



# RBC Insurance

*Unaudited Financial Statements of*

## **RBC LIFE INSURANCE COMPANY "A" AND "B" FUNDS**

*June 30, 2018*

# RBC LIFE INSURANCE COMPANY “A” AND “B” FUNDS

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## Statement of Financial Position

As at	Jun 30, 2018	Dec 31, 2017
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ -
Investments in underlying fund at fair value	38,601	48,267
Other assets		
Accounts receivable - contractholders	-	-
Due from RBC Life Insurance Company	-	-
Other	-	-
	38,601	48,267
<b>Liabilities</b>		
Bank indebtedness	-	-
Other liabilities		
Accounts payable - contractholders	-	-
Due to RBC Life Insurance Company	9	14
Other	-	-
	9	14
<b>Net assets attributable to contractholders</b>	<b>\$ 38,592</b>	<b>\$ 48,253</b>
Net assets attributable to contractholders per unit	\$ 1,169.45	\$ 1,176.90

## Statement of Comprehensive Income

For the six months period ended June 30,	2018	2017
<b>Income</b>		
Distribution from underlying fund	\$ -	\$ -
Realized gain (loss) on sale of investments	484	352
Change in unrealized gain/loss of investments	164	222
	648	574
<b>Expenses</b>		
Management fees	311	457
Other administrative expenses	316	297
	627	754
<b>Net income (loss) attributable to contractholders</b>	<b>\$ 21</b>	<b>\$ (180)</b>
Net income (loss) attributable to contractholders per unit	\$ 0.65	\$ (3.67)

## Statement of Changes in Net Assets Attributable to contractholders

For the six months period ended June 30,	2018	2017
Net assets, beginning of the year	\$ 48,253	\$ 58,181
Premium deposits	-	-
Net income (loss) attributable to contractholders	21	(180)
	48,274	58,001
Withdrawals	9,682	3,309
<b>Net assets, end of the year</b>	<b>\$ 38,592</b>	<b>\$ 54,692</b>
Number of units outstanding	33	49

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

## Statement of Cash Flow

For the six months period ended June 30,	2018	2017
<b>Operating activities</b>		
Net income (loss) attributable to contractholders	\$ 21	\$ (180)
Add (deduct) to convert net income to a cash basis		
Net gain on investments	(648)	(574)
Change in other assets	-	-
Change in other liabilities	(5)	79
Purchases of investments	-	-
Proceeds from sales of investments	10,314	3,984
<b>Cash provided by (used in) operating activities</b>	<b>9,682</b>	<b>3,309</b>
<b>Financing activities</b>		
Distributions to the contractholders	-	-
Proceeds from issue of units	-	-
Redemption of units	(9,682)	(3,309)
<b>Cash provided by (used in) financing activities</b>	<b>(9,682)</b>	<b>(3,309)</b>
Increase (decrease) in cash	-	-
Cash at beginning of year	-	-
<b>Cash at end of year</b>	<b>\$ -</b>	<b>\$ -</b>

For the six months period ended June 30,

## Management fees and other expenses

	2018	2017
Management fees	\$ 311	\$ 457
Other administrative expenses	\$ 316	\$ 297
MER	1.34%	0.66%

For the year ended December 31,

## Sales and redemption of units

	2018	2017
Units issued	-	-
Proceeds from issue of units	\$ -	\$ -
Units redeemed	8	3
Amounts paid on redemption	\$ 9,682	\$ 3,309

As at

## Investment in underlying fund at fair value

	Jun 30, 2018	Dec 31, 2017
Level 1	\$ 38,601	\$ 54,781

## Schedule of invested assets

## RBC Canadian Equity Fund Series O

	2018	2017
Number of units	1,679	2,371
Cost	\$ 43,573	\$ 62,381
Percentage held in underlying fund	0.0017%	0.0024%
Fair value	\$ 38,601	\$ 54,781
Fair value per unit	\$ 22.99	\$ 23.10

## Top 25 holdings of the underlying fund (unaudited)

ROYAL BANK OF CANADA COMMON	5.7	SUN LIFE FINANCIAL INC COMMON	1.9
TORONTO DOMINION BANK COMMON	5.1	SNC-LAVALIN GROUP COMMON	1.7
BANK OF NOVA SCOTIA COMMON	4.7	CANADIAN PACIFIC RAILWAY COMMON	1.7
RBC CANADIAN SMALL & MID-CAP RESOURCES FUND	4.5	CANADIAN IMPERIAL BANK OF COMMERCE COMMON	1.6
ENBRIDGE INC COMMON	4.0	BCE INC COMMON	1.5
SUNCOR ENERGY INC COMMON	4.0	PEMBINA PIPELINE COMMON	1.5
CANADIAN NATURAL RESOURCES COMMON	3.3	ALIMENTATION COUCHE-TARD INC CLASS B SUB VTG	1.4
CANADIAN NATIONAL RAILWAY COMMON	2.9	THOMSON REUTERS CORP COMMON	1.3
MANULIFE FINANCIAL CORP COMMON	2.7	UNITEDHEALTH GRP INC COMMON	1.2
TRANSCANADA CORP COMMON	2.6	KEYERA CORP COMMON	1.2
BANK OF MONTREAL COMMON	2.5	TECK RESOURCES LTD CLASS B SUB VTG	1.0
NUTRIEN LTD COMMON	2.4	FORTIS INC COMMON	1.0
BROOKFIELD ASSET MANAGEMENT CLASS A LTD VTG	2.3		<b>63.5</b>

## Financial Highlights (unaudited)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years.

For the years	Jun 30, 2018	2017	2016	2015	2014
Net Asset Value attributable to contractholders	\$1,169.45	\$1,176.90	\$1,118.87	\$ 928.09	\$1,040.50
Net assets attributable to contractholders (\$ '000)	\$ 39	\$ 48	\$ 58	\$ 397	\$ 639
Net income (loss) (\$ '000)	\$ -	\$ 3	\$ 37	\$ (43)	\$ 105
Premium deposits (\$ '000)	\$ -	\$ -	\$ -	\$ 1	\$ 1
Withdrawals (\$ '000)	\$ 10	\$ 13	\$ 375	\$ 200	\$ 363
Number of units outstanding	33	41	52	427	614
Management expense ratio <sup>1</sup>	1.34%	2.51%	1.22%	2.17%	1.41%
Portfolio turnover rate of the underlying fund <sup>2</sup>	33.40%	40.40%	23.60%	18.00%	24.24%

<sup>1</sup> The management expense ratio ("MER") is based on total expenses, including pro-rata share of operating expenses of the underlying fund, for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>2</sup> The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Statement of Financial Position			Statement of Cash Flow		
As at	Jun 30, 2018	Dec 31, 2017	For the six months period ended June 30,	2018	2017
<b>Assets</b>			<b>Operating activities</b>		
Cash and cash equivalents	\$ -	\$ -	Net income (los) attributable to contractholders	\$ (399)	\$ 107
Investments in underlying fund at fair value	17,194	18,874	Add (deduct) to convert net income to a cash basis		
Other assets			Net gain on investments	(72)	(287)
Accounts receivable - contractholders	-	-	Change in other assets	-	-
Due from RBC Life Insurance Company	-	-	Change in other liabilities	-	59
Other	-	-	Purchases of investments	-	(350)
	17,194	18,874	Proceeds from sales of investments	1,752	2,113
<b>Liabilities</b>			Cash provided by (used in) operating activities	1,281	1,642
Bank indebtedness	-	-	<b>Financing activities</b>		
Other liabilities			Distributions to the contractholders	-	-
Accounts payable - contractholders	-	-	Proceeds from issue of units	-	-
Due to RBC Life Insurance Company	13	13	Redemption of units	(1,281)	(1,642)
Other	-	-	Cash provided by (used in) financing activities	(1,281)	(1,642)
	13	13	Increase (decrease) in cash	-	-
<b>Net assets attributable to contractholders</b>	<b>\$ 17,181</b>	<b>\$ 18,861</b>	Cash at beginning of year	-	-
			<b>Cash at end of year</b>	<b>\$ -</b>	<b>\$ -</b>
Net assets attributable to contractholders per unit	\$ 409.07	\$ 419.13			

Statement of Comprehensive Income			For the six months period ended June 30,		
	2018	2017	2018	2017	
<b>Income</b>			<b>Management fees and other expenses</b>		
Distribution from underlying fund	\$ -	\$ 350	Management fees	\$ 140	\$ 214
Realized gain on sale of investments	289	75	Other administrative expenses	\$ 331	\$ 316
Change in unrealized gain/loss of investments	(217)	212	MER	2.55%	1.08%
	72	637	For the six months period ended June 30,		
<b>Expenses</b>			<b>Sales and redemption of units</b>		
Management fees	140	214	Units issued	-	-
Other administrative expenses	331	316	Proceeds from issue of units	\$ -	\$ -
	471	530	Units redeemed	3	4
<b>Net income (loss) attributable to contractholders</b>	<b>\$ (399)</b>	<b>\$ 107</b>	Amounts paid on redemption	\$ 1,281	\$ 1,642
			As at		
Net income (loss) attributable to contractholders per unit	\$ (9.54)	\$ 2.33	Jun 30, 2018	Dec 31, 2017	

Statement of Changes in Net Assets Attributable to contractholders			Investment in underlying fund at fair value		
For the six months period ended June 30,	2018	2017	Level 1	Jun 30, 2018	Dec 31, 2017
Net assets, beginning of the year	\$ 18,861	\$ 21,359		\$ 17,194	\$ 19,897
Premium deposits	-	-	<b>Schedule of invested assets</b>		
Net income (loss) attributable to contractholders	(399)	107	<b>RBC Bond Fund Series O</b>		
	18,462	21,466	Number of units	2,536	2,869
Withdrawals	1,281	1,642	Cost	\$ 15,842	\$ 17,868
<b>Net assets, end of the year</b>	<b>\$ 17,181</b>	<b>\$ 19,824</b>	Percentage held in underlying fund	0.0001%	0.0001%
			Fair value	\$ 17,194	\$ 19,897
Number of units outstanding	42	46	Fair value per unit	\$ 6.78	\$ 6.94

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

## Top 25 holdings of the underlying fund (unaudited)

ONTARIO PROV 3.450 JUN 02 45	2.9	RBC EMERGING MARKETS FOREIGN EXCHANGE FUND UNITS - O	1.5
ONTARIO PROV 2.600 JUN 02 27	2.3	CANADA GOVT 2.000 JUN 01 28	1.4
ONTARIO PROV 3.500 JUN 02 43	2.2	ONTARIO PROV 3.500 JUN 02 24	1.3
ONTARIO PROV 2.900 DEC 02 46	2.2	QUEBEC PROV 3.000 SEP 01 23	1.2
ONTARIO PROV 2.600 JUN 02 25	2.1	BLUEBAY EMERGING MARKETS CORPORATE BOND FUND SERIES O	1.1
ONTARIO PROV 4.600 JUN 02 39	1.8	QUEBEC PROV 2.750 SEP 01 27	1.0
CANADA GOVT 2.750 DEC 1 48	1.7	QUEBEC PROV 3.750 SEP 01 24	1.0
CANADA GOVT 1.500 JUN 01 26	1.6	QUEBEC PROV 5.000 DEC 01 41	1.0
ONTARIO PROV 2.400 JUN 02 26	1.6	ONTARIO PROV 4.700 JUN 02 37	0.9
ONTARIO PROV 4.650 JUN 02 41	1.6	QUEBEC PROV 4.500 DEC 1 20	0.9
ONTARIO PROV 4.000 JUN 02 21	1.5	QUEBEC PROV 2.750 SEP 01 25	0.9
CANADA GOVT 1.000 JUN 01 27	1.5	ONTARIO PROV 5.600 JUN 02 35	0.8
ONTARIO PROV 2.850 JUN 02 23	1.5	<b>Total % of top 25 holdings</b>	<b>37.5</b>

## Financial Highlights (unaudited)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years.

For the years	Jun 30, 2018	2017	2016	2015	2014
Net Asset Value attributable to contractholders	\$ 409.07	\$ 419.13	\$ 427.56	\$ 420.97	\$ 405.55
Net assets attributable to contractholders (\$ '000)	\$ 17	\$ 19	\$ 21	\$ 259	\$ 258
Net income (loss) (\$ '000)	\$ -	\$ -	\$ 6	\$ 10	\$ 31
Premium deposits (\$ '000)	\$ -	\$ -	\$ -	\$ 1	\$ 1
Withdrawals (\$ '000)	\$ 1	\$ 2	\$ 243	\$ 9	\$ 126
Number of units outstanding	42	45	50	615	635
Management expense ratio <sup>1</sup>	2.55%	4.65%	1.32%	1.42%	1.62%
Portfolio turnover rate of the underlying fund <sup>2</sup>	18.10%	22.20%	22.50%	18.00%	35.76%

<sup>1</sup> The management expense ratio ("MER") is based on total expenses, including pro-rata share of operating expenses of the underlying fund, for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>2</sup> The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.



# RBC LIFE INSURANCE COMPANY “A” AND “B” FUNDS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### e) Use of estimates

These financial statements are prepared in accordance with IFRS, and include estimates and assumptions by management that affects the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

### f) Expenses of funds

Each Fund is responsible for the payment of the fees and expenses related to the operation of that Fund. Such fees and expenses, which are recorded on an accrual basis, include custodian fees, management fees, legal fees, audit fees, operations and administration fees, bank charges, interest, brokerage on securities transactions and all indirect taxes. As the Funds invest solely in units of the underlying mutual funds, the Funds are not subject to transaction costs pertaining to the purchase, sale or redemption of units.

### g) Income taxes

Each Fund is deemed to be an inter-vivos trust under the provisions of the Income Tax Act (Canada) and is deemed to have allocated its income to the contract holders. Each Fund's net capital gains (losses) are deemed to be those of the contract holders. Accordingly, each Fund is not subject to income tax on its net income, including net realized capital gains for the year.

A fund may elect each year to realize capital gain (loss) for the taxation year, to optimize the allocation of capital gain/(loss) between redeeming and continuing contractholders.

### h) Consolidated financial statements

Under IFRS 10, Consolidated Financial Statements, a Fund is required to provide consolidated financial statements if it has control over the entities it invests in. In October 2013, the IASB issued an “Investment Entity” amendment to IFRS 10, which provides an exception to consolidation for an entity that meets the definition of Investment Entity. The Manager has determined that all Funds satisfy the criteria of an Investment Entity.

### i) Current assets and Current liabilities

The Funds' Statement of Financial Position is presented broadly in order of liquidity.

## 3. ACCOUNTING CHANGES ADOPTED

The following IFRS standard came in effect on January 1, 2018:

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities. It replaced the multiple classifications and measurement models in IAS 39 and became effective on January 1, 2018. Classification and measurement of debt assets is driven by an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Derivative and equity instruments are measured at FVTPL unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

On adoption of IFRS 9, the Funds' investment portfolio(s) continues to be classified at FVTPL. Other financial assets which are held for collection continues to be measured at amortized cost with no material impact expected from application of the new impairment model introduced in IFRS 9. As a result, the adoption of IFRS 9 did not have a material impact on the Funds' financial statements.



# RBC LIFE INSURANCE COMPANY “A” AND “B” FUNDS

## 4. FINANCIAL INSTRUMENTS RISK

The Funds may be exposed to a variety of financial risks. Each of the Fund’s exposures to financial risks is concentrated in its investment holdings. The Schedule of Invested Assets on each Fund’s supplementary information, disclosed alongside the financial statements, presents the details of units held by each Fund as at June 30, 2018 and December 31, 2017 and groups the underlying mutual funds by their nature. The Funds do not manage their underlying mutual funds and therefore the detailed quantitative and qualitative risk disclosures, as required by IFRS 7, *Financial Instruments: Disclosures*, of the underlying mutual funds have not been disclosed. For further information on the financial instruments risk of the underlying mutual fund and the sensitivity to price changes please refer to the financial statements of the underlying mutual funds which are filed on SEDAR.

Each of the Fund’s risk management practice includes the monitoring of compliance to investment guidelines. The Fund Manager manages the potential effects of these financial risks on the Funds’ performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Funds’ positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

### a) Credit risk

Credit risk is the possibility that a borrower, or the counterparty to a derivatives contract, repurchase agreement or reverse repurchase agreement, is unable or unwilling to repay the loan or obligation, either on time or at all. Companies and governments that borrow money, and the debt securities they issue, are rated by specialized rating agencies. Debt securities issued by companies or governments in emerging markets often have higher credit risk (lower rated debt), while debt securities issued by well-established companies or by governments of developed countries tend to have lower credit risk (higher rated debt). A downgrade in an issuer’s credit rating or other adverse news regarding an issuer can reduce a security’s fair value. Lower rated and unrated debt instruments generally offer a better return than higher grade debt instruments, but have the potential for substantial loss. Funds that invest in companies or markets with higher credit risk tend to be more volatile in the short term. However, they may offer the potential of higher returns over the long term. Credit risk arises when an underlying mutual fund invests in fixed income securities. Credit risk is considered as part of the investment decision making process.

During the period ended June 30, 2018 and year ended December 31, 2017, the underlying mutual funds only bought and sold investments through brokers which are RBC approved counterparties, thus minimizing the risk of default during settlement.

### b) Currency risk

Most underlying mutual funds are valued in Canadian dollars. However, underlying mutual funds that purchase foreign securities may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value of any foreign securities. For example, if the Canadian dollar rises relative to a foreign currency (like the U.S. dollar or the Euro), the Canadian dollar value of an investment denominated in that foreign currency may decline. This decline may reduce, or even eliminate, any return the Fund has earned on the security. On the other hand, a Fund may also benefit from changes in exchange rates. Currency exposure may increase the volatility of foreign investments relative to Canadian investments. Some underlying mutual funds may hedge (protect against) the risk of changes in foreign currency exchange rates of the underlying assets of the Fund.

During the period ended June 30, 2018 and year ended December 31, 2017, as the Funds only invested in Canadian denominated underlying mutual funds, the Funds do not have a direct currency risk exposure.

### c) Interest rate risk

If a Fund invests primarily in bonds and other fixed-income securities, the biggest influence on the Fund’s value will be changes in the general level of interest rates. If interest rates fall, the value of the Fund’s units will tend to rise. If interest rates rise, the value of the Fund’s units will tend to fall. Short-term interest rates can have a different influence on a Fund’s value than long-term interest rates. If a Fund invests primarily in bonds and other fixed-income securities with longer-term maturities, the biggest influence on the Fund’s value will be changes in the general level of long-term interest rates. If a Fund invests primarily in bonds and other fixed-income securities with shorter-term maturities, the biggest influence on the Fund’s value will be changes in the general level of shorter-term interest rates. Investors seeking current income should be aware that the level of interest income from a money market fund will fluctuate as short-term interest rates vary.

Interest rate risk arises when the underlying mutual fund invests in interest bearing financial instruments such as a bond. The underlying mutual fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

As at June 30, 2018 and December 31, 2017, the Schedule of Invested Assets on each Fund's supplementary information, disclosed alongside the financial statements, presents the details of underlying mutual fund units held by each Fund.

# RBC LIFE INSURANCE COMPANY "A" AND "B" FUNDS

## 4. FINANCIAL INSTRUMENTS RISK (continued)

### d) Liquidity risk

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. Most securities owned by an underlying mutual fund can be sold easily and at a fair price. In highly volatile markets, such as in periods of sudden interest rate changes, certain securities may become less liquid, which means they cannot be sold as quickly or easily. Some securities may be illiquid because of legal restrictions, the nature of the investment, or because of features like guarantees. Another reason for illiquidity is a lack of buyers interested in a particular security or market. Difficulty in selling securities may result in a loss or reduced return for a Fund.

As at June 30, 2018 and December 31, 2017, the Funds' assets were comprised of units of underlying mutual funds which can be redeemed upon request from the issuer on a valuation date. A valuation date occurs every day that the principal exchange is open for trading and a value is available for the assets of the relevant fund. The Toronto Stock Exchange currently is the principal exchange used for purposes of determining the valuation dates.

### e) Market risk

Market risk is the risk that the value of investments will fluctuate as a result of changes in market condition. Several factors can influence market trends, such as economic developments, changes in interest rates, political changes, and catastrophic events. As at June 30, 2018 and December 31, 2017, the Funds are exposed to the market risk of the underlying mutual funds.

f) The following table shows risk profile of all the Underlying Funds as at June 30, 2018.

The Fund name	Underlying Mutual Fund name	Fair value	Underlying mutual fund risk exposures (*)	Number of Funds	Impact on net assets based on 5% increase or decrease
Equity Fund "A"	RBC Canadian Equity Fund	\$ 38,601	O, L	1	\$ 1,930
Security Fund "B"	RBC Bond Fund	17,194	I, CR	1	860

The following table shows risk profile of all the Underlying Funds as at December 31, 2017.

The Fund name	Underlying Mutual Fund name	Fair value	Underlying mutual fund risk exposures (*)	Number of Funds	Impact on net assets based on 5% increase or decrease
Equity Fund "A"	RBC Canadian Equity Fund	\$ 48,272	O, L	1	\$ 2,414
Security Fund "B"	RBC Bond Fund	18,872	I, CR	1	944

(\*) O = Other Price Risk, I = Interest Price Risk, C = Currency Risk, L = Liquidity Risk and CR = Credit Risk

## 5. FINANCIAL RISK MANAGEMENT

The Funds use a fund-of-fund structure to invest in underlying mutual funds exclusively managed by RBC GAM. As part of the underlying mutual fund selection process for the Funds, the existing mutual funds line-up are reviewed at least annually by RBC Life Insurance Company to identify any product gaps that result from the changing needs of the market and distribution partners.

The screening criteria may include qualitative as well as quantitative measures of performance and must satisfy internal risk management standards.

Ongoing monitoring throughout the year by the Funds' management includes monitoring any organizational or fund changes announced by underlying mutual fund managers or news items that may affect organizational stability or Funds performance as well as analysis on the Funds' rate of return to verify that it is appropriate compared to the underlying mutual fund or fund's benchmark.

Included in the ongoing due diligence process, managers of the underlying mutual funds are required to verify that the Funds have adhered to the Funds' Investment Policies and that the underlying mutual funds are managed in accordance with their investment objectives and strategies. The underlying mutual funds could be exposed to specific risks which may primarily arise because the value of the investments are affected by changes in the local and global economies including interest rates, foreign exchange rates, financial markets and company-specific news. The underlying mutual funds' manager has developed policies and procedures to manage the fund-specific risks. Fund portfolios are reviewed on a regular basis by RBC Life Insurance Company to ensure that the existing asset mix and weightings continue to meet the current and future needs of the Funds.

# RBC LIFE INSURANCE COMPANY “A” AND “B” FUNDS

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## 6. CAPITAL MANAGEMENT

The Funds have no externally imposed capital requirements. The relevant capital movements are disclosed in the Statement of Changes in Net Assets Attributable to Contractholders. To manage risks, the Funds' Manager uses internal guidelines, maintains a governance structure that oversees each Fund's investment activities, and monitors compliance with the Fund's investment strategies, internal guidelines and securities regulations.

## 7. MANAGEMENT FEES AND OTHER ADMINISTRATIVE EXPENSES

In consideration for management services and investment advice, RBC Life Insurance Company, a related party, is entitled to a management fee. The maximum management fee, exclusive of Harmonized Sales Tax (“HST”), is based on the following annual percentages, applied on a weekly basis to the respective net asset values of the Fund

Equity Fund “A”	Up to 0.919%
Security Fund “B”	Up to 0.919%

Custodian fee, audit fee, interest and bank charges are payable by the Funds. Management fees and other administrative expenses charged to the Funds are subject to the Goods and Services Tax (GST) / Harmonized Sales Tax (HST). Based on the rules and guidance issued by the Department of Finance, the effective GST/HST rate will reflect the tax rates that are applicable in the Provinces/Territories where the Fund's contractholders reside. Since each fund will have contractholders in more than one Province/Territory, the blended rate will be a weighted average based on the tax rate in each Province/Territory and the value of contractholder assets. Therefore the blended rate is likely to be different for each Fund.

## 8. OTHER EXPENSES ABSORBED BY THE MANAGER

In addition to the management fees, the Funds also bear all operating and administrative expenses including legal and audit fees.

The Manager may absorb/waive certain expenses of the Funds. The waiver may be terminated by the Manager at any time in accordance with the Information Folder. Included in Due from RBC Life Insurance Company, in the Statement of Financial Position, are balances of expenses absorbed by the Manager.

## 9. SALES AND REDEMPTIONS OF UNITS

Units of the Funds, which are redeemable at the option of the unitholder in accordance with the provisions of the related policy contracts. Units of the Fund are issued or redeemed on a weekly basis at the net asset value per unit next determined after the purchase order or redemption request, respectively, is received by RBC Life Insurance Company.

The units of the Funds are classified as financial liabilities under IAS 32 as the Funds are contractually obligated to repurchase or redeem them for cash or another financial asset.

## 10. FAIR VALUE MEASUREMENT

Investments recorded at fair value on the Funds' Statement of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined in accordance with IFRS 13 and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets, are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Quoted price for these investments are not adjusted even in situations where a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

As at June 30, 2018 and December 31, 2017, the investments in underlying mutual fund by each of the Fund's are classified as Level 1.

## 11. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2018 and year ended December 31, 2017, management fees were paid to RBC Life Insurance Company as disclosed in Note 7 and presented separately in the Statement of Comprehensive Income of each Fund. As at June 30, 2018 and December 31, 2017, the management fees payable to RBC Life Insurance Company are included in accrued expenses in the Statement of Financial Position of each Fund.

During the period ended June 30, 2018 and year ended December 31, 2017, the Funds paid administrative expenses to RBC Investor Services.

During the period ended June 30, 2018 and year ended December 31, 2017, the Funds did not pay any expenses to RBC GAM.