Equitable Life of Canada®

Works for me.®

2019

ANNUAL REPORT

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ABOUT EQUITABLE LIFE OF CANADA

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

Equitable Life® is not your typical financial services company. We have the knowledge, experience and ability to find solutions that work for you. We're friendly, caring and interested in helping. The Company is owned by our participating policyholders, not shareholders. This allows us to focus on management strategies that foster prudent long term growth, continuity and stability.

Equitable Life is represented by independent advisors serving our policyholders. They are supported by more than 700 employees located at our Head Office in Waterloo and across Canada.

OUR COMMITMENT TO MUTUALITY

Equitable Life is proud to be one of Canada's largest mutual life insurance companies. We are not driven by shareholder pressure, instead our mutual structure allows us to manage the Company with a focus on the long term, and on providing a high level of service at all times.

As an organization we're progressive, competitive and dedicated to meeting our commitments to our customers – to provide good value and meet their needs for insurance protection and wealth accumulation – now and in the future.

Equitable Life is a focused, stable and strong company. We have sufficient earnings and capital to meet our future growth targets, and we continue to grow steadily. Our growth in sales has been driven by our ability to implement our strategic plan, placing a priority on products, service and execution. Our financial success reflects our continued commitment to profitable growth and our ability to navigate a changing regulatory and economic environment.

OUR HISTORY

Sydney Tweed started The Ontario Equitable Life and Accident Insurance Company in a two-room, second floor office in Waterloo, Ontario in November 1920.

Within the first week, the Company had a solid footing with $300,000 of insurance in-force. By the end of the first year, the Company had more than $7 million of insurance in-force, a record for any Canadian life insurance company at that time.

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

The Company is now entering its 100th year of protecting what Canadians value most. We're proud of our past and the accomplishments that have brought us here today, and we're excited by the future as we begin a new century.

SOME OF EQUITABLE LIFE'S KEY MILESTONES

1963: Adopted a mutual ownership structure

1968: $1 billion of life insurance in-force

1999: $1 billion of assets under administration

2009: $50 billion of life insurance in-force

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

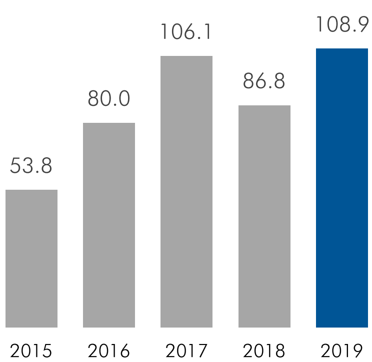
2017: $4 billion of assets under administration
$100 million of net income

2019: $5 billion of assets under administration

FIVE-YEAR REVIEW OF HIGHLIGHTS

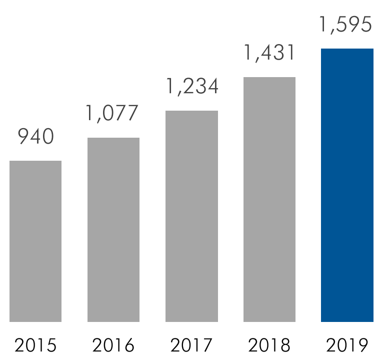
As at December 31	(Dollar amounts in millions except where otherwise indicated)				
	2019	2018	2017	2016	2015
Net income	108.9	86.8	106.1	80.0	53.8
Return on policyholders' equity	13.2%	11.9%	16.8%	14.8%	11.4%
LICAT ratio	155%	147%	N/A	N/A	N/A
Participating policyholders' equity	882	773	686	580	500
Premiums and deposits					
Individual Insurance	691	579	496	409	352
Savings and Retirement	405	380	310	277	228
Group Benefits	499	472	428	391	360
Total premiums and deposits	1,595	1,431	1,234	1,077	940
Sales					
Individual Insurance	132	119	101	93	58
Savings and Retirement	407	380	311	278	230
Group Benefits	48	53	45	66	44
Assets (billions $)					
General fund	3.7	3.1	2.9	2.6	2.5
Segregated funds	1.4	1.2	1.2	1.1	1.0
Total assets under administration	5.1	4.3	4.1	3.7	3.5
Dividends to participating policyholders	49.4	36.7	27.2	20.6	17.9
Benefits and payments to policyholders	821	740	694	646	646
Life insurance in-force (billions $)	135	125	114	103	92

NET INCOME



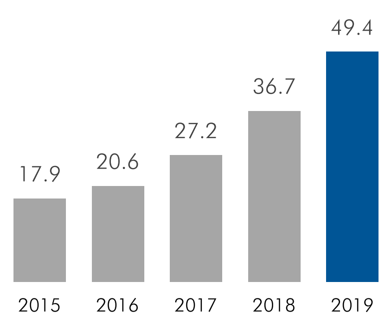
(Dollar amounts in millions)

PREMIUMS AND DEPOSITS



(Dollar amounts in millions)

DIVIDENDS TO PARTICIPATING POLICYHOLDERS



(Dollar amounts in millions)

MESSAGE TO POLICYHOLDERS

OUR STRATEGIC FOCUS

Equitable Life continues to operate on a mandate of profitable growth and delivering on the Company's goals. We are pleased to report that our strategic approach continues to serve us well. We had an excellent year in 2019 and delivered record earnings, solid growth and finished the year with a very strong capital ratio, as measured by the Life Insurance Capital Adequacy Test (LICAT).

OUR FINANCIAL RESULTS

Equitable Life realized earnings of $109 million in 2019, equating to a return on policyholders' equity of 13.2%. This result was driven by strong overall performance of the Company's investment portfolio, supported by favourable market impacts.

The Company reported premiums and deposits of $1.6 billion in 2019, representing a five-year compound annual growth rate of 12.5%. Assets under administration crossed a milestone of $5 billion during the year. This growth was bolstered by strong overall sales.

Record sales were reported by both the Savings and Retirement and Individual Insurance lines of business for the third consecutive year. Savings and Retirement reported 2019 sales of $407 million, compared to $380 million in 2018. The Individual Insurance business experienced another outstanding year with sales of $132 million, compared to $119 million in 2018. Group Benefits business delivered $48.4 million in sales, compared to $52.8 million in the prior year, reflecting a challenging and competitive marketplace.

Equitable Life finished the year with an impressive LICAT ratio of 155%, well above the regulatory target. This capital result ensures that we are well positioned to continue meeting our commitments to our policyholders.

DBRS Limited (DBRS Morningstar) changed the trend on our Financial Strength to Positive from Stable and once again confirmed our "A" rating.

OUR PRODUCTS AND DISTRIBUTION

A key focus of our strategy is to enhance and expand our product offering. Highlights in 2019 include: excellent traction made in the National Accounts distribution channel by the Individual Insurance business; changes made by Savings and Retirement to our fund line up offering to better align with customer needs; and enhancements made by Group Benefits to the Health Care Spending Account and the addition of a benefits package for 'inpatriate' employees.

OUR SERVICE

All lines of business have remained focused on meeting the needs of our customers by maintaining our excellent service standards and continuing our investment in technology. Being recognized for its service culture across all lines of business is a point of pride for a company that includes 'customer focus' as one of its three corporate values. In a 2019 survey of customers from 15 life insurance companies,[1] Equitable Life ranked #1 on the Net Promoter Score, a measure used across industries to gauge the loyalty of a firm's customer relationships.

In 2019 Individual Insurance launched the Underwriting Workbench project to help automate the application process, from which efficiency gains have already materialized. Savings and Retirement launched an electronic application for segregated funds and launched an automation project to speed up processing times. The Group Benefits business implemented claims auto-adjudication, and successfully switched providers for our Employee Assistance Program to enhance service and improve resources for our customers. All three lines of business worked together to launch an upgraded and bilingual web portal to make it easier for our network of independent advisors to do business with us.

[1] LIMRA CxP Customer Experience Benchmarking Program, Life Insurance In-Force Experience

INVESTING IN OUR PEOPLE AND COMMUNITIES

Equitable Life values the roots we have established as a company in the communities where we live, work and do business, and giving back to support those in need is an important part of how we do business. We demonstrated this in 2019 by supporting more than 50 charitable organizations through various initiatives.

Our employees also donated more than 1,700 hours of their time to a variety of causes by participating in community-based charitable events on their paid volunteer day, in addition to fundraising initiatives supported by Equitable Life across Canada. Their generous donation of both their personal and financial resources allow us to support an ever-growing list of charitable organizations that help strengthen our communities.

This year Equitable Life ended the year with more than 700 employees. With our focus on digitizing workflows, more of our employees now have the choice for remote working arrangements as we continue to focus on engaging and motivating our people. We are pleased that, once again, we have been recognized as one of the Top Employers in Waterloo Region.

As we put the finishing touches on our plans for celebrating our 100th Anniversary in 2020, it has become abundantly clear that, throughout our history, it is the commitment and dedication of our people to meeting the needs of our clients that has been the fundamental driver of our success.

2019 FINANCIAL HIGHLIGHTS

- Net income of $109 million, for a return on policyholders' equity of 13.2%
- Capital strength, as measured by the LICAT ratio, ended the year at 155%
- Participating policyholders' equity increased to $882 million
- Premiums and deposits increased by 11.5% to $1.6 billion
- Record sales in Savings and Retirement of $407 million and $132 million in Individual Insurance
- Assets under administration grew 19.4% to $5.1 billion
- Benefits and payments to policyholders of $821 million
- Dividends to participating policyholders increased by 34.6% to $49.4 million

A Big Year Ahead!

As we kick off our 100th Anniversary celebrations in 2020, we'll be spending the year reflecting on the past and the many achievements – both big and small – that helped us become one of Canada's largest mutual life insurance companies.

We look forward with confidence to navigating the challenges ahead as we continue to focus on our commitment to profitable growth and delivering on the Company's goals.

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

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

INVESTMENT OPERATIONS

FINANCIAL RESULTS

In 2019, total assets under administration reached $5.1 billion. General fund assets increased by $605 million to $3.7 billion in the year, and segregated funds increased to $1.4 billion.

Investment income of $105 million was higher than 2018 primarily as a result of income on asset growth. Foreign exchange gains and losses are primarily offset by derivative fair value changes and changes in contract liabilities. In 2019, positive fair value changes of $171 million increased net investment income to $269 million while in 2018 fair value changes contributed negatively by $72 million.

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

The Investment Division continues to focus on managing risk, taking into consideration industry and regulatory changes, while maintaining strong asset class and issuer diversification.

BONDS AND DEBENTURES

The bonds and debenture portfolio increased to $1.6 billion in 2019 compared to $1.3 billion in 2018. The majority of the change was due to growth in assets under administration. The bonds and debenture portfolio represents 49% of total general fund managed assets. All of Equitable Life's bonds and debentures are rated investment grade.

EQUITIES

Equities supporting policyholders' funds in the Company's universal life products (linked equities) accounted for $471 million or 15% of total general fund managed assets.

The preferred share portfolio at the end of 2019 totaled $212 million, compared with $206 million at the end of 2018. The net growth in preferred shares was attributable to growth in assets partially offset by declines in the market value of the portfolio.

The direct equities portfolio includes public and private equities which totaled $188 million at the end of 2019 compared with $137 million at the end of 2018. Included within the direct equities portfolio is investment property fund units of $22 million.

MORTGAGES

The 2019 mortgage loan portfolio of $231 million increased by $25 million from 2018. Commercial mortgage loans represent 7% of total general fund managed assets, with 27% of the portfolio CMHC insured.

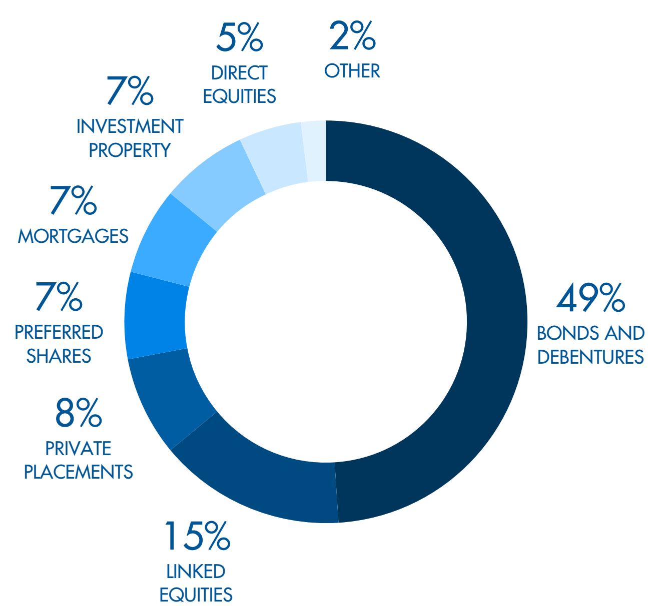
PRIVATE PLACEMENTS

Debt private placements at the end of 2019 totaled $256 million, compared with $210 million at the end of 2018. Private placements allow for sourcing of quality assets with higher yields and/or, better terms than are available in the public markets. The private placement portfolio is rated investment grade.

INVESTMENT PROPERTY

The investment property portfolio totaled $192 million at the end of 2019 compared with $178 million at the end of 2018. No new properties were added to the portfolio in 2019. Equitable Life has a well diversified portfolio and experienced solid appreciation and earnings over the year.

GENERAL FUND MANAGED ASSETS



SOURCE OF EARNINGS ANALYSIS

(Dollar amounts in thousands)

2019	Individual Insurance	Savings and Retirement	Group Benefits	Surplus	Total
Expected profit on in-force business	$ 28,809	$ 11,331	$ 21,630	$ -	$ 61,770
Impact of new business	37,819	(10,044)	-	-	27,775
Experience gains (losses)	17,976	5,469	(9,798)	-	13,647
Management actions and changes in assumptions	(745)	(59)	(18)	-	(822)
Earnings on operations	83,859	6,697	11,814	-	102,370
Earnings on surplus	-	-	-	33,536	33,536
Income before income taxes	83,859	6,697	11,814	33,536	135,906
Income tax (expense) recovery	(15,797)	(164)	(3,026)	(8,005)	(26,992)
Net income	$ 68,062	$ 6,533	$ 8,788	$ 25,531	$ 108,914

2018	Individual Insurance	Savings and Retirement	Group Benefits	Surplus	Total
Expected profit on in-force business	$ 26,761	$ 10,813	$ 16,588	$ -	$ 54,162
Impact of new business	44,322	(9,261)	-	-	35,061
Experience gains (losses)	(1,313)	(673)	3,428	-	1,442
Management actions and changes in assumptions	(1,153)	-	-	-	(1,153)
Earnings on operations	68,617	879	20,016	-	89,512
Earnings on surplus	-	-	-	22,081	22,081
Income before income taxes	68,617	879	20,016	22,081	111,593
Income tax (expense) recovery	(15,575)	1,165	(5,234)	(5,139)	(24,783)
Net income	$ 53,042	$ 2,044	$ 14,782	$ 16,942	$ 86,810

Expected profit on in-force business

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

Impact of new business

Profit (or loss) arises at issue for new insurance contracts. It represents the excess (or deficiency) of profit margins incorporated in the product pricing over the conservative margins for adverse deviation incorporated in the reserves. New business profits in Individual Insurance were strong due to record sales and a continued favourable pricing environment. The impact of new business for Savings and Retirement is negative. This is due to initial losses on segregated funds where not all acquisition costs can be deferred. The profit for new sales for the Group Benefits business is not recognized at issue but over time and hence included with the expected profit on in-force business.

Experience gains (losses)

Experience gains or losses emerge when actual experience differs from the assumptions underlying the expected profit. Experience gains in Individual Insurance were due to favourable equity market and real estate performance. Savings and Retirement experience gains were from favourable investment and mortality experience. Experience losses occurred in Group Benefits due to unfavourable claims and expense experience.

Management actions and changes in assumptions

In 2019, there were a number of reserve assumption changes. For Individual Insurance, investment and lapse assumptions were updated which resulted in a reserve strengthening which was partially offset by changes to mortality and expenses assumptions. For Savings and Retirement, investment assumption updates resulted in a reserve strengthening which was partially offset by mortality and expense assumption changes. In the Group Benefits line of business, investment assumption updates lead to a reserve strengthening. Overall, assumption changes strengthened reserves by $0.8 million. See also note 9 (d) to the financial statements.

Earnings on Surplus

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

CAPABILITY TO DELIVER RESULTS

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

Capital

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

Equitable Life's Total LICAT Ratio at December 31, 2019 was 155%, which is well in excess of the minimum level required by OSFI. This ratio indicates a very strong capital position.

To assess capital adequacy and financial strength under adverse conditions, Dynamic Capital Adequacy Testing (DCAT) is performed on an annual basis. The DCAT process analyzes the Company's potential future financial condition over a five-year period by reviewing the impact of a number of adverse scenarios, including decreasing stock market levels, decreasing real estate values, non-parallel interest rate movements, declining preferred share values, adverse mortality on post-renewal term business, and decreasing stock market levels combined with decreasing real estate values. Testing in 2019 confirmed the Company's financial strength and ability to withstand adverse scenarios in the future.

Source of funds

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

Liquidity

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

RISK MANAGEMENT

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

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

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

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

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

MARKET AND CREDIT RISKS

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

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

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

Equity risk

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

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

Real estate risk

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

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

Interest rate risk

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

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

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

Currency risk

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

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

Preferred share risk

Preferred share risk is the potential for financial loss arising from a decline in the value of preferred shares. The Company has direct exposure to preferred shares from investments supporting general account liabilities.

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

Credit risk

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

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

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

INSURANCE RISK

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

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

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

Mortality and morbidity risk

Many of the Company's products provide benefits in the event of death (mortality) or benefits that depend on the policyholder's survival (longevity). Mortality risk is the risk that actual mortality or longevity experience deviates materially from expected in a given year, or that experience is substantially different from expected over the lifetime of a product.

Morbidity benefits are benefits paid due to disabling conditions, medical and dental costs. Morbidity risk is the risk that these benefit payments are materially higher than expected in a given year or that experience deteriorates over time.

Research and analysis is ongoing to ensure pricing and valuation assumptions for mortality and morbidity properly reflect the markets where the Company is actively doing business. These risks are actively managed through underwriting, retention limits, reinsurance, and claims management.

Lapse (policy termination) risk

Lapse risk is the risk of excess lapse volatility in a given year or that ongoing experience deviates materially from current assumptions. Products are priced and valued to reflect the future expected lapse rates of contracts. The risk of higher lapses is important for expense recovery in early contract years and for products where the surrender benefits exceed actuarial reserves. The risk of lower lapses adversely affects income for products where reserves are higher than surrender benefits. Annual Company specific experience studies and periodic industry research studies support pricing and valuation assumptions for lapse experience.

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

OPERATIONAL RISK

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

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

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

Key operational risks are described below.

Data security and privacy risk

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

Market conduct risk

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

Process error risk

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

Business continuity risk

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

Regulatory compliance

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

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

STRATEGIC RISK

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

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management, who is responsible for the integrity, objectivity and reliability of the information presented. The accounting policies utilized are appropriate in the circumstances and fairly reflect the financial position, results of operations, and cash flows of the Company, within reasonable limits of materiality. Management is responsible for ensuring that the annual report information is consistent with these consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting requirements of the Office of the Superintendent of Financial Institutions (OSFI).

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

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

The Board of Directors is assisted in its responsibilities for these consolidated financial statements by its Audit Committee. This Committee consists of independent and unrelated directors not involved in the daily operations of the Company. The function of this Committee is to meet with management and both internal and external auditors to:

- review and recommend the approval of the financial statements and notes to the Board of Directors;
- meet separately in camera with the internal and external auditors, the Appointed Actuary and management;
- recommend the nomination of the external auditors to the Board of Directors and approve their fee arrangements;
- review independence of the external auditor and any audit findings; and
- review other accounting and financial matters as required.

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

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

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

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

Waterloo, Ontario, February 11, 2020

APPOINTED ACTUARY'S REPORT TO THE POLICYHOLDERS

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

I have valued the policy liabilities and reinsurance assets of The Equitable Life Insurance Company of Canada for its Consolidated Statements of Financial Position at December 31, 2019, and their changes in the Consolidated Statements of Operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

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

Phil K Watson

Phillip K. Watson , Fellow, Canadian Institute of Actuaries
Vice-President & Appointed Actuary
Waterloo, Ontario, February 11, 2020

INDEPENDENT AUDITORS' REPORT

To the Policyholders of The Equitable Life Insurance Company of Canada

Opinion

We have audited the consolidated financial statements of The Equitable Life Insurance Company of Canada (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the segregated funds statements of financial position as at December 31, 2019 and December 31, 2018;
- the statements of changes in segregated funds financial position for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The Equitable Life Insurance Company of Canada as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Information, other than the financial statements and the auditors' report thereon, included in the Annual Report at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Waterloo, Canada, February 11, 2020

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31		(thousands of dollars)
	2019	2018
REVENUES		
Gross premiums	$ 1,184,165	$ 1,041,083
Premiums ceded to reinsurers	(156,342)	(146,769)
Net premiums	1,027,823	894,314
Investment income	104,833	97,588
Change in fair value through profit or loss	160,849	(81,335)
Change in fair value of investment property	10,496	9,256
Investment expenses	(7,073)	(5,898)
Net investment income (note 4)	269,105	19,611
Fee income	45,665	42,130
	1,342,593	956,055
BENEFITS AND EXPENSES		
Death and disability benefits	188,113	161,414
Health insurance benefits	208,737	198,171
Maturity and surrender benefits	62,467	46,351
Annuity payments	31,662	29,930
Interest on amounts on deposit	454	447
Dividends to participating policyholders	49,360	36,695
Claims ceded to reinsurers	(101,864)	(87,483)
	438,929	385,525
Net transfers to (from) segregated funds	(383)	(631)
Gross change in contract liabilities	426,733	62,510
Change in contract liabilities ceded to reinsurers	(42,846)	51,436
Net change in contract liabilities	383,887	113,946
Commissions	237,321	211,215
General expenses	124,493	114,803
Premium and investment income taxes	25,538	22,481
Reinsurance premium tax recovery	(3,283)	(3,077)
Financing expenses	185	200
	1,206,687	844,462
Income before income taxes	135,906	111,593
Income tax expense (note 11)	(26,992)	(24,783)
Net income	$ 108,914	$ 86,810

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31	(thousands of dollars)	
	2019	2018
Net income	$ 108,914	$ 86,810
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale assets	23,936	(12,036)
Reclassifications of realized (gains) losses to net income for available-for-sale assets	(3,822)	1,099
Remeasurement of pension and other post-employment benefit plans	(4,650)	8,881
Income tax (expense) recovery (note 11)	(4,178)	551
Total other comprehensive income (loss)	11,286	(1,505)
Total comprehensive income	$ 120,200	$ 85,305

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

			(thousands of dollars)
	Participating Policyholders' Equity	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2017	$ 686,285	$ (543)	$ 685,742
Net income	86,810	-	86,810
Other comprehensive income (loss)	-	(1,505)	(1,505)
Balance as at December 31, 2018	$ 773,095	$ (2,048)	$ 771,047
Net income	108,914	-	108,914
Other comprehensive income (loss)	-	11,286	11,286
Balance as at December 31, 2019	$ 882,009	$ 9,238	$ 891,247

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

The balance of accumulated other comprehensive income at end of year consists of unrealized gains (losses) on available-for-sale assets and remeasurements related to employee future benefits, net of applicable income tax recoveries of $3,570 (2018 - $608, income tax expense). All accumulated other comprehensive income is attributed to participating policyholders' equity.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31		(thousands of dollars)
	2019	2018
ASSETS		
Cash, cash equivalents and short-term investments	$ 36,898	$ 20,920
Bonds and debentures	1,602,471	1,294,327
Equities	870,250	744,417
Mortgages	230,837	205,622
Private placements	255,692	209,726
Seed capital – segregated funds	424	380
Derivatives	26,702	20,953
Loans to policyholders	96,229	80,465
Investment property	192,150	178,332
Total invested assets (note 4)	3,311,653	2,755,142
Accrued investment income	14,001	11,721
Reinsurers' share of insurance contract liabilities (note 9)	264,129	221,283
Other assets (note 6)	56,521	52,228
Property, plant and equipment (note 7)	19,441	20,015
Total general fund assets	3,665,745	3,060,389
Segregated funds assets	1,413,052	1,191,192
Total assets	$ 5,078,797	$ 4,251,581
LIABILITIES		
Insurance contract liabilities (note 9)	$ 2,464,976	$ 2,039,163
Other contract liabilities (note 9)	194,675	164,637
Derivatives	8,587	9,167
Other liabilities	62,363	46,353
Taxes payable	29,032	15,358
Deferred income taxes (note 11)	11,919	11,515
Mortgage loans (note 10)	2,946	3,149
Total general fund liabilities	2,774,498	2,289,342
Segregated funds liabilities	1,413,052	1,191,192
Total liabilities	4,187,550	3,480,534
POLICYHOLDERS' EQUITY		
Participating policyholders' equity	882,009	773,095
Accumulated other comprehensive income (loss)	9,238	(2,048)
	891,247	771,047
Total liabilities and policyholders' equity	$ 5,078,797	$ 4,251,581

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

DS Alexander

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

Ron Beettam

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31		(thousands of dollars)
	2019	2018
OPERATING CASH INFLOWS		
Premiums received	$ 1,041,261	$ 916,855
Interest income received	61,701	53,922
Dividend income received	20,596	19,025
Investment property income received	6,955	7,866
Fee income received	45,665	42,130
	1,176,178	1,039,798
OPERATING CASH OUTFLOWS		
Benefit and annuity payments	391,959	348,439
Dividends paid to policyholders	38,062	27,151
Operating expenses	357,643	333,774
Income, premium and other taxes	31,246	58,328
Financing expenses	185	200
	819,095	767,892
Cash provided by operating activities	357,083	271,906
INVESTING CASH INFLOWS (OUTFLOWS)		
Purchase of investments	(979,652)	(622,960)
Proceeds from sale of investments	659,125	378,281
Other	(20,126)	(16,045)
Cash used in investing activities	(340,653)	(260,724)
FINANCING CASH OUTFLOWS		
Subordinated debentures	-	(17,000)
Lease payments	(249)	-
Mortgage loans	(203)	(192)
Cash used in financing activities	(452)	(17,192)
Increase (decrease) in cash during the year	15,978	(6,010)
Cash, cash equivalents and short-term investments - beginning of year	20,920	26,930
Cash, cash equivalents and short-term investments - end of year	$ 36,898	$ 20,920

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

SEGREGATED FUNDS STATEMENTS OF FINANCIAL POSITION

As at December 31	(thousands of dollars)	
	2019	2018
ASSETS		
Mutual/pooled units	$ 1,269,491	$ 1,068,123
Cash and short-term investments	42,624	30,747
Bonds and debentures	97,436	89,012
Private placements	4,756	4,817
Investment property fund	8,952	8,299
Other assets	1,120	816
Total segregated funds net assets	$ 1,424,379	$ 1,201,814
COMPOSITION OF SEGREGATED FUNDS NET ASSETS		
Held by contractholders (note 15(a))	$ 1,413,052	$ 1,191,192
Held by the Company	11,327	10,622
Total segregated funds net assets	$ 1,424,379	$ 1,201,814

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

STATEMENTS OF CHANGES IN SEGREGATED FUNDS FINANCIAL POSITION

For the years ended December 31	(thousands of dollars)	
	2019	2018
Net assets - beginning of year	$ 1,201,814	$ 1,209,417
Additions to (deductions from) assets:		
Amounts received from contractholders	279,235	267,783
Net transfers (to) from general fund	(383)	(631)
Amounts withdrawn by contractholders	(219,618)	(199,737)
Net contributions by contractholders	59,234	67,415
Interest and dividends	29,567	28,784
Net realized gains	52,217	39,425
Unrealized investment gains (losses)	118,854	(108,416)
Net investment income (loss)	200,638	(40,207)
Management fees and other operating costs	(37,307)	(34,811)
Net assets - end of year	$ 1,424,379	$ 1,201,814

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The publication of these audited financial statements was approved by the Company's Board of Directors on February 11, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Management has applied judgments in the classification of insurance and investment contracts, financial instruments and the componentizations of property, plant and equipment within the financial statements.

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

(c) Invested assets
Invested assets are accounted for on the following bases:

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

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

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

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

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

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

Equities

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

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

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

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

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

Mortgages

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

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

Private placements

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

Derivatives

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

Loans to policyholders

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

Investment property

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

Securities lending

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

(d) Provisions for asset defaults

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

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

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

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

(e) Property, plant and equipment

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

Owner-occupied properties	15 – 40 years
Furniture and fixtures	5 – 10 years
Equipment	3 – 5 years

(f) Contract classification

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

(g) Insurance contract liabilities

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

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

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

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

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

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

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

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

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

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

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

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

The Company's net benefit plan expense includes:

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

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

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

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

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

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

The Company provides minimum death benefit guarantees and minimum maturity value guarantees. The liability associated with these minimum guarantees is recorded in insurance contract liabilities in the general fund.

The Company earns fee income from segregated funds, which is included in fee income on the Consolidated Statements of Operations.

3. CHANGES IN ACCOUNTING POLICIES

(a) New accounting pronouncements adopted in 2019:

IFRS 16, Leases

The Company adopted IFRS 16, Leases, effective January 1, 2019, replacing IAS 17, Leases. The standard introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 was adopted using a modified retrospective approach, with no restatement of comparative information. The adoption of IFRS 16 resulted in the Company recognizing a right-of-use asset and a lease liability reported under other assets and other liabilities on the Consolidated Statements of Financial Position.

IFRIC 23, Uncertainty over Income Tax Treatments

The Company adopted IFRIC 23, Uncertainty over Income Tax Treatments, effective January 1, 2019. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered separately, or together as a group, based on which approach better predicts the resolution. There was no impact to the accounting for current and deferred tax liabilities upon adoption of IFRIC 23.

(b) New accounting pronouncements issued but not yet effective:

IFRS 9, Financial Instruments

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

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

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

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

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9, January 1, 2018, and the effective date of IFRS 17, January 1, 2021 (however the IASB has proposed deferring the effective date to January 1, 2022).

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

The Company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the temporary exemption provisions and concluded that all of the liabilities were predominantly connected with insurance. Approximately 91% of the Company's liabilities at December 31, 2015 are liabilities that arise from contracts within the scope of IFRS 17 and approximately 91% of the Company's liabilities at December 31, 2015 are liabilities that arise because the Company issues insurance contracts and fulfils obligations arising from insurance contracts. Additionally, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at January 1, 2018, the Company elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until January 1, 2021 (or the proposed deferral date of January 1, 2022). See note 4(h) for additional disclosures which enable comparison between the Company and entities that applied IFRS 9 at January 1, 2018.

IFRS 17, Insurance Contracts

On May 18, 2017, the IASB issued IFRS 17, Insurance Contracts. The new standard is effective for annual periods beginning on or after January 1, 2021 (however the IASB has proposed deferring the effective date to January 1, 2022). IFRS 17 will replace IFRS 4, Insurance Contracts. This standard introduces consistent accounting for insurance contracts across jurisdictions applying IFRS. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

The Company intends to adopt IFRS 17 in its financial statements on the effective date promulgated by the IASB. The extent of the impact of adoption of the standard has not yet been determined.

4. INVESTMENTS (thousands of dollars)

(a) Carrying and fair values of invested assets

	2019		2018	
	Carrying Value Net of Provisions	Fair Value	Carrying Value Net of Provisions	Fair Value
Cash, cash equivalents and short-term investments	$ 36,898	$ 36,898	$ 20,920	$ 20,920
Bonds and debentures – AFS	574,795	574,795	466,913	466,913
Bonds and debentures – FVTPL	1,027,676	1,027,676	827,414	827,414
Equities – AFS	32,471	32,471	38,025	38,025
Equities – FVTPL	837,779	837,779	706,392	706,392
Mortgages	230,837	239,940	205,622	205,989
Private placements	255,692	270,362	209,726	219,057
Seed capital – segregated funds	424	424	380	380
Derivatives	26,702	26,702	20,953	20,953
Loans to policyholders	96,229	96,229	80,465	80,465
Investment property	192,150	192,150	178,332	178,332
	$ 3,311,653	$ 3,335,426	$ 2,755,142	$ 2,764,840

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

Short-term investments are comprised of securities due to mature within one year of the date of purchase. 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) Provisions for asset defaults

The provisions for impaired assets and the provisions for potential future asset default losses, which include a provision for adverse deviations, reflected as a component of the insurance contract liabilities are $270,760 (2018 - $219,774).

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

Bonds and debentures	Term to Maturity	2019 Carrying Value	2018 Carrying Value
Government of Canada	Less than 1 year	$ 18,080	$ -
	1 to 5 years	48,299	65,727
	Over 5 years	48,385	45,988
Provincial governments	Less than 1 year	5,870	6,869
	1 to 5 years	38,384	48,679
	Over 5 years	602,439	488,045
Municipal governments	Less than 1 year	-	-
	1 to 5 years	-	2,088
	Over 5 years	16,650	12,178
Corporate	Less than 1 year	32,294	26,722
	1 to 5 years	281,366	187,433
	Over 5 years	500,103	400,428
Foreign governments	Less than 1 year	-	-
	1 to 5 years	-	-
	Over 5 years	10,601	10,170
		$ 1,602,471	$ 1,294,327
Mortgages	Less than 1 year	$ 16,201	$ 18,931
	1 to 5 years	90,840	94,867
	Over 5 years	123,796	91,824
		$ 230,837	$ 205,622
Private placements	Less than 1 year	$ 8,944	$ 6,980
	1 to 5 years	56,544	46,179
	Over 5 years	190,204	156,567
		$ 255,692	$ 209,726

(d) Analysis of net investment income

	2019	2018
Short-term investments	$ 1,340	$ 749
Bonds and debentures – fair value changes on FVTPL assets	73,308	(24,834)
Bonds and debentures – investment income	45,757	39,433
Bonds and debentures – realized gains (losses) on AFS assets	4,689	(1,096)
Equities – fair value changes on FVTPL assets	85,668	(57,172)
Equities – investment income	22,930	22,039
Equities – realized losses on AFS assets	(867)	(4)
Mortgages	7,921	7,313
Private placements	11,585	10,640
Seed capital – segregated funds	44	(27)
Derivatives – fair value changes on FVTPL assets	1,872	671
Derivatives – investment income	(141)	(23)
Loans to policyholders	5,096	4,211
Investment property – rental income	9,319	9,504
Investment property – fair value changes	10,496	9,256
Other investment income (losses)	15	(49)
Foreign exchange gains (losses)	(2,854)	4,898
	276,178	25,509
Investment expenses	(7,073)	(5,898)
Net investment income	$ 269,105	$ 19,611

(e) Derivative financial instruments

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

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

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

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

The counterparties for the Company's derivative contracts are major Canadian financial institutions highly rated by independent rating agencies. A credit support agreement is in place with a counterparty for collateral held/pledged against the mark to market exposure of the net derivatives. In 2019 the gross collateral held was $24,901 (2018 - $17,564).

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

Certain bonds are pledged as collateral against derivative contract liabilities. As at December 31, 2019, gross collateral of $5,880 (2018 - $5,473) was pledged to a counterparty.

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

2019

	Term to Maturity (Notional Amounts)				Fair Value					
	Less Than 1 Year	1 to 5 Years	Over 5 Years	Total	Asset	Liability	Total	Positive Replacement Value	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate contracts										
Swaps	$ 14,000	$ 68,493	$ 83,100	$ 165,593	$ 25,909	$ (1,735)	$ 24,174	$ 26,035	$ 27,624	$ 1,726
Foreign exchange contracts										
Swaps	$ 18,162	$ 5,687	$ 66,380	$ 90,229	$ 793	$ (6,852)	$ (6,059)	$ 792	$ 6,236	$ 353
Total	$ 32,162	$ 74,180	$149,480	$ 255,822	$ 26,702	$ (8,587)	$ 18,115	$ 26,827	$ 33,860	$ 2,079

2018

	Term to Maturity (Notional Amounts)				Fair Value					
	Less Than 1 Year	1 to 5 Years	Over 5 Years	Total	Asset	Liability	Total	Positive Replacement Value	Credit Equivalent Amount	Risk Weighted Equivalent
Interest rate contracts										
Swaps	$ 15,100	$ 44,100	$ 57,100	$ 116,300	$ 20,792	$ (1,662)	$ 19,130	$ 20,905	$ 21,982	$ 1,374
Foreign exchange contracts										
Swaps	$ 22,908	$ -	$ 31,881	$ 54,789	$ 161	$ (7,505)	$ (7,344)	$ 155	$ 2,775	$ 163
Total	$ 38,008	$ 44,100	$ 88,981	$ 171,089	$ 20,953	$ (9,167)	$ 11,786	$ 21,060	$ 24,757	$ 1,537

(f) Determination of fair values and fair value hierarchy

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

	2019			
	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and short-term investments	$ 36,898	$ -	$ -	$ 36,898
Bonds and debentures	-	1,602,471	-	1,602,471
Equities	818,960	51,290	-	870,250
Mortgages	-	-	239,940	239,940
Private placements	-	270,362	-	270,362
Seed capital – segregated funds	424	-	-	424
Derivatives	-	26,702	-	26,702
Loans to policyholders	-	96,229	-	96,229
Investment property	-	-	192,150	192,150
Segregated funds assets	1,264,488	142,688	-	1,407,176
Assets at fair value	$ 2,120,770	$ 2,189,742	$ 432,090	$ 4,742,602
Derivatives	$ -	$ 8,587	$ -	$ 8,587
Mortgage loans	-	2,946	-	2,946
Liabilities at fair value	$ -	$ 11,533	$ -	$ 11,533

	2018			
	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and short-term investments	$ 20,920	$ -	$ -	$ 20,920
Bonds and debentures	-	1,294,327	-	1,294,327
Equities	705,402	39,015	-	744,417
Mortgages	-	-	205,989	205,989
Private placements	-	219,057	-	219,057
Seed capital – segregated funds	380	-	-	380
Derivatives	-	20,953	-	20,953
Loans to policyholders	-	80,465	-	80,465
Investment property	-	-	178,332	178,332
Segregated funds assets	1,061,649	123,906	-	1,185,555
Assets at fair value	$ 1,788,351	$ 1,777,723	$ 384,321	$ 3,950,395
Derivatives	$ -	$ 9,167	$ -	$ 9,167
Mortgage loans	-	3,236	-	3,236
Liabilities at fair value	$ -	$ 12,403	$ -	$ 12,403

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

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

(g) Investment property

	2019	2018
Balance, beginning of year	$ 178,332	$ 147,416
Acquisitions	-	17,182
Improvements	3,322	4,478
Fair value changes	10,496	9,256
Balance, end of year	$ 192,150	$ 178,332

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

(h) Fair value and change in fair value of financial assets

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the fair value and the amount of change in the fair value of the Company's financial assets as at and for the year ending December 31, 2019, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("Non-SPPI"):

	SPPI		Non-SPPI	
2019	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Bonds and debentures	$ 1,602,471	$ 308,144	$ -	$ -
Equities	-	-	870,250	125,833
Mortgages	239,940	33,951	-	-
Private placements	270,362	51,305	-	-
Seed capital – segregated funds	-	-	424	44
Derivatives	-	-	26,702	5,749
Loans to policyholders	96,229	15,764	-	-
	$ 2,209,002	$ 409,164	$ 897,376	$ 131,626

	SPPI		Non-SPPI	
2018	Fair Value	Change in Fair Value	Fair Value	Change in Fair Value
Bonds and debentures	$ 1,294,327	$ 129,375	$ -	$ -
Equities	-	-	744,417	4,980
Mortgages	205,989	33,724	-	-
Private placements	219,057	(15,628)	-	-
Seed capital – segregated funds	-	-	380	(505)
Derivatives	-	-	20,953	(1,704)
Loans to policyholders	80,465	12,957	-	-
	$ 1,799,838	$ 160,428	$ 765,750	$ 2,771

The following additional disclosure, required by IFRS 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets as at December 31, 2019:

	Credit Risk	Carrying Value	% of Total
Credit rating (bonds and debentures, private placements):			
AAA	Low	$ 145,590	7.8%
AA	Low	737,748	39.7%
A	Low	608,299	32.8%
BBB	Low	366,526	19.7%
		$ 1,858,163	100.0%

None of the mortgages, carrying value $230,837 (2018 - $205,622), are impaired. The credit risk rating for the mortgages is low. Loans to policyholders, carrying value $96,229 (2018 - 80,465), do not have credit exposure as the loans are supported by the cash value of the policy.

5. FINANCIAL RISK MANAGEMENT

(thousands of dollars)

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

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

(a) Credit risk

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

The Company engages in securities lending to generate additional income. The Company's securities custodian is used as the lending agent. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with the lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lendin agent who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2019 the Company had loaned securities, which are included in invested assets, with a fair value of $542,782 ($460,211 at December 31, 2018), and collateral of $556,700 ($470,113 at December 31, 2018).

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

(i) Maximum exposure to credit risk

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

	2019	2018
Bonds and debentures	$ 813,763	$ 614,583
Equities	211,507	206,203
Mortgages	230,837	205,622
Private placements	255,692	209,726
Derivatives	1,800	3,389
Other assets	52,713	50,729
Total Consolidated Statements of Financial Position maximum credit exposure	$ 1,566,312	$ 1,290,252

(ii) Concentration of credit risk

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

	2019		2018	
Bonds issued or guaranteed by:				
Canadian federal government	$ 114,764	7.2%	$ 111,715	8.6%
Canadian provincial governments	646,693	40.3%	543,593	42.0%
Canadian municipal governments	16,650	1.0%	14,266	1.1%
Foreign governments	10,601	0.7%	10,170	0.8%
Total government bonds	$ 788,708	49.2%	$ 679,744	52.5%
Corporate bonds by industry sector:				
Financials	$ 309,168	19.3%	$ 258,775	20.0%
Utilities and energy	189,448	11.8%	139,153	10.8%
Industrials	129,935	8.1%	90,766	7.0%
Telecom	25,062	1.6%	28,142	2.2%
Other	160,150	10.0%	97,747	7.5%
Total corporate bonds	$ 813,763	50.8%	$ 614,583	47.5%
Total bonds and debentures	$ 1,602,471	100.0%	$ 1,294,327	100.0%

(iii) Asset quality

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

	2019	2018
Bonds and debentures portfolio quality:		
AAA	$ 145,590	$ 139,895
AA	710,538	322,206
A	521,378	668,772
BBB	224,965	163,454
Total bonds and debentures	$ 1,602,471	$ 1,294,327

The Company provides for credit risk by establishing allowances against the carrying value of impaired loans and recognizing other than temporary impairments on available-for-sale securities in the Consolidated Statements of Operations. In addition, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities. No allowances for impairments were required as at December 31, 2019 or 2018.

(b) Market risk

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

(i) Equity risk

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

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

Overall, it is estimated the impact on the Company of an immediate 10% increase in equity markets would be an increase in net income of approximately $15,000 (2018 - $12,400). The impact of a decrease of 10% would be an estimated decrease in net income of approximately $15,000 (2018 - $12,400). The impact of a 35% increase in equity markets would be an increase in net income of approximately $53,100 (2018 - $43,200), and the impact of a 35% decrease would be a decrease in net income of approximately $62,200 (2018 - $62,500).

(ii) Real estate risk

Real estate risk is the potential for financial loss arising from declines in real estate values and potential lease defaults. The impact of a 10% drop in real estate values would be an estimated decrease in net income of approximately $12,800 (2018 - $11,800). The impact of a 10% increase in real estate values would be an estimated increase in net income of approximately $12,800 (2018 - $11,800).

(iii) Interest rate risk

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

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

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

(iv) Currency risk

Currency risk is the potential for financial loss arising from changes in foreign exchange rates. The Company minimizes currency risk as liabilities are generally matched with assets of the same currency. The impact of a 10% strengthening in the Canadian dollar would be an estimated decrease in net income of approximately $5,000 (2018 - $3,200). The impact of a 10% weakening in the Canadian dollar would be an estimated increase in net income of approximately $5,000 (2018 - $3,200).

(v) Preferred share risk

Preferred share risk is the potential for financial loss arising from declines in the value of preferred shares. The impact of a 10% drop in preferred share values would be an estimated decrease in net income of approximately $5,300 (2018 - $5,200). The impact of a 10% increase in preferred share values would be an estimated increase in net income of approximately $5,300 (2018 - $5,200).

(c) Liquidity risk

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

(d) Insurance risk

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

6. OTHER ASSETS

(thousands of dollars)

	2019	2018
Premiums and other receivables	$ 31,881	$ 25,218
Due from reinsurers	20,832	17,410
Taxes receivable	-	8,101
Intangible assets	3,430	1,499
Right-of-use asset	378	-
	$ 56,521	$ 52,228

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of dollars)

	2019	2018
Cost		
Balance, beginning of year	$ 31,934	$ 29,227
Additions	1,927	2,992
Dispositions	(427)	(285)
Balance, end of year	$ 33,434	$ 31,934
Accumulated depreciation		
Balance, beginning of year	$ 11,919	$ 10,150
Depreciation for the year	2,501	2,054
Dispositions	(427)	(285)
Balance, end of year	$ 13,993	$ 11,919
Net book value	$ 19,441	$ 20,015

8. EMPLOYEE FUTURE BENEFITS

(thousands of dollars)

Equitable Life maintains a defined contribution plan, providing pension benefits to eligible employees. The assets of the plan are held separately from those of the Company in funds under the control of trustees. The total cost recognized for the defined contribution plan is $2,884 (2018 - $2,436). These amounts are not included in the pension benefits information below.

The Company also provides defined benefit pension and other post-employment benefits to eligible employees. The defined benefit plan assets for the staff plan are held in a fund that is legally separated from the Company. The Company has adopted a funding policy to make the minimum required contributions as required by law or such greater amount as may be deemed appropriate. Total cash payments for employee future benefits for 2019, consisting of cash contributed by the Company to its funded pension plan and cash payments directly to beneficiaries for other benefits, were $2,722 (2018 - $2,548).

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

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Accrued benefit obligation				
Balance, beginning of year	$ 99,844	$ 109,707	$ 7,970	$ 8,658
Current service cost - employer	2,075	2,626	-	3
Current service cost - employee	757	779	-	-
Past service cost	-	161	-	-
Interest cost	4,011	3,862	309	294
Benefits paid	(4,114)	(5,384)	(517)	(516)
Actuarial loss (gain) from changes in plan experience	3,435	(2,277)	-	-
Actuarial loss (gain) from changes in financial assumptions	5,988	(9,630)	1,182	(469)
Balance, end of year	$ 111,996	$ 99,844	$ 8,944	$ 7,970
Fair value of assets				
Balance, beginning of year	$ 94,303	$ 97,330	$ -	$ -
Actual return on assets	9,398	(454)	-	-
Employer contributions	2,205	2,032	517	516
Employee contributions	757	779	-	-
Benefits paid	(4,115)	(5,384)	(517)	(516)
Balance, end of year	$ 102,548	$ 94,303	$ -	$ -
Fair value of assets	$ 102,548	$ 94,303	$ -	$ -
Accrued benefit obligation	111,996	99,844	8,944	7,970
Net accrued benefit obligation	$ (9,448)	$ (5,541)	$ (8,944)	$ (7,970)

Composition of fair value of pension benefits assets

	2019	2018
Bonds	$ 56,080	$ 52,952
Beutel Goodman Canadian Equity Fund	13,292	12,183
Bentall Kennedy Prime Canadian Property Fund Ltd.	8,952	8,299
Beutel Goodman International Equity Fund	7,808	6,495
Beutel Goodman American Equity Fund	7,535	5,561
Private placements	4,756	4,817
Amounts on deposit with the Receiver General of Canada	1,931	1,898
MFS MB Balanced Fund	1,203	1,182
Accrued investment income	558	566
Cash	433	350
Total plan assets	$ 102,548	$ 94,303

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

The defined benefit plan has two separate investment mandates:

(i) Rate of return mandate

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

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

(ii) Liability driven mandate

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

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

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

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Other liabilities	$ 9,448	$ 5,541	$ 8,944	$ 7,970

(c) Net benefit plan expense

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Current service cost - employer	$ 2,075	$ 2,626	$ -	$ 3
Current service cost - administration costs	306	321	-	-
Past service cost	-	161	-	-
Interest cost	262	501	309	294
	$ 2,643	$ 3,609	$ 309	$ 297

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

	2019	2018
Discount rate used to determine accrued benefit obligation	3.25%	4.00%
Discount rate used to determine net benefit cost	4.00%	3.50%
Rate of compensation increase	3.00%	3.00%

The assumed health care trend rate used in measuring the accrued benefit obligation in 2019 was 5.25% until 2023 decreasing to 3.57% in 2040. The assumed dental care trend rate used in measuring the accrued benefit obligation in 2019 was 3.00% until 2023, increasing to 3.57% in 2040.

(e) Sensitivity analysis

Sensitivity to changes in actuarial assumptions would have the following effect on the accrued benefit obligation as at December 31, 2019:

	Pension Benefits	Other Benefits
3.00% discount rate (instead of 3.25%)	$ 4,885	$ 265
1.75% inflation rate (instead of 2.00%) and salary rate reduced by 0.25%	(910)	Included below*
1.00% increase in health and dental care trend rates	N/A	1,127*

9. POLICY LIABILITIES (thousands of dollars)

(a) Policy assumptions

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

Policy claims and benefits

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

Policy lapse rates

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

Investment income

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

Policy maintenance expenses

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

Policyholder dividends

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

(b) Sensitivity to assumptions

The sensitivity of two key assumptions is shown below.

Policy lapse rates

For lapse-supported policies in-force at December 31, 2019, a 10% decrease in all future lapse rates would decrease net income by approximately $19,600 (2018 - $17,200). For non-lapse-supported policies in-force at December 31, 2019, a 10% increase in all future lapse rates would decrease net income by approximately $81,200 (2018 - $69,600).

Interest rates

The Company manages its sensitivity to interest rate changes by being well-matched in terms of its asset and liability cash flows. A 1% increase in the general level of interest rates would increase net income by approximately $3,600 (2018 - $5,900). A 1% decrease would reduce net income by approximately $6,800 (2018 - $10,100).

(c) Composition of insurance contract liabilities

	2019	2018
Annuity contracts	$ 565,882	$ 512,060
Life insurance contracts	1,587,142	1,273,684
Health insurance contracts	311,952	253,419
Total insurance contract liabilities	$ 2,464,976	$ 2,039,163

(d) Change in policy liabilities

2019	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities	Other contract liabilities	Net policy liabilities
Balance, beginning of year	$ 2,039,163	$ 221,283	$ 164,637	$ 1,982,517
New policies	(48,112)	28,188	2,549	(73,751)
Change in balances on in-force policies	500,039	41,594	27,489	485,934
Method and assumption changes	(26,114)	(26,936)	-	822
Balance, end of year	$ 2,464,976	$ 264,129	$ 194,675	$ 2,395,522

2018	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities	Other contract liabilities	Net policy liabilities
Balance, beginning of year	$ 1,976,462	$ 272,719	$ 130,577	$ 1,834,320
New policies	(86,206)	25,019	17,228	(93,997)
Change in balances on in-force policies	251,268	27,059	16,832	241,041
Method and assumption changes	(102,361)	(103,514)	-	1,153
Balance, end of year	$ 2,039,163	$ 221,283	$ 164,637	$ 1,982,517

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

	2019	2018
Lapse	$ 1,463	$ 48,527
Expense	(9,445)	(10,129)
Investment	14,640	1,600
Mortality/morbidity	(5,836)	(38,845)
Total method and assumption changes	$ 822	$ 1,153

(e) Composition of assets supporting liabilities and surplus

2019	Individual Insurance	Savings and Retirement	Group Benefits	Surplus	Total
Bonds and debentures	$ 511,591	$ 343,151	$ 126,171	$ 621,558	$ 1,602,471
Equities	647,889	120,540	11,705	90,116	870,250
Mortgages	84,836	35,872	23,219	86,910	230,837
Private placements	66,385	148,628	6,850	33,829	255,692
Seed capital – segregated funds	-	-	-	424	424
Derivatives	23,613	(4,229)	-	7,318	26,702
Loans to policyholders	96,229	-	-	-	96,229
Investment property	119,133	25,364	-	47,653	192,150
Reinsurers' share of insurance contract liabilities	120,630	-	143,499	-	264,129
Other	39,266	3,782	14,007	69,806	126,861
Total	$ 1,709,572	$ 673,108	$ 325,451	$ 957,614	$ 3,665,745

2018	Individual Insurance	Savings and Retirement	Group Benefits	Surplus	Total
Bonds and debentures	$ 352,417	$ 319,819	$ 103,053	$ 519,038	$ 1,294,327
Equities	545,399	108,606	13,261	77,151	744,417
Mortgages	61,658	36,375	26,111	81,478	205,622
Private placements	52,102	114,145	8,013	35,466	209,726
Seed capital – segregated funds	-	-	-	380	380
Derivatives	18,608	(4,209)	-	6,554	20,953
Loans to policyholders	80,465	-	-	-	80,465
Investment property	110,566	23,540	-	44,226	178,332
Reinsurers' share of insurance contract liabilities	96,720	-	124,563	-	221,283
Other	32,963	3,801	10,142	57,978	104,884
Total	$ 1,350,898	$ 602,077	$ 285,143	$ 822,271	$ 3,060,389

10. MORTGAGE LOANS

(thousands of dollars)

The mortgage loan of $2,946 bears interest at 6.14% with maturity in 2020. This mortgage loan is secured by investment property with a carrying value of $14,500. The mortgage loan balance $2,946 will be repaid in 2020.

		2019		2018
Balance, beginning of year	$	3,149	$	3,341
Cash flows		(203)		(192)
Non-cash changes		-		-
Balance, end of year	$	2,946	$	3,149

The interest expense on the mortgage loan was $185 (2018 - $196). The fair value of the mortgage loan is $2,946 (2018 - $3,236). The fair value is estimated based on the present value of future cash flows discounted at current market rates of interest for loans of similar term and quality.

11. INCOME TAXES

(thousands of dollars)

(a) Income tax expense

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

		2019		2018
Current taxes on income for the reporting period	$	25,378	$	23,682
Current taxes referring to previous periods				328
Current income taxes	$	25,378	$	24,010
Origination and reversal of temporary differences	$	1,995	$	1,102
Impact of change in tax rates		(381)		(1)
Prior year reversal of temporary differences				(328)
Deferred income taxes	$	1,614	$	773
Total income tax expense reported in net income	$	26,992	$	24,783
Income tax recognized on unrealized gain (loss) on AFS assets	$	6,422	$	(3,228)
Income tax recognized on reclassification from OCI to net income on AFS assets		(1,034)		295
Income tax recognized on remeasurement of pension and other post-employment plans		(1,210)		2,382
Total income tax expense (recovery) reported in OCI	$	4,178	$	(551)

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

		2019			2018	
Provision for income taxes at statutory rates	$	36,328	26.73%	$	29,929	26.82%
Decrease in tax due to:						
Tax exempt investment income		(9,579)	(7.05)%		(5,115)	(4.58)%
Other		243	0.18%		(31)	(0.03)%
Income tax expense and effective income tax rate	$	26,992	19.86%	$	24,783	22.21%

(c) Deferred income taxes

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

		2019		2018
Loans to policyholders	$	22,787	$	19,186
Investment property		14,458		12,658
Insurance and investment contract liabilities		(23,632)		(19,944)
Employee future benefits		1,419		1,524
Other comprehensive income related to employee future benefits		(6,205)		(5,147)
Other		3,092		3,238
	$	11,919	$	11,515

(ii) Reconciliation of deferred income tax liability:

		2019		2018
Balance, beginning of year	$	11,515	$	8,360
Tax expense during the period recognized in net income		1,614		773
Tax expense (recovery) during the period recognized in OCI		(1,210)		2,382
Balance, end of year	$	11,919	$	11,515

12. CONTINGENT LIABILITIES

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

13. LINE OF BUSINESS INFORMATION

(thousands of dollars)

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

2019	Individual Insurance	Savings and Retirement	Group Benefits	Surplus	Total
Revenues					
Net premiums	$ 592,839	$ 107,198	$ 327,786	$ -	$ 1,027,823
Net investment income	187,336	35,058	7,740	38,971	269,105
Fee income	8,044	30,700	6,768	153	45,665
Total revenues	$ 788,219	$ 172,956	$ 342,294	$ 39,124	$ 1,342,593
Net income	$ 68,062	$ 6,533	$ 8,788	$ 25,531	$ 108,914
Total general fund assets	$ 1,709,572	$ 673,108	$ 325,451	$ 957,614	$ 3,665,745

2018	Individual Insurance	Savings and Retirement	Group Benefits	Surplus	Total
Revenues					
Net premiums	$ 486,246	$ 95,631	$ 312,437	$ -	$ 894,314
Net investment income	(12,145)	5,531	1,581	24,644	19,611
Fee income	7,513	28,193	6,289	135	42,130
Total revenues	$ 481,614	$ 129,355	$ 320,307	$ 24,779	$ 956,055
Net income	$ 53,042	$ 2,044	$ 14,782	$ 16,942	$ 86,810
Total general fund assets	$ 1,350,898	$ 602,077	$ 285,143	$ 822,271	$ 3,060,389

14. CAPITAL ADEQUACY

(thousands of dollars)

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.

At December 31, 2019, the Company's Total LICAT Ratio was 155%, which is well in excess of the minimum level required by OSFI. This ratio indicates a strong capital position.

	2019	2018
Tier 1 capital	$ 583,667	$ 500,500
Tier 2 capital	309,675	272,640
Available capital	$ 893,342	$ 773,140
Surplus allowance and eligible deposits	$ 721,826	$ 598,271
Base solvency buffer	$ 1,040,904	$ 930,711
Total Ratio	155%	147%
Core Ratio	105%	99%

15. RELATED PARTIES

(thousands of dollars)

(a) The Company has related party transactions with The Group Pension Fund for the Employees of The Equitable Life Insurance Company of Canada, a defined benefit pension plan for eligible employees. The Company provides fund management and administration services to the defined benefit pension plan. During the year the pension plan was charged $183 (2018 - $179) for these services. Included in the segregated funds of the Company are $99,401 (2018 - $91,223) invested in a separate segregated fund on behalf of The Group Pension Fund for the Employees of The Equitable Life Insurance Company of Canada.

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

(i) Senior Management

The Human Resources and Compensation Committee ("HRCC") of the Board of Directors ("Board") annually reviews and recommends to the Board the compensation program for Senior Management. 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.

Total Senior Management compensation for 2019 was $12,150 (2018 - $11,523). The compensation program consists of five components: base salary, short term incentive plan, long term incentive plan, post-employment benefits and other benefits. Each component is addressed below.

Short term compensation in 2019 of $6,739 (2018 - $6,198) is comprised of:

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

Long term compensation in 2019 of $4,066 (2018 - $3,950) is comprised of:

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

Post-employment benefits in 2019 of $1,345 (2018 - $1,375) is comprised of:

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

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

(ii) Board of Directors

Total Board of Directors compensation for 2019 was $688 (2018 - $643).

Compensation paid to the Board is governed by the Company's By-laws which are approved by policyholders. By-law 46 limits the aggregate amount to be paid to all directors who are not full-time employees to $1,000. The By-law was last approved by policyholders at the Annual and Special Meeting in May 2019.

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

PARTICIPATING ACCOUNT MANAGEMENT POLICY

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

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

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

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

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

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

DIVIDEND POLICY

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

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

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

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

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

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

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

SENIOR MANAGEMENT

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

Dave Bennett, FIA
Senior Vice-President, Group

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

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

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

Christopher Brown, BA
Vice-President, Human Resources

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

Colin Simpson, LLB, MBA
Vice-President, Legal and Corporate Secretary

Tara Proper, CFA
Vice-President, Capital Markets

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

Judy Williams, ASA
Vice-President, Savings and Retirement

SUBSIDIARIES

The subsidiaries of the Company are:

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

CORPORATE GOVERNANCE

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

Board independence

Demonstrating evidence of independence is at the heart of effective governance. Independence is normally a matter of the Board demonstrating its ability to act independently of management when appropriate.

Board composition

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

Board responsibilities

The basic oversight responsibilities of the Board include:

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

The Board is assisted in fulfilling these responsibilities through the following Committees (all of the Committees are comprised only of directors who are not affiliated with, and are not officers or employees of, the Company and its subsidiaries):

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

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

BOARD OF DIRECTORS

Board Committees

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

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

Douglas S. Alexander, CPA, CA
Chairman, Equitable Life of Canada
Corporate Director
London, Ontario
(25/25)

Robert Badun, MBA
Corporate Director
Toronto, Ontario
4, 5 (16/16)

Les Dakens, CHRE
Corporate Director
Dwight, Ontario
1, 2, 3, 4 (19/19)

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

A. David Pelletier, FSA, FCIA, Hon FIA
Corporate Director
Toronto, Ontario
1, 2, 3, 5 (21/21)

Ronald E. Beettam, FSA, FCIA
President and Chief Executive Officer
Equitable Life of Canada
Kitchener, Ontario
(25/25)

Andrea Bolger, MBA, ICD.D
Corporate Director
Toronto, Ontario
4, 5 (16/16)

Laura I. Formusa, LL.B, ICD.D
Corporate Director
Toronto, Ontario
3, 5 (15/15)

Neil Parkinson, FCPA, FCA, ICD.D
Corporate Director
Cambridge, Ontario
1, 2, 4 (16/16)

Craig Richardson
Corporate Director
London, Ontario
1, 2, 4 (16/16)

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HEAD OFFICE
One Westmount Road North, P.O. Box 1603, Stn. Waterloo, Waterloo, Ontario N2J 4C7 head-office@equitable.ca Website: www.equitable.ca

General Inquiries:

Automated Attendant	519.886.5210	1.800.722.6615	Line Attendant	519.886.5110	1.800.265.8878
Group Services	1.800.265.4556		Individual Services	1.800.668.4095	