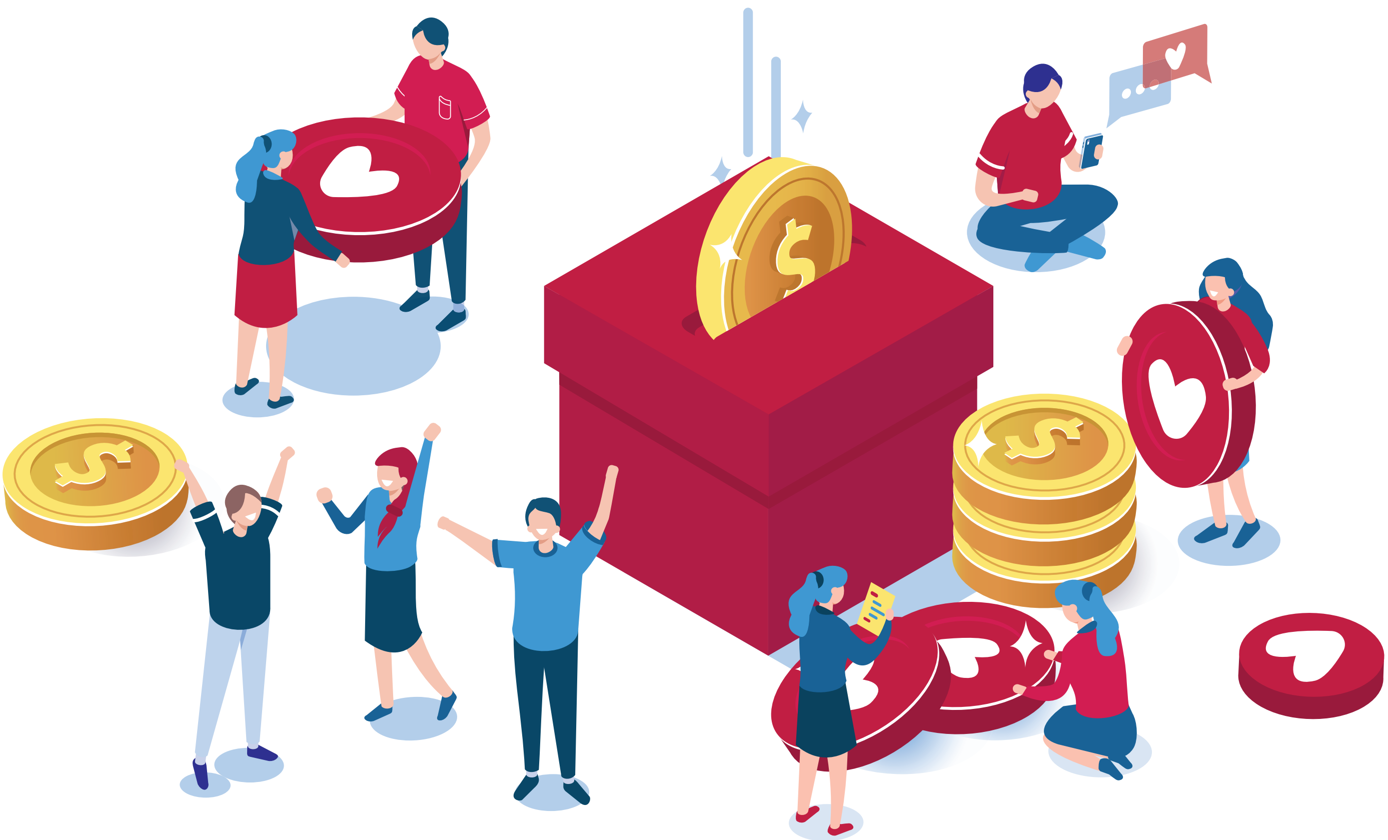
Being wise with money



& living generously

FaithLife® FINANCIAL

Financial Statements of

FAITHLIFE FINANCIAL

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members and Directors of FaithLife Financial

Opinion

We have audited the financial statements of FaithLife Financial (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2019;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in surplus for the year then ended;
- the statement of cash flows for the year then ended;
- and notes to the 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 financial position of FaithLife Financial as at December 31, 2019, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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 represents 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
February 25, 2020

FAITHLIFE FINANCIAL

Statement of Financial Position
(In thousands of dollars)

December 31, 2019, with comparative figures for 2018

	2019	2018
Assets		
Cash and cash equivalents (note 6)	$ 7,123	$ 7,313
Accrued investment income	1,688	1,830
Insurance and other receivables (note 7)	914	1,123
Bonds and debentures	147,120	150,023
Stocks	24,833	19,522
Equity pooled funds	32,779	27,568
Mutual funds	1,283	1,186
Real estate pooled funds	19,932	16,263
Mortgage loan pooled funds	19,598	14,940
Mortgage loans on real estate (note 5(c))	43,766	47,157
Current taxes receivable	276	258
Reinsurance recoverable (note 9)	2,753	2,132
Policy loans	9,480	9,915
Investment property	4,419	4,517
Property and equipment (note 8)	10,334	11,254
Other assets	982	729
Segregated fund assets (note 22)	69,056	73,276
Total assets	$ 396,336	$ 389,006
Liabilities		
Expenses due and accrued	$ 4,184	$ 4,051
Insurance contract liabilities (note 9)	253,947	239,908
Members' dividends, policy proceeds and other amounts on deposit	12,872	13,434
Provision for members' dividends	3,080	3,238
Policy benefits in the course of settlement and provision for unreported claims	1,514	2,407
Subordinated debt (note 11)	3,166	4,351
Other liabilities (note 10)	8,654	8,441
Segregated fund liabilities (note 22)	69,056	73,276
Total liabilities	356,473	349,106
Surplus		
Appropriated surplus	1,250	1,250
Unappropriated surplus	42,781	43,468
Accumulated other comprehensive loss	(5,609)	(6,303)
Revaluation reserve	1,441	1,485
Total surplus	39,863	39,900
Total liabilities and surplus	$ 396,336	$ 389,006

See accompanying notes to financial statements.

Director

Director

FAITHLIFE FINANCIAL

Statement of Income
(In thousands of dollars)

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Revenue:		
Gross premiums:		
Life insurance	$ 19,421	$ 18,910
Annuities	8,577	5,510
Health insurance	667	701
	28,665	25,121
Less: premiums ceded to reinsurers	(2,605)	(2,460)
Net premiums	26,060	22,661
Fee income	1,754	2,057
Investment income	13,209	13,583
Realized gains (losses) on financial assets	(116)	189
Net fair value gains (losses) on financial assets at fair value through profit or loss	15,404	(7,188)
Net investment income (note 15)	28,497	6,584
Other income (note 24)	160	1,390
Total revenue	56,471	32,692
Benefits and expenses:		
Policy benefits and expenses:		
Gross benefits and claims paid	22,261	21,282
Benefits and claims ceded to reinsurers	(2,294)	(1,576)
Change in policy liabilities (note 9(d))	14,039	(11,253)
Change in policy liabilities ceded to reinsurers	(621)	(1,232)
Members' dividends	3,052	3,369
Interest on amounts on deposit	320	333
Net policy benefits and expenses	36,757	10,923
General expenses:		
Investment expenses (note 15)	732	743
Interest expense	258	327
Commissions	3,270	3,152
Salaries and benefits (note 19)	7,258	7,168
Depreciation of property and equipment	1,568	1,459
Other	6,990	6,731
Fraternal benefits	139	314
	20,215	19,894
Total expenses	56,972	30,817
Income (loss) before tax	(501)	1,875
Corporate taxes (note 17)	186	139
Net income (loss)	$ (687)	$ 1,736

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Statement of Comprehensive Income
(In thousands of dollars)

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Net income (loss)	$ (687)	$ 1,736
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale assets	1,308	(1,569)
Amortization of fair value reserves	44	26
Reclassification of realized gains on available-for-sale assets and recoveries to net income	6	(16)
Remeasurements of defined benefit liability	(664)	177
Total other comprehensive income (loss)	694	(1,382)
Total comprehensive income	$ 7	$ 354

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Statement of Changes in Surplus
(In thousands of dollars)

Year ended December 31, 2019, with comparative figures for 2018

	Appropriated surplus	Unappropriated surplus	AOCI	Revaluation reserves	Total
Balance, December 31, 2017	$ 1,223	$ 41,759	$ (4,921)	$ 423	$ 38,484
Net income	-	1,736	- -	-	1,736
Losses on available-for-sale securities	-	-	(1,585)	-	(1,585)
Appropriations	27	(27)	-	-	-
Amortization of fair value reserves	-	-	26	(26)	-
Building re-appraisal	-	-	-	1,088	1,088
Remeasurement of defined benefit liability	-	-	177	-	177
Balance, December 31, 2018	$ 1,250	$ 43,468	$ (6,303)	$ 1,485	$ 39,900
Net loss	-	(687)	-	-	(687)
Gains on available-for-sale securities	-	-	1,314	-	1,314
Amortization of fair value reserves	-	-	44	(44)	-
Remeasurement of defined benefit liability	-	-	(664)	-	(664)
Balance, December 31, 2019	$ 1,250	$ 42,781	$ (5,609)	$ 1,441	$ 39,863

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2019, with comparative figures for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (687)	$ 1,736
Items not involving cash:		
Increase (decrease) in policy liabilities, net of reinsurance	13,418	(3,797)
Increase (decrease) in provision for members' dividends	(158)	7
Decrease in members' dividends and other amounts on deposit	(562)	(86)
Change in fair value of FVTPL securities	(15,404)	7,188
Realized (gain) loss on sale of AFS securities	116	(189)
Amortization of property and equipment	1,568	1,459
Other	(370)	2,074
Interest paid	(258)	(327)
Taxes paid	(186)	(139)
	(2,523)	7,926
Investing activities:		
Proceeds of bonds sold and matured	21,963	36,339
Bonds purchased	(8,631)	(30,075)
Proceeds of stocks sold and redeemed	1,316	2,271
Stocks purchased	(4,235)	(3,034)
Proceeds of equity pooled funds sold	362	3,654
Equity pooled funds purchased	(3,754)	(11,378)
Proceeds of mutual funds sold	143	44
Mutual funds purchased	(43)	(43)
Mortgages loan principal receipts	3,879	14,914
Mortgage loans advanced	(500)	(4,000)
Mortgage pooled funds purchased	(4,595)	(1,905)
Real estate pooled funds purchased	(2,466)	(8,684)
Policy loans repaid	1,518	1,686
Policy loans advanced	(1,079)	(1,166)
Purchase of property and equipment	(545)	(755)
	3,333	(2,132)
Financing activities:		
Redemption of subordinated debt	(1,000)	-
	(1,000)	-
Increase (decrease) in cash and cash equivalents	(190)	5,794
Cash and cash equivalents, beginning of year	7,313	1,519
Cash and cash equivalents, end of year	$ 7,123	$ 7,313

See accompanying notes to financial statements.

1. Reporting entity:

FaithLife Financial (the Society) is a fraternal benefit society domiciled in Canada, with a registered address of 300-470 Weber Street North, Waterloo, Ontario. The Society is registered under the *Insurance Companies Act (Canada)* with the Office of the Superintendent of Financial Institutions (OSFI). The Society is a Christian-based financial services organization that provides life insurance, income protection, investment products and fraternal benefits for Canadian Christians and others that subscribe to the Society's values.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were authorized for issue by the Board of Directors on February 25, 2020.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- land and building are measured at fair value; and,
- insurance contract liabilities are measured using accepted actuarial practices.

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2. Basis of preparation (continued):

(d) Use of estimates and judgments: (continued)

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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 4(b) - valuation of financial instruments
- Note 9 - valuation of policy liabilities
- Note 10 - measurement of defined benefit obligations

(e) Liquidity format:

The Society presents its statement of financial position broadly in order of liquidity. Information on financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date is included in note 23.

3. Change in accounting policies:

(a) IFRS 16, Leases

The Society adopted IFRS 16, Leases, effective January 1, 2019, replacing IAS 17, Leases. The standard introduced a single 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 the obligation to make lease payments. There was no impact to the financial statements of the Society upon adoption of IFRS 16.

(b) IFRIC 23, Uncertainty Over Income Tax Treatments

The Society 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 for current and deferred tax liabilities upon adoption of IFRIC 23.

4. Significant accounting policies:

These financial statements have been prepared in accordance with the *Insurance Companies Act*, which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with IFRS. The significant accounting policies used in preparing these financial statements, including the requirements of the Superintendent of Financial Institutions Canada, are summarized below. These policies conform, in all material respects, to IFRS.

(a) Financial instruments:

(i) Non-derivative financial assets:

The Society initially recognizes loans and receivables and deposits on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Society becomes a party to the contractual provisions of the instrument.

The Society derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Society is recognized as a separate asset or liability.

The Society has the following non-derivative financial assets:

Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss (FVTPL) if it was classified as held-for-trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

Available-for-sale financial assets:

Financial assets classified as available-for-sale (AFS) are measured at fair value and changes therein, other than impairment losses (see note 13(a)(v)), and foreign currency differences on AFS monetary items (see note 13(c)(i)), are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in surplus is transferred to profit or loss.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Non-derivative financial assets (continued):

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise insurance and other receivables, accrued interest income, mortgage loans on real estate and policy loans.

(ii) Non-derivative financial liabilities:

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Society initially recognizes subordinated liabilities on the date that they originated. All other financial liabilities (including liabilities designated as FVTPL) are recognized initially on the trade date at which the Society becomes a party to the contractual provisions of the instrument.

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

The Society has the following non-derivative financial liabilities: subordinated debt and expenses due and accrued.

(b) Portfolio investments:

Portfolio investments are accounted for on the following basis:

(i) Cash and cash equivalents and short-term investments:

Cash and cash equivalents include cash on deposit and short-term investments with original maturities of less than 90 days. Short-term investments are carried at cost, which approximates fair value.

4. **Significant accounting policies (continued):**

(b) Portfolio investments (continued):

(ii) Bonds and debentures:

Investments in bonds and debentures are classified either as AFS or FVTPL.

FVTPL bonds and debentures are recorded at fair value with realized gains and losses on sale and changes in the fair value of these bonds recorded in net investment income in the statement of income.

AFS bonds and debentures are recorded at fair value with changes in the fair value of these bonds recorded in unrealized gains and losses in the statement of comprehensive income. Realized gains and losses on sale are reclassified from accumulated other comprehensive income (AOCI) and recorded in net investment income in the statement of income.

(iii) Stocks:

Investments in stocks are classified either as AFS or FVTPL. FVTPL stocks are recorded at fair value with realized gains and losses on sale and changes in the fair value of these stocks recorded in net investment income in the statement of income.

AFS stocks are recorded at fair value with changes in the fair value of these stocks recorded in unrealized gains and losses in the statement of comprehensive income. Realized gains and losses on sale are reclassified from accumulated other comprehensive income (AOCI) and recorded in net investment income in the statement of income.

(iv) Equity pooled funds, real estate pooled funds and mortgage loan pooled funds:

Pooled funds are classified either as AFS or FVTPL. FVTPL pooled funds are recorded at fair value with realized gains and losses on sale and changes in the fair value of these pooled funds recorded in net investment income in the statement of income. Foreign currency differences on U.S. dollar invested assets are recorded in other income in the statement of income.

AFS pooled funds are recorded at fair value with changes in the fair value of these funds recorded in unrealized gains and losses in the statement of comprehensive income. Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income in the statement of income.

4. Significant accounting policies (continued):

(b) Portfolio investments (continued):

(v) Mutual funds:

Mutual funds are designated as FVTPL and are carried at market value, and are matched to the investment portion of Universal Life contracts. Increases or decreases in the market value of mutual funds are recorded in net investment income in the statement of income.

(vi) Mortgage loans on real estate:

Mortgage loans on commercial and Church real estate are classified as loans and receivables and carried at amortized cost, less principal repayments and provisions for significant or prolonged declines in value. Gains or losses realized from the sale of mortgage loans on real estate are recorded in net investment income in the statement of income.

(vii) Policy loans:

Policy loans to members are classified as loans and receivables and are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(c) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment, including furniture and equipment, leasehold improvements, and computer hardware and software, are carried at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, including land and building, are carried at fair value, based on triennial valuations by external independent appraisers, less subsequent depreciation for the building. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and building are credited to the revaluation reserve within surplus. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in surplus; all other decreases are charged to the statement of income.

4. Significant accounting policies (continued):

(c) Property and equipment (continued):

(i) Recognition and measurement (continued):

Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, is transferred from the revaluation surplus to unappropriated surplus.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Society, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

(ii) Depreciation:

Depreciation is recorded in the profit or loss on a straight-line basis over the estimated useful lives of the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Society will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

- Buildings and improvements 40 years
- Furniture and equipment 5 years
- Computer hardware 5 years
- Computer software 3-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

4. Significant accounting policies (continued):

(c) Property and equipment (continued):

(iii) Reclassification to investment property:

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognized in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognized in other comprehensive income and presented in the revaluation reserve in surplus to the extent that an amount had previously been included in the revaluation reserve relating to the specific property, with any remaining loss recognized immediately in profit or loss.

(d) Income taxes:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in surplus or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profits will be available against which the benefits of the deferred tax assets can be utilized.

(e) Revenue recognition:

(i) Premiums from insurance contracts:

Premium revenues are recognized as they become due and collection is reasonably assured.

4. Significant accounting policies (continued):

(e) Revenue recognition (continued):

(ii) Investment income:

Investment income comprises income from financial assets and rental income from real estate pooled funds and investment property.

Investment income is comprised of interest income on funds invested (including AFS financial assets), dividend income, gains on the disposal of AFS financial assets and changes in the fair value of financial assets at FVTPL. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(iii) Fee income:

Fee income is earned on investment and fund management services to the segregated funds held and managed by the Society on behalf of the contractholders. The fees are recognized as revenue over the period in which the related services are performed.

(f) Insurance contracts:

(i) Classification of insurance contracts:

An insurance contract is a contract under which the Society accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is risk other than financial risk, transferred from the holder of the contract to the issuer.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Society to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire. Contracts which do not meet the definition of an insurance contract regardless of their form are classified as either investment contracts or service contracts, as appropriate.

4. Significant accounting policies (continued):

(f) Insurance contracts (continued):

(ii) Recognition and measurement of insurance contracts:

(a) Premiums:

Premium revenues from insurance policies are recognized as they become due and collection is reasonably assured.

(b) Policy liabilities:

Actuarial liabilities have been calculated using accepted actuarial practice which, according to the standards established by the Actuarial Standards Board, is the Canadian Asset Liability Method (CALM). Actuarial liabilities represent an estimate of the amount, which together with future premiums and investment income will be sufficient to pay future benefits and expenses on insurance contracts. The carrying value of actuarial liabilities is based on the present value of expected cash flows plus provisions for adverse deviations and is considered to be an indicator of fair value, as there is no ready market for the trading of insurance certificates.

(c) Reinsurance:

The Society cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transferral of its risks. Reinsurance arrangements do not relieve the Society from its direct obligations to its policyholders. Reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognized on the same basis as the related policy liabilities.

Assets, liabilities and income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Society from its direct obligations to its policyholders.

Reinsurance assets include recoveries due from reinsurance companies in respect of policy benefits paid or payable. Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Society may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Society will receive from the reinsurer.

4. Significant accounting policies (continued):

(g) Employee future benefits:

(i) Defined benefit plans:

The Society closed its registered defined benefit pension plan for head office employees at December 31, 2018. The Society also provides other benefit plans for retired employees, including post-retirement health, dental and life benefits for all employees who retired on or before March 31, 2015 and supplementary pension benefits for specified retired executives.

The Society accrues its obligations under employee defined benefit plans and the related costs, net of plan assets, as the employees rendered their services necessary to earn the pension and other benefits. The Society's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the prior periods; that benefit is discounted to determine its present value.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance based on assets valued at fair value, salary escalation, retirement ages of employees and expected health and dental care costs.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (OCI).

The Society determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expense related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Society recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

4. Significant accounting policies (continued):

(g) Employee future benefits (continued):

(ii) Termination benefits:

Termination benefits are recognized as an expense when the Society is committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Society has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iii) Defined Contribution Pension Plan:

Effective April 1, 2012, the Society implemented a defined contribution (DC) pension plan which permits active members of the defined benefit (DB) pension plan to convert and transfer their defined benefit entitlements to their accounts under the DC plan. A member who joined the DC plan effective April 1, 2012, elected whether to retain their DB entitlements accrued to April 1, 2012 or transfer the actuarial equivalent value of the DB entitlements accrued to April 1, 2012 to the DC plan. Members who continued to participate in the defined benefit component of the Plan had until February 9, 2019 to elect whether to retain existing defined benefit entitlements within the defined benefit plan or transfer the actuarial equivalent value of the defined benefit entitlements accrued to December 31, 2018 to the defined contribution component of the Plan. Post December 31, 2018, members who opted to maintain their defined benefit plan membership, will continue to accrue earnings, but no longer receive years of service or age benefits.

(h) Impairment:

(i) Financial assets:

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Society on terms that the Society would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active

4. Significant accounting policies (continued):

(h) Impairment (continued):

(i) Financial assets (continued):

market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an AFS financial asset recognized previously in AOCI is transferred to profit or loss.

In assessing collective impairment, the Society uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Impairment losses on AFS investment securities are recognized by transferring the cumulative loss that has been recognized in AOCI to profit or loss. The cumulative loss that is removed from AOCI and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For AFS financial assets that are debt securities, the reversal is recognized in profit or loss. For AFS financial assets that are equity securities, the reversal is recognized in OCI.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Society's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future

4. Significant accounting policies (continued):

(h) Impairment (continued):

(ii) Non-financial assets (continued):

cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

When title to real estate is acquired under mortgage loan default, an independent appraisal of the property is obtained and expected future cash flows are discounted to determine estimated net realizable value. If necessary, the carrying value of the property is adjusted to net realizable value or the current market value by way of a loss provision. The amount of the provision is recognized in profit or loss.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Society has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(j) Investment property:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4. Significant accounting policies (continued):

(k) Accounting standards issued but not yet applied:

The following summarizes future accounting changes that will be relevant to the Society's financial statements subsequent to December 31, 2019.

(i) 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 tentatively decided to propose deferring the effective date to January 1, 2022). IFRS 17 will replace IFRS 4, Insurance Contracts. This standard introduces consistent accounting for all insurance contracts. 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 Society intends to adopt IFRS 17 in its financial statements for the annual period beginning as early as January 1, 2021, or as late as the proposed deferral date of January 1, 2022. The extent of the impact of adoption of the standard has not yet been determined.

(i) IFRS 9, Financial *Instruments:*

In July 2014, the IASB issued the complete amended IFRS 9, Financial Instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2019 and must be applied retrospectively with some exemptions. Early adoption is permitted. 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

4. Significant accounting policies (continued):

(k) Accounting standards issued but not yet applied (continued):

(ii) IFRS 9, *Financial Instruments* (continued):

to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

In September 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 Insurance Contracts, issued in May 2017.

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:

- 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 (however, the IASB has tentatively decided to propose deferring the effective date to January 1, 2022).

The Society 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 96% of the Society's liabilities at December 31, 2015 are liabilities that arise from contracts within the scope of IFRS 17. Additionally, the Society has not previously applied any version of IFRS 9. Therefore, the Society is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at January 1, 2018, the Society elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Society will continue to apply IAS 39 until the effective date of IFRS 17. See note 5(e) for additional disclosures which enable comparison between the Society and entities that applied IFRS 9 at January 1, 2018.

(In thousands of dollars)

5. Portfolio investments:

The Society utilizes the prudent person approach to asset management, as outlined by the Insurance Companies Act. Investment policies are in place and are monitored by the Board of Directors. Policies are in place encompassing various guidelines and restrictions, in addition to limiting the investment exposure to any one entity or group of related entities, to managing concentration risk of investments in any one industry sector or any specific geographic area and to defining limitations on the credit quality of investments. Investment assets supporting policy liabilities are chosen such that their amount and cash flow characteristics consider policy liability cash flows and duration. Changes in the fair values of assets supporting liabilities will be mostly offset by changes in the fair value of those liabilities.

a) Portfolio values:

2019	FVTPL	AFS	Other	Total
Cash and cash equivalents	$ -	$ -	$ 7,123	$ 7,123
Bonds and debentures:				
Federal	2,269	1,001	-	3,270
Provincial	42,662	1,353	-	44,015
Municipal	30,094	3,553	-	33,647
Corporate A or higher	30,128	6,264	-	36,392
Corporate below A	29,100	696	-	29,796
	134,253	12,867	-	147,120
Stocks	11,092	13,741	-	24,833
Equity pooled funds	25,186	7,593	-	32,779
Mutual funds	1,283	-	-	1,283
Real estate pooled funds	19,932	-	-	19,932
Mortgage loan pooled funds	19,598	-	-	19,598
Mortgage loans on real estate	-	-	43,766	43,766
Investment property	-	-	4,419	4,419
	$ 211,344	$ 34,201	$ 55,308	$ 300,853

(In thousands of dollars)

5. Portfolio investments (continued):

a) Portfolio values (continued):

2018	FVTPL	AFS	Other	Total
Cash and cash equivalents	$ -	$ -	$ 7,313	$ 7,313
Bonds and debentures:				
Federal	2,135	881	-	3,016
Provincial	46,635	608	-	47,243
Municipal	27,839	5,331	-	33,170
Corporate A or higher	38,241	6,402	-	44,643
Corporate below A	21,325	626	-	21,951
	136,175	13,848	-	150,023
Stocks	7,583	11,939	-	19,522
Equity pooled funds	19,508	8,060	-	27,568
Mutual funds	1,186	-	-	1,186
Real estate pooled funds	16,263	-		16,263
Mortgage loan pooled funds	14,940	-	-	14,940
Mortgage loans on real estate	-	-	47,157	47,157
Investment property	-	-	4,517	4,517
	$ 195,655	$ 33,847	$ 58,987	$ 288,489

(b) Provisions for significant or prolonged declines in value totalled $53 (2018 - $470).

(c) Geographic concentration - mortgage loans on real estate and investment property:

	2019	2018
Mortgage loans on real estate:		
Ontario	$ 24,914	$ 27,639
Manitoba	4,356	4,529
Saskatchewan	386	241
Alberta	10,998	11,709
British Columbia	2,891	2,791
New Brunswick	221	248
Less loss provision	-	-
	$ 43,766	$ 47,157
Investment property:		
Ontario	$ 4,419	$ 4,517

(In thousands of dollars)

5. Portfolio investments (continued):

(d) Fair value information:

(i) Fair value versus carrying values:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

2019	Carrying amount	Fair value
Assets carried at fair value:		
Fair value through profit or loss	$ 211,344	$ 211,344
Available-for-sale	34,201	34,201
Assets carried at amortized cost:		
Cash and cash equivalents	7,123	7,123
Accrued investment income	1,688	1,688
Insurance and other receivables	914	914
Mortgage loans on real estate	43,766	43,807
Policy loans	9,480	9,480
	$ 308,516	$ 308,557
Liabilities carried at amortized cost:		
Expenses due and accrued	$ 4,184	$ 4,184
Subordinated debt	3,166	2,859
	$ 7,350	$ 7,043

2018	Carrying amount	Fair value
Assets carried at fair value:		
Fair value through profit or loss	$ 195,655	$ 195,655
Available-for-sale	33,847	33,847
Assets carried at amortized cost:		
Cash and cash equivalents	7,313	7,313
Accrued investment income	1,830	1,830
Insurance and other receivables	1,123	1,123
Mortgage loans on real estate	47,157	46,728
Policy loans	9,915	9,915
	$ 296,840	$ 296,411
Liabilities carried at amortized cost:		
Expenses due and accrued	$ 4,051	$ 4,051
Subordinated debt	4,351	4,119
	$ 8,402	$ 8,170

(In thousands of dollars)

5. Portfolio investments (continued):

(d) Fair value information (continued):

(i) Interest rates used for determining fair value:

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus a credit spread, and are as follows:

	2019	2018
Insurance and other receivables, policy loans and expenses due and accrued	- %	- %
Mortgage loans on real estate	3.93% - 3.99%	4.03% - 4.28%
Subordinated debt	5.00%	5.30%

(ii) Fair value hierarchy analysis:

The table below provides an analysis of the basis of measurement used to fair value financial instruments carried at fair value, categorized by the following fair value hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2019	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:				
Equity investments	$ 56,249	$ 1,244	$ -	$ 57,493
Debt investments	-	153,851	-	153,851
Available-for-sale:				
Equity investments	19,772	1,562	-	21,334
Debt investments	-	12,867	-	12,867
	$ 76,021	$ 169,524	$ -	$ 245,545
Segregated funds assets	$ 69,056	$ -	$ -	$ 69,056

(In thousands of dollars)

5. Portfolio investments (continued):

(d) Fair value information (continued):

(ii) Fair value hierarchy analysis (continued):

2018	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:				
Equity investments	$ 44,128	$ 412	$ -	$ 44,540
Debt investments	-	151,115	-	151,115
Available-for-sale:				
Equity investments	17,838	2,161	-	19,999
Debt investments	-	13,848	-	13,848
	$ 61,966	$ 167,536	$ -	$ 229,502
Segregated funds assets	$ 73,276	$ -	$ -	$ 73,276

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and December 31, 2018. There were no Level 3 investments for the years ended December 31, 2019 and 2018.

(e) Additional disclosures:

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"):

(In thousands of dollars)

5. Portfolio investments (continued):

(e) Additional disclosures (continued):

2019	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	$ 147,120	$ 10,497	$ -	$ -
Stocks	-	-	24,833	2,553
Equity pooled funds	-	-	32,779	2,389
Mutual funds	-	-	1,283	197
Real estate pooled funds	-	-	19,932	1,204
Mortgage loan pooled funds	-	-	19,598	63
Mortgage loans on real estate	43,766	-	-	-
	$ 190,886	$ 10,497	$ 98,425	$ 6,406

2018	SPPI		Non-SPPI	
	Fair Value	Change in fair value	Fair value	Change in fair value
Bonds and debentures	$ 150,023	$ (6,093)	$ -	$ -
Stocks	-	-	19,522	(1,164)
Equity pooled funds	-	-	27,568	(2,831)
Mutual funds	-	-	1,186	(41)
Real estate pooled funds	-	-	16,263	629
Mortgage loan pooled funds	-	-	14,940	80
Mortgage loans on real estate	47,157	-	-	-
	$ 197,180	$ (6,093)	$ 79,479	$ (3,327)

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

Credit rating	2019 Carrying amount (fair value)	% of total	2018 Carrying amount (fair value)	% of total
AAA	$ 15,230	8.0	$ 16,543	8.4
AA	40,400	21.2	38,623	19.6
A	74,606	39.1	72,386	36.7
BBB	16,884	8.8	22,471	11.4
Unrated	43,766	22.9	47,157	23.9
	$ 190,886	100.0	$ 197,180	$ 100.0

All of the rated holdings are investment grade.

(In thousands of dollars)

6. Cash and cash equivalents:

		2019		2018
Bank and cash balances	$	4,979	$	4,891
Short-term investments		2,144		2,422
Cash and cash equivalents	$	7,123	$	7,313

The effective interest rate on short term investments at statement of financial position date is 1.66% (2018 - 1.66%), with an average maturity of 67 days (2018 - 79 days).

7. Insurance and other receivables:

		2019		2018
Contractholders	$	173	$	173
Other receivables		741		950
	$	914	$	1,123

Insurance and other receivables are shown net of impairment losses. Impairment losses recognized in the current year amount to $nil (2018 - $nil).

The estimated fair value of insurance and other receivables, excluding prepayments, is $914 (2018 - $1,123). $875 (2018 - $1,056) of the insurance and other receivables, including prepayments, are expected to be settled no more than twelve months after the statement of financial position date. Other receivables totalling $39 (2018 - $67) related to leasehold inducements will be recovered from investment property tenants over the remaining rental lease term.

(In thousands of dollars)

8. Property and equipment:

	Land	Buildings and leasehold improvements	Furniture and equipment	Computer software and equipment	Total
Fair value or cost:					
Balance, December 31, 2018	$ 1,500	$ 3,957	$ 1,199	$ 12,764	$ 19,420
Additions	-	7	1	537	545
Balance, December 31, 2019	$ 1,500	$ 3,964	$ 1,200	$ 13,301	$ 19,965
Accumulated amortization:					
Balance, December 31, 2018	$ -	$ 168	$ 1,100	$ 6,898	$ 8,166
Amortization for the year		141	27	1,297	1,465
Balance, December 31, 2019	$ -	$ 309	$ 1,127	$ 8,195	$ 9,631
Net book value:					
Balance, December 31, 2018	$ 1,500	$ 3,789	$ 99	$ 5,866	$ 11,254
Balance, December 31, 2019	$ 1,500	$ 3,655	$ 73	$ 5,106	$ 10,334

9. Policy liabilities and reinsurance recoverable:

2019	Gross	Reinsurance	Net
Participating:			
Life	$ 190,252	$ 506	$ 189,746
Health	4,027	1,820	2,207
Annuity	59,668	427	59,241
	$ 253,947	$ 2,753	$ 251,194

2018	Gross	Reinsurance	Net
Participating:			
Life	$ 176,867	$ (113)	$ 176,980
Health	3,747	1,681	2,066
Annuity	59,294	564	58,730
	$ 239,908	$ 2,132	$ 237,776

9. Policy liabilities and reinsurance recoverable:

(a) Nature of policy liabilities:

Policy liabilities represent an estimate of the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on all insurance and annuity policies in force. The calculation of policy liabilities involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender. Policy liabilities are determined using generally accepted actuarial practices, according to standards established by the Actuarial Standards Board, which prescribes the use of the Canadian Asset Liability Method.

(b) Assumptions:

In the computation of policy liabilities, best estimate assumptions covering the lifetime of the policies are made. These assumptions may be subject to change in the future. Actual experience is monitored regularly to ensure that the assumptions remain appropriate. Any change in policy liabilities resulting from assumption revisions is recognized in income immediately. The methods for arriving at the most significant assumptions are outlined below:

(i) Mortality:

The mortality assumption for individual life insurance is based on a combination of Society and industry experience. For annuities, the mortality assumption is based upon industry mortality experience and has been projected forward to allow for continuing mortality improvement to the extent permitted by generally accepted actuarial standards.

(ii) Morbidity:

Morbidity assumptions are made with respect to the rates of claim incidence and recovery. These assumptions are based on industry-expected experience.

(iii) Investment returns:

The Society maintains asset segments backing specific lines of business. For each segment, future investment yields are based upon projected future cash flows and expected future reinvestment rates derived from the current economic outlook and the Society's investment policy.

9. Policy liabilities and reinsurance assets (continued):

(b) Assumptions (continued):

(iv) Expenses:

Operating expense assumptions reflect the projected cost of maintaining and servicing in-force policies and associated overhead expenses. These expenses are derived from the Society's internal cost studies with future expenses adjusted for inflation.

(v) Policy termination:

Policy termination assumptions are based on the Society's experience adjusted for expected future conditions. The assumptions reflect differences in termination patterns for different types of contracts.

(c) Provision for adverse deviation:

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at the inception of a policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest rate risk. For other risks, which are not specifically addressed by the Canadian Institute of Actuaries, a range is defined as 5% to 20% of the expected experience assumption, taking into account the risk profiles of the business. The Society uses margin assumptions near the middle of the permissible ranges.

(d) Changes in policy liabilities:

Policy liabilities will experience a normal change each year reflecting premiums received, investment income, benefit payments and expenses. Policy liabilities may also change due to changes in the methods or assumptions from which they are calculated. The Society's recent mortality, investment income, expenses, taxes and policy termination rates were reviewed and used to update the assumptions for future experience. In addition, refinements were implemented to the calculation of policy liabilities for certain benefits.

(In thousands of dollars)

9. Policy liabilities and reinsurance assets (continued):

(d) Changes in policy liabilities (continued)

As a result of these activities, gross policy liabilities changed as follows:

	2019	2018
Policy liabilities, beginning of year	$ 239,908	$ 242,473
Normal changes due to operations	8,093	3,630
Increase due to business assumed (note 24)	-	6,822
Changes in policy liability assumptions	5,946	(13,017)
Change in policy liabilities	14,039	(2,565)
Policy liabilities, end of year	$ 253,947	$ 239,908

The changes in assumptions and their impact on policy liabilities were:

	2019	2018
Refinements in calculations	$ (208)	$ 583
Mortality	(3,371)	1,497
Interest rates/dividends	5,979	(13,458)
Expenses/taxes	(764)	(1,623)
Lapse	4,310	(16)
	$ 5,946	$ (13,017)

(In thousands of dollars)

9. Policy liabilities and reinsurance assets (continued):

(e) Assets supporting liabilities (continued):

The Society manages assets, liabilities and surplus within major categories, depending on the investment objectives that are appropriate for each category. The distribution of net assets within each category is as follows:

2019	Insurance	Annuities	Corporate	Surplus	Total
Cash and cash equivalents	$ 2,318	$ 3,079	$ 132	$ 1,594	$ 7,123
Accrued investment income	1,283	-	-	405	1,688
Bonds and debentures	126,404	9,424	5,793	5,499	147,120
Stocks and other equity funds	29,210	8,301	6,291	15,093	58,895
Mortgage loans on real estate and pooled funds	24,094	38,923	-	347	63,364
Reinsurance recoverable	2,326	427	-	-	2,753
Policy loans	9,425	55	-	-	9,480
Segregated fund assets	-	69,056	-	-	69,056
Investment property and pooled funds	19,932	-	-	4,419	24,351
Property and equipment	-	-	-	10,334	10,334
Other	-	-	-	2,172	2,172
Total assets	$ 214,992	$ 129,265	$ 12,216	$ 39,863	$ 396,336

2018	Insurance	Annuities	Corporate	Surplus	Total
Cash and cash equivalents	$ 4,323	$ 1,535	$ 398	$ 1,057	$ 7,313
Accrued investment income	1,438	-	-	392	1,830
Bonds and debentures	127,978	12,630	5,932	3,483	150,023
Stocks and other equity funds	20,046	7,609	6,682	13,939	48,276
Mortgage loans on real estate and pooled funds	22,749	36,200	-	3,148	62,097
Reinsurance recoverable	1,568	564	-	-	2,132
Policy loans	9,871	44	-	-	9,915
Segregated fund assets	-	73,276	-	-	73,276
Investment property and pooled funds	16,263	-	-	4,517	20,780
Property and equipment	-	-	-	11,254	11,254
Other	-	-	-	2,110	2,110
Total assets	$ 204,236	$ 131,858	$ 13,012	$ 39,900	$ 389,006

(In thousands of dollars)

9. Policy liabilities and reinsurance assets (continued):

(f) Fair values:

Assets are chosen for their amount and cash flow characteristics to match policy liability cash flows. Changes in the fair values of assets supporting liabilities will be mostly offset by changes in the fair values of those liabilities. Changes in the fair values of assets backing surplus, less related income taxes, result in a corresponding change in surplus when realized.

2019	Assets supporting liabilities		Total assets	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 5,529	$ 5,529	$ 7,123	$ 7,123
Accrued investment income	1,283	1,283	1,688	1,688
Bonds and debentures	141,564	141,564	147,120	147,120
Stocks and other equity funds	43,857	43,857	58,895	58,895
Mortgage loans on real estate and pooled funds	63,017	63,057	63,364	63,404
Reinsurance recoverable	2,753	2,753	2,753	2,753
Policy loans	9,480	9,480	9,480	9,480
Segregated fund assets	69,056	69,056	69,056	69,056
Investment property and pooled funds	19,933	19,933	24,351	24,351
Property and equipment	-	-	10,334	10,334
Other	-	-	2,172	2,172
Total assets	$ 356,472	$ 356,512	$ 396,336	$ 396,376

(In thousands of dollars)

9. Policy liabilities and reinsurance assets (continued):

(f) Fair values (continued):

2018	Assets supporting liabilities		Total assets	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 6,256	$ 6,256	$ 7,313	$ 7,313
Accrued investment income	1,438	1,438	1,830	1,830
Bonds and debentures	146,540	146,540	150,023	150,023
Stocks and other equity funds	34,337	34,337	48,276	48,276
Mortgage loans on real estate and pooled funds	58,949	58,512	62,097	61,637
Reinsurance recoverable	2,132	2,132	2,132	2,132
Policy loans	9,915	9,915	9,915	9,915
Segregated fund assets	73,276	73,276	73,276	73,276
Investment property and pooled funds	16,263	16,263	20,780	20,780
Property and equipment	-	-	11,254	11,254
Other	-	-	2,110	2,110
Total assets	$ 349,106	$ 348,669	$ 389,006	$ 388,546

10. Registered pension plan and other benefit plans:

Included in other liabilities is the accrued benefit liability attributable to the Society's defined benefit pension plan, supplemental retirement arrangement ("SRA") and post-employment health, dental and life benefits. Details of the plan are as follows:

(a) Pension plan:

(i) Plan provisions:

FaithLife Financial maintains a Pension Plan which has a defined benefit and a defined contribution component.

Retirement benefits under the defined benefit component are based on the length of pensionable service and on the average of 60 consecutive months' earnings that gives the highest average. The Pension Plan allowed voluntary contributions effective January 1, 1991 to December 31, 2018. Members contribute up to 4% of the portion of salary above the Year's Maximum Pensionable Earnings (YMPE) into the employee's Money Purchase Account, with 75 percent of the employee contributions being matched by the employer and accumulated in the employer's Money Purchase Account. For an employee who was a member as of December 31, 1990, the pension for post 1990 service is subject to a minimum pension amount based on the past service pension formula and the level of accumulated voluntary contributions.

10. Registered pension plan and other benefit plans (continued):

(a) Pension plan (continued):

(i) Plan provisions (continued):

Retirement benefits under the defined contribution component are calculated from the contributions to the plan based on a percentage of each employee's pensionable earnings, voluntary contributions by employees and the investment income earned on those contributions. The assets of the plan are held separately from those of the Society in funds under control of the trustees.

(ii) Regulatory framework:

The Pension Plan is registered under the *Pension Benefits Act* of Ontario and with the *Canada Revenue Agency*.

Under the *Pension Benefits Act* of Ontario, the employer is required to make contributions to fully finance the defined benefit plan over a period of time, in order to constitute the benefits as defined by the plan provisions. The value of these benefits is determined in actuarial valuations at least once every three years or on an annual basis if the market value of assets does not exceed 85% of the liability on the solvency basis.

According to the most recent actuarial valuation for funding purposes as at January 1, 2019, the plan has a surplus on a going-concern basis and has a solvency ratio greater than 85%. Thus, the employer is not required to contribute any amortization payments related to the going concern or solvency positions of the plan.

The employer will continue to contribute $75,000 to the plan each year to fund expected expenses related to the operation of the plan.

The *Income Tax Act* restricts employer contributions to the defined benefit plan if the assets exceed 125% of the liabilities on the going-concern basis. Any surplus in excess of 25% of the liabilities must be used by the employer to take a contribution holiday or may be used to grant benefit improvements, unless the plan is in a deficit position on a solvency basis. If there is a solvency deficit, contributions must be made so as not to impair the position of the plan.

According to the plan provisions, the employer may use surplus to take a contribution holiday or to satisfy employer service cost requirements under the Pension Plan.

10. Registered pension plan and other benefit plans (continued):

(a) Pension plan (continued):

(iii) Plan governance:

In accordance with the *Pension Benefits Act* of Ontario and the *Income Tax Act*, FaithLife Financial is the administrator of the plan and is ultimately responsible for all aspects of the plan, including administration, financial management, oversight and compliance with legislative requirements and plan documents. Some of the duties for which the administrator is responsible have been delegated, where appropriate, to a pension committee or third-party advisors. The administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities with respect to the plan.

(iii) Funding arrangement and funding policy:

FaithLife Financial has adopted a funding practice to make the minimum required contributions as required by law or such greater amount as the Employer may deem appropriate.

(b) Supplemental retirement arrangement:

FaithLife Financial maintains a SRA for certain Designated Executive Employees and retirees of FaithLife Financial under various agreements signed with each member. The SRA provides pension benefits that top up the defined benefit pension under the FaithLife Financial Pension Plan.

The SRA is not registered with any of the provincial or federal pension benefits acts. The benefits in this arrangement are not pre-funded. Future payments for current retirees are secured by Letters of Credit established by the Employer.

(c) Post-retirement plan:

FaithLife Financial maintains a post-retirement benefits plan which provides post-retirement benefits coverage (health, dental and life insurance) on a covered employee’s retirement. The Benefits Plan has been closed to new hires. All employees who retired prior to March 31, 2015 are eligible for post-retirement benefits. The Benefits Plan is not registered under any of the provincial or federal pension benefits acts. The benefits in this arrangement are not pre-funded.

(In thousands of dollars)

10. Registered pension plan and other benefit plans (continued):

(d) Defined benefit plan risks:

Risks associated with this plan are similar to those of typical defined benefit plans, including market risk, interest rate risk, liquidity risk, credit risk, currency risk, longevity risk, etc. There are no significant risks associated with this plan that could be deemed unusual or require special disclosure.

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. The duration of the defined benefit obligation as at December 31, 2019 is 14.1 years for the pension plan and 10.6 years for the supplemental and post-retirement plans (collectively, the other benefit plans).

The fair value of plan assets for the Society's pension plan is as follows:

	2019		2018	
	Amount	Percent	Amount	Percent
Fixed income funds	$ 2,246	29.2%	$ 3,168	38.5%
Mortgage funds	1,013	13.2%	859	10.4%
Real Estate funds	748	9.7%	635	7.7%
Equity funds	3,692	47.9%	3,578	43.4%
	$7,699	100%	$ 8,240	100%

Information about the Society's registered pension plan and other benefit plans is as follows:

	Registered pension plan 2019	Registered pension plan 2018	Other benefit plans 2019	Other benefit plans 2018
Defined benefit obligation	$ 9,432	$ 9,866	$ 6,925	$ 6,765
Fair value of plan assets	7,699	8,240	-	-
Funded status - plan deficit	$ 1,733	$ 1,626	$ 6,925	$ 6,765
Accrued benefit liability	$ 1,733	$ 1,626	$ 6,925	$ 6,765

In the past, the Society has periodically provided increases in registered pension benefits paid to retirees, commonly referred to as "indexing," to reflect inflation levels. Such indexing increases are discretionary. They are not contractual or obligatory, either in amount or frequency. The accrued benefit obligation for the registered pension plan has been calculated assuming no future indexing.

(In thousands of dollars)

10. Registered pension plan and other benefit plans (continued):

The supplemental pension obligation to retired and current executives is an integral part of the compensation plan for these individuals. Payments to retired executives are contractual. Future payments to current executives are contingent on their meeting certain service and vesting requirements.

The current and potential future obligation is unfunded. In connection with this arrangement, the Society has acquired a Letter of Credit from a financial institution to secure the future required payments to current retirees. The Letter of Credit has a face value of $3,310 (2018 - $3,500) and is secured by investment grade provincial bonds.

Accrued benefit liabilities are included in other liabilities on the statement of financial position. Of the accrued liability of $6,925 (2018 - $6,765) for other benefit plans, $1,982 (2018 - $2,175) is for post-retirement health benefits, and $4,943 (2018 - $4,590) is for current and potential future supplemental pension obligations to retired and current executives.

The significant actuarial assumptions adopted in measuring the Society's accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	Registered pension plan		Other benefit plans	
	2019	2018	2019	2018
Measurement date	December 31		December 31	
Effective date of last actuarial valuation	January 1, 2018		January 1, 2018	
Date of next required actuarial valuation for funding purposes	January 1, 2021		January 1, 2021	
Discount rate, beginning of year	3.75%	3.50%	3.75%	3.50%
Discount rate, end of year	3.00%	3.75%	3.00%	3.75%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Annual inflation indexing factor	0.00%	0.00%	-	–
Health care trend rate assumed				6.0% gradually reducing to 4.50% in 2029 and thereafter
Dental care trend rate assumed	-	-	3.50%	4.0%

Sensitivity analysis:

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

(In thousands of dollars)

10. Registered pension plan and other benefit plans (continued):

Pension Plan:

Discount rate: 2.75% (instead of 3.00%)	$ 312
Discount rate: 3.25% (instead of 3.00%)	(295)
Salary/YMPE Growth: 2.75%/2.25% (instead of 3.00%/2.50%)	(71)
Salary/YMPE Growth: 3.25%/2.75% (instead of 3.00%/2.50%)	73

Post-Retirement Plan:

	1% Increase	1% Decrease
Effect of change in trend rate on health care		
Current service and interest cost impact - for 2019	$ 5	$ (4)
Defined benefit obligation impact - December 31, 2019	177	(151)
Effect of change in trend rate on dental care		
Current service and interest cost impact - for 2019	1	(2)
Defined benefit obligation impact - December 31, 2019	46	(40)

Other information about the Society's benefit plans is as follows:

	Registered pension plan 2019	Registered pension plan 2018	Other benefit plans 2019	Other benefit plans 2018
Accrued benefit obligation, beginning of year	$ 9,866	$ 10,422	$ 6,765	$ 7,052
Current service cost, inclusive of employee contributions	-	-	43	44
Interest cost	301	357	248	242
Benefits paid	(838)	(460)	(397)	(392)
Benefit obligations extinguished on settlement	(968)	-	-	-
Actuarial loss (gain)	1,071	(453)	266	(181)
Accrued benefit obligation, end of year	$ 9,432	$ 9,866	$ 6,925	$ 6,765
Fair value of plan assets, beginning of year	$ 8,240	$ 8,508	$ -	$ -
Expected return on plan assets	282	297	-	-
Employer contributions	166	430	397	392
Benefits paid	(838)	(460)	(397)	(392)
Benefits distributed on settlement	(766)	-	-	-
Actuarial gain (loss)	674	(457)	-	-
Administration cost	(59)	(78)	-	-
Fair value of plan assets, end of year	$ 7,699	$ 8,240	$ -	$ -

(In thousands of dollars)

10. Registered pension plan and other benefit plans (continued):

		Registered pension plan				Other benefit plans		
		2019		2018		2019		2018
Current service cost	$	-	$	-	$	43	$	44
Administration cost		59		78		-	-	-
Interest cost		301		357		248		242
Expected return on plan assets		(282)		(297)		-		-
Net benefit plan expense	$	78	$	138	$	291	$	286

Of the net benefit plan expense of $291 (2018 - $286) for other benefit plans, expense of $80 (2018 - $78) is for post-retirement health, dental and life benefits and $211 (2018 - $208) is for current and potential supplemental pension obligations to retired and current executives.

The cost recognized for the Society’s defined contribution plan is $335 (2018 - $345). These amounts are not included in the cost recognized for the defined benefit plan above.

11. Subordinated debt:

Subordinated debt consists of the following:

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Subordinated loan, due December 15, 2023, unsecured	$ 3,166	$ 2,859	$ 4,351	$ 4,119

During the fourth quarter of 2008, the Society issued USD $4,000 in subordinated debt. The subordinated debt is redeemable by the Society at the principal amount plus any accrued and unpaid interest at any time. As at December 31, 2019, the Society has redeemed and repaid USD $1,562 (2018 – USD $800) of the subordinated loan. The carrying value has been converted to Canadian currency at the prevailing exchange rate as of the statement of financial position date.

The subordinated debt bore an annual interest rate of 6.75% until December 24, 2013. After December 24, 2013 and for the remainder of the term, it bears interest at the rate of 7.75%. The fair value of the subordinated debt is estimated based on the present value of future cash flows discounted at current market rates of interest for debt of similar term and quality.

(In thousands of dollars)

12. Surplus and capital management:

The Society monitors the amount of its capital available. The amount of capital deployed is dependent upon regulatory requirements as well as the Society's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans. The Society's practice is to maintain capital at a level that will exceed the relevant minimum regulatory capital requirements and the Society's internal target capital levels.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT). LICAT replaced the Minimum Continuing Capital and Surplus Requirments effective January 1, 2019. LICAT establishes the standards used by OSFI to assess whether a life insurer maintains adequate capital or an adequate margin to support risks specific to the life insurance business.

OSFI has established supervisory target levels of 100% for total ratio and 70% for core ratio.

The prime purposes of the ORSA report are to identify and assess the Society's material risks, as well as to determine an adequate amount of capital and its internal capital targets, so as to ensure the appropriateness of its risk management and of its current and likely future capital needs and solvency positions.

The following table provides the capital and LICAT information and ratios for the Society:

	2019	2018
Tier 1 Capital	$ 29,268	$ 21,209
Tier 2 Capital	7,885	16,086
Available Capital	$ 37,153	$ 37,295
Surplus Allowance	$ 24,772	$ 22,572
Base solvency buffer	$ 42,152	$ 39,366
LICAT ratios:		
Core ratio	111%	94%
Total ratio	147%	152%

The Society has also established policies and procedures designed to identify, measure and report all material risks, as detailed in its ORSA report. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves the capital policy of the Society.

12. Surplus and capital management (continued):

The Society's capital base is structured to exceed regulatory and internal capital targets while maintaining a capital efficient structure and desired capital ratios. Capital is managed on a basis under principles that consider all the risks associated with the business. The Society's capital base includes surplus and the subordinated debt referenced in note 11.

Appropriated surplus represents a discretionary amount appropriated by the Board of Directors to provide for possible future fraternal benefits and activities.

The Society's capital adequacy is monitored through the Report on Dynamic Capital Adequacy Testing (DCAT). The purpose of the DCAT report is to bring the attention of the Board of Directors to plausible threats to the Society's solvency and to actions which can be taken to lessen the likelihood of those threats or to offset the effects if a threat were to materialize. The report is prepared and reported to the Board of Directors annually.

13. Financial risk management:

The primary goals of the Society's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Society's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Society's statement of financial position from events that have 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 Society has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk, market risk, insurance risk and operational risk. The following sections describe how the Society manages each of these risks:

(a) Credit risk:

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The Society is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area within Canada, as well as industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.

(In thousands of dollars)

13. Financial risk management (continued):

(a) Credit risk (continued):

- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Board of Directors and the Investment Management Committee of the Society.
- Significant restrictions have been placed around the use of derivative instruments. Such instruments may be used only for hedging purposes, not for speculation, and counterparty credit risk must be mitigated by the use of exchange-traded instruments only.

The Society 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 assessment of creditworthiness of reinsurers.

(i) Maximum exposure to credit risk:

The following table summarizes the Society's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses:

	2019	2018
Cash and cash equivalents	$ 7,123	$ 7,313
Accrued investment income	1,688	1,830
Insurance and other receivables	914	1,123
Bonds and debentures	147,120	150,023
Mortgage loan pooled fund	19,598	14,940
Mortgage loans on real estate	43,766	47,157
	$ 220,209	$ 222,386

Credit risk is also mitigated by requiring collateral in certain circumstances. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

(In thousands of dollars)

13. Financial risk management (continued):

(a) Credit risk (continued):

(i) Maximum exposure to credit risk:

Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(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.

The following table provides details of the carrying value of bonds by industry:

	2019	2018
Canadian bonds issued or guaranteed by:		
Canadian federal government	$ 3,270	$ 3,016
Canadian provincial and municipal governments	77,662	80,405
Corporate bonds by sector:		
Infrastructure/Utilities	30,472	29,410
Energy	15,011	14,279
Financial services	9,388	12,232
Industrials	5,159	4,851
Real estate	4,793	4,537
Telecommunications	1,365	1,293
	$ 147,120	$ 150,023

Terms to maturities of bonds:

	2019	2018
Due in 1 year or less	$ 3,986	$ 2,007
Due in 1 to 5 years	11,929	18,040
Due in 5 to 10 years	25,319	12,254
Due after 10 years	105,886	117,722
	$ 147,120	$ 150,023

(In thousands of dollars)

13. Financial risk management (continued):

(a) Credit risk (continued):

(iii) Asset quality:

The table below summarized the credit exposure of the Society from its investments in fixed income securities by rating:

	2019	2018
AAA	$ 15,230	$ 16,543
AA	40,400	38,623
A	74,606	72,386
BBB	16,884	22,471
	$ 147,120	$ 150,023

The assets analyzed above are based on external credit ratings obtained from various reputable external rating agencies including; Dominion Bond Rating Service ("DBRS"), Moody's, Standard & Poor's ("S&P") and Fitch. The rating scales are based on long-term investment horizons under the following broad investment grade definitions:

AAA The financial instrument is judged to be of the highest quality, with minimal credit risk and indicates the best quality issuers that are reliable and stable.

AA The financial instrument is judged to be of high quality and is subject to very low credit risk and indicates quality issuers.

A The financial instrument is considered upper-medium grade and is subject to low credit risk although certain economic situations can more readily affect the issuers' financial soundness adversely than those rated AAA or AA.

BBB The financial instrument is subject to moderate credit risk and indicates medium class issuers, which are currently satisfactory. BBB is the lowest grade rating considered to be of investment quality.

(iv) Reinsurance

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that a gross claim is paid. However, the Society remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Society is exposed to credit risk arising from the creditworthiness of reinsurers as counterparties.

13. Financial risk management (continued):

(a) Credit risk (continued):

(iv) Reinsurance (continued):

The Society monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Society has policies in place which establishes the guidelines for the minimum credit criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria.

When selecting a reinsurer the Society considers its credit profile. This is assessed from public rating information and from internal investigations. The reinsurance receivable balance outstanding is with AA and A rated reinsurers.

(v) Impairments:

The Society provides for credit risk by establishing allowances against the carrying value of impaired loans and recognizing other than temporary impairments on AFS securities. In addition, the Society provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities. Asset impairments of $53 (2018 - $470) were recognized as at December 31, 2019.

(b) Liquidity risk:

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The Society closely manages operating liquidity by limiting cash flow mismatching of assets and liabilities. Management monitors the use of a line of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.

The Society maintains a $2.5 million operating bank line of credit to support operational funding requirements. The Company has no outstanding balance owing on the line of credit as at December 31, 2019 (2018 - $nil).

In the normal course of business the Society enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Society’s financial liabilities.

(In thousands of dollars)

13. Financial risk management (continued):

(b) Liquidity risk (continued):

2019	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	No fixed maturity
Amounts on deposit	$ -	$ -	$ -	$ -	$ 12,872
Subordinated debt	-	-	3,166	-	-
Expenses due and accrued	4,184	-	-	-	-
	$ 4,184	$ -	$ 3,166	$ -	$ 12,872

2018	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	No fixed maturity
Amounts on deposit	$ -	$ -	$ -	$ -	$ 13,434
Subordinated debt	-	-	4,351	-	-
Expenses due and accrued	4,051	-	-	-	-
	$ 4,051	$ -	$ 4,351	$ -	$ 13,434

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

(i) Currency risk:

Currency risk relates to the Society operating in different currencies and converting non-Canadian dollar earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. If foreign currency assets are acquired to back liabilities, they may be converted back to the currency of the liability using foreign exchange contracts.

As at December 31, 2019, the Society's only significant currency exposure was related to the US dollar-denominated subordinated debt of USD $2,438 (2018 – USD $3,189) and US dollar-denominated units in a private equity pooled fund of USD $2,162 (2018 – USD $1,886). An increase or decrease in foreign currency rates would have no effect on actuarial liabilities.

13. Financial risk management (continued):

(c) Market risk (continued):

(ii) Interest rate risk:

The Society's exposure to changes in interest rates is concentrated in the investment portfolio, and to a lesser extent its debt obligations.

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. The Society utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment. Cash flows for assets and liabilities in total are also reviewed for interest rate risk.

Interest rate risk is managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.

For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or common, preferred and pooled public equities as described below.

The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from assets and liabilities are used to determine actuarial liabilities. 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.

See note 14(d) for interest rate sensitivity analysis.

(In thousands of dollars)

13. Financial risk management (continued):

(c) Market risk (continued):

(iii) Equity risk:

Equity risk is the uncertainty associated with the value of assets arising from changes in equity markets. To mitigate equity risk, the Society has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Some policy liabilities are supported by equities. Liabilities which are equity index-linked will fluctuate in line with equity market values. There could be additional impacts on other policy liabilities as equity market values fluctuate. A 10% increase or decrease in equity markets would be expected to impact actuarial liabilities by an immaterial amount.

Equities designated as AFS generally do not support actuarial liabilities. Changes in fair value of AFS equities are recorded to other comprehensive income. For the Society's AFS equities, an immediate 10% increase in stock prices at December 31, 2019, would result in an estimated after-tax increase in other comprehensive income of $1,977 (2018 - $1,784). Conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in other comprehensive income of $1,977 (2018 - $1,784).

(iv) Concentration risk:

The Society establishes enterprise-wide investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Market risk concentrations of the Society's investments at December 31 are as follows:

	2019	2018
Bonds rated at investment grade BBB or higher	100.0%	100.0%
Bonds rated at A or higher	88.5%	85.0%
Government bonds as a percent of total bonds	55.0%	55.6%
Highest exposure to a single non-government bond issuer	$ 5,498	$ 4,531
Largest single issuer as a percent of total stock portfolio	6.4%	8.1%
Publicly listed corporations as a percent of total stock portfolio	100.0%	100%

13. Financial risk management (continued):

(c) Market risk (continued):

(v) Segregated funds market value risk:

Segregated funds provide an insurance guarantee that a member's investment will not fall below a minimum value at a specified maturity date or upon the member's death. The actuarial liabilities for segregated funds will generally fluctuate in a direction opposite that of financial market value changes, as the costs of the guarantees become higher when market values decrease and are lower when these values increase.

Since the segregated funds offer bond and stock investment options, this business is subject to both interest rate risk and to equity risk. These risk exposures are quantified and reviewed regularly.

An immediate 10% increase or decrease in the market value of the segregated fund unit values at December 31, 2019 would impact actuarial liabilities by an immaterial amount.

(d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Society's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and general accepted standards and corporate behaviour. Operational risks arise from all the Society's operations.

The Society's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Society's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility supported by the development of overall Society standards for the management of operational risk are as follows:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Regular review and assessment of the design effectiveness and operating effectiveness of internal controls under the Society's internal controls framework

13. Financial risk management (continued):

(d) Operational risk (continued):

- Compliance with regulatory and legal requirements
- Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including reinsurance where this is effective.

14. Insurance risk:

The Society assumes insurance risk by issuing insurance contracts, under which the Society agrees to compensate the policyholder or other beneficiary, if a specified future event (the insured event) affecting the policyholder occurs. Insurance claims risk includes mortality, longevity and morbidity risk.

For accounting purposes, insurance risk is defined as risk other than financial risk. Contracts issued by the Society may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The Society's approach to financial risk management has been described in note 13.

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 insurance 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 insurance claims are based on Society and industry experience; assumptions for policyholder behaviour are based on Society experience and predictive models; assumptions for expenses and sales levels are based on Society experience. Such assumptions require a significant amount of professional judgment; however, actual experience may be materially different than the assumptions made by the Society.

14. Insurance risk (continued):

(a) Risk management objectives and policies for mitigating insurance risk:

The Society manages its insurance risks through the following mechanisms:

- The diversification of business over several classes of insurance and large numbers of uncorrelated individual risks, by which the Society seeks to reduce variability in claims experience.
- The maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed.
- Actuarial models, which use the above information to calculate premiums and monitor claims patterns.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored.

(b) Terms and conditions of insurance contracts:

The terms and conditions attached to insurance contracts determine the level of insurance risk accepted by the Society. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred.

The extent of the Society’s discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder.

In addition to the specified risks identified above, the Society is subject to the risk that policyholders discontinue the insurance policy through lapse or surrender.

(b) Management of insurance risks:

The table below summarizes the variety of insurance risks to which the Society is exposed, and the methods by which it seeks to mitigate these risks.

14. Insurance risk (continued):

(c) Management of insurance risks:

Risks	Definition	Risk Management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti-selection, resulting in a loss.	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
Mortality	Higher mortality rates than those charged for in life insurance premiums, resulting in a loss.	Experience is closely monitored. For dividend paying policies, dividends can be modified if experience is different than assumed. For non-dividend paying policies, the mortality risk is largely reinsured.
Morbidity	Higher rates of claim incidence and/or lower rates of recovery, resulting in a loss.	Experience is closely monitored. The morbidity risk is shared with reinsurers.
Investment returns	Lower yield curves and higher volatilities cause investment guarantee reserves to increase.	Experience is closely monitored. For dividend paying policies, dividends can be modified if experience is different than assumed. Asset liability management is employed to match returns and duration of investments with those assumed in the pricing of the insurance product.
Longevity	Possible increase in annuity costs due to policyholders living longer.	The pricing for long-term annuities uses a relatively conservative mortality assumption.
Policyholder behaviour	Selection of more expensive options, or lapse and re-entry when premium rates are decreasing.	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Catastrophe	Natural and non-natural disasters could result in increased mortality risk and payouts on policies.	The Society has limited exposure to natural disasters, as its risks are spread out geographically and are uncorrelated.

(In thousands of dollars)

14. Insurance risk (continued):

(c) Management of insurance risks (continued):

Many of the above risks are concentrated by line of business (for example, longevity risk is primarily attached to annuities). The Society, through diversification in the types of business it writes, attempts to mitigate this concentration of risk.

(d) Sensitivity analysis:

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with corresponding decreases or increases to profit.

The increase or decrease to insurance contract liabilities, and hence the impact on profit or loss and surplus, recorded as of December 31, 2019 has been estimated as follows:

Assumption	Percentage change in assumption	Change in net liabilities	Change in pre-tax income
Mortality and morbidity rates	+10%	$ 3,785	$ (3,785)
Mortality rates - annuities	-10%	133	(133)
Lapse rates - lapse-supported	-10%	1,646	(1,646)
Lapse rates - non lapse-supported	+10%	1,818	(1,818)
Expenses	+10%	2,001	(2,001)
Discount rate	-10%	11,782	(5,645)

The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders. Appropriate dividend changes, according to established dividend policy provisions, have been incorporated into the changes for the mortality, expense and discount rate assumptions.

The change in liabilities for the valuation discount rate sensitivity reflects a change in the assumed discount rates without any corresponding change in earned investment income or in the expense inflation rate. It should be noted that where the assets and liabilities of a product are closely matched, the net effect has been shown in pre-tax income since the asset values and liability values move in parallel.

14. Insurance risk (continued):

(e) Insurance risk and policies for mitigating insurance risk:

The primary activity of the Society relates to the assumption of the risk of loss from events involving persons or organizations. Such risks may relate to life insurance and health benefits. As such, the Society is exposed to the uncertainty surrounding the timing, frequency and severity of claims under insurance contracts.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and/or severity of claims is greater than expected during the measurement period and that the Society does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Society manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralized management of reinsurance and monitoring of emerging issues. These actions are described below:

(i) Underwriting strategy:

The Society underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Society is prepared to accept exposure.

This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set the limits for underwriters by line and size in order to enforce appropriate risk selection within the portfolio. The single largest gross risk (based on estimated maximum loss) to which any one underwriter can commit the Society is $1,500 for life insurance.

On a monthly basis, the underwriting results are monitored against pre-determined budgets. In the event that it does not deliver underwriting results within accepted parameters, corrective measures are implemented, including the possible cancellation of products or distribution arrangements going forward.

14. Insurance risk (continued):

(e) Insurance risk and policies for mitigating insurance risk (continued):

(ii) Reinsurance strategy:

The Society reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Society buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Society on any one risk to a maximum of $375 for life insurance, $137 for critical illness insurance and $6 per annum for disability insurance.

Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the Society remains liable to the beneficiaries on these policies. From September 1, 1987 to September 30, 1992, the Society reinsured the mortality and investment risk on certain single premium immediate annuity business. This arrangement is now closed for new business, although the business reinsured continues to be in effect.

Reinsurance premiums paid during the year amounted to $2,605 (2018 - $2,460).

The Society monitors the financial condition of its reinsurers to minimize its exposure to credit risk and has not incurred any such loss during the year, or in prior years, as a result of reinsurance transactions.

(iii) Concentrations of insurance risk and policies mitigating concentrations:

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Society's resources.

The Society has exposure to life and health lines of insurance business with very limited exposure to specialised areas of insurance. The Society's reinsurance policy limits the losses in any one class of business.

(iv) Exposure relating to catastrophe events:

The Society sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Society uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of the Society.

(In thousands of dollars)

14. Insurance risk (continued):

(e) Insurance risk and policies for mitigating insurance risk (continued):

(iv) Exposure relating to catastrophe events (continued):

The Society considers that its most significant exposure would arise in the event of a pandemic. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Society's policies for mitigating catastrophe risk exposure include the use of both proportional and non-proportional reinsurance. In the event of a major catastrophe, such as a pandemic, the net retained loss is expected to represent less than $7,940 (2018 - $8,050).

(v) Other risks and policies mitigating these risks:

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Fraud detection measures and procedures are also in place to manage the Society's ability to proactively detect fraudulent claims.

15. Investment income:

An analysis of the sources of investment income is as follows:

2019	FVTPL	AFS	Other	Total
Cash and cash equivalents	$ -	$ -	$ 73	$ 73
Bonds and debentures	5,481	491	-	5,972
Stocks	-	1,522	-	1,522
Equity pooled funds	-	410	-	410
Real estate pooled funds	-	853	-	853
Mortgage loans on real estate and mortgage pooled funds	-	-	2,944	2,944
Policy loans	-	-	567	567
Investment property	-	-	914	914
Sundry investment income	-	-	(46)	(46)
Changes in fair value of FVTPL securities	15,404	-	-	15,404
Realized losses on AFS securities	-	(116)	-	(116)
Net investment income	$ 20,885	$ 3,160	$ 4,452	$ 28,497
Investment expenses, including real estate operating costs				(732)
Net investment income and expenses				$ 27,765

(In thousands of dollars)

15. Investment income (continued)

2018	FVTPL	AFS	Other	Total
Cash and cash equivalents	$ -	$ -	$ 71	$ 71
Bonds and debentures	5,994	521	-	6,515
Stocks	-	1,428	-	1,428
Equity pooled funds	-	614	-	614
Real estate pooled funds	-	657	-	657
Mortgage loans on real estate and mortgage pooled funds	-	-	3,183	3,183
Policy loans	-	-	585	585
Investment property	-	-	927	927
Sundry investment income	-	(470)	73	(397)
Changes in fair value of FVTPL securities	(7,188)	-	-	(7,188)
Realized gains on AFS securities	-	189	-	189
Net investment income	$ (1,194)	$ 2,939	$ 4,839	$ 6,584
Investment expenses, including real estate operating costs				(743)
Net investment income and expenses				$ 5,841

16. Lines of business:

The Society operates in Canada only, and has three main lines of business: life and health insurance, annuities and investment products, and corporate operations. Line of business information is as follows:

2019	Life and health insurance productions	Annuity and investment products	Corporate operations	Total
Policy revenue	$ 17,483	$ 8,577	$ -	$ 26,060
Net investment income	23,749	2,492	2,256	28,497
Other income	1,707	(113)	320	1,914
Total revenue	42,939	10,956	2,576	56,471
Policy claims and benefits	11,271	8,696	-	19,967
Change in policy liabilities	12,905	513	-	13,418
Interest on amounts on deposit	308	12	-	320
Interest expense	-	-	258	258
Commissions	3,052	218	-	3,270
Members' dividends	3,052	-	-	3,052
Total expenditures	30,588	9,439	258	40,285
Segment income	$ 12,341	$ 1,517	$ 2,328	$ 16,186
General operating expense and fraternal benefits				16,687
Corporate taxes				186
Net income				$ (687)

(In thousands of dollars)

16. Lines of business (continued):

2018	Life and health insurance productions	Annuity and investment products	Corporate operations	Total
Policy revenue	$ 17,130	$ 7,588	$ -	$ 24,718
Net investment income	1,968	1,808	2,808	6,584
Other income	1,706	(126)	(190)	1,390
Total revenue	20,804	9,270	2,618	32,692
Policy claims and benefits	9,938	9,768	-	19,706
Change in policy liabilities	(9,369)	(3,116)	-	(12,485)
Interest on amounts on deposit	319	14	-	333
Interest expense	-	-	327	327
Commissions	2,158	994	-	3,152
Members' dividends	3,371	(2)	-	3,369
Total expenditures	6,417	7,658	327	14,402
Segment income	$ 14,387	$ 1,612	$ 2,291	$ 18,290
General operating expense and fraternal benefits				16,415
Corporate taxes				139
Net income				$ 1,736

17. Corporate taxes:

Corporate tax expense is composed of the following:

	2019	2018
Current tax expense:		
Current period	$	$ 133
Adjustments for prior periods		5
		139
Deferred tax expense:		
Origination and reversal of temporary differences		(865)
Change in unrecognized deductible temporary differences		865
		-
Total corporate tax expense	$	$ 139

No corporate tax expense have been recognized directly in accumulated other comprehensive income.

(In thousands of dollars)

17. Corporate taxes (continued):

Reconciliation of effective tax rate:

	2019	2018
Net income before tax	$ (501)	$ 1,875
Income tax using the Society's tax rate	(134)	502
Non-deductible expenses	-	7
Tax exempt revenues	(591)	(891)
Change in other deductible temporary differences	300	865
Change in tax rate	-	(1)
Under (over) provided in prior years	212	71
Gain on available-for-sale securities	186	(424)
Other differences	213	10
Total corporate tax expense	$ 186	$ 139

Unrecognized deferred tax assets:

The Society has deductions available to reduce possible income subject to income taxes in future years of $20,470 (2018 - $19,134) with additional Ontario tax credits of $1,069 (2018 - $973). These losses expire expire between 2027-2038. The following deferred tax assets have not been recognized in respect of these items because it is not yet considered probable that future taxable profit will be available against which the Society can utilize the benefits.

	2019	2018
Deductible temporary differences		$ (50)
Tax losses		6,311
Ontario tax credits		973
		$ 7,234

18. Outsourced policy administrative functions:

The Society outsources its policy administration services function on the Infosys McCamish system. The term of this agreement is to December 31, 2023. Under the terms of the current agreement, the charges for administrative services are variable, dependent on the volume of new business sold, and the volume of business in force. In 2019, the charges incurred for such services were $2,223 (2018 - $2,367).

(In thousands of dollars)

19. Personnel expenses and benefits:

	2019	2018
Salaries and wages	$ 5,763	$ 5,615
Compulsory benefit expenses	1,055	842
Pension and benefit plans expense	465	733
Decrease in liability for employee future benefit	(25)	(22)
	$ 7,258	$ 7,168

20. Contingencies:

In the normal course of business, the Society is involved in the ongoing settlement of certain policy benefits, the outcome of which is not presently determinable. Any liabilities that may arise from such settlements are provided for in the normal determination of the policy liabilities.

21. Related parties:

In addition to their salaries, the Society also provides health and other benefits to executive officers, and contributes to post-employment health and retirement benefit plans on their behalf.

Key management personnel is comprised of:

	2019	2018
Base salary and bonus	$ 1,514	$ 1,238
Health and other benefits	159	126
Retirement benefits	310	254
Total	$ 1,983	$ 1,618

Director fees for the year are $248 (2018 - $231).

22. Segregated Funds:

The Society sells a number of segregated funds products which it administers on behalf of members. Subject to limited guarantees provided by the Society, investors in these funds bear the full investment risk of, and receive all the benefits from, the assets of the funds.

(a) Financial assets for segregated funds:

Financial assets for segregated funds contracts are recorded at fair value with changes in fair value recorded in net income together with the offsetting changes in fair value of the corresponding financial liabilities for segregated funds contracts.

(In thousands of dollars)

22. Segregated Funds (continued):

(b) Financial liabilities for segregated funds:

The fair value of financial liabilities for segregated funds contracts is equal to the fair value of the financial assets for segregated funds contracts.

	2019	2018
Asia Pacific Equity Fund	$ 381	$ 370
Balanced Fund (Jarislowsky)	235	232
Balanced Fund (Laketon)	5,356	5,402
Balanced Fund (McLean Budden)	4,755	4,563
Balanced Fund (Scheer Rowlett)	316	297
Balanced Fund (TDQC)	229	214
Canadian Bond Fund (Indexed)	99	103
Canadian Bond Fund	4,317	4,916
Canadian Equity Fund (Core 2)	208	187
Canadian Equity Fund (Core)	971	927
Canadian Equity Fund (Growth 2)	150	155
Canadian Equity Fund (Growth)	4,955	5,007
Canadian Equity Fund (Indexed)	228	98
Canadian Equity Fund (Value)	1,930	1,902
Canadian Small Cap Equity Fund	1,882	2,215
Enhanced Dividend Fund	38,955	42,294
European Equity Fund	323	333
Global Bond Fund	350	407
Global Equity Fund 2	19	28
Global Equity Fund	1,989	1,995
International Equity Fund (Indexed)	50	54
Money Market Fund 2	33	128
Money Market Fund	1,290	1,421
US Equity Fund (Indexed)	35	28
	$ 69,056	$ 73,276

Fund assets are represented by investments in the above funds managed by third party investment managers.

(In thousands of dollars)

22. Segregated Funds (continued):

(b) Financial liabilities for segregated funds:

Changes in financial liabilities for segregated funds contracts for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Segregated funds assets, beginning of year	$ 73,276	$ 95,791
Additions (deductions):		
Members' deposits	1,997	2,724
Net investment income gains (losses) on investments	10,246	(6,165)
Management and administrative fees	(2,076)	(2,452)
Members' withdrawals	(14,387)	(16,622)
	(4,220)	(22,515)
Segregated funds assets, end of year	$ 69,056	$ 73,276

23. Financial assets and liabilities:

The following table presents financial assets and liabilities that the Society expects to recover or settle in 12 months or greater at December 31, 2019 and December 31, 2018.

	2019	2018
Bonds and debentures	$ 143,134	$ 148,016
Stocks	24,821	19,383
Equity pooled funds	32,779	27,568
Mutual funds	1,283	1,186
Mortgage loans on real estate	30,886	38,947
Mortgage loan polled funds	19,598	14,940
Real estate pooled funds	19,932	16,263
Reinsurance recoverable	2,753	2,132
Policy loans	8,930	9,293
Segregated fund assets	69,056	73,276
Total assets	$ 353,172	$ 351,004
Insurance contract liabilities	$ 209,431	$ 199,216
Members' dividends, policy proceeds and other amounts on deposit	12,872	13,434
Segregated fund liabilities	69,056	73,276
Subordinated debt	2,166	3,351
Other liabilities	8,652	8,441
Total liabilities	$ 302,177	$ 297,718

24. Assumption reinsurance agreement transaction:

Effective July 1, 2018, the Society completed an assumption reinsurance agreement with the Sons of Scotland Benevolent Association. The Society assumed all the outstanding business that was comprised of 5,264 policies generating approximately $1,000 in annual life insurance gross premium. The result of this assumption was an increase in policy liabilities of $7,888, an increase in amounts on deposit and other liabilities of $1,821 and an increase in assets of $11,390. The agreement generated a one-time gain of $1,681 that is recorded in other revenue in the statement of income.