Assumption Life

2019 ANNUAL REPORT

TABLE OF CONTENTS

“ Founded in 1903, our main objective has always been to help people.

Through our award-winning team of passionate, creative and versatile professionals, we strive continuously to deliver outstanding, personalized service. We offer simple, affordable solutions for ensuring your financial security. ”

BOARD OF DIRECTORS

Andrée Savoie
ICD.D

President & CEO
Adelin Properties

President of the Board

Sébastien Dupuis
CPA, CA

President & CEO
Assumption Life

Geneviève Laforge
LL.B, ASC

Director, Organizational Development

Jacques Valotaire
FCPA, FCA, ICD.D

Corporate Director

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

Président
MelamTech Consulting

Alain Bossé

President & COO

Groupe Savoie

Marc Landry

Vice-President, IT and Logistics

Major Drilling

Bernard Tanguay
FICA, FSA, ASC

Corporate Director

Board Member Attendance

Board of Directors 2019	Board Meeting Attendance	Committee Meeting Attendance	Subsidiary Meetings Attendance
Andrée Savoie	9/9	19/19	2/2
Sébastien Dupuis	9/9	20/20	7/7
Ivan Toner	9/9	14/14	2/2
Yvon Fontaine	9/9	10/10	7/7
Lise Casgrain	9/9	15/15	6/6
Jacques Valotaire	9/9	13/13	4/4
Monique Tremblay	9/9	12/12	2/2
Bernard Tanguay	8/8	11/11	2/2
Marc Landry	9/9	10/10	2/2
Alain Bossé	9/9	11/11	2/2
Steven Ross	9/9	10/10	2/2
Adrienne O'Pray	9/9	14/14	2/2

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 staff senior management positions, makes recommendations on the compensation philosophy and reviews compensation packages, reviews human resource 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 Chair of the Board

On behalf of all board members, I am pleased to provide a brief overview of our accomplishments over the past year. First, your new president and CEO completed his first full year in his role. The internal promotion of Sébastien Dupuis is a source of pride for the board, which benefits from the expertise and experience of a CEO who has spent most of his career with the company. Sébastien is familiar with how things work at Assumption Life, and his first year was shaped by his inclusive approach.

The collaborative spirit he fostered was evident during the major strategic planning exercise conducted this past year. This ambitious initiative brought together not only the board of directors and senior management but also all departmental managers. Every person played a crucial role in this process, and we are fortunate to be able to count on these talented individuals as we strive to excel together. I would therefore like to thank all employees for their dedication to our company, for they are among our greatest assets.

With a new strategic plan in place to guide us through 2022, I am confident that Assumption Life will move forward with confidence down the carefully considered path toward our objectives. As we indicate in our new purpose statement, by promoting financial security, we are making a difference for our clients and our communities. Driven by our ongoing determination to provide outstanding, personalized service, we offer our clients simple, affordable solutions for ensuring their financial security.

I also take this opportunity to thank all our mutual clients, from personal clients to policyholders and agents, for their confidence in us.

I would also be remiss not to acknowledge the invaluable contribution of every member of our board of directors. The past year was one of change and critical reflection, but you all embraced the associated challenges with enthusiasm. Your work ethic was equalled only by the level of expertise you each brought to the table, and our company is proud to rely on a board of the highest calibre.

In particular, I would like to recognize the achievements of my predecessor as chair, Jacques Valotaire, whose dedication to our company has been unparalleled. Jacques and Monique Tremblay will both soon be completing their terms on the board, and I extend sincere thanks to them both for their contributions.

With our talented team, and building on our new strategic plan, I have no doubt that our company will achieve the ambitious goals it has set for the coming years!

ANDRÉE SAVOIE
Chairwoman of the Board of Directors

Message from the President and CEO

With its rich history and award-winning team, Assumption Life strives continuously to make a difference for its clients, its partners, its employees and, most importantly, its communities. This is a promise that we made more than 115 years ago and that we will continue to keep through leadership, trust, teamwork and engagement.

Leadership

The year 2019 was filled with achievements. We are pleased to announce that we reached our profitability target of $7.5 million. For a relatively small company in comparison to the giants around us, this speaks to the scope of our will and capacity to achieve and the strength of our resilience. After this collective accomplishment, we can now look to the future as we aim “Higher, further, together”!

The strong performance of our Investments & Retirement business line is to be acknowledged in particular: for the first time in our history, we surpassed $1 billion in assets under management in Investments & Retirement. Congratulations to our team, as this is something to be immensely proud of!

Trust

At a time when regulatory authorities continue to impose new standards and guidelines for gauging solvency and protecting clients, Assumption Life continues to make its mark by maintaining levels that are more than reassuring for our policyholders. Our solvency ratio remains highly enviable at 152%. Thanks to our sound financial health, we are also proud to state that the rating agency A.M. Best awarded Assumption Life the rating of A- (Excellent) for the twentieth consecutive year. Our outstanding financial stability is proof of the confidence that our partners and clients place in us.

Collaboration

Assumption Life is fortunate to have the employees that we do. Our employees are our most precious resource, the energy that drives our organization and its success.

One of the greatest triumphs of 2019 was the adoption of our new three-year strategic plan. The success of this critical exercise shaping our future is due in large part to our employees’ invaluable contribution and cooperation.

What started as meetings and exploratory discussions in small groups with our employees ultimately led to an end product of exceptional quality far exceeding all expectations. Throughout this exercise, our employees demonstrated time and time again their dedication and loyalty to Assumption Life.

None of our achievements could be recognized or celebrated without the confidence, commitment and effort of our employees, who never hesitate to step forward and work diligently to make Assumption Life shine. You can all be proud of our collective success knowing that together, we have made a difference.

Commitment

This positive momentum was maintained through the Company’s community involvement, which is

especially important to all our employees and was notable once again in 2019.

At Assumption Life, we care deeply about the communities we serve, and we believe in the power of working together to make our world a better place. Our values of cooperation and engagement are a source of great pride for us. Year after year, we demonstrate this through our significant contributions to numerous causes and non-profit organizations.

Last year, Assumption Life injected nearly $450,000 back into the community through donations to various organizations or causes and volunteer service by our employees during regular business hours. Through their unwavering commitment, our employees mirror our philosophy of being there for our communities, a philosophy unique to Assumption Life since its very founding.

I would like to thank our business partners, our employees, the executive committee and the members of our board of directors for their leadership, their trust, their teamwork and their engagement. Faithful to our founders' vision, our Company endeavours continuously to find new approaches and explore new ways to propel us forward with confidence into the future.

Together, we will ensure that Assumption Life continues to grow and thrive.

SÉBASTIEN DUPUIS
President and CEO

SENIOR MANAGEMENT

Sébastien Dupuis

CPA, CA

President and
Chief Executive Officer

Michel Allain

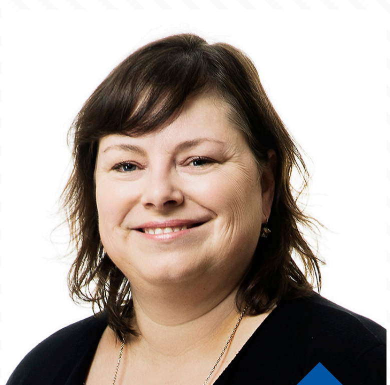
F.S.A., FICA

Vice-President,
Chief Financial Officer
and Chief Actuary

Réjean Boudreau

B.B.A.

Vice-President, Chief
of Organizational
Development



Rachelle Gagnon

MBA, CHRP

Vice-President,
Administration and
Client Experience

Stéphane Godbout

MBA

Vice-President, IT, and
Chief Digital Officer

Denis Tremblay

MBA

Vice-President, Sales
and marketing

OUR COMMITMENT IN FIGURES

In 2019, Assumption Life supported various causes and organizations. Our contributions benefit organizations working in the fields of arts and culture, health, education and socio-economic issues.

VOLUNTEER

400

hours of volunteer work during office hours

... and hundreds more outside of office hours

ASSUMPTION LIFE FOUNDATION

21

Scholarships awarded to outstanding individuals

111

ORGANIZATIONS AND INITIATIVES have received a contribution

Assumption Life's 2019 Financial Health

$1.9 BILLION
Assets Under Management

$7.5 MILLION
Profit Attributable to Policyholders

$167 MILLION
Premium Income

$141 MILLION
Policyholders' Equity

152%
Solvency ratio as of December 31, 2019

A - For the 20th 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, 2019

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, 2019, 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, 2019, 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 misstatements, 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 27, 2020

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, 2019, 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, 2020

Luc Farmer
Fellow, Canadian Institute of Actuaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands) As at December 31

	Notes	2019	2018
ASSETS		$	$
Invested assets	4		
Cash and cash equivalents		27,059	3,089
Debt securities		515,363	487,544
Equity securities		88,094	61,293
Mortgages		152,402	130,461
Other invested assets		1,648	1,678
Policy loans		11,278	10,590
Investment properties		-	29,584
		795,844	724,239
Other assets	7	19,956	21,934
Reinsurance assets	12	242,827	205,684
Deferred tax assets	18	2,751	2,306
Property and equipment	8	3,899	7,938
Intangible assets	9	4,046	4,046
Right-of-use assets	10	2,337	-
Goodwill		2,226	2,226
Segregated fund net assets	11	820,754	731,470
		1,894,640	1,699,843
LIABILITIES			
Insurance contract liabilities	12	870,472	778,275
Investment contract liabilities	13	20,310	20,309
Other liabilities	15	28,699	22,937
Employee benefit liability	16	8,933	7,645
Deferred tax liabilities	18	563	4,886
Borrowings	17	166	320
Lease liabilities	10	2,989	-
Segregated fund net liabilities	11	820,754	731,470
		1,752,886	1,565,842
EQUITY			
Policyholders' equity			
Accumulated Surplus		133,642	129,985
Accumulated other comprehensive income		7,133	3,102
		140,775	133,087
Non-controlling interests		979	914
		141,754	134,001
		1,894,640	1,699,843
Contingencies and Commitment	20, 21		

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	2019	2018
REVENUE		$	$
Gross premiums		166,593	157,816
Premiums ceded to reinsurers		(33,306)	(34,337)
Net premiums	22	133,287	123,479
Fees and commission income	24	22,642	22,002
Investment income	25	15,860	15,697
Realized gains from available-for-sale financial assets	26	3,301	1,592
Fair value gains and losses	27	56,654	(9,535)
Other operating revenue		382	484
Other revenue		98,839	30,240
Total revenue		232,126	153,719
EXPENSES			
Gross benefits and claims paid	23	124,002	137,583
Claims ceded to reinsurers	23	(26,452)	(24,606)
Gross change in contract liabilities		92,634	(51,182)
Change in contract liabilities ceded to reinsurers		(37,864)	13,115
Net benefits and claims		152,320	74,910
Borrowing costs		62	8
Fees and commission expenses	28	24,348	25,074
Administrative expenses	29	38,699	37,469
Other operating expenses	29	5,346	5,300
Other expenses		68,455	67,851
Total expenses		220,775	142,761
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		11,351	10,958
Policyholder dividends		1,445	1,315
PROFIT BEFORE INCOME TAXES		9,906	9,643
Income taxes	18	2,089	2,048
PROFIT FOR THE YEAR		7,817	7,595
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		305	422
Policyholders		7,512	7,173
		7,817	7,595

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands) Year ended December 31

	2019	2018
	$	$
PROFIT FOR THE YEAR	7,817	7,595
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 $2,457 (($811) in 2018)	6,418	(2,115)
Reclassification of realized gains included in other revenue, net of income taxes of ($914) (($441) in 2018)	(2,387)	(1,151)
Total of items that will be reclassified subsequently to net income	4,031	(3,266)
Items that will not be reclassified subsequently to net income		
Remeasurement of defined benefit pension plans, net of income taxes of ($1,414) ($348 in 2018)	(3,855)	907
Total of other comprehensive income	176	(2,359)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,993	5,236
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	305	395
Policyholders	7,688	4,841
	7,993	5,236

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands) Year ended December 31

2019

	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	129,985	3,102	133,087	914	134,001
Profit for the year	7,512	-	7,512	305	7,817
Items that will be reclassified subsequently to net income	-	4,031	4,031	-	4,031
Remeasurement of defined benefit pension plans	(3,855)	-	(3,855)	-	(3,855)
Total comprehensive income	3,657	4,031	7,688	305	7,993
Dividends	-	-	-	(240)	(240)
Balance, end of year	133,642	7,133	140,775	979	141,754

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

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

	2019	2018
	$	$
OPERATING ACTIVITIES		
Profit for the year	7,817	7,595
Items not affecting cash:		
Deferred income taxes	(3,353)	202
Change in reinsurance assets	(37,143)	12,734
Change in insurance and investment contract liabilities	92,607	(51,183)
Amortization of property and equipment and intangible assets (notes 8, 9)	2,067	2,469
Amortization of right-of-use assets (note 10)	169	-
Fair value gains and losses (note 27)	(56,654)	9,535
Realized gains on disposal of available-for-sale financial assets (note 26)	(3,301)	(1,592)
Employee benefit plan expense	1,854	2,207
Other	(4,013)	(4,588)
	50	(22,621)
Change in non-cash working capital items related to operations	103	(9,699)
Cash flows from operating activities	153	(32,320)
INVESTING ACTIVITIES		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	177,889	156,214
Purchases and loans	(155,858)	(126,748)
Acquisition of property and equipment and intangible assets	(1,836)	(5,178)
Disposition of property and equipment and intangible assets	3,809	-
Acquisition of additional interest in a subsidiary	(150)	(150)
Others	(365)	468
Cash flows from investing activities	23,489	24,606
FINANCING ACTIVITIES		
Repayment of capital on lease liabilities	(202)	-
Lease incentives received	684	-
Change in borrowings	(154)	(149)
Cash flows from financing activities	328	(149)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	23,970	(7,863)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	3,089	10,952
CASH AND CASH EQUIVALENTS – END OF YEAR	27,059	3,089

SEE NOTE 19 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, 2019

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.

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 27, 2020.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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 Expense

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 16 - Leases

IFRS 16 adoption

IFRS 16 “Leases” supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases-Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor. The Group was a lessor on January 1, 2019 but is no longer one at the end of the year following the sale of its investment properties during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

The Group adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of January 1, 2019. According to this approach, the standard is applied retrospectively, accounting for the cumulative effect of the initial application of the standard on January 1, 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option as short-term leases.

Impact on transition to IFRS 16

The impact of adoption IFRS 16 as at January 1, 2019 is as follows (increase/(decrease)):

	$
Right-of-use assets	400
Lease liabilities[1]	400

(1) The current portion of lease liabilities impact correspond to $80 as at January 1, 2019.

The following table presents the reconciliation between the Corporation's commitments as of December 31, 2019 and the lease liabilities recognized on initial application of IFRS 16 as at January 1, 2019:

	$
Commitments as at December 31, 2018	475
Discounting leases as at January 1, 2019[1]	(43)
Commitments relating to short term	(32)
Total lease liabilities as at January 1, 2019	400

(1) At the date of adoption of IFRS 16, the weighted average rate was 5%.

As of January 1, 2019, IFRS 16 does not have any impact on the equity of the Group.

IFRS 16 Accounting policies

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Depreciation method	Basis of depreciation	Depreciation period
Office	Straight line	Lease term	10 years
Equipment	Straight line	Lease term	5 years
Software	Straight line	Lease term	5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When events or changes in circumstances indicate an impairment of value, the Group revaluates the carrying value of the right-of-use assets. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's weighted average differential borrowing rate applied to rental obligations recognized in the statement of financial position on the date of the first application is 3.5% for the rental contract for head office premises and 5% for the rental contracts of the premises, equipment and software of our subsidiaries.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of assets (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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 Interpretation did not have an impact on the consolidated financial statements of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

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, 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 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, 2022. The Group is currently evaluating the impact of changes in this standard on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Refer to Note 10 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

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:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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 16.

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 12.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

4. INVESTED ASSETS

Carrying Value and Fair Value

	2019					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	27,059	-	-	-	27,059	27,059
Debt securities						
Government	385,489	124,255	-	-	509,744	509,744
Municipal	-	-	-	-	-	-
Corporations & other	5,619	-	-	-	5,619	5,619
	391,108	124,255	-	-	515,363	515,363
Equity securities						
Common stocks	-	251	-	-	251	251
Preferred stocks	50,522	16,779	-	-	67,301	67,301
Investment fund units	20,398	144	-	-	20,542	20,542
	70,920	17,174	-	-	88,094	88,094
Mortgages						
Insured residential	-	-	16,727	-	16,727	16,286
Other residential	-	-	38,276	-	38,276	36,755
Commercial	-	-	97,399	-	97,399	93,735
	-	-	152,402	-	152,402	146,776
Other invested assets	-	-	1,648	-	1,648	1,648
Policy loans	-	-	11,278	-	11,278	11,278
	489,087	141,429	165,328	-	795,844	790,218

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Investment Properties

The following table details the transactions on investment properties.

	2019	2018
	$	$
Balance, beginning of year	29,584	30,195
Disposition	(29,518)	-
Change in fair value	(66)	(611)
Balance, end of year	-	29,584
Rental income and service charge income	4,246	6,371
Operating expenses that generate rental income	(2,919)	(4,274)
Operating expenses that do not generate rental income	(406)	(577)

Assumption Place, a Group subsidiary, leased retail and office buildings to tenants under operating leases. In August 2019, Assumption Place proceeded with the disposal of its investment properties. As the Group still rents the premises, this transaction resulted in a lease liabilities for the Group and the recognition of a right-of-use asset. (see note 10)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

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.

	2019	2018
	$	$
Cash and cash equivalents	27,059	3,089
Debt securities	515,363	487,544
Mortgages	152,402	130,461
Other invested assets	1,648	1,678
Policy loans	11,278	10,590
Reinsurance assets	242,827	205,684
Other receivables (note 7)	17,680	16,805
	968,257	855,851

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Quality of the Debt Securities Portfolio

	2019	2018
	$	$
AA	334,238	228,166
A	181,125	259,378
	515,363	487,544

Quality of the Preferred Equity Securities Portfolio

	2019	2018
	$	$
PF-2	60,913	35,954
PF-3	6,388	6,301
	67,301	42,255

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Loans in Arrears and Provisions for Losses

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

2019	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

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

Provision for losses

	2019	2018
	$	$
Mortgage loans:		
Beginning of year	210	-
Increase in provisions for losses	-	210
End of year	210	210

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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	9,651	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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

	2019						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	27,059	-	-	-	-	27,059	27,059
Debt securities							
Government	-	-	1,610	45,738	462,396	509,744	509,744
Municipal	-	-	-	-	-	-	-
Corporations & other	-	-	-	610	5,009	5,619	5,619
	-	-	1,610	46,348	467,405	515,363	515,363
Equity securities							
Common stocks	251	-	-	-	-	251	251
Preferred stocks	67,301	-	-	-	-	67,301	67,301
Investment fund units	20,542	-	-	-	-	20,542	20,542
	88,094	-	-	-	-	88,094	88,094
Mortgages							
Insured residential	-	4,344	2,981	1,563	7,839	16,727	16,286
Other residential	-	8,220	21,194	8,041	821	38,276	36,755
Commercial	-	38,014	30,991	28,394	-	97,399	93,735
	-	50,578	55,166	37,998	8,660	152,402	146,776
Other invested assets	-	972	-	676	-	1,648	1,648
Policy loans	11,278	-	-	-	-	11,278	11,278
Other receivables	17,680	-	-	-	-	17,680	17,680

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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.

	2019		
	Investment funds units	Common stocks	Preferred stocks
	$	$	$
Energy	-	36	6,167
Finance	-	75	48,814
Industrial	-	38	-
Utilities	-	5	12,320
Other	20,542	97	-
	20,542	251	67,301

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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

(in thousands) Year ended December 31, 2019

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

	2019			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value	$	$	$	$
Cash and cash equivalents	27,059	-	-	27,059
Financial assets designated at fair value through profit or loss				
Debt securities	-	391,108	-	391,108
Equity securities	70,920	-	-	70,920
Financial assets available-for-sale				
Debt securities	-	124,255	-	124,255
Equity securities	17,174	-	-	17,174
Assets disclosed at fair value				
Mortgages	-	146,776	-	146,776
Other invested assets	-	1,648	-	1,648
Policy loans	-	11,278	-	11,278
	115,153	675,065	-	790,218
Liabilities measured at fair value				
Investment contract liabilities	-	20,310	-	20,310
Liabilities disclosed at fair value				
Borrowings	-	166	-	166
	-	20,476	-	20,476

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

	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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Investment properties are recorded at fair value as determined by a qualified independent 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:

	2019	2018
	%	%
Overall discount rate	-	9 to 10
Growth rate		
Rent	-	0 to 2
Operating expenses	-	2
Vacancy rate	-	5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

7. OTHER ASSETS

	2019	2018
	$	$
Financial assets		
Insurance receivables:		
Policyholders	4,907	3,976
Reinsurers	7,354	6,423
Agents, brokers and intermediates	368	723
Accrued investment income	1,048	1,008
Accounts receivable	4,003	4,675
	17,680	16,805
Non financial assets		
Commissions and prepaid expenses	1,905	2,345
Income tax receivable	3	2,580
Other	368	204
	2,276	5,129
	19,956	21,934

8. PROPERTY AND EQUIPMENT

	$
Cost	
At December 31, 2018	12,895
Additions	824
Dispositions	(6,436)
Other movements	(738)
At December 31, 2019	6,545
Accumulated amortization	
At December 31, 2018	4,957
Amortization	1,057
Dispositions	(2,627)
Other movements	(741)
At December 31, 2019	2,646
Carrying amount	
At December 31, 2018	7,938
At December 31, 2019	3,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

9. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Client list	Total
	$	$	$	$	$
Cost					
At December 31, 2018	1,142	14,202	139	2,169	17,652
Cost capitalized	728	90	595	-	1,413
Completed projects	-	-	(401)	-	(401)
Other movements	(264)	-	-	-	(264)
At December 31, 2019	1,606	14,292	333	2,169	18,400
Accumulated amortization					
At December 31, 2018	588	13,018	-	-	13,606
Amortization	382	628	-	-	1,010
Other movements	(262)	-	-	-	(262)
At December 31, 2019	708	13,646	-	-	14,354
Carrying amount					
At December 31, 2018	554	1,184	139	2,169	4,046
At December 31, 2019	898	646	333	2,169	4,046

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

10. LEASES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

Right-of-use assets	Office	Equipment	Software	Total
Cost	$	$	$	$
As at January 1, 2019	-	31	369	400
Additions	2,106	-	-	2,106
Depreciation expense	(88)	(7)	(74)	(169)
As at December 31, 2019	2,018	24	295	2,337

Lease liabilities	2019
	$
As at January 1, 2019	400
Additions	2,791
Accretion of interest	46
Payments	(248)
As at December 31, 2019	2,989

The undiscounted contractual payments planned and required over the next years are as follows:

Year ended December 31	2020	$405
	2021	$369
	2022	$333
	2023	$240
	remaining	$2,255

The lease liabilities relating to our rental contract for the premises of the head office expires on August 31, 2029. For Louisbourg Investments, the lease liabilities relating to the rental contract for the Moncton premises expires on June 30, 2021 and for the Halifax premises, December 31, 2029. The lease liabilities contract for Louisbourg Investments equipment expires on July 31, 2023. The lease liabilities for Louisbourg Investments software expires on December 31, 2023. For Tech Knowledge Solutions, the lease liabilities relating to the rental contract for the premises expires on December 31, 2027.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

The following are the amounts recognised in the consolidated statement of income:

	2019
	$
Depreciation expense of right-of-use assets	169
Interest expense on lease liabilities	46
Expense relating to short-term leases	33
Variable lease payments not included in the evaluation of the lease liabilities	280
Total amount recognised in the consolidated statement of income	528

The Group estimates that it will incur future charges relating to the payment of variable rents in the amount of $7,004 during the lease term.

The Group has two lease contracts including extension options. These options are negotiated by management to provide flexibility in the management of the leased asset portfolio and to align with the Group's business needs. Management exercises significant judgment in determining whether these extensions options can reasonably be exercised. The undiscounted potential future rents relating to the periods following the exercise of the extension option dates not included in the term of the lease represent an amount of $3,838.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

11. SEGREGATED FUNDS NET ASSETS

NET ASSETS	2019 $	2018 $
Investments:		
Debt securities	29,590	26,146
Equity securities	-	8,739
Pooled funds	789,806	694,119
Cash and term deposits	3,708	2,196
Accrued investment income	127	133
Other	976	2,376
	824,207	733,709
Liabilities	3,453	2,239
NET ASSETS	820,754	731,470

CHANGE IN NET ASSETS	2019 $	2018 $
NET ASSETS – BEGINNING OF YEAR	731,470	758,174
Net contributions:		
Contributions	104,050	108,053
Withdrawals	(108,974)	(88,396)
	(4,924)	19,657
Investment income:		
Change in value of investments	72,931	(72,477)
Interest and dividends	35,730	40,146
Management and administrative fees	108,661	(32,331)
NET ASSETS – END OF YEAR	(14,453)	(14,030)
	820,754	731,470

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

12. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

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

	2019		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	605,178	(188,952)	416,226
Group insurance	77,995	(52,114)	25,881
Annuities and pensions	184,076	(649)	183,427
Other insurance contract liabilities	3,223	(1,112)	2,111
	870,472	(242,827)	627,645

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Change in insurance contract liabilities and reinsurance assets

The change for the year is explained as follows:

	2019		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	775,347	(204,188)	571,159
Change in balances on in-force policies	68,991	(33,710)	35,281
Balances arising from new policies	21,016	(6,666)	14,350
Method and assumption changes	1,895	2,849	4,744
Increase (decrease) in insurance contract liabilities and reinsurance assets	91,902	(37,527)	54,375
Balance before the following:	867,249	(241,715)	625,534
Other insurance contract liabilities	3,223	(1,112)	2,111
Total insurance contract liabilities and reinsurance assets	870,472	(242,827)	627,645

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

	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

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

	2019	2018
	$	$
Mortality	(2,023)	(1,523)
Interest	3,628	(1,784)
Lapses	991	747
Expense	1,596	(1,084)
Other (dividends, data)	552	(6)
Total	4,744	(3,650)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

13. INVESTMENT CONTRACT LIABILITIES

	2019	2018
	$	$
Balance, beginning of period	20,309	20,967
Deposits	1,776	3,280
Interest	410	425
Withdrawals	(2,185)	(4,363)
Increase (decrease) in investment contract liabilities	1	(658)
Total investment contract liabilities	20,310	20,309

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

14. 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 insurers.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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	(14,661)	(12,471)	47,908	916,943	937,719
Group insurance	10,357	9,610	6,747	7,067	33,781
Annuities and pensions	49,286	77,789	30,707	76,684	234,466

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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**	**2019**	**2018**
	$	$	$
Mortality - life insurance products	+ 2%	(2,259)	(2,329)
Mortality - annuity products	- 2%	(373)	(374)
Morbidity	5% adverse	(1,923)	(1,657)
Expenses (contracts maintenance)	+ 5%	(1,932)	(1,713)
Policy termination rates	10% adverse	(10,311)	(8,599)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	5,508	2,098
	- 100 bps	(5,612)	(2,544)
Investment properties			
Immediate change in market value	+ 10%	-	2,137
	- 10%	-	(2,137)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	1,019	1,805
	- 10%	(2,007)	(2,646)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

15. OTHER LIABILITIES

	2019	2018
	$	$
Financial liabilities		
Insurance payable:		
Policyholders	9,026	9,491
Reinsurers	3,837	3,898
Agents, brokers and intermediates	1,028	976
Suppliers and other charges	8,122	7,806
Other	1,119	710
	23,132	22,881
Non financial liabilities		
Income tax	5,567	56
	28,699	22,937

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

16. EMPLOYEE BENEFIT PLANS

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

	2019	2018
	$	$
Changes in accrued benefit obligation of defined benefits:		
Balance at beginning of year	66,691	70,200
Current service cost	1,593	1,860
Employees' contributions	668	676
Interest cost	2,656	2,496
Benefits paid	(5,009)	(2,618)
Actuarial losses (gains) resulting from experience adjustments	147	88
Actuarial losses resulting from changes of financial assumptions	11,068	(6,011)
Balance at end of year	77,814	66,691
Changes in plan assets:		
Fair value at beginning of year	59,671	59,192
Employer's contributions	5,834	4,967
Employees' contributions	668	676
Return on plan assets	8,392	(2,546)
Benefits paid	(5,009)	(2,618)
Fair value at end of year	69,556	59,671

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

	2019	2018
	$	$
Present value of the defined benefit obligations	77,814	66,691
Fair value of plan assets	(69,556)	(59,671)
Pension plan liability	8,258	7,020

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Re-measurement effects recognized in other comprehensive income:

	2019	2018
	$	$
Actuarial gains (losses) of defined benefit obligations		
Experience adjustments	(147)	(88)
Changes of financial assumption	(11,068)	6,011
Return on plan assets greater (less) than discount rate	5,946	(4,668)
Total effect in other comprehensive income	(5,269)	1,255

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

	2019	2018
	$	$
Current service cost	1,593	1,860
Net interest on the defined benefit liability	211	375
	1,804	2,235

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

	2019	2018
	$	$
Group insurance benefits liability	675	625
Pension plan liability	8,258	7,020
	8,933	7,645

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

Plan members contribute 7.5% (7.5% in 2018) 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, 2018 for the Assumption Mutual Life Insurance Company Agent and Employee Pension Plan ("AML") and December 31, 2018 for the Assumption Place Employee Pension Plan ("Place"). The average remaining service periods of the active employees covered by the AML pension plan is 17 years (19 years in 2018) and 5 years (11 years in 2018) 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, 2020, is $2,312.

The pension fund monies are invested in the following assets:

	2019	2018
	$	$
Assumption Life and Assumption Place Pension Plan Fund	68,784	59,111
Cash	772	560
	69,556	59,671

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 (4.7%), Canadian bonds (43.2%) and equities (18.6%), foreign equities (25.9%), infrastructure debt (2.1%) and alternative investments (5.5%). The Pension Plan Fund is eligible as a registered retirement savings plan under the *Income Tax Act of Canada* .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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

	2019	2018
	%	%
Discount rate	3.1 to 3.2	3.9 to 4.0
Rate of compensation increase	3.25 to 3.75	3.25 to 3.75
Mortality rate	CPM2014, MI-2017	CPM2014, MI-2017

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.

	2019	
	+ 1%	- 1%
Discount rate	(13,476)	17,915
Rate of compensation increase	2,351	(2,250)
Mortality rate	(132)	133

Defined contribution plan

As of July 1st, 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 $365 for the year ended December 31, 2019 ($330 in 2018).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

17. BORROWINGS

The Group has authorized credit lines totalling $150 bearing interest at the bank's base rate plus 1.05%. These bank loans are renewable annually and are not guaranteed. An amount of $138 is used as at December 31, 2019.

	2019	2018
	$	$
Promissory note without interest, repayable in annual instalments of $166, maturing in September 2020	166	320
Fair value	166	320

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

Years ending December 31,	2020	$166

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

18. TAXES

Income tax expense consists of the following:

	2019	2018
	$	$
Current income taxes	5,424	1,856
Adjustments from prior years	18	(10)
Deferred income taxes	(3,353)	202
	2,089	2,048

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:

	2019		2018	
	$	%	$	%
Income tax at statutory rate	2,735	27.6	2,674	27.7
Increase (decrease) in the tax rate resulting from:				
Non-taxable investment income	(824)	(8.3)	(735)	(7.6)
Differences in tax rates in other provincial jurisdictions	95	0.9	63	0.7
Adjustments from prior year	18	0.2	(10)	(0.1)
Other	65	0.7	56	0.5
	2,089	21.1	2,048	21.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

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

	2019	2018
	$	$
Investment properties, property and equipment and intangible assets	661	4,932
Insurance contract	(219)	(187)
Debt securities	45	97
Employee benefit plans	(2,444)	(2,125)
Other	(231)	(137)
	(2,188)	2,580
Deferred tax assets	(2,751)	(2,306)
Deferred tax liabilities	563	4,886
	(2,188)	2,580

19. ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2019	2018
	$	$
Interest received	8,233	7,434
Income taxes paid	(579)	4,947
Dividends paid	276	361
Dividends received	2,763	2,366
Cash flows related to financing activities include the following:		
Interest paid on financing	53	8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

20. 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.

21. 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.

22. NET PREMIUMS

	2019			2018
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	$	$	$	$
Individual insurance	70,441	(16,930)	53,511	51,955
Group insurance	61,087	(16,376)	44,711	45,942
Annuities and pensions	35,065	-	35,065	25,582
	166,593	(33,306)	133,287	123,479

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

23. NET BENEFITS AND CLAIMS PAID

	2019			2018
	Gross benefits and claims paid	Claims ceded to reinsurers	Net benefits and claims paid	Net benefits and claims paid
	$	$	$	$
Individual insurance	35,614	(13,046)	22,568	22,595
Group insurance	41,238	(13,380)	27,858	28,020
Annuities and pensions	47,150	(26)	47,124	62,362
	124,002	(26,452)	97,550	112,977

24. FEES AND COMMISSION INCOME

	2019	2018
	$	$
Policyholder administration and investment management services	18,062	17,922
Surrender charges and other contract fees	2,893	1,991
Reinsurance commission income	1,687	2,089
	22,642	22,002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

25. INVESTMENT INCOME

	2019	2018
	$	$
Interest on cash and cash equivalents	400	151
Interest on debt securities designated at fair value through profit or loss	605	1,216
Interest on debt securities available-for-sale	3,514	3,865
Dividends on equity securities designated at fair value through profit or loss	2,789	2,357
Interest on mortgage loans and other invested assets	6,676	5,485
Interest on policy loans	549	526
Rental income from investment properties	2,027	2,977
Service charge income from investment properties	2,219	3,394
Service charge expense from investment properties	(2,919)	(4,274)
	15,860	15,697

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

	2019	2018
	$	$
Realized gains		
Equity securities	-	-
Debt securities	3,316	1,806
Realized losses		
Equity securities	-	-
Debt securities	(15)	(214)
	3,301	1,592

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

27. FAIR VALUE GAINS AND LOSSES

	2019	2018
	$	$
Financial assets at fair value through profit or loss	56,720	(8,924)
Investment properties	(66)	(611)
	56,654	(9,535)

28. FEES AND COMMISSION EXPENSES

	2019	2018
	$	$
Fees expenses	1,502	1,455
Commission expenses	22,846	23,619
	24,348	25,074

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2019

29. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2019	2018
	$	$
Administrative expenses		
Salaries and employee benefits expense	25,600	24,675
Amortization on property and equipment (note 8)	1,057	1,080
Amortization of intangible assets (note 9)	1,010	1,389
Amortization of right-of-use assets (note 10)	169	-
Professional and consultant fees	5,467	4,843
Investment property-related expenses (note 4)	406	577
Other	4,990	4,905
	38,699	37,469
Other operating expenses		
Allowance and credit losses	-	215
Premium taxes	2,596	2,547
Investment expenses	2,750	2,538
	5,346	5,300

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 unfavourable 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, 2019

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, 2019, the Group's ratio is 152% (135% in 2018).

A ratio of 152% means that the Group has sufficient capitalization to face unexpected negative results of approximately $67.6 million ($48.6 million in 2018) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory capital

	2019	2018
Available capital according to requirements	$198,473	$185,868
Required capital	$130,860	$137,311
Solvency ratio	152%	135%

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:

	2019	2018
	$	$
Salaries and other short-term employment benefits	4,438	4,062
Fees	521	280
Post employment pension benefits	319	339
	5,278	4,681

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted for the year ended December 31, 2019.

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.

100% Louisbourg Investments Inc.

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

2019 ANNUAL REPORT

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