Assumption Life

2018 ANNUAL REPORT

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MASSACHUSETTS, 1903.
OUR COMPANY IS ESTABLISHED TO ENSURE THE WELL-BEING OF ACADIAN FAMILIES.

TODAY, one small difference – we now protect families across Canada.

115 YEARS

Board of Directors

Jacques Valotaire
FCPA, FCA, ICD.D
Chairman of the Board
Corporate Director

Andrée Savoie
ICD.D
President & CEO
Adelin Properties
Vice-President of the Board

Sébastien Dupuis
CPA, CA
President & CEO – Assumption Life

Genevieve Laforge
LL.B, ASC
Corporate Secretary and Senior Legal Counsel – Assumption Life

Yvon Fontaine
B.Soc.Sc., LL.B., LL.M.,
Corporate Director

Adrienne O'Pray
President & CEO
New Brunswick Business Council

Monique Tremblay
FICA, FSA, MBA
Corporate Director

Steven Ross
Corporate Director

Lise Casgrain
MBA, ICD.D
Corporate Director

Ivan Toner
ICD.D
President MelamTech Consulting

Alain Bossé
President & COO
Groupe Savoie

Marc Landry
Vice-President, IT and Logistics
Major Drilling

Board Member Attendance

Board of Directors 2018	Board Meeting Attendance	Committee Meeting Attendance	Subsidiary Meetings Attendance
Yves Arseneau	1/1	4/4	2/2
Yvon Fontaine	9/9	10/10	7/7
André Vincent	9/9	24/24	7/7
Andrée Savoie	9/9	22/22	2/2
Lise Casgrain	9/9	23/23	2/2
Allister Surette	1/1	2/2	N/A
Jacques Valotaire	9/9	22/22	7/7
Monique Tremblay	9/9	13/13	2/2
Ivan Toner	9/9	14/14	2/2
Marc Landry	9/9	11/11	2/2
Alain Bossé	9/9	17/17	2/2
Adrienne O'Pray	8/8	16/16	2/2
Steven Ross	8/8	10/10	N/A

Board Committees

Governance: Oversees the establishment, development and optimal functioning of the Board of Directors and its committees. Assists the Board of Directors in its oversight mandate, particularly with respect to governance. Acts on behalf of the board of directors when it is impractical for the entire board to meet.

Audit: Assists the Board in fulfilling its financial audit, oversight and risk management responsibilities.

Investment: Represents the Board of Directors in developing and monitoring the company's investment policies, reviewing pension fund performance and reviewing asset liability matching.

HR: Conducts succession planning and staffs senior management positions, makes recommendations on the compensation philosophy and reviews compensation packages, reviews human resources management practices and reviews the pension plan.

Review: Reviews transactions between the Company and related parties to monitor their impact on the Company's solvency and stability and ensures compliance with applicable laws.

Message from the Chairman of the Board

As Chair of the Board for a third year, I am happy to share my thoughts and, more importantly, very proud of the work accomplished by our Board of Directors in 2018.

Of the many issues that have come up this year, the appointment of our new President and CEO has certainly been the most important. I would like to congratulate Sébastien Dupuis, who has been in office since January 1, 2019, on this well-deserved appointment, and I wish him every success in the coming years.

André Vincent, who held the position of CEO from April 1, 2013, to December 31, 2018, is now Senior Advisor. He will retire in June and I would like to take this opportunity to thank him for his loyal service. His enthusiasm, determination and innovative drive have left their mark on Assumption Life. The company has transformed under his leadership and is now better equipped to face the future.

Assumption Life continues to perform well in a constantly changing market. The goals we have set are challenging, but we know they will be surmounted by our team of dedicated and loyal employees. I thank them for the commitment and hard work that allows the company to excel, break new ground and stand head and shoulders above the rest.

I would like to acknowledge the dedication and commitment of my colleagues on the Board: Andrée Savoie (Vice-President), Yvon Fontaine, Monique Tremblay, Ivan Toner, Lise Casgrain, Alain Bossé, Marc Landry, Steven Ross and Adrienne O'Pray; also André Vincent, who served on the board throughout 2018 and Sébastien Dupuis, who has been a board member since January 1.

The year 2018 was also my last year at the head of this wonderful board of directors. I leave knowing that the company is in good hands, convinced that the transformations set in motion in recent years will continue to produce results.

I wish to thank all those I have worked with as Chair of the Board, both employees and members of the management team.

It was a pleasure to serve Assumption Life, an Acadian institution.

JACQUES VALOTAIRE
Chair of the Board

Message from the President and Chief Executive Officer

For 115 years, Assumption Life has been able to adapt to new market conditions while remaining true to its roots. I salute the incredible work of all our employees and that of my predecessors, whom I will endeavour to honour with my actions in the coming years.

As CEO, preparing for the future of the company is one of my primary responsibilities, and we are working on strategic plans that will serve as a roadmap for the next few years. The values of helping and supporting each other, which guide our philanthropic endeavours, will continue to light our way as we continue our digital transformation. Because Assumption Life foresaw the arrival of this wave of changes brought about by the arrival of new players, we have been developing technological tools and platforms for some years to adapt to this major evolution of the industry.

As for financial results, we can happily confirm that our profitability is one of the best in the Company's history. We have also successfully adapted to new standards, and our solvency continues to exceed policyholders' comfort levels.

Among our achievements, we have maintained our excellent "A -" rating from A.M. Best for the 19th consecutive year, which demonstrates our stability and continued growth. We have improved the profitability of group insurance and launched a new retirement investment product for our collective and individual lines, along with a new platform for selling individual insurance products. Not to mention the new tools we developed for our advisors and the creation of a new sales and prospecting team.

At our subsidiaries, assets managed by Louisbourg Investments reached $2.2 billion and the net profit of the company exceeded budget estimates. 2018 is also our first full year with Tech Knowledge Solutions (TKS), which is now a key part of our strategy to increase our ability to deliver innovative technological projects.

The year 2018 was also marked by earning the Business Excellence Award from the Greater Moncton Chamber of Commerce. This recognition by the local community fills us with pride and reminds us once again of the importance of remembering our roots.

The Corporate Social Responsibility Program and the company's B Corp certification are a source of great pride for all our employees. Their community activities, which add a personal dimension to our philanthropic endeavours, benefited 139 organizations and projects in 2018. Our employees completed 656 volunteer hours outside of office hours and 560 hours during office hours.

In addition, I would like to warmly thank André Vincent for his years at the helm of Assumption Life, during which he guided the company in a major transformation of our activities to build capacity in every sector. André, thank you for your vision, your wisdom and your invaluable advice. I would also like to sincerely thank Jacques Valotaire, who is finishing his third term as Chairman of our Board of Directors, to which he has devoted himself wholeheartedly.

Finally, I thank our business partners, our employees, the management team and the board members for their support. Together, we will help our company achieve new levels of growth and successfully meet the challenges of the future.

SÉBASTIEN DUPUIS
President, CEO

Senior Management

Sébastien Dupuis

CPA, CA

President and
Chief Executive Officer

Michel Allain

F.S.A., FICA

Vice-President,
Chief Financial Officer
and Chief Actuary

Réjean Boudreau

B.A.A.

Vice-President,
Chief of Organizational
Development

Rachelle Gagnon

MBA, CHRP

Vice-President,
Administration and
Client Experience

Stéphane Godbout

Vice-President, IT and
Chief Digital Officer

Denis Tremblay

MBA

Vice-President,
Sales and Marketing

Saluting the Employees Who Have Contributed to Our Success

Assumption Life relies on the professionalism, perseverance and courtesy of its employees.

At its annual general meeting, the company took the opportunity to recognize the hard work and determination of the following employees in 2018:

PRESIDENT'S AWARD FOR EXCELLENCE

Louis Gauthier

Actuarial Analyst

MANAGEMENT AWARD FOR EXCELLENCE

Jolene Cormier

Director, Group Underwriting

RECRUIT OF THE YEAR AWARD

Emile Brideau

IT Operations Manager

TEAM EXCELLENCE AWARD

Navigator 2.0 Project Team

VOLUNTEER AWARD

Judy Roy

Analyst, Administrative System

EXCELLENCE AWARD

Daniel Cormier

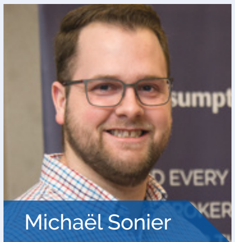
Coordinator, Investment Products and Retirement Requests

EXCELLENCE AWARD

Rachelle Brideau

Sales Manager

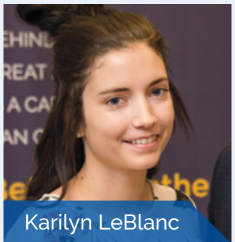
EXCELLENCE AWARD



Michaël Sonier

Sales Force Specialist

EXCELLENCE AWARD



Karilyn LeBlanc

Junior Underwriter

EXCELLENCE AWARD

Sophie Robichaud

Manager, Program Management Office

EXCELLENCE AWARD

Alexandre Despres

Internal Sales Agent

EXCELLENCE AWARD

Isabelle Vautour

Coordinator, Medical Underwriting

EXCELLENCE AWARD

Lisa Bordage

Marketing Lead

Our Social Responsibility Program

Officially inaugurated in 2015, our Social Responsibility Program always fills us with pride and is especially appreciated by our employees. In 2018, Assumption Group was even more active in the community through numerous corporate donations and sponsorships to organizations, employee volunteer days and scholarships given to the coming generation.

"Although 115 years have passed since our founding, the spark of social awareness that gave birth to our organization still shines within us and makes us proud!"

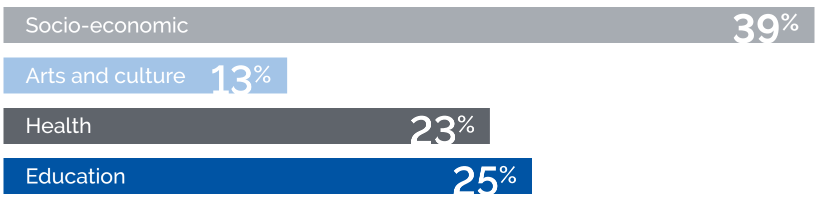
- Sébastien Dupuis, Chief Executive Officer

The Numbers Prove Our Commitment

There is nothing better than numbers to demonstrate our commitment, but what we remember most are the **smiles** of those we have helped!

139
ORGANIZATIONS AND PROJECTS
received corporate donations

6% OF THE COMPANY'S NET EARNINGS DISTRIBUTED TO VARIOUS SOCIAL CAUSES



ASSUMPTION LIFE FOUNDATION

17 **SCHOLARSHIPS** awarded to students

4 **SCHOLARSHIPS** given to educational institutions

EMPLOYEE COMMITMENT

656 **HOURS OF VOLUNTEER WORK** completed outside of office hours

560 **HOURS OF VOLUNTEER WORK** done during office hours

To find out more about our numerous benevolent activities, refer to our 2018 Social Responsibility Report.

Certified B Corporation

Assumption Life's 2018 Financial Health

$1.7 BILLION — Assets Under Management

$158 MILLION — Premium Income

$7.2 MILLION — Profit Attributable to Policyholders

$133 MILLION — Policyholders' Equity

135% — Solvency ratio as of December 31, 2018

A - For the 19th consecutive year

Rating by A.M. Best, an agency specializing in the independent assessment of the financial strength and solvency of insurance and reinsurance companies worldwide.

ASSUMPTION MUTUAL LIFE INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT **AUDITOR'S REPORT**

To the Policyholders of **Assumption Mutual Life Insurance Company**

Opinion

We have audited the consolidated financial statements of **Assumption Mutual Life Insurance Company** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT **AUDITOR'S REPORT**

Auditor's Responsibilities for the Audit of the consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT **AUDITOR'S REPORT**

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

Ernst & Young LLP

Chartered Professional Accountants

Dieppe, Canada
February 21, 2019

VALUATION
ACTUARY'S REPORT

To the policyholders of Assumption Mutual Life Insurance Company,

I have valued the policy liabilities of **Assumption Mutual Life Insurance Company** for its consolidated statement of financial position as at December 31, 2018, and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods.

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

Moncton, New Brunswick
February, 2019

Luc Farmer
Fellow, Canadian Institute of Actuaries

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION

(in thousands) As at December 31

	Notes	2018	2017
ASSETS		$	$
Invested assets	4		
Cash and cash equivalents		3,089	10,952
Debt securities		487,544	535,560
Equity securities		61,293	69,868
Mortgages		130,461	111,566
Other invested assets		1,678	2,030
Policy loans		10,590	10,065
Investment properties		29,584	30,195
		724,239	770,236
Other assets	7	21,934	16,724
Reinsurance assets	11	205,684	218,418
Deferred tax assets	17	2,306	2,979
Property and equipment	8	7,938	6,086
Intangible assets	9	4,046	3,189
Goodwill		2,226	1,854
Segregated fund net assets	10	731,470	758,174
		1,699,843	1,777,660
LIABILITIES			
Insurance contract liabilities	11	778,275	829,883
Investment contract liabilities	12	20,309	20,967
Other liabilities	14	22,937	22,775
Employee benefit liability	15	7,645	11,661
Deferred tax liabilities	17	4,886	4,636
Borrowings	16	320	469
Segregated fund net liabilities	10	731,470	758,174
		1,565,842	1,648,565
EQUITY			
Policyholders' equity			
Accumulated Surplus		129,985	121,905
Accumulated other comprehensive income		3,102	6,341
		133,087	128,246
Non-controlling interests		914	849
		134,001	129,095
		1,699,843	1,777,660
Contingencies and Commitment	19, 20		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

SIGNED ON BEHALF OF THE BOARD

Chairman

President and Chief Executive Officer

CONSOLIDATED
STATEMENT OF INCOME

(in thousands) Year ended December 31

	Notes	2018	2017
REVENUE		$	$
Gross premiums		157,816	182,033
Premiums ceded to reinsurers		(34,337)	(32,933)
Net premiums	21	123,479	149,100
Fees and commission income	23	22,002	20,589
Investment income	24	15,697	15,831
Realized gains from available-for-sale financial assets	26	1,592	1,921
Fair value gains and losses	27	(9,535)	38,370
Other operating revenue		484	437
Other revenue		30,240	77,148
Total revenue		153,719	226,248
EXPENSES			
Gross benefits and claims paid	22	137,583	131,666
Claims ceded to reinsurers	22	(24,606)	(23,648)
Gross change in contract liabilities		(51,182)	75,383
Change in contract liabilities ceded to reinsurers		13,115	(36,435)
Net benefits and claims		74,910	146,966
Borrowing costs		8	28
Fees and commission expenses	28	25,074	27,700
Administrative expenses	29	37,469	35,122
Other operating expenses	29	5,300	5,035
Other expenses		67,851	67,885
Total expenses		142,761	214,851
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		10,958	11,397
Policyholder dividends		1,315	1,266
PROFIT BEFORE INCOME TAXES		9,643	10,131
Income taxes	17	2,048	2,382
PROFIT FOR THE YEAR		7,595	7,749
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		422	393
Policyholders		7,173	7,356
		7,595	7,749

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

(in thousands) Year ended December 31

	2018	2017
	$	$
PROFIT FOR THE YEAR	7,595	7,749
Other comprehensive income:		
Items that will be reclassified subsequently to net income		
Available-for-sale financial assets:		
Change in unrealized gains (losses), net of income taxes of ($811) ($1,371 in 2017)	(2,115)	3,601
Reclassification of realized gains included in other revenue, net of income taxes of ($441) (($530) in 2017)	(1,151)	(1,391)
Total of items that will be reclassified subsequently to net income	(3,266)	2,210
Items that will not be reclassified subsequently to net income		
Remeasurement of defined benefit pension plans, net of income taxes of $348 (($902) in 2017)	907	(2,342)
Total of other comprehensive income	(2,359)	(132)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5,236	7,617
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	395	392
Policyholders	4,841	7,225
	5,236	7,617

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

(in thousands) Year ended December 31

	2018				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	121,905	6,341	128,246	849	129,095
Profit for the year	7,173	-	7,173	422	7,595
Items that will be reclassified subsequently to net income	-	(3,239)	(3,239)	(27)	(3,266)
Remeasurement of defined benefit pension plans	907	-	907	-	907
Total comprehensive income	8,080	(3,239)	4,841	395	5,236
Dividends	-	-	-	(330)	(330)
Balance, end of year	129,985	3,102	133,087	914	134,001

CONSOLIDATED STATEMENT **OF CHANGES IN EQUITY**

(in thousands) Year ended December 31

	2017				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	116,891	4,130	121,021	787	121,808
Profit for the year	7,356	-	7,356	393	7,749
Items that will be reclassified subsequently to net income	-	2,211	2,211	(1)	2,210
Remeasurement of defined benefit pension plans	(2,342)	-	(2,342)	-	(2,342)
Total comprehensive income	5,014	2,211	7,225	392	7,617
Dividends	-	-	-	(330)	(330)
Balance, end of year	121,905	6,341	128,246	849	129,095

The accumulated other comprehensive income is comprised solely of unrealized gains (losses) on available-for-sale financial assets, net of related income taxes.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT
OF CASH FLOWS

(in thousands) Year ended December 31

	2018	2017
	$	$
OPERATING ACTIVITIES		
Profit for the year	7,595	7,749
Items not affecting cash:		
Deferred income taxes	202	374
Change in reinsurance assets	12,734	(36,795)
Change in insurance and investment contract liabilities	(51,183)	76,983
Amortization of property and equipment and intangible assets	2,469	2,392
Fair value gains and losses (note 27)	9,535	(38,370)
Realized gains on disposal of available-for-sale financial assets (note 26)	(1,592)	(1,921)
Employee benefit plan expense	2,207	2,263
Other	(4,588)	(4,593)
	(22,621)	8,082
Change in non-cash working capital items related to operations	(9,699)	(3,824)
Cash flows from operating activities	(32,320)	4,258
INVESTING ACTIVITIES		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	156,214	102,510
Purchases and loans	(126,748)	(92,313)
Acquisition of property and equipment and intangible assets	(5,178)	(2,191)
Acquisition of additional interest in a subsidiary	(150)	(1,387)
Others	468	(435)
Cash flows from investing activities	24,606	6,184
FINANCING ACTIVITIES		
Change in borrowings	(149)	(3,778)
Cash flows from financing activities	(149)	(3,778)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(7,863)	6,664
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	10,952	4,288
CASH AND CASH EQUIVALENTS – END OF YEAR	3,089	10,952

SEE NOTE 18 FOR ADDITIONAL INFORMATION
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

1. CORPORATE INFORMATION

Assumption Mutual Life Insurance Company, known as **Assumption Life** (the Company), was incorporated under a private law of the Province of New Brunswick's Legislative Assembly. The Company and its subsidiaries (together forming "the Group") underwrite life and non-life insurance risks, such as those associated with death, disability and health. The Group also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs. All these products are only offered in Canada. Finally, through one of its subsidiaries, it holds investment properties in New Brunswick, Canada.

The Group's head office is located at 770 Main St., in the Assumption Place building in downtown Moncton, N.B., Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Declaration of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and published by CPA Canada Handbook- Accounting.

These consolidated financial statements, including all notes, were approved by the Board of Directors on February 21, 2019.

Basis of preparation

The Group presents its consolidated statement of financial position primarily in order of liquidity. Assets are considered current when the Group expects to realize them in its normal operation cycle within twelve months after the reporting date. Liabilities are considered current when the Group expects to settle them in its normal operation cycle within twelve months after the reporting date. All other assets and liabilities are considered non-current. The Group's statement of financial position is not presented according to current and non-current order.

The consolidated financial statements have been prepared on a historic cost basis except for investment properties and those financial assets and financial liabilities that have been measured at fair value.

The consolidated financial statements values are presented in Canadian dollars ($) rounded to the nearest thousand ($000), unless otherwise indicated.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

- **Assumption Place Limited (100%)**
- **Atlantic Holdings (1987) Limited (100%),** the parent company of **Louisbourg Investments Inc. (70%)**
- **Tech Knowledge Solutions Inc. (60%)**

The consolidated financial statements comprise the financial statements of the Group as at December 31 each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The Company has control over the subsidiaries since it has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits derived from its activities, has exposure or rights to variable returns from its involvement with the subsidiaries, and the ability to use its power over the subsidiaries to affect the amount of its returns.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions and dividends are eliminated in full.

Financial Instruments

Recognition

All financial assets, when initially recognized, at the transaction date, are recorded at fair value and classified as either at fair value through profit or loss, available-for-sale, held-to-maturity or as loans and receivables, based on the features of the instrument and purposes for which the assets have been acquired. Financial liabilities must also be initially recognized at fair value, and must be classified as either at fair value through profit or loss or as other liabilities.

Financial instruments classified at fair value through profit or loss are measured at fair value and any change in fair value is recorded in net income in the period in which it arises.

Financial instruments classified as available-for-sale (AFS) are measured at fair value and any unrealized gains or losses are recognized in other comprehensive income except for impairment losses, either significant or prolonged, at which time the loss is immediately recognized in net income.

Financial assets held-to-maturity (HTM), loans and receivables and financial liabilities classified as other financial liabilities are carried at amortized cost using the effective interest rate method. Interest or dividends arising from these financial instruments are recognized in net income for the period.

The transaction costs of preferred equity securities are charged to income at the settlement date.

Invested Assets

Cash and Cash Equivalents

Cash and cash equivalents are classified as held at fair value through profit or loss and include deposits in bank and short-term notes with a maturity of six months or less from the date of acquisition.

Debt Securities

The Group has designated as held at fair value through profit or loss its debt securities backing actuarial liabilities. Actuarial liabilities are established in accordance with the Canadian Asset Liability Method (CALM), in which the book value of the assets backing the liabilities is used in a base computation. Consequently, any variation in fair value of these assets is taken into consideration in computing actuarial liabilities.

The Group has designated as available-for-sale its debt securities not backing actuarial liabilities. Variation in fair value is consequently presented as other comprehensive income, unless there is objective evidence of impairment, in which case, variation in fair value is reclassified to income.

At each reporting date, debt securities classified as available-for-sale are tested for impairment and when there is objective evidence of impairment, and the decline in value is considered significant or prolonged, the loss accounted in the accumulated other comprehensive income is reclassified to income. The Group considers as objective evidence of the impairment of debt securities the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. A significant or prolonged decline in fair value of a financial instrument below its cost is also objective evidence of impairment. Once an impairment loss is recorded in income, it is reversed when the debt securities' fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Debt securities continue to be measured at fair value even if an impairment loss has been recorded. Following impairment loss recognition, any subsequent decrease in fair value is recognized in income.

Equity Securities

The Group has designated as held at fair value through profit or loss its equity securities backing actuarial liabilities. Actuarial liabilities are established in accordance with the Canadian Asset Liability Method (CALM), in which the book value of the assets backing the liabilities is used in a base computation. Consequently, any variation in fair value of these assets is taken into consideration in computing actuarial liabilities.

The Group has designated as available-for-sale its equity securities not backing actuarial liabilities. Variation in fair value is consequently presented as other comprehensive income, unless there is objective evidence of impairment, in which case variation in fair value caused by a significant or prolonged decline is reclassified to income.

At each reporting date, equity securities classified as available for sale are tested for impairment. The Group considers as objective evidence of the impairment of equity securities a significant or prolonged decrease in the fair value of the equity securities below its cost or changes in the economic or legal environment that have a negative effect on the issuer and which indicate that the carrying value may not be recovered.

When the decline in value is considered significant or prolonged, the loss accounted for in accumulated other comprehensive income is reclassified to income. Any decline in value is recognized to income and any increase in value is recorded in other comprehensive income. Impairment losses recognized in profit or loss shall not be reversed through profit or loss.

Mortgages

Mortgages are classified as loans and receivables and are carried at amortized cost using the effective interest rate method, net of a provision for credit losses. Interest calculated according to this method is accounted for in the consolidated statement of income.

At each reporting date, on an individual basis, the Group considers as objective evidence of the impairment of mortgages the issuer's financial difficulty, a bankruptcy or a default of payment of interest or principal. When there is evidence of impairment on mortgage loans, a provision for losses is recorded in order to adjust the carrying value to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. This provision is immediately charged to income. Realized gains and losses on the sale of mortgages are recorded in income.

Other Invested Assets

Other invested assets consist of notes receivable. They are classified as loans and receivables and are accounted for at amortized cost using the effective interest rate method.

Policy Loans

Policy loans, classified as loans and receivables, are carried at amortized cost using the effective interest rate method and are fully secured by the cash surrender value of the policies on which the respective loans are made.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the costs are incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in income in the year in which they arise.

Investment properties are derecognized either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of an investment property are recognized in income in the year of retirement or disposal.

Other Assets

Other assets include financial assets, such as insurance receivables, accrued income and accounts receivable, and non financial assets, including commissions and prepaid expenses, income tax receivable and others. Other financial assets are classified as loans and receivables.

Reinsurance Assets

In the normal course of business, the Group uses reinsurance to limit its risk on policyholders. Reinsurance assets represent the amounts due to the Group by reinsurance companies for insurance contract and investment contract liabilities ceded. The calculation of these amounts is similar to the provision for future policy benefits on underlying insurance contracts or investment contracts, in accordance with the contract provisions of reinsurance agreements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders.

At each reporting date, reinsurance assets are tested for impairment. An impairment loss is recorded in income when there is objective evidence that the Group will not recover all amounts receivable within the contract and the amount can be reliably estimated.

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Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalized when incurred, if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The depreciation method, basis and period are described in the table below.

	Depreciation method	Basis of depreciation	Depreciation period
Office	Straight-line	Useful life	3 to 40 years
Parking	Straight-line	Useful life	5 to 40 years
Leasehold improvements	Straight-line	Agreement	Lease duration

At the end of each year, the Group revises the residual value and useful life of the assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognized in the statement of consolidated income as an expense.

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

Intangible Assets

Intangible assets are recorded at cost, less accumulated depreciation and accumulated impairment losses. The amortization method, basis and period are described in the table below. The amortization period and the amortization method are reviewed at least at each financial year end.

	Amortization method	Basis of amortization	Amortization period
Purchased software	Straight-line	Useful life	3 to 10 years
Developed software	Straight-line	Useful life	3 to 10 years
Technology projects under development	None	None	None
Client list	None	Indefinite life	None

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite.

When events or changes in circumstances indicate an impairment of value, the Group revaluates the carrying value of long lived assets with finite useful lives. An impairment loss exists when the carrying amount of the asset exceeds the higher of fair value less costs to sell and its value in use. All impairment losses are recognized in net income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

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Goodwill

Goodwill represents the positive difference between the cost and the fair value of identifiable assets, liabilities and contingent liabilities on business acquisitions. It is presumed to have an indefinite life and is not subject to amortization.

Goodwill is tested for impairment annually, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than its carrying amount, an impairment loss of the goodwill is recognized in income.

Segregated Fund Net Assets

Funds from group and individual annuities issued by the Group may be invested in segregated portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Group and the segregated fund policyholders have no direct access to the specific assets, the policyholders bear the risks and rewards of the fund's investment performance. The Group derives fee income from the management of its segregated funds. These revenues are accounted in fees and commission revenues.

The segregated funds are recorded at market value. Realized and unrealized gains and losses are immediately included in the change in net assets of the segregated funds.

Insurance Contract Liabilities

Provision for future policy benefits for insurance contracts represent the amounts which, after consideration of future premiums and investment income, provide for all commitments under policy contracts. These liabilities are set equal to the statement of financial position value of the assets that would be required to support them. These provisions are established using the Canadian Asset Liability Method (CALM), which is generally accepted actuarial practice established by the Canadian Institute of Actuaries (CIA).

CALM involves projecting asset and liability cash flows for each business segment under a set of prescribed interest rate scenarios, plus additional scenarios chosen by the Valuation Actuary, if applicable. Net cash flows are invested in new assets, if positive, or assets are sold or borrowed against to meet cash needs in accordance with the assumptions of each scenario. The reinvestment strategies are founded on investment policies and the reinvestment returns are drawn from each underlying scenario. The policy liabilities are at least as great as the liabilities determined under the worst of the scenarios tested. Moreover, the projected asset cash flows include assumptions for investment expenses and credit risk.

To determine the cash flows to use in CALM, the Group uses assumptions based on the Valuation Actuary's best estimate of future experience for each assumption. These assumptions include mortality, disability, investment returns (stock markets, interest rates and defaults of payment), operating expense levels, lapse rates, inflation, policyholder dividends and taxes. The assumptions cover the term of the liabilities being valued, taking into consideration events that might occur in a distant future. All assumptions are examined periodically and are subject to changes to ensure they appropriately reflect emerging experience and changes in risk profile.

These best estimate assumptions are adjusted by the Valuation Actuary to include margins for adverse deviation. These margins take into account the uncertainty in establishing these best estimates and a potential deterioration in expected experience.

The following is a description of the methods used to calculate the assumptions and the margins for adverse deviation:

(a) Mortality

For individual life, the Group uses a recently published industry mortality table, adjusted to take into account the actual experience of the Group. Future mortality improvements are taken into account in the valuation as per the table published by the ICA in 2017 to which a margin of 70% is applied.

For annuities and pensions, a recent industry mortality table is used taking into account expected future improvements in annuitant mortality.

(b) Disability

The Group uses disability tables representative of the industry experience, modified to reflect the Group's own experience.

(c) Investment Returns

The computation of actuarial liabilities takes into account projected net investment income on assets backing liabilities and on new cash flows to be invested or disinvested in the future. The uncertainty of the interest rates at which future cash flows can be reinvested has been taken into account by testing plausible future interest rate scenarios to determine the sensitivity of the results. Investment expenses and asset default risks are also considered in the valuation.

(d) Expenses

The administrative expenses per policy are based on the Group's internal cost analysis, which is updated annually. These unit costs are projected into the future factoring inflation.

(e) Lapses

Each year, an internal study of the Group's policy lapse rates is conducted. The valuation assumptions are chosen by considering both this internal study and the published industry experience.

(f) Policyholder Dividends

Actuarial liabilities include the present value of expected future policy dividends reflecting current dividend scales.

(g) Margins for Adverse Deviation

The basic assumptions made in establishing actuarial liabilities represent best estimates for a range of possible outcomes. To recognize the uncertainty in establishing best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include a margin for each assumption. A range of allowable margins is defined by the Canadian Institute of Actuaries and the actuary must choose the margins, within this range, with consideration for each company's specific situation.

In general, the margins are higher for fully guaranteed products while they are lower for adjustable products or participating policies where the dividends can be modified to reflect the Group's experience.

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Under CALM, any liability adequacy deficiency is immediately reported in the consolidated statement of income.

Investment Contract Liabilities

Investment contract liabilities are the amounts that the Group owes to clients since these contracts do not have insurance risk. These amounts are carried at fair value in the consolidated statement of financial position. Variation of fair value is recognized in the variation of investment contract liabilities in the consolidated statement of income.

Other Liabilities

Other liabilities includes financial liabilities, such as insurance payable, suppliers and other charges, and non financial liabilities, including income taxes payable. The financial liabilities are classified as other financial liabilities.

Employee Benefit Plans

The Group offers defined benefit and defined contribution pension plans and post-employment benefits to its employees. The cost of pension benefits under defined benefit plans and of other post-employment benefits earned by employees is determined according to actuarial calculations using the projected unit credit method and management's most likely assumptions of the expected rate of return on the plan's asset, salary escalation, the retirement age of employees, expected health care costs and mortality rates. Plan obligations are discounted based on current market interest rates, and plan assets are recorded at fair value.

The benefit costs are recorded in administrative expenses in the consolidated statement of income.

Net actuarial gains or losses are accounted for in the year in which they occur through other comprehensive income.

For defined contribution plans, the Group pays specified contributions into a separate entity and has no legal or constructive obligation to pay further amounts. As a result, no liability appears on the Group's consolidated financial statements, except for the expense recognized for contributions due but not yet paid at the end of the reporting period. Contributions payable to defined contribution plans are charged to income.

Taxes

The Group provides for income taxes using the liability method of tax allocation. The income tax provision is comprised of current and deferred income taxes based on tax rate and tax regulations effective or practically effective at the consolidated balance sheet date. Current income taxes are based on taxable income. Deferred income taxes reflect the net tax effect of temporary differences between assets and liabilities reported for financial statement purposes and those reported for income tax purposes. A deferred income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not. In addition to income taxes, the charge to the consolidated statement of income includes the tax on capital imposed on financial institutions and the large corporations tax recorded in other operating expenses.

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Borrowings

The Group has chosen to classify its borrowings as financial liabilities at amortized cost. The borrowings are initially recognized at fair value, net of related transaction costs. They are subsequently measured at amortized cost using the effective interest rate method.

The interest calculated according to the effective interest rate method is recognized in the consolidated statement of income and presented as borrowing costs.

Segregated Funds Net Liabilities

The liabilities of insurance contracts whose financial risk is supported by policyholders are accounted for as a separate line item in the consolidated statement of financial position and are recorded at fair value. The assets backing these liabilities are also recorded as a specific item under assets in the consolidated statement of financial position.

Foreign Currency Translation

Monetary assets and liabilities in foreign currencies are converted at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities, as well as revenue and expenses, are converted at the historical rate.

Translation gains and losses are included in other operating revenue.

Provisions

The Group recognizes a provision when there is an obligation towards a third party resulting from a past event and it is probable that an outflow of economic resources will be necessary to settle the obligation and the amount can be estimated reliably.

The amount of provision equals the best estimate of the counterpart needed to extinguish the current obligation, given the risks and uncertainties related to the obligation. The Group does not measure the provision at the current value since these provisions do not have a specified period. No amount of provision is recognized for future operating losses.

Contingent liabilities are disclosed if the future obligation is probable, but the amount cannot be reasonably estimated.

Premiums

Gross insurance and annuity premiums are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, a provision for future policy benefits is calculated, with the result that benefits and expenses is matched with such revenue.

Fees and Commission Income

Fees and commission income primarily represent fees earned from the management of the Group's segregated fund and pooled fund assets, administrative services only (ASO) income and reinsurance commission income. Fees and commission income are recorded on an accrual basis when services are rendered.

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Investment Income

Interest on cash and debt securities is recorded on an accrual basis. Dividend income is recognized when the right to receive it is established. For loans and receivables reported at amortized cost, interest income is calculated using the effective interest rate method and is reported in the consolidated statement of income. Rental income from investment properties is reported in the consolidated statement of income linearly according to the term of the lease.

Realized gains and losses

Realized gains and losses recorded in the consolidated statement of income on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

Recognition of Expenses

Annuities and benefits at maturity are recognized when payment is due. Redemptions are recorded on payment. Death benefits and other benefits are recorded when reported.

Reinsurance recoveries are recorded in the same periods as related benefits.

Changes in accounting policies

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 "Revenue from contracts with customers" which introduces a single five-step accounting model for revenue from all contracts with customers, except for insurance contracts, leases, financial instruments and certain non monetary exchanges. IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. Under this new standard, the recognition of a product must reflect the value of the consideration received or expected to be received in exchange for the goods or services provided to the customer. This standard also includes transitional provisions relating to its value. IFRS 15 will apply retrospectively to fiscal years beginning on or after January 1, 2018. The application of this standard had no impact on the Group's consolidated financial statements.

Future accounting policy changes

The standards issued by the IASB that were not applicable as at the date of issue of the Group's consolidated financial statements are described below.

The Group intends to adopt these as required once they become applicable.

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". The standard makes changes to the accounting for financial instruments in relation to the following; the classification and measurement of financial instruments reflecting for the financial assets the business model of the management and the cash flow characteristics of these financial assets, the impairment based on the expected loss model and the hedge accounting that takes into account the entity's risk management practices. The provisions of this standard will apply retrospectively for fiscal years beginning on or after January 1, 2018. However, insurers who qualify for the temporary exemption from the application of IFRS 9 will only apply this standard for fiscal years beginning January 1, 2021. This date was postponed by the IASB to January 1, 2022. The Group meets these criterias since, as at December 31, 2015, it has never previously applied IFRS 9 and its activities are mainly related to insurance since the carrying amount of its liabilities related to insurance represents more than 90% of its total liabilities. Since December 31, 2015, there has been no change in the activities of the Group that requires reassessment of the use of the temporary exemption. The Group will use this exemption and is evaluating the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 "Leases". According to this new standard, the majority of lease contracts will be recognized to the statement of financial position with a unique model. Exemptions will apply to short term lease contracts and lease contracts of low value. IFRS 16 will apply retrospectively to fiscal years beginning on or after January 1, 2019. The Group is currently evaluating the impact of this new standard on its consolidated financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

In May 2017, the IASB published IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments", which clarifies how to apply the recognition and measurement provisions of IAS 12 "Income Taxes" in the case of uncertainty about tax treatments, including whether uncertain tax treatments should be considered jointly or separately, depending on the approach that best predicts the resolution of uncertainty. The interpretation is effective for fiscal years beginning on or after January 1, 2019, but certain transition reliefs are available. The Group is currently evaluating the impact of this new interpretation on its consolidated financial statements but expects there will be no material impact.

IFRS 17 - Insurance contrats

In May 2017, the IASB issued IFRS 17 "Insurance contracts", which will replace the current IFRS 4 "Insurance contracts" standard. This new standard deals with the recognition, measurement, presentation and disclosure of information relating to all types of insurance contracts (life insurance, non-life insurance, direct insurance and reinsurance), regardless of the type of entity issuing them, as well as certain collateral arrangements and financial instruments with discretionary participation features. The model in IFRS 17 uses both an assessment of current value insurance contract liabilities and profit recognition in the period in which the services are provided. IFRS 17 is to be applied retrospectively for fiscal years beginning on or after January 1, 2021. This date was postponed by the IASB to January 1, 2022. The Group is currently evaluating the impact of changes in this standard on its consolidated financial statements.

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3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues, net payments to policyholders and beneficiaries, and expenses during the year. Actual results could differ from management's best estimates.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements:

Classification of insurance and investment contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits that will be paid whether the insured event occurs or not.

Investment contracts are those contracts that transfer significant financial risk to the Group. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, a foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Classification of properties

Properties held for the long term to earn rental income and which the Group does not primarily occupy, are considered investment properties. This is determined by comparing the rental space occupied for the Group's own purposes with the total rental space.

Estimates and assumptions

In the process of applying the accounting policies, management has made the following estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements:

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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Fair value of financial instruments

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid for assets/ask for liabilities) prices. If there is no active market, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.These methods take into account current data observable on the market for financial instruments that have a similar risk profile and comparable terms. The significant data used in these models include, but is not limited to, rate curves, credit risk, issuer risk, volatility and liquidity valuation and other references published by the market. Management uses its best estimates when such data are not available.

Fair value of investment properties

The Group relies on fair value measurements prepared by a qualified independent appraiser to establish fair value of investment properties. He uses valuation techniques based on recognized standards and techniques of evaluation.

The main assumptions used in determining the fair value of investment properties are described in note 6.

Fair value of investment contract liabilities

Because of their short-term nature, the fair value of investment contract liabilities are equal to their book value.

Employee future benefits

The defined benefit obligation and expense is calculated using several demographic and financial actuarial assumptions. The main assumptions include the discount rate and the rate of increase in future compensation. These assumptions are described in note 15.

Life and health insurance contract liabilities

The establishment of actuarial liabilities depends on various actuarial assumptions including mortality, disability, investment return (stock markets, interest rates and defaults of payment), operating expense levels, lapse rates, inflation, policyholder dividends and taxes. Further information on these assumptions is provided in notes 2 and 13.

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4. INVESTED ASSETS

Carrying Value and Fair Value

	2018					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	3,089	-	-	-	3,089	3,089
Debt securities						
Government	376,583	105,620	-	-	482,203	482,203
Municipal	-	-	-	-	-	-
Corporations & other	5,341	-	-	-	5,341	5,341
	381,924	105,620	-	-	487,544	487,544
Equity securities						
Common stocks	-	204	-	-	204	204
Preferred stocks	42,255	-	-	-	42,255	42,255
Investment fund units	18,483	351	-	-	18,834	18,834
	60,738	555	-	-	61,293	61,293
Mortgages						
Insured residential	-	-	8,434	-	8,434	8,252
Other residential	-	-	31,537	-	31,537	30,900
Commercial	-	-	90,490	-	90,490	88,643
	-	-	130,461	-	130,461	127,795
Other invested assets	-	-	1,678	-	1,678	1,673
Policy loans	-	-	10,590	-	10,590	10,590
Investment properties	-	-	-	29,584	29,584	29,584
	445,751	106,175	142,729	29,584	724,239	721,568

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Carrying Value and Fair Value

	2017					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	10,952	-	-	-	10,952	10,952
Debt securities						
Government	404,808	124,827	-	-	529,635	529,635
Municipal	535	-	-	-	535	535
Corporations & other	5,390	-	-	-	5,390	5,390
	410,733	124,827	-	-	535,560	535,560
Equity securities						
Common stocks	-	213	-	-	213	213
Preferred stocks	47,584	-	-	-	47,584	47,584
Investment fund units	21,723	348	-	-	22,071	22,071
	69,307	561	-	-	69,868	69,868
Mortgages						
Insured residential	-	-	8,169	-	8,169	8,253
Other residential	-	-	21,815	-	21,815	21,120
Commercial	-	-	81,582	-	81,582	80,464
	-	-	111,566	-	111,566	109,837
Other invested assets	-	-	2,030	-	2,030	2,020
Policy loans	-	-	10,065	-	10,065	10,065
Investment properties	-	-	-	30,195	30,195	30,195
	490,992	125,388	123,661	30,195	770,236	768,497

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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Investment Properties

The following table details the transactions on investment properties.

	2018	2017
	$	$
Balance, beginning of year	30,195	30,781
Disposition	-	(258)
Change in fair value	(611)	(328)
Balance, end of year	29,584	30,195
Rental income and service charge income	6,371	6,106
Operating expenses that generate rental income	(4,274)	(4,164)
Operating expenses that do not generate rental income	(577)	(505)

5. RISK MANAGEMENT RELATING TO FINANCIAL INSTRUMENTS

The principal risks relating to financial instruments that the Group must manage are credit risk, liquidity risk and market risk (interest rate and stock market). The measures adopted by the Group to control each of these risks are outlined below.

Credit Risk

Credit risk is the risk that the Group will incur a financial loss if some of its debtors fail to fulfill their obligation to make payments when due. The Group, in the normal course of its activities, is exposed to that risk through credit granted to its clients, reinsurers and brokers, through credit in the form of mortgages and exposure through its various investment portfolios. The risk of credit concentration may also occur when there is a concentration of investments in entities with similar activities in the same geographic region or in the same sector of activity or when a significant investment is made with a sole entity.

Credit-risk management is conducted through the Group's investment policy and is applied to various means of investment and credit. Investments in debt securities must be selected after an analysis that considers geographic diversification, the type of issuer, average credit rating and maturity of securities. Limits are established for each of these factors.

The Group also has a specific credit policy for mortgages according to which a study must be conducted in order to determine a credit rating for the loan. To manage the risk of concentration, industry limits are established, some sectors are avoided and the loan amounts granted to one person or to one group are limited. Furthermore, loans must be guaranteed by residential or commercial buildings or by land held for subdividing purposes. The type of guarantee is based on the assessment of the degree of counterparty credit risk.

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The conclusion of guarantee agreements is also a credit risk mitigation measure. The required amount and type of guarantee are based on the assessment of the counterparty credit risk. Guidelines have been established for the types of acceptable guarantees and related assessment parameters. Management examines the value of guarantees and requires additional guarantees, if needed.

Maximum Credit Risk

The table below summarizes the Group's maximum financial instrument credit risk. The maximum credit risk corresponds to the book value of assets, net of any provision for losses.

	2018	2017
	$	$
Cash and cash equivalents	3,089	10,952
Debt securities	487,544	535,560
Mortgages	130,461	111,566
Other invested assets	1,678	2,030
Policy loans	10,590	10,065
Reinsurance assets	205,684	218,418
Other receivables (note 7)	16,805	14,075
	855,851	902,666

Quality of the Debt Securities Portfolio

	2018	2017
	$	$
AAA	-	535
AA	228,166	217,757
A	259,378	317,268
	487,544	535,560

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Quality of the Preferred Equity Securities Portfolio

	2018	2017
	$	$
PF-2	35,954	40,424
PF-3	6,301	7,160
	42,255	47,584

Loans in Arrears and Provisions for Losses

The carrying value of mortgages in arrears before provisions for losses is as follows:

	2018			
	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total
	$	$	$	$
Non impaired mortgages				
Insured residential	-	-	-	-
Other residential	-	-	210	210
	-	-	210	210

	2017			
	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total
	$	$	$	$
Non impaired mortgages				
Insured residential	-	19	-	19
Other residential	-	-	219	219
	-	19	219	238

Provision for losses

	2018	2017
	$	$
Mortgage loans:		
Beginning of year	-	-
Increase in provisions for losses	210	-
End of year	210	-

Liquidity Risk

Liquidity risk is the risk that the Group cannot respond to all of its cash flow commitments as they reach maturity.

This risk is managed through matching of asset and liability cash flows and active management of funds. However, a certain level of liquidity is required to provide for contingencies such as asset repurchases or defaults.

Additional liquidities are available through credit lines, if needed.

The Group has commitments to customers for undisbursed approved mortgages. The following is the payment schedule for those loans:

	1-6 months	7-12 months	Over 1 year
	$	$	$
Undisbursed approved mortgages	12,972	-	-

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The following tables show the carrying amount of financial instruments by maturity, as well as total fair value.

	2018						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	3,089	-	-	-	-	3,089	3,089
Debt securities							
Government	-	-	-	51,481	430,722	482,203	482,203
Municipal	-	-	-	-	-	-	-
Corporations & other	-	-	-	591	4,750	5,341	5,341
	-	-	-	52,072	435,472	487,544	487,544
Equity securities							
Common stocks	204	-	-	-	-	204	204
Preferred stocks	42,255	-	-	-	-	42,255	42,255
Investment fund units	18,834	-	-	-	-	18,834	18,834
	61,293	-	-	-	-	61,293	61,293
Mortgages							
Insured residential	-	1,865	3,929	672	1,968	8,434	8,252
Other residential	-	8,008	16,835	5,157	1,537	31,537	30,900
Commercial	-	8,506	54,669	25,235	2,080	90,490	88,643
	-	18,379	75,433	31,064	5,585	130,461	127,795
Other invested assets	-	1,031	-	647	-	1,678	1,673
Policy loans	10,590	-	-	-	-	10,590	10,590
Other receivables	16,805	-	-	-	-	16,805	16,805

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	2017						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	10,952	-	-	-	-	10,952	10,952
Debt securities							
Government	-	9,165	14,240	59,964	446,266	529,635	529,635
Municipal	-	-	535	-	-	535	535
Corporations & other	-	-	-	-	5,390	5,390	5,390
	-	9,165	14,775	59,964	451,656	535,560	535,560
Equity securities							
Common stocks	213	-	-	-	-	213	213
Preferred stocks	47,584	-	-	-	-	47,584	47,584
Investment fund units	22,071	-	-	-	-	22,071	22,071
	69,868	-	-	-	-	69,868	69,868
Mortgages							
Insured residential	-	3,320	2,115	685	2,049	8,169	8,253
Other residential	-	10,601	6,511	4,703	-	21,815	21,120
Commercial	-	24,436	34,653	20,268	2,225	81,582	80,464
	-	38,357	43,279	25,656	4,274	111,566	109,837
Other invested assets	-	1,305	-	725	-	2,030	2,020
Policy loans	10,065	-	-	-	-	10,065	10,065
Other receivables	14,075	-	-	-	-	14,075	14,075

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Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to variations in market factors. It consists of the following: interest rate risk and stock market risk.

Interest Rate Risk

Interest rate risk is present when there is not a perfect match between asset and liability cash flows and when interest rates fluctuate, which leads to a variation in the disparity between assets and liabilities. Due to the nature of an insurance company's activities, which is investing clients' premiums with the ultimate goal of paying benefits, the payment of which may be uncertain and far off, namely with regard to death benefits and annuity payments, interest rate risk must be managed properly.

The Group has matched its assets with its liabilities in order to minimize profit margin volatility caused by fluctuations between realized profits and profits credited to existing contracts. To manage matching requirements, financial assets and liabilities are distributed over business lines in order to match one business line's assets with its liabilities. This matching is regularly analyzed and modified. The exchange of information among the actuarial department, finance department and investment managers along with the regular publication of credited rates are part of the process.

To further manage risk, matching is based on the characteristics of the products sold. For products that must provide fixed and highly predictable benefits, liabilities and assets with similar characteristics are matched, such as investments in fixed-income instruments. This results in some protection against fluctuating interest rates because any variation in the fair value of assets is compensated by a similar variation in the fair value of liabilities. Considering the investments available on the market, it is more difficult to perform this matching for liabilities with maturities of more than 30 years.

Furthermore, the Group's policy is to achieve fairly complete matching. Thus differences in the durations of assets and liabilities must not exceed certain established parameters. That policy is intended to manage interest rate risk for liabilities with maturities later than those of the matched assets.

Projected asset and liability cash flows are used in the Canadian Asset Liability Method (CALM) to establish technical provisions. Asset cash flows are reduced to take into account possible losses due to insufficient return on assets. Reinvestment risk is assessed based on multiple interest rate scenarios (to take into account possible increases or decreases in rates).

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Stock Market Risk

Stock market risk is the uncertainty associated with the valuation of assets arising from market fluctuations. The Group is exposed to that risk in various ways: through management fees calculated on the value of the assets being managed, by the expense resulting from the capital guarantee provided for some products and by the return on assets matched to equity and to actuarial liabilities. In order to mitigate this risk, the Group's investment policy provides for cautious investments in accordance with clearly defined limits.

Concentration risk

The following tables provide information on concentration risk for equity securities.

2018	Investment funds units	Common Stocks	Preferred stocks
	$	$	$
Energy	-	27	4,009
Finance	-	59	29,351
Industrial	-	32	-
Utilities	-	3	8,895
Other	18,834	83	-
	18,834	204	42,255

2017	Investment funds units	Common Stocks	Preferred stocks
	$	$	$
Energy	-	34	4,963
Finance	-	65	32,933
Industrial	-	30	-
Utilities	-	-	9,688
Other	22,071	84	-
	22,071	213	47,584

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6. FAIR VALUE MEASUREMENT

Fair Value Hierarchy

A hierarchy of valuation techniques is used for assets and liabilities measured at fair value in the consolidated statement of financial position or for which fair value is disclosed in notes. The hierarchies include the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable to the asset or liability, either directly (i.e. 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).

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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The following table presents information about the fair value of assets and liabilities based on the levels of input used:

	2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value	$	$	$	$
Cash and cash equivalents	3,089	-	-	3,089
Financial assets designated at fair value through profit or loss				
Debt securities	-	381,924	-	381,924
Equity securities	60,738	-	-	60,738
Financial assets available-for-sale				
Debt securities	-	105,620	-	105,620
Equity securities	555	-	-	555
Investment properties	-	-	29,584	29,584
Assets disclosed at fair value				
Mortgages	-	127,795	-	127,795
Other invested assets	-	1,673	-	1,673
Policy loans	-	10,590	-	10,590
	64,382	627,602	29,584	721,568
Liabilities measured at fair value				
Investment contract liabilities	-	20,309	-	20,309
Liabilities disclosed at fair value				
Borrowings	-	320	-	320
	-	20,629	-	20,629

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(in thousands) Year ended December 31, 2018

	2017			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value	$	$	$	$
Cash and cash equivalents	10,952	-	-	10,952
Financial assets designated at fair value through profit or loss				
Debt securities	-	410,733	-	410,733
Equity securities	69,307	-	-	69,307
Financial assets available-for-sale				
Debt securities	-	124,827	-	124,827
Equity securities	561	-	-	561
Investment properties	-	-	30,195	30,195
Assets disclosed at fair value				
Mortgages	-	109,837	-	109,837
Other invested assets	-	2,020	-	2,020
Policy loans	-	10,065	-	10,065
	80,820	657,482	30,195	768,497
Liabilities measured at fair value				
Investment contract liabilities	-	20,967	-	20,967
Liabilities disclosed at fair value				
Borrowings	-	469	-	469
	-	21,436	-	21,436

There has been no transfer between level 1 and level 2 during the period.

Refer to Note 4 for details of changes in fair value of investment properties.

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Investment properties are recorded at fair value as determined by a qualified independant appraiser.

The fair value of investment properties is determined by various recognized methods and standards of assessment in the real estate sector. These methods are based on expected capitalization rates and models which update the expected future cash flows at prevailing interest rates on the market based on the characteristics, location and market of each property. The expected future cash flows include contractual and projected cash flows and projected operating expenses and reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect, estimates of future cash inflows, including revenues projected from leases in force and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, type and quality of the building and current market data and projections as of the date of the appraisal. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness.

The fair value of investment properties is established by the qualified independent appraiser in relation to highest and best uses. He uses three approaches: cost approach, income approach and direct comparison approach. The main assumptions used are as follows:

	2018	2017
	%	%
Overall discount rate	9 to 10	9 to 10
Growth rate		
Rent	0 to 2	0 to 2
Operating expenses	2	2
Vacancy rate	5	5

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2018

7. OTHER ASSETS

	2018	2017
	$	$
Financial assets		
Insurance receivables:		
Policyholders	3,976	4,013
Reinsurers	6,423	4,389
Agents, brokers and intermediates	723	589
Accrued investment income	1,008	1,075
Accounts receivable	4,675	4,009
	16,805	14,075
Non financial assets		
Commissions and prepaid expenses	2,345	2,436
Income tax receivable	2,580	168
Other	204	45
	5,129	2,649
	21,934	16,724

8. PROPERTY AND EQUIPMENT

	$
Cost	
At December 31, 2017	10,572
Additions	2,932
Other movements	(609)
At December 31, 2018	12,895
Accumulated amortization	
At December 31, 2017	4,486
Amortization	1,080
Other movements	(609)
At December 31, 2018	4,957
Carrying amount	
At December 31, 2017	6,086
At December 31, 2018	7,938

(in thousands) Year ended December 31, 2018

9. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Client list	Total
	$	$	$	$	$
Cost					
At December 31, 2017	1,115	13,945	45	898	16,003
Cost capitalized	426	455	825	1,271	2,977
Completed projects	-	-	(731)	-	(731)
Other movements	(399)	(198)	-	-	(597)
At December 31, 2018	1,142	14,202	139	2,169	17,652
Accumulated amortization					
At December 31, 2017	752	12,062	-	-	12,814
Amortization	235	1,154	-	-	1,389
Other movements	(399)	(198)	-	-	(597)
At December 31, 2018	588	13,018	-	-	13,606
Carrying amount					
At December 31, 2017	363	1,883	45	898	3,189
At December 31, 2018	554	1,184	139	2,169	4,046

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

10. SEGREGATED FUNDS NET ASSETS

	2018	2017
NET ASSETS	$	$
Investments:		
Debt securities	26,146	24,389
Equity securities	8,739	10,179
Pooled funds	694,119	721,614
Cash and term deposits	2,196	1,113
Accrued investment income	133	111
Other	2,376	1,054
	733,709	758,460
Liabilities	2,239	286
NET ASSETS	731,470	758,174

	2018	2017
CHANGE IN NET ASSETS	$	$
NET ASSETS – BEGINNING OF YEAR	758,174	706,782
Net contributions:		
Contributions	108,053	128,863
Withdrawals	(88,396)	(115,745)
	19,657	13,118
Investment income:		
Change in value of investments	(72,477)	23,360
Interest and dividends	40,146	28,271
Management and administrative fees	(32,331)	51,631
NET ASSETS – END OF YEAR	(14,030)	(13,357)
	731,470	758,174

(in thousands) Year ended December 31, 2018

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

The composition of the Group's insurance contract liabilities is as follows:

	2018		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	520,069	(159,809)	360,260
Group insurance	66,120	(43,678)	22,442
Annuities and pensions	189,158	(701)	188,457
Other insurance contract liabilities	2,928	(1,496)	1,432
	778,275	(205,684)	572,591

	2017		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	541,858	(173,627)	368,231
Group insurance	64,743	(42,347)	22,396
Annuities and pensions	218,921	(676)	218,245
Other insurance contract liabilities	4,361	(1,768)	2,593
	829,883	(218,418)	611,465

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Change in insurance contract liabilities and reinsurance assets

The change for the year is explained as follows:

	2018		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	825,522	(216,650)	608,872
Change in balances on in-force policies	(52,029)	14,814	(37,215)
Balances arising from new policies	9,484	(6,332)	3,152
Method and assumption changes	(7,630)	3,980	(3,650)
Increase (decrease) in insurance contract liabilities and reinsurance assets	(50,175)	12,462	(37,713)
Balance before the following:	775,347	(204,188)	571,159
Other insurance contract liabilities	2,928	(1,496)	1,432
Total insurance contract liabilities and reinsurance assets	778,275	(205,684)	572,591

(in thousands) Year ended December 31, 2018

	2017		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	749,806	(180,080)	569,726
Change in balances on in-force policies	43,197	(32,754)	10,443
Balances arising from new policies	38,667	(9,341)	29,326
Method and assumption changes	(6,148)	5,525	(623)
Increase (decrease) in insurance contract liabilities and reinsurance assets	75,716	(36,570)	39,146
Balance before the following:	825,522	(216,650)	608,872
Other insurance contract liabilities	4,361	(1,768)	2,593
Total insurance contract liabilities and reinsurance assets	829,883	(218,418)	611,465

Principal changes to actuarial methods and assumptions relating to the insurance contract liabilities net of reinsurance are detailed as follows:

	2018	2017
	$	$
Mortality	(1,523)	(2,283)
Interest	(1,784)	3,008
Lapses	747	1,618
Expense	(1,084)	(2,139)
Other (dividends, data)	(6)	(827)
Total	(3,650)	(623)

(in thousands) Year ended December 31, 2018

12. INVESTMENT CONTRACT LIABILITIES

	2018	2017
	$	$
Balance, beginning of period	20,967	21,383
Deposits	3,280	3,475
Interest	425	359
Withdrawals	(4,363)	(4,250)
Decrease in investment contract liabilities	(658)	(416)
Total investment contract liabilities	20,309	20,967

13. INSURANCE RISK

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The concentration of risk is managed by using reinsurance to limit the Group's risk in regard to each of its insured and in order to stabilize its results. Maximum amounts of benefits varying by activity sector are established for life and health insurance. The Group also possesses reinsurance treaties that cover financial losses related to multiple settlement requests that could occur following catastrophic events that would include multiple insureds.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Each year, the Group ascertains that its reinsurers exceed the minimum capitalization required by the regulatory authorities.

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Insurance Contracts

Life insurance contracts offered by the Group include: individual whole life insurance, individual and group term insurance and individual and group annuities.

Life insurance contracts are contracts for which the insurer receives premiums in exchange for benefits that will be paid at the death of the policyholder or lapse of the policy.

Annuity contracts are expressed in the form of an annuity payable at a specified age in exchange for premiums. If death occurs before retirement, contracts generally return the value of the fund accumulated for deferred annuities. Most contracts give the policyholder the option at retirement to take a cash sum amount or a guaranteed conversion rate allowing the policyholders the option of taking a payable annuity.

Single premiums annuities are products that pay a specified payment to a policyholder. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period, or are transferable to a spouse at a specified percentage, at the time of death.

Deferred annuities are contracts that bear a guaranteed interest rate usually for a period equal or less than five years. These contracts waive market value adjustment until death of the policyholder.

Cash outflows related to insurance contract liabilities net of reinsurance are illustrated as follows:

	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	$	$	$	$	$
Individual insurance	(14,949)	(14,331)	47,200	864,291	882,211
Group insurance	8,902	8,361	6,000	6,212	29,475
Annuities and pensions	52,264	78,390	31,551	84,337	246,542

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The main risks that the Group is exposed to are as follows:

- Mortality risk - risk of loss due to policyholder death experience being different than expected
- Morbidity risk - risk of loss due to policyholder health experience being different than expected
- Longevity risk - risk of loss due to the annuitant living longer than expected
- Investment return risk - risk of loss due to actual returns being different than expected
- Expense risk - risk of loss due to expense experience being higher than expected
- Policyholder decision risk - risk of loss due to policyholder decision (lapses and surrenders) being different than expected

Sensitivities

The analysis that follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on profit after tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, these had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	After-tax income impact		
Assumption	**Change**	**2018**	**2017**
	$	$	$
Mortality - life insurance products	+ 2%	(2,329)	(2,222)
Mortality - annuity products	- 2%	(374)	(383)
Morbidity	5% adverse	(1,657)	(1,759)
Expenses (contracts maintenance)	+ 5%	(1,713)	(1,709)
Policy termination rates	10% adverse	(8,599)	(7,616)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	2,098	1,222
	- 100 bps	(2,544)	(1,606)
Investment properties			
Immediate change in market value	+ 10%	2,137	2,182
	- 10%	(2,137)	(2,182)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	1,805	627
	- 10%	(2,646)	(1,927)

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14. OTHER LIABILITIES

	2018	2017
	$	$
Financial liabilities		
Insurance payable:		
Policyholders	9,491	8,870
Reinsurers	3,898	3,270
Agents, brokers and intermediates	976	1,464
Suppliers and other charges	7,806	6,546
Other	710	1,053
	22,881	21,203
Non financial liabilities		
Income tax	56	1,572
	22,937	22,775

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15. EMPLOYEE BENEFIT PLANS

Information about the Group's defined benefit pension plans is as follows:

	2018	2017
	$	$
Changes in accrued benefit obligation of defined benefits:		
Balance at beginning of year	70,200	63,248
Current service cost	1,860	1,783
Employees' contributions	676	761
Interest cost	2,496	2,506
Benefits paid	(2,618)	(2,896)
Actuarial losses (gains) resulting from experience adjustments	88	(453)
Actuarial losses resulting from changes of financial assumptions	(6,011)	5,251
Balance at end of year	66,691	70,200
Changes in plan assets:		
Fair value at beginning of year	59,192	52,581
Employer's contributions	4,967	5,086
Employees' contributions	676	761
Return on plan assets	(2,546)	3,660
Benefits paid	(2,618)	(2,896)
Fair value at end of year	59,671	59,192

The amounts recognized in the consolidated statement of financial position are as follows:

	2018	2017
	$	$
Present value of the defined benefit obligations	66,691	70,200
Fair value of plan assets	(59,671)	(59,192)
Pension plan liability	7,020	11,008

(in thousands) Year ended December 31, 2018

Re-measurement effects recognized in other comprehensive income:

	2018	2017
	$	$
Actuarial gains (losses) of defined benefit obligations		
Experience adjustments	(88)	453
Changes of financial assumption	6,011	(5,251)
Return on plan assets greater (less) than discount rate	(4,668)	1,554
Total effect in other comprehensive income	1,255	(3,244)

The Group's net pension plan expense is computed as follows:

	2018	2017
	$	$
Current service cost	1,860	1,783
Net interest on the defined benefit liability	375	400
	2,235	2,183

Employee benefit liability on the consolidated statement of financial position is comprised of the following:

	2018	2017
	$	$
Group insurance benefits liability	625	653
Pension plan liability	7,020	11,008
	7,645	11,661

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

Plan members contribute 7.5% (7.5% in 2017) to their retirement plan. The Group makes the necessary residual contributions to the plans. The Group finances the plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits was established by the latest actuarial valuation, dated December 31, 2017 for the Assumption Mutual Life Insurance Company Agent and Employee Pension Plan ("AML") and December 31, 2017 for the Assumption Place Employee Pension Plan ("Place"). The average remaining service periods of the active employees covered by the AML pension plan is 19 years (20 years in 2017) and 11 years (12 years in 2017) for the Place pension plan. The average remaining service periods of the active employees covered by the other retirement benefit plans are the same as the pension plans.

The Group's best estimate of expected payments for the pension plans for the year ending December 31, 2019, is $4,837.

The pension fund monies are invested in the following assets:

	2018	2017
	$	$
Assumption Life and Assumption Place Pension Plan Fund	59,111	58,638
Cash	560	554
	59,671	59,192

Assumption Life and Assumption Place Pension Plan Fund

The Assumption Life and Assumption Place Pension Plan Fund (the "Pension Plan Fund") is a segregated fund established by Assumption Life. The overall objective of the Pension Plan Fund is a net rate of return, after management fees, that is more than the annual increase in the Consumer Price Index, discounted at the average yearly compound rate over a period of four years.

The Pension Plan Fund portfolio consists of a mix of cash (4.3%), Canadian bonds (44.4%) and equities (25.8%), foreign equities (21.4%) and hedge funds (4.1%). The Pension Plan Fund is eligible as a registered retirement savings plan under the *Income Tax Act of Canada*.

(in thousands) Year ended December 31, 2018

Actuarial assumptions utilized to determine benefit obligation under the defined benefit plans

	2018	2017
	%	%
Discount rate	3.9 to 4.0	3.4 to 3.5
Rate of compensation increase	3.25 to 3.75	3.25 to 3.75
Mortality rate	CPM2014, MI-2017	CPM-B2D2014

Sensitivity analysis

Valuation of the defined benefit obligation under the defined benefit plans is sensitive to the preceding actuarial assumptions. The following table summarizes the impact on the defined benefit obligation at year end if a change of 1% in the actuarial assumptions arises.

	2018	
	+ 1%	- 1%
Discount rate	(10,953)	14,428
Rate of compensation increase	1,987	(1,883)
Mortality rate	(101)	102

Defined contribution plan

As of July 1, 2014, the Group stopped offering the defined benefit plan to new employees and is now offering a defined contribution plan providing pension benefits. The Group's contributions to the defined contribution plan are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Group's defined contribution plan is $330 for the year ended December 31, 2018 ($265 in 2017).

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

16. BORROWINGS

The Group has authorized credit lines totaling $500 bearing interest at the bank's base rate. These bank loans are renewable annually, are not guaranteed and are not used as at December 31, 2018.

	2018	2017
	$	$
Promissory note without interest, repayable in annual instalments of $166, maturing in September 2020	320	469
Fair value	320	469

Payments on principal expected and required in the next two years to meet repayment provisions are as follows:

Years ending December 31,	2019	$ 166
	2020	$ 154

(in thousands) Year ended December 31, 2018

17. TAXES

Income tax expense consists of the following:

	2018	2017
	$	$
Current income taxes	1,856	1,869
Adjustments from prior years	(10)	139
Deferred income taxes	202	374
	2,048	2,382

The effective income tax rate in the consolidated statement of income differs from the Group's statutory tax rate, mainly as a result of the following:

	2018		2017	
	$	%	$	%
Income tax at statutory rate	2,674	27.7	2,808	27.7
Increase (decrease) in the tax rate resulting from:				
Non taxable investment income	(735)	(7.6)	(653)	(6.4)
Differences in tax rates in other provincial jurisdictions	63	0.7	53	0.5
Adjustments from prior year	(10)	(0.1)	139	1.4
Other	56	0.5	35	0.3
	2,048	21.2	2,382	23.5

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2018

The Group's deferred tax liabilities (deferred tax assets) arise from the following items:

	2018	2017
	$	$
Investment properties, property and equipment and intangible assets	4,932	5,166
Insurance contract	(187)	(268)
Debt securities	97	150
Employee benefit plans	(2,125)	(3,242)
Other	(137)	(149)
	2,580	1,657
Deferred tax assets	(2,306)	(2,979)
Deferred tax liabilities	4,886	4,636
	2,580	1,657

18. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2018	2017
	$	$
Interest received	7,434	7,525
Income taxes paid	4,947	951
Dividends paid	361	358
Dividends received	2,366	2,393
Cash flows related to financing activities include the following:		
Interest paid on financing	8	29

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

19. CONTINGENCIES

In its normal course of business, the Group is occasionally named as a defendant in legal proceedings. While it is not possible to anticipate the outcome of such proceedings, the Group does not expect that it will incur significant losses or need to commit significant amounts to such actions.

20. COMMITMENT

As a member of Assuris, the Group incurs, and will likely incur in the future, certain costs in connection with the operations of Assuris. Assuris is responsible for compensating policyholders in the event that a life insurer's operations must be liquidated.

Assuris annually assesses life insurers on the basis of a five-year average of annual premiums and the assessments are charged to income in the year they are incurred. The Group has agreed to provide Assuris with a credit facility which can be drawn upon, at Assuris' option, should the need arise.

21. NET PREMIUMS

	2018			2017
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	$	$	$	$
Individual insurance	68,002	(16,047)	51,955	49,878
Group insurance	64,232	(18,290)	45,942	47,656
Annuities and pensions	25,582	-	25,582	51,566
	157,816	(34,337)	123,479	149,100

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2018

22. NET BENEFITS AND CLAIMS PAID

	2018			2017
	Gross benefits and claims paid	Claims ceded to reinsurers	Net benefits and claims paid	Net benefits and claims paid
	$	$	$	$
Individual insurance	32,462	(9,867)	22,595	18,907
Group insurance	42,717	(14,697)	28,020	31,916
Annuities and pensions	62,404	(42)	62,362	57,195
	137,583	(24,606)	112,977	108,018

23. FEES AND COMMISSION INCOME

	2018	2017
	$	$
Policyholder administration and investment management services	17,922	16,866
Surrender charges and other contract fees	1,991	1,226
Reinsurance commission income	2,089	2,497
	22,002	20,589

(in thousands) Year ended December 31, 2018

24. INVESTMENT INCOME

	2018	2017
	$	$
Interest on cash and cash equivalents	151	100
Interest on debt securities designated at fair value through profit or loss	1,216	1,551
Interest on debt securities available-for-sale	3,865	4,107
Dividends on equity securities designated at fair value through profit or loss	2,357	2,331
Dividends on equity securities available-for-sale	-	21
Interest on mortgage loans and other invested assets	5,485	5,294
Interest on policy loans	526	485
Rental income from investment properties	2,977	2,936
Service charge income from investment properties	3,394	3,170
Service charge expense from investment properties	(4,274)	(4,164)
	15,697	15,831

25. RENTAL INCOME

Assumption Place, a subsidiary of the Group, leases retail and office properties to tenants under operating leases.

Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	2018	2017
	$	$
Not later than one year	5,191	5,159
Later than one year and not later than five years	8,567	11,906
Later than five years	47	43
	13,805	17,108

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2018

26. REALIZED GAINS AND LOSSES FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018	2017
	$	$
Realized gains		
Equity securities	-	54
Debt securities	1,806	1,869
Realized losses		
Equity securities	-	(2)
Debt securities	(214)	-
	1,592	1,921

27. FAIR VALUE GAINS AND LOSSES

	2018	2017
	$	$
Financial assets at fair value through profit or loss	(8,924)	38,698
Investment properties	(611)	(328)
	(9,535)	38,370

28. FEES AND COMMISSION EXPENSES

	2018	2017
	$	$
Fees expenses	1,455	1,394
Commission expenses	23,619	26,306
	25,074	27,700

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

29. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2018	2017
	$	$
Administrative expenses		
Salaries and employee benefits expense	24,675	22,750
Amortization on property and equipment (note 8)	1,080	930
Amortization of intangible assets (note 9)	1,389	1,462
Professional and consultant fees	4,843	4,387
Investment property related expenses (note 4)	577	505
Other	4,905	5,088
	37,469	35,122
Other operating expenses		
Allowance and credit losses	215	-
Premium taxes	2,547	2,610
Investment expenses	2,538	2,425
	5,300	5,035

30. CAPITAL MANAGEMENT

With regard to capital management, the Group ensures that equity is always sufficient to maintain the Group's security and stability. Furthermore, it ensures that the return on capital meets the expectations of policyholders entitled to share in the Group's profits. The Group also ensures compliance with the requirements established by the Office of the Superintendent of Financial Institutions of Canada (OSFI).

Moreover, each year the valuation actuary projects the expected results of the Group according to its business plan. This analysis, called the Dynamic Capital Adequacy Testing (DCAT), is presented to the Board of Directors and filed with the regulatory authorities. The purpose of this analysis is to make sure the Group has enough capital to successfully go through the next few years and face unexpected outcomes.

This exercise considers many unfavorable scenarios in order to test the financial strength of the Group. Given the diversity of the Group's lines of business, this analysis shows that no element of exposure taken separately has any significant impact on its solvency. Also, the combination of these elements to different degrees does not jeopardize the solvency of the Group.

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2018

Regulatory requirements and solvency ratio

The regulatory authorities require life insurance companies in Canada to maintain a minimum capitalization ratio in order to carry on business activities. In reference to the guideline imposed by OSFI, the Group maintains a ratio above the supervisory target total ratio of 100%. As of December 31, 2018, the Group's ratio is 135% (137% in 2017).

A ratio of 135% means that the Group has sufficient capitalization to face unexpected negative results of approximately $48.6 million ($47.1 million in 2017) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory capital

	2018	2017
Available capital according to requirements	$185,868	$176,045
Required capital	$137,311	$128,966
Solvency ratio	135%	137%

31. RELATED PARTY TRANSACTIONS

Related parties include directors, executives and their affiliates.

Compensation of key management personnel

Key management personnel of the Group includes all directors, executive and non executive, and senior management. The summary of compensation of key management personnel for the year is as follows:

	2018	2017
	$	$
Salaries and other short-term employment benefits	4,062	3,879
Fees	280	240
Post employment pension benefits	339	307
	4,681	4,426

Organizational Chart

Assumption Mutual Life Insurance Company

Atlantic Holdings (1987) Ltd.

100% Assumption Mutual Life Insurance Company
$2,132

Assumption Place Ltd.

100% Assumption Mutual Life Insurance Company
$24,802

Tech Knowledge Solutions

60% Assumption Mutual Life Insurance Company
$2

Louisbourg Investments Inc.

70% Atlantic Holdings (1987) Ltd.

Louisbourg Financial Services Inc.

Louisbourg Investments Inc.

% = percentage of voting rights held
$ = book value (in thousands of Canadian dollars)

Assumption Life

2018 ANNUAL REPORT

www.assumption.ca

Certified B Corporation

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