retention amounts are lower for group business but are in addition to those for the individual business. The exposure to multiple claims from a single accidental cause is managed by a catastrophe reinsurance agreement. The catastrophe reinsurance covers aggregate claims in excess of $1,000 up to a maximum amount of $10,000 for Life Company and in excess of $250 up to a maximum amount of $11,750 for Western Life.

All of the reinsurance business is transacted with companies registered in Canada which are subject to regulation by OSFI. All reinsurance arrangements are approved by senior management. Reinsurance ceded does not discharge the Company of its liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. A contingent liability exists should an assuming company be unable to meet its obligations. All recoverable amounts are with reinsurers with an A. M. Best credit rating of A- (Excellent) or higher (2016 - A- (Excellent) or higher).

Best estimate assumptions

Best estimate assumptions are made with respect to mortality, morbidity, investment returns, policy termination, expenses and certain taxes. Actual experience is monitored to assess whether the assumptions remain appropriate. Best estimate assumptions are reviewed annually and changed as warranted. These assumptions are discussed in more detail below.

Risk	Nature and method of determination	Risk management
Mortality	The Company is exposed to mortality risk through both group and individual policies. Estimates of future mortality rates are based on the Company’s and industry experience over extended periods.	The insurability of applicants is determined in accordance with established and documented underwriting standards. Exposure to large claims is managed through the establishment of policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. Claims experience (actual vs. expected) is monitored by management. This information is reported to the Board of Directors regularly.

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

Risk	Nature and method of determination	Risk management
Morbidity	The Company is exposed to significant morbidity risk through the issuance of group disability, critical illness and extended health coverages. Estimates of future morbidity rates are based on the Company's and industry experience over extended periods.	The acceptance and rating of all health and disability applicants is determined in accordance with established and documented underwriting standards and procedures. Exposure to large claims is managed by establishing policy retention limits. Insurance amounts in excess of the retention limit on a single life are reinsured with other companies. Morbidity claims experience is reported to the Board of Directors regularly. Senior management regularly compares actual morbidity experience to industry studies. Claims management policies have been established and documented for all types of disability and health claims.
Policy termination	The termination of individual life insurance policies may expose the Company to risk. Policyholders may lapse their policies by discontinuing premium payments or requesting surrender of their policies for the cash value. Policy termination assumptions are based on Company experience augmented by industry experience.	When developing a new product or pricing an existing product, the Company carefully analyzes the amount of policy termination risk. Company policy termination experience is monitored by senior management.
Expense	Expense assumptions reflect the projected costs of maintaining and servicing in force policies. The expenses are derived from internal cost studies projected into the future with an allowance for inflation.	Senior management reviews expense levels and budget variances on a quarterly basis and approves expenditures of large amounts and the hiring of additional personnel.
Stock returns	The future expected return on stocks is based on long-term historic returns of stocks. The majority of the stocks backing liabilities are for participating whole life products or universal life plans.	The dividend scale is reviewed annually. Changes in returns can be passed through to the participating policyholders. The universal life plans have index-linked stock returns where the stock market performance is passed through to the policyholders.

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

Risk	Nature and method of determination	Risk management
Interest rate	Interest rate risk is the potential for financial losses from changes in interest rates. The risk exists to the extent that asset cash flows do not match the liability cash flows in timing and amount. The valuation process uses multiple interest scenarios. This provides a provision for changes in interest rates.	Assets are invested to provide a degree of matching the asset cash flows to the related liability cash flows. Interest rate risk is monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

Sensitivities to profit of changes in assumptions

The insurance contract liabilities remain sensitive to changes in assumptions, including those relating to market risk. The sensitivity to profit from changes in significant assumptions used in determining the insurance contract liabilities are shown below.

Type	Description	2017	2016
Mortality	2% increase in life insurance mortality rates	$ (1,963)	$ (1,095)
	2% decrease in annuity mortality rates	(79)	(75)
Morbidity	5% increase in morbidity rates	(1,700)	(529)
Policy Termination	10% adverse change in future termination rates	(22,238)	(13,146)
Expenses	5% increase in expense levels	(3,100)	(1,974)

Financial risk management

The most significant financial risks that the Company must manage include credit, market and liquidity risk.

The Company does not invest in leases, commercial or personal loans, or directly in derivatives. However, the Company may be exposed indirectly to derivatives employed within institutional pooled funds to facilitate the management of risk or an economical substitution for a direct investment.

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

Credit risk

Credit risk is the possibility of financial loss, despite realization of collateral security or property, due to the failure of counterparties to meet contractual obligations. It is a material risk that the Company is primarily exposed to through its fixed income securities portfolios.

The Company's investment policy manages the credit risk of the fixed income securities portfolios by requiring sound asset diversification, restricting the amount exposed to any one issuer and requiring a portfolio of high quality. These portfolios, including credit exposures, are actively monitored and reviewed quarterly with the Investment Committee of the Board.

The Company limits its investment concentration in any one corporate investee or control group. At December 31, 2017, the largest corporate credit exposure was 1.7% of general fund assets (2016 - 1.5%), which is within the Company's limits.

Policy loans do not represent credit risk to the Company as they are secured by the cash value that has accumulated within the individual policy.

The following table summarizes the Company's maximum exposure to credit risk on the consolidated balance sheets. The maximum credit exposure is the carrying value of the asset net of any provision for loss.

	2017	2016
Cash equivalents	$ -	$ 26,500
Fixed income securities		
Federal	146,258	115,095
Provincial	354,662	216,835
Municipal	73,399	57,340
Corporate rated A or higher	303,606	268,921
Corporate rated below A	41,141	28,830
Institutional pooled fixed income funds	22,988	955
Receivables	64,726	4,192
Accrued investment income	5,801	5,286
Reinsurance assets	62,869	5,971
Maximum credit risk exposure on the consolidated balance sheets	$ 1,075,450	$ 729,925
Credit risk exposure excluding federal and provincial fixed income securities	$ 574,530	$ 397,995

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

As at December 31, 2017, 93.2% (2016 – 95.7%) of the Company's investments in fixed income securities were assigned a rating of A or higher. Life Company uses credit ratings provided by Dominion Bond Rating Service (DBRS), or where not available, the lower of the credit ratings provided by Moody's Investor Services (Moody's) and Standard and Poor's (S&P). Western Life uses the second best credit rating provided by Fitch Rating Inc., S&P, DBRS, and Moody's.

The segregated funds net assets consist of institutional pooled funds and do not expose the Company to credit risk. The risks and rewards of the investment performance of the segregated funds reside with the annuity contractholders, subject to any applicable minimum maturity value and death benefit guarantees (note 3).

The Company has analyzed the financial assets on the consolidated balance sheets that are past due as at December 31, 2017 and 2016, and concluded that the total amount past due is insignificant. No specific impairment provision has been recorded.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, equity risk and currency risk.

(i) Interest rate risk

Interest rate risk is the possibility of financial loss arising from changes in interest rates. The Company is exposed to interest rate risk in the normal course of business. The risk exists to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. The Company's exposure to future changes in interest rates is significantly reduced for many lines of business due to the practice of matching cash flows on the assets with those of the corresponding liabilities. The Company does not invest directly in derivative financial instruments.

To manage interest rate risk, product lines with similar liability profiles and the assets supporting those liabilities are grouped into separate funds. The Company's investment policy outlines the asset duration of each fund to be maintained within a specified range of the duration of the fund liabilities. Techniques for measuring interest rate risk include duration analysis, cash flow analysis and yield curve sensitivity testing. Interest rate sensitivity is provided for in the insurance contract liabilities for all policies, with an adequate provision to absorb moderate changes in interest rates. Interest rate risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The approximate impact of an increase of 100 basis points in the interest yields would increase the profit of the Company by $11,856 (2016 - $11,522) and decrease the OCI of the Company by $8,676 (2016 - $6,078). The approximate impact of a decrease of 100 basis points in the interest yields would decrease the profit of the Company by $15,829 (2016 - $5,440) and increase OCI of the Company by $9,519 (2016 - $6,626).

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

(ii) Equity risk

Equity risk is the possibility of financial loss due to a change in the market value of equities. The Company is exposed to equity risk from a number of sources. The Company is directly exposed to equity risk related to the investments supporting the individual life lines of business and the Company's total equity. To mitigate this risk, the Company's investment policy sets maximum investment levels for equities.

A decrease in the market value of equities is partially offset by a reduction in the credited rates to policyholder universal life investments and a portion may be offset by a change in the dividend scale.

Annuity contracts with segregated fund investment options have equity risk related to management fee income and minimum guarantees. Management fee income is generated on the segregated fund assets under administration. A decline in the market value of these assets results in a decrease in management fee income. These contracts have a guaranteed minimum amount payable on death or maturity. The guarantee varies by contract and ranges from 75% to 100% of the deposits to the contract less an adjustment for withdrawals. Adverse changes in the equity markets may increase the payments related to these minimum guarantees and increase insurance contract liabilities.

Overall, it is estimated that a 10% increase across all equity markets would result in a $4,654 (2016 - $4,294) increase to profit and a nil (2016 - nil) increase to OCI. The approximate impact of a 10% decrease across all equity markets would result in a $2,555 (2016 - $2,342) decrease to profit and a nil (2016- nil) decrease to OCI.

(iii) Currency risk

Currency risk is the possibility of financial loss due to exposure to foreign currency fluctuations. As the Company's operations are concentrated in Canada, it has a minimal amount of liabilities and future cash obligations denominated in any currency other than Canadian dollars. The Company has accepted limited exposure to currency risk through its investment policy allowing restricted investment in U.S. and International Equity Index Funds. Overall, it is estimated that the impact of a 10% increase or decrease in foreign currency rates on the Company's profit and OCI would be insignificant.

Liquidity risk

Liquidity risk is the possibility of financial loss due to having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for insurance contract expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

(in thousands of Canadian dollars, except as otherwise noted)

20 Insurance and Financial risk management (continued)

Liquidity guidelines have been established by the Board of Directors and are set out in the Company's investment policy. The guidelines require that a portion of the investment portfolio be in readily marketable securities. Liquidity risk is regularly monitored by management and reported to the Investment Committee of the Board on a quarterly basis.

The following table summarizes the undiscounted cash flows of financial liabilities by contractual or expected maturity as at December 31:

					2017
	One year or less	One to two years	Two to five years	More than five years	Total
Financial liabilities					
Insurance contract liabilities [1]	$ 94,440	$ (158)	$ (5,329)	$ 1,684,167	$ 1,773,120
Other financial liabilities [2]	24,095	-	-	-	24,095
	$ 118,535	$ (158)	$ (5,329)	$ 1,684,167	$ 1,797,215

					2016
	One year or less	One to two years	Two to five years	More than five years	Total
Financial liabilities					
Insurance contract liabilities [1]	$ 108,232	$ 8,327	$ 11,561	$ 1,432,476	$ 1,560,596
Other financial liabilities [2]	5,950	-	-	-	5,950
	$ 114,182	$ 8,327	$ 11,561	$ 1,432,476	$ 1,566,546

(1) Insurance contract liability cash flows are undiscounted and include estimates related to the timing and payment of death, disability and health claims, surrenders, maturities, dividends, annuity payments, amounts on deposit, commissions and premium taxes offset by future premiums and fees. These cash flows are based on best estimate assumptions used in determining the insurance contract liabilities and exclude recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows may materially differ from these estimates.

(2) Other financial liability cash flows are undiscounted and include trade and other payables, as presented on the consolidated balance sheets.

21 Contingencies, commitments and guarantees

The Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that litigation activity will not have a significant effect on the financial position, financial performance, or cash flows of the Company.