The Equitable Life Insurance Company of Canada

Financial Condition Report

2018

Prepared in accordance with the Insurance (Public Disclosure) Rules 2015 for the Bermuda Monetary Authority

The Equitable Life Insurance Company of Canada is a mutual company domiciled in Canada and incorporated under the Insurance Companies Act (Canada). The information presented in this document has been prepared in accordance with the standards accepted by the Canadian regulator, The Office of the Superintendent of Financial Institutions (OSFI). Specifically, the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and capital calculations are in accordance with the Life Insurance Capital Adequacy Test (LICAT).

All information reported is on a consolidated company basis, unless otherwise indicated. All financial information is presented in Canadian dollars, which is the Company's functional currency.

The Equitable Life Insurance Company of Canada
Financial Condition Report
For the twelve-month period ending December 31, 2018

The Equitable Life Insurance Company of Canada is a mutual company domiciled in Canada and incorporated under the Insurance Companies Act (Canada). Together with its subsidiaries (collectively, "the Company"), it operates in the life insurance industry. Operations cover the development, marketing, and servicing of life, health and annuity products to individual and group customers as well as asset management services to individual customers, including segregated funds.

i. BUSINESS AND PERFORMANCE

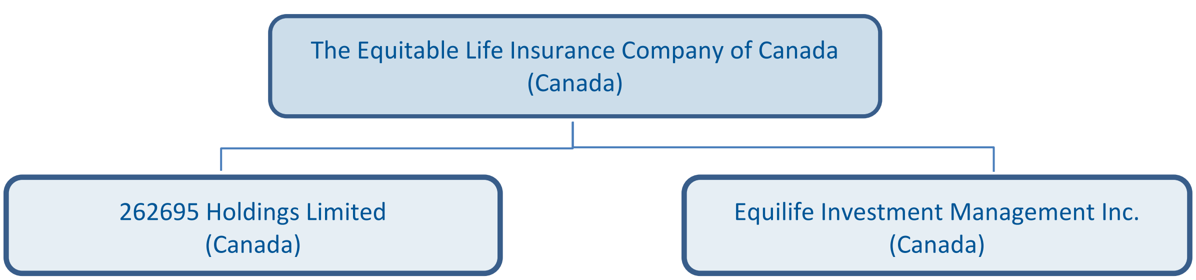
a. **Name of insurer**
The Equitable Life Insurance Company of Canada ("the Company")
One Westmount Road North
Waterloo, ON, N2J 4C7
Canada

b. **Insurance supervisor**
Office of the Superintendent of Financial Institutions ("OSFI")
121 King St W, Suite 1900
Toronto, ON, M5H 3T9
Canada

c. **Approved auditor**
KPMG LLP
115 King Street South
2nd Floor
Waterloo, ON, N2J 5A3
Canada

d. **Ownership details**
The Company is a mutual company domiciled in Canada.

e. **Group structure**
The following provides details of the Company in the Group Structure, which includes two wholly owned subsidiaries:



f. **Insurance business written by business segment and by geographical region**

The Company offers insurance coverage in Canada and Bermuda. The Company manages the business through the following segments: Individual Insurance, Savings and Retirement, Group, and Surplus. Only the Individual insurance segment conducts business in both Canada and Bermuda, the other segments only conduct business in Canada.

Individual Insurance business written for the reporting period and by geographical region
(CAD $'000)

	2018 Bermuda Business			2018 Total Individual Insurance Business			Bermuda as a % of Total Company Business		
Inforce	**Policy Count**	**Annualized Premium Cn $**	**Actuarial Liabilities Bermuda $**	**Policy Count**	**Annualized Premium Canadian $**	**Actuarial Liabilities Canadian $**	**Policy Count**	**Annualized Premium Canadian $**	**Actuarial Liabilities**
Whole Life - Par	379	840	15,581	100,021	314,603	529,257	0.4%	0.3%	2.9%
Term	102	192	369	119,612	125,621	156,324	0.1%	0.2%	0.2%
Total	481	1,032	15,950	219,633	440,224	685,581	0.2%	0.2%	2.3%

	2018 Bermuda Business			2018 Total Individual Insurance Business			Bermuda as a % of Total Company Business		
Sales	**Policy Count**	**Annualized Premium Canada $**	**Face Amount Canada $**	**Policy Count**	**Annualized Premium**	**Face Amount Canadian $**	**Policy Count**	**Annualized Premium**	**Face Amount Canadian $**
Whole Life - Par	2	5	1,401	25,330	95,443	5,056,786	0.0%	0.0%	0.0%
Term	3	10	3,138	10,131	10,426	6,820,478	0.0%	0.1%	0.0%
Total	5	15	4,539	35,461	105,869	11,877,264	0.0%	0.0%	0.0%

g. Performance of investments & material income & expenses for the reporting period

Performance of investments for the reporting period

The Company maintains a diversified investment portfolio, consistent with the Board approved investment and lending policies.

Carrying value and fair values of invested assets

(CAD $'000)

	2018		2017	
	Carrying Value Net of Provisions	Fair Value	Carrying Value Net of Provisions	Fair Value
Cash, cash equivalents and short-term investments	$ 20,920	$ 20,920	$ 26,930	$ 26,930
Bonds and debentures – AFS	466,913	466,913	417,483	417,483
Bonds and debentures – FVTPL	827,414	827,414	747,469	747,469
Equities – AFS	38,025	38,025	36,384	36,384
Equities – FVTPL	706,392	706,392	703,053	703,053
Mortgages	205,622	205,989	171,785	172,265
Private placements	209,726	219,057	225,815	234,685
Seed capital – segregated funds	380	380	885	885
Derivatives	20,953	20,953	22,657	22,657
Loans to policyholders	80,465	80,465	67,508	67,508
Investment property	178,332	178,332	147,416	147,416
	$ 2,755,142	$ 2,764,840	$ 2,567,385	$ 2,576,735

Net investment income

(CAD $'000)

	2018	2017
Short-term investments	$ 749	$ 338
Bonds and debentures – fair value changes on FVTPL assets	(24,834)	31,817
Bonds and debentures – regular investment income	39,433	35,428
Bonds and debentures – realized gains (losses) on AFS assets	(1,096)	497
Equities – fair value changes on FVTPL assets	(57,172)	57,631
Equities – regular investment income	22,039	16,571
Equities – realized gains (losses) on AFS assets	(4)	(141)
Mortgages	7,313	6,870
Private placements	10,640	9,222
Seed capital – segregated funds	(27)	91
Derivatives – fair value changes on FVTPL assets	671	(2,470)
Derivatives – regular investment income	(5,485)	4,150
Loans to policyholders	4,211	3,422
Investment property – rental income	9,504	7,985
Investment property – fair value changes	9,256	2,438
Other investment income (losses)	(49)	14
Foreign exchange gains (losses)	10,360	(7,084)
	25,509	166,779
Investment expenses	(5,898)	(5,549)
Net investment income	$ 19,611	$ 161,230

Material income & expenses for the reporting period

The Company's main revenue source is premiums, with other sources of revenue being investment income and fee income. The Company's major expenses are benefit payments, commissions and general expenses as summarized below.

For the years ended December 31		
(CAD $'000)	2018	2017
REVENUES		
Gross premiums	$ 1,041,083	$ 903,639
Premiums ceded to reinsurers	(146,769)	(140,063)
Net premiums	894,314	763,576
Regular investment income	97,588	77,363
Change in fair value through profit or loss	(81,335)	86,978
Change in fair value of investment property	9,256	2,438
Investment expenses	(5,898)	(5,549)
Net investment income (note 4)	19,611	161,230
Fee income	42,130	38,550
	956,055	963,356
BENEFITS AND EXPENSES		
Death and disability benefits	161,414	154,561
Health insurance benefits	198,171	190,094
Maturity and surrender benefits	46,351	48,426
Annuity payments	29,930	28,694
Interest on amounts on deposit	447	438
Dividends to participating policyholders	36,695	27,241
Claims ceded to reinsurers	(87,483)	(89,677)
	385,525	359,777
Net transfers to (from) segregated funds	(631)	99
Gross change in contract liabilities	62,510	154,770
Change in contract liabilities ceded to reinsurers	51,436	10,046
Net change in contract liabilities	113,946	164,816
Commissions	211,215	181,047
General expenses	114,803	104,518
Premium and investment income taxes	22,481	19,618
Reinsurance premium tax recovery	(3,077)	(2,914)
Financing expenses	200	1,424
	844,462	828,385
Income before income taxes	111,593	134,971
Income tax (expense) recovery (note 11)	(24,783)	(28,878)
Net income	$ 86,810	$ 106,093

h. Any other material information

No other material information to present.

ii. GOVERNANCE STRUCTURE

a. Board and Senior Management

i. Board and Senior Management, role, responsibilities and segregation of responsibilities

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

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

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

The basic oversight responsibilities of the Board include:

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

Senior Management is responsible for directing the operations of the Company within the authority delegated to them by the Board.

ii. **Remuneration policy for the Board, Senior Management and Employees**

Compensation paid to the Board is governed by the Company's By-law, which is approved by policyholders.

The Human Resources and Compensation Committee of the Board annually reviews and recommends to the Board the compensation program for Senior Management. All members of the HRCC are independent. As part of the review, an independent third-party consultant is engaged to provide market data and analysis on comparable positions within the insurance industry. This information is taken into consideration in determining the annual base salary and incentive compensation programs.

Employee compensation may include base salary, short term incentive plan, long term incentive plan, post-employment benefits and other benefits.

iii. **Pension or early retirement schemes for the Board and Senior Management**

Post-employment benefits, including pension and health and dental benefits, are available to Senior Management.

Equitable Life provides defined benefit pension and retirement plans to eligible employees upon retirement. These benefits reflect compensation history and length of service. Pension plan assets, carried at market value, are held in a separate segregated fund of the Company for the benefit of all members.

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

iv. **Transactions with related parties**

The Company has related party transactions with the following parties:

- The Group Pension Fund for the Employees of The Equitable Life Insurance Company of Canada, a defined benefit pension plan for eligible employees. The Company provides fund management and administration services to the defined benefit pension plan.
- Key personnel, which includes Senior Management and the Board of Directors. All compensation arrangements with Senior Management are approved by the Human Resources and Compensation Committee of the Board, and all Board compensation is within the limit set out in the Company's By-law 46. All Directors are participating policyholders of the Company. All such participating policies were paid for by the individual using their own resources and receive dividends at levels consistent with all other participating policyholders.

b. <u>Fitness and proprietary requirements</u>

i. **Fit and proper process in assessing the Board and Senior Management**

The Company appoints members of the Board based on the individual's expertise and work experience as well as professional judgment. Before being appointed to the Board, all candidates must undergo rigorous background screening.

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

The Chief Executive Officer is responsible for appointment of Senior Management. The Human Resources department arranges background screening for all Senior Management appointments.

ii. **Board and Senior Management professional qualifications, skills and expertise**

Board of Directors

Douglas S. Alexander, CPA, CA Chairman, Equitable Life of Canada	Andrea Bolger, MBA, ICD.D Corporate Director
Robert Badun, MBA Corporate Director	Laura I. Formusa, LL.B, ICD.D Corporate Director
Les Dakens, CHRE Corporate Director	Neil Parkinson, FCPA, FCA, ICD.D Corporate Director
Dikran Ohannessian, FCIA Corporate Director	Craig Richardson Chief Executive Officer, Canadian General Tower
A. David Pelletier, FSA, FCIA, Hon FIA Corporate Director	

Senior Executives

Ronald E. Beettam, FSA, FCIA President and Chief Executive Officer	Christopher Brown, BA Vice-President, Human Resources
Dave Bennett, FIA Senior Vice-President, Group	Campbell Crosbie, MBA, FICB Vice-President, Information Technology and Chief Information Officer
Paul English, CFA, MBA Senior Vice-President, Investments	Randy Howell, BA, LLB Vice-President, Legal and Corporate Secretary
Sheila Hart, FSA, FCIA Senior Vice-President and Chief Financial Officer	Tara Proper, CFA Vice-President, Capital Markets
Karen Mason, MBA, FLMI Senior Vice-President, Individual	Phillip K. Watson, FSA, FCIA, CQF Vice-President and Appointed Actuary
	Judy Williams, ASA Vice-President, Savings and Retirement

Further details regarding the above individuals can be found at:
www.equitable.ca/en/who-we-are/our-leadership

c. <u>Risk management and solvency self-assessment</u>

i. **Risk management process & procedures to identify, measure, manage and report on risk exposures**

To manage the risks in its many business activities, the Company utilizes a comprehensive enterprise risk management framework that includes:

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

ii. **Risk management and solvency self-assessment systems implementation**

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

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

The annual Own Risk and Solvency Assessment (ORSA) represents the Company's solvency self assessment process.

iii. **Relationship between solvency self-assessment, solvency needs & capital, and risk management**

The Own Risk and Solvency Assessment process identifies and assesses all material risks that may affect the Company. Based on that assessment, the capital needs of the Company are determined, and Internal Targets set for Total and Core Capital. The ORSA process supports the governance of risk and capital management and is consistent with OSFI guidelines. The process evolves over time in response to changes in the Company's risk profile and identified areas of improvement.

At a minimum, the ORSA process is completed on an annual basis. It will be completed more frequently should there be a material change in the Company's expected risk profile.

iv. **Solvency self-assessment approval process**

The Company's ORSA Report is prepared by the Chief Risk Officer and reviewed with Senior Management and the Senior Risk and Capital Committee for completeness. After review, the ORSA Report is provided to the Board for review, discussion, and acceptance. The ORSA process and report are subject to periodic review by Internal Audit for integrity, accuracy, and reasonableness.

d. <u>Internal controls</u>

i. **Internal control system**

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

ii. **Compliance function**

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

e. <u>Internal audit</u>

The Company has an Internal Audit Department that has unrestricted access to all areas and property of the organization, including personnel records, records held by third-party service providers, and also has direct access to the Board through the Board's Audit Subcommittee. To ensure Internal Audit remains independent, a formal Mandate of the Internal Audit Function is in place which is approved by the Board Audit Subcommittee. The Mandate indicates that internal auditors are to have no direct responsibility or any authority over the activities or operations that they review. Where required, the Internal Audit department also uses external consultants to supplement Audit resources.

f. <u>Actuarial function</u>

The Company's Appointed Actuary is responsible for ensuring that the assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that such actuarial liabilities will be adequate to meet the Company's future obligations under insurance contracts at each valuation date. Assumptions are regularly reviewed and updated where appropriate.

An independent peer review actuary also assesses the work of the Appointed Actuary pursuant to the Office of the Superintendent of Financial Institutions (OSFI) Guideline E-15.

The Appointed Actuary is appointed by the Company's Board of Directors.

g. <u>Outsourcing</u>

i. **Outsourcing policy and key functions that have been outsourced**

The Company has an outsourcing policy and a contracting and purchasing policy that outline management's delegation regarding various spending thresholds that can be authorised by staff at various levels and includes those which require Board authorization. The policies also outline the tendering and vetting process, and the procedures to be taken to monitor the work of outsourced partners and ensure that arrangements do not negatively affect the Company's reputation. The Company has not outsourced any control functions (being actuarial, risk management, compliance or internal audit).

ii. **Material intra-group outsourcing**

No material intra-group outsourcing exists.

h. <u>Other material information</u>

No other material information to report.

iii. RISK PROFILE

a. <u>Material risks the insurer is exposed to during the reporting period</u>

The Company's main risk categories are:

- Market risk - the risk of loss arising from adverse changes in market rates and prices, which includes equity risk, real estate risk, interest rate risk, currency risk and preferred share risk.
- Credit risk - the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due.
- Insurance risk – the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses.
- Operational risk – arises from problems in the performance of business functions including deficiencies or the breakdown of internal controls or processes, most often due to technology failures, human error or dishonesty, and natural catastrophes.
- Strategic risk - arises from unexpected changes in key elements of the Company's business strategy as a result of changes in the external environment.

The Company uses various proprietary models to evaluate and quantify these risks, whenever quantifiable. There has been no material change in the Company's risk exposures in the past year.

b. <u>Risk mitigation in the organization</u>

The company controls risk through a wide range of policies and guidelines. Risk exposures and compliance with policies and guidelines is monitored by management and the Senior Risk and Capital Committee and reported to the Board either directly or via its various committees. The Chief Risk Officer completes an annual review of the company's risk exposures, which is discussed with management and the Board.

c. <u>Material risk concentrations</u>

The Company's policy is to minimize undue concentration of assets in any single geographic area, industry or company. Investment guidelines specify minimum and maximum limits for each asset class and any individual issuer. These portfolios are monitored continuously and reviewed regularly with the Senior Credit and Investment Policy Committee of the Board or the Board itself.

d. <u>Investment in assets in accordance with the prudent person principles of the code of conduct</u>

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

e. <u>Stress testing and sensitivity analysis to assess material risks</u>

The Company performs stress tests on a quarterly basis to determine the adequacy of capital to absorb the impact of adverse events. The tests performed pertain to market risk, credit risk, and insurance risk.

Based on the latest results, management of the Company believes that it has sufficient capital to meet the contractual obligations of the organisation and regulatory capital requirements upon experiencing losses within its risk tolerance.

f. <u>Other material information</u>

No other material information to present.

iv. SOLVENCY VALUATION

a. <u>Valuation bases, assumptions and methods to derive the value of each asset class</u>

The Company prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Invested assets are measured on the following bases:

- Cash, cash equivalents and short-term investments - Cash equivalents consist of investments with a term to maturity of less than three months. Short-term investments consist of investments with a term to maturity exceeding three months, but less than one year.
- Bonds and debentures - Bonds are designated as either fair value through profit or loss (FVTPL) or available-for-sale (AFS). FVTPL bonds are recorded at fair value, with changes in fair value recorded to the change in fair value through profit or loss in the Consolidated Statements of Operations. AFS bonds are recorded at fair value with changes in the fair value of these bonds recorded to unrealized gains and losses in other comprehensive income ("OCI").
- Equities - designated as either FVTPL or AFS.
- Mortgages - classified as loans and receivables and carried at their amortized cost.
- Private Placements - classified as loans and receivables and carried at amortized cost.
- Derivatives – measured at fair value.
- Loans to policyholders - classified as loans and receivables and are carried at their unpaid balances, fully secured by the cash surrender value of policies on which the respective loans are made.
- Investment property - initially recognized at transaction price including transaction costs and subsequently measured at fair value.

The fair value principles used for the assets are as follows:

- Short-term investments are comprised of securities due to mature within one year of the date of purchase. The carrying value of these instruments approximates fair value due to their short-term maturities.
- Bonds and debentures are valued by independent pricing vendors using proprietary pricing models, incorporating current market inputs for similar instruments with comparable terms and credit quality (matrix pricing). The significant inputs include, but are not limited to, yield curves, credit risks and spreads, measures of volatility and prepayment rates.
- The equity portfolio is comprised of preferred shares; public and private equities; and investment property fund units. Public equities and preferred shares are valued based on quoted market prices. Private equities and investment property fund units have fair values provided by external fund managers.
- Mortgages are valued based on a discounted cash flow model using market inputs, including contractual maturities and current market discount rates based on term and property type.
- Private placements are valued based on techniques and assumptions which reflect changes in interest rates and creditworthiness of the individual borrower. The valuation also includes an unobservable liquidity adjustment and any applicable provision for credit losses.
- Seed capital – segregated funds are based on the market value of the segregated funds.
- Derivatives valuations can be affected by changes in interest rates, currency exchange rates, financial indices, credit spreads, default risk (including the counterparties to the contract) and market volatility. Fair values are based on market standard valuation methodologies consistent with what a market participant would use when pricing the instruments.
- Loans to policyholders are considered to have fair values equal to their carrying value.
- Investment property is supported by market evidence, as assessed by qualified appraisers. All assets are appraised by an external appraiser once every three years, at a minimum, and reviewed quarterly for material changes.

b. Valuation bases, assumptions and methods to derive the value of technical provisions

The valuation bases methodology for insurance contract liabilities and assumption setting process is consistent with Actuarial Standards Boards - Canadian Institute of Actuaries - Standards of Practice.

As at December 31st, 2018, the company's total net policy liabilities amounted to $1.983 billion Canadian.

c. Description of recoverables from reinsurance contracts

Recoverables are valued according to Section 2120 Method outlined above in section b.

d. Valuation bases, assumptions and methods to derive the value of other liabilities

Other Liabilities not covered under b are derived based on International Financial Reporting Requirements

e. Any other material information

No additional material information to present.

v. CAPITAL MANAGEMENT

The Company is regulated by the Office of the Superintendent of Financial Institutions (OSFI), which requires insurance companies to maintain minimum levels of capital calculated in accordance with the Life Insurance Capital Adequacy Test (LICAT). This is the only framework referenced for Capital reporting.

a. Eligible capital

i. **Capital management policy and process for capital needs, how capital is managed and material changes during the reporting process**

The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times. The Company's capital and risk management strategy are primarily unchanged over the prior year. However, Canadian regulatory capital standards did under go a transition from the old Minimum Continuing Capital and Surplus Requirements (MCCSR) to the new Life Insurance Capital Adequacy Test (LICAT).

To maintain a strong capital base, the Company identifies, assesses, manages and monitors the various risk sources it faces in the course of business both currently and as anticipated over a five-year planning horizon. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by senior management given the firm's risk profile. The Company's risk profile includes an assessment of the current and anticipated future material risks faced by the Company, the strength of the organisation's enterprise risk management, qualitative risks and stress testing.

ii. **Eligible capital categorized by tiers in accordance to the eligible capital rules used to meet ECR and MSM requirements of the Insurance Act**

Not applicable, capital is calculated in accordance with the LICAT framework as prescribed by OSFI.

iii. **Confirmation of eligible capital that is subject to transitional arrangements**

Not applicable, capital is calculated in accordance with the LICAT framework as prescribed by OSFI.

iv. **Identification of any factors affecting encumbrances on the availability and transferability of capital to meet the ECR**

Not applicable, capital is calculated in accordance with the LICAT framework as prescribed by OSFI.

v. **Identification of ancillary capital instruments approved by the authority**

Not applicable, capital is calculated in accordance with the LICAT framework as prescribed by OSFI.

vi. **Identification of differences in Shareholder's Equity as stated in the financial statements versus the Available Capital and Surplus**
Not applicable, no shareholder's equity is reported as a mutual company.

b. <u>Regulatory capital requirements</u>

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

The minimum levels of capital are calculated in accordance with the Life Insurance Capital Adequacy Test (LICAT) issued by OSFI. The LICAT framework took effect January 1, 2018, replacing the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline. Capital ratios under the LICAT framework are not comparable to those determined under MCCSR.

At December 31, 2018, the Company's Total LICAT Ratio was 147%, which is well in excess of the OSFI target of 100%. This ratio indicates a strong capital position.

	2018
Tier 1 capital	$ 500,500
Tier 2 capital	272,640
Available capital	$ 773,140
Surplus allowance and eligible deposits	$ 598,271
Base solvency buffer	$ 930,711
Total Ratio	147%
Core Ratio	99%

i. **ECR and MSM requirements at the end of the reporting period**
Not applicable, capital is calculated in accordance with the LICAT framework as prescribed by OSFI.

ii. **Identification of any non-compliance with the MSM and ECR**
Not applicable, capital is calculated in accordance with the LICAT framework as prescribed by OSFI.

iii. **A description of the amount and circumstances surrounding the non-compliance, the remedial measures and their effectiveness**
Not applicable.

iv. **Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance**
Not applicable.

c. <u>Approved internal capital model</u>

Not applicable, no internal capital model is used

vi. SUBSEQUENT EVENTS

There are no subsequent events to report.