Assumption Life

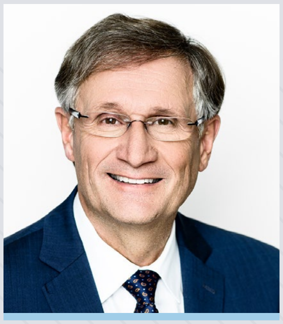
2017 ANNUAL REPORT

TABLE OF CONTENTS

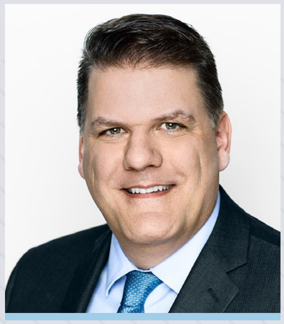
MASSACHUSETTS, 1903. Our company is founded to ensure the well-being of Acadian families.

TODAY, we now protect families from across Canada.

Board of Directors



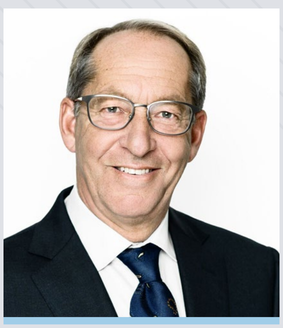
Jacques Valotaire
FCPA, FCA, ICD.D
Chairman of the Board



Yves Arseneau
CPA, CA
Vice President
of the Board

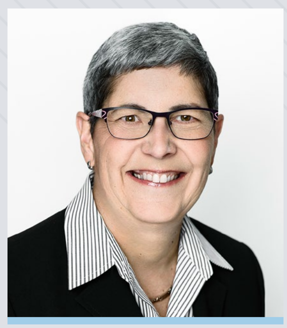
André Vincent
President and CEO,
Assumption Life

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

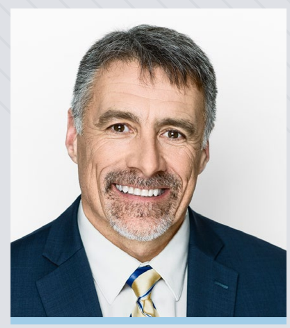


Yvon Fontaine
B.Soc.Sc, LL.B, LL.M.

Andrée Savoie, ICD.D
President & CEO
Adelin Properties

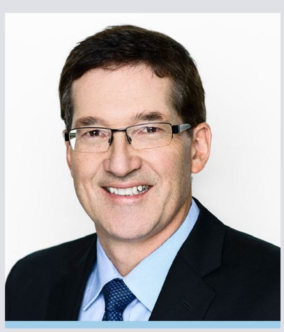


Monique Tremblay
FCIA, FSA, MBA



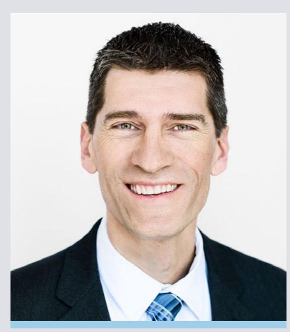
Allister Surette
President and
Vice Chancellor,
Université Sainte-Anne

Lise Casgrain
MBA, ICD.D
Company Director



Ivan Toner, ICD.D
President,
MelamTech Consulting

Alain Bossé
President &
Chief Operating Officer,
Groupe Savoie



Marc Landry
Vice-president,
IT & Logistics,
Major Drilling

Board Member Attendance

Board of Directors 2017	Attendance Board Meetings	Attendance Committee Meetings	Attendance Subsidiaries Meetings
Yves Arseneau	9/9	11/11	3/3
Yvon Fontaine	9/9	11/11	9/9
André Vincent	9/9	20/20	10/10
Andrée Savoie	9/9	13/13	2/2
Lise Casgrain	9/9	17/17	3/3
Allister Surette	9/9	10/10	1/1
Jacques Valotaire	9/9	19/19	9/9
Monique Tremblay	9/9	10/10	3/3
Ivan Toner	9/9	13/13	3/3
Marc Landry	8/8	12/12	3/3
Alain Bossé	8/8	10/10	3/3
Patrick Gillespie	0/2	0/1	-
Marcel Godbout	0/2	0/3	0/2

Board Committees

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

Audit: Assists the Board of Directors in fulfilling its responsibilities with respect to financial audits and monitoring and risk management.

Investment: Represents the Board of Directors with respect to the development and monitoring of the company's investment policies, reviewing pension fund performance and reviewing the asset liability matching.

HR: Conducts succession planning and staffs senior management positions, issues recommendations with respect to the company's compensation philosophy, reviews compensation packages, reviews human resources management practices, and reviews the pension plan.

Review: Reviews transactions between the Company and related parties in order to measure the impact on the Company's solvency and stability and to ensure compliance with applicable laws.

Message from the President and CEO and the Chairman of the Board

André Vincent
President and CEO

Jacques Valotaire
Chairman of the Board

In 2017, with a focus firmly on the future and our sustainability, Assumption Life continued its major digital transformation, which is being driven by our technology planning as well as our changing industry. We have remained alert for resultant opportunities and we are constantly adapting to better serve our clients.

In keeping with our new vision for tomorrow's client experience, we are implementing a flexible model so that all our clients can choose how they receive services.

We exhaustively reviewed our business models, our products and the ways in which we interact with clients, and our ecosystem approach will ensure that we can respond to new market demands. Technology is now omnipresent, but at Assumption Life we continue to trust in human expertise and the personal touch, which have served the company well in the past and still allow it to stand out from the competition.

A SNAPSHOT OF 2017

Our business lines showed satisfactory growth in 2017, and we're particularly pleased to report that the company posted its third highest profit-level ever. Total revenue was $226 million in 2017, up $23 million from the previous year. Profits attributable to policyholders reached $7.4 million, while policyholder equity in the company totalled $128 million. Assets under management reached $1.8 billion.

As for our various activity sectors, individual insurance sales totalled $9.1 million, down barely 2% from 2016, while the industry experienced a decline of 18%. Group insurance sales rose 26% to $11.1 million in 2017. And our Investments and Retirement line had its second best year in the company's history, with sales of $127,107 million.

A FEW HIGHLIGHTS

Other significant achievements in 2017 include the company's acquisition of Tech Knowledge Solutions (TKS), as well as the establishment of five new strategic partnerships. All will have key roles to play in our future and our growth as we develop new innovative platforms and new ways of connecting with our customers.

In addition, cybersecurity has become an unavoidable necessity and we are taking proactive measures to protect our systems and our clients' information.

OUR EMPLOYEES, CENTRAL TO OUR SUCCESS

This year of transformation has required tremendous effort, and our employees have risen to the occasion to take this lengthy process in hand. We wish to extend our heartfelt thanks for their enthusiasm and dedication.

Assumption Life and its employees are united in their commitment to serve the common good. We are proud to say that it is thanks to our employees that we can work together on many different initiatives to improve our communities. Receiving the prestigious B Corp certification in 2017 in recognition of our social engagement has motivated us to do even more.

RESOLUTELY FORWARD-LOOKING

As we consider what lies ahead for 2018, it is clear that our efforts will continue to be guided by our digital transformation, which will offer great potential for growth. Our strategic planning priorities will continue to take centre-stage, including increasing the productivity of our network of financial advisors, promoting cross-sales, exploring new avenues with non-traditional distributors, and solidifying our technology infrastructure. We also plan to concentrate on growing the profitable group insurance sector and especially on the redeployment of group retirement savings, which will become our fourth business line.

The well-being of our clients, our employees and our communities is motivating us to see this transformation process through to fruition. It is what fuels our perseverance and steers our decision making.

ANDRÉ VINCENT
President and CEO

JACQUES VALOTAIRE
Chairman of the Board

Senior Management

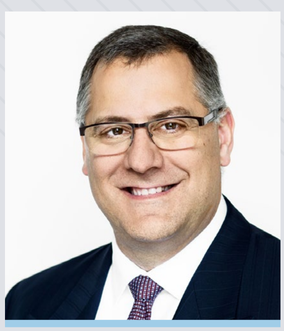
André Vincent
President and CEO

Michel Allain
F.S.A., FCIA
Vice President
Actuarial Services

Réjean Boudreau
B.B.A.
Vice President
Chief of Organizational Development

Sébastien Dupuis
CPA, CA
Vice President
Chief Financial and Risk Officer

Rachelle Gagnon
MBA, CA
Vice President
Administration and Client Experience



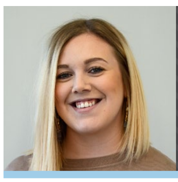
Stéphane Godbout
Vice-President, IT,
and Chief Digital Officer

Denis Tremblay, MBA
Vice President
Sales and Marketing

Assumption Life salutes employees who have contributed to its success!

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

During its Annual General Meeting, the company took the opportunity to highlight the hard work and determination of the following employees, by presenting various 2017 recognition awards to them.



President's Award for Excellence

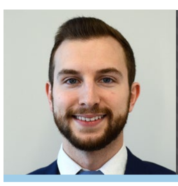
Lisa Bordage
Marketing Lead

Management Award for Excellence

Isabelle Bourgeois
Chief Risk Officer and Chief of Internal Audit

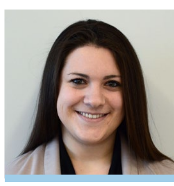
Team Excellence Award

Isabelle Gallant, Aprile LeClair and Amy-Lise Arseneault
Human Ressources Team



Recruit of the Year Award

Shawn Lavigne
Operations Analyst
Louisbourg Investments



Volunteer Award

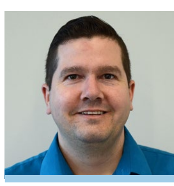
Danika Melanson
Claims Analyst

Excellence Award

Rachel Comeau
Director, Group Network and Solutions

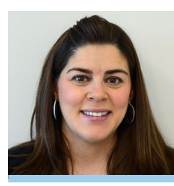
Excellence Award

Timothy Doiron
Technician, Systems Administration



Excellence Award

Éric Frenette
Manager, Customer Experience and Business Quality



Excellence Award

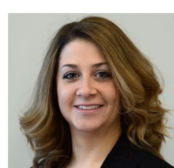
Sandra Gallant
Actuary, Product Development

Excellence Award

Karilyn LeBlanc
Junior Underwriter

Excellence Award

Aprile LeClair
Human Resources Technician



Excellence Award

Emmanuelle Robinson
Communications Advisor

A certification that fills us with pride

In 2017, Assumption Life became the first life insurance company in Canada and the 200th Canadian company to receive the prestigious B Corp certification.

B Corp is much more than a simple certification; it is a social movement involving over 2,000 companies worldwide. B Corp companies share a common vision of a business community that is committed to improving economic, social and environmental well-being. Together, they are redefining business success by playing a leadership role in their communities and industries.

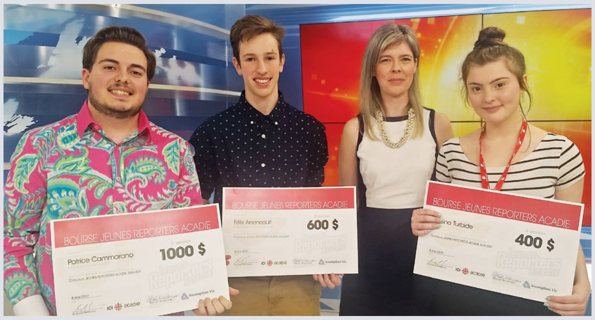
This certification is in line with the company's values as a mutual company, which have defined Assumption Life since its foundation in 1903. The Acadian company is deeply committed to the community's development, and believe in the power of coming together to make this world a better place!

Certified B Corporation

Committed to making a difference!

Always driven by its mutualist values, this Acadian company has increased its commitment to the community. Assumption Life has, among other things, made some major long-term commitments to organizations in the region and given several scholarships once again this year to exceptional young students through its Assumption Life Foundation.

In addition, the Assumption Group allowed its employees to take two half-days off to perform volunteer work with a team. With a smile on their face, the volunteers happily participated in such things as planting flowers, painting, and helping out with household chores.



Participants of Jeunes reporters Acadie 2017.

Andy Couturier was presented with the 2017 Denis-Losier Scholarship. He is pictured with former President and CEO of Assumption Life, Denis Losier and Réjean Boudreau, VP Chief of Organizational Development.

Credit: Daniel St-Louis

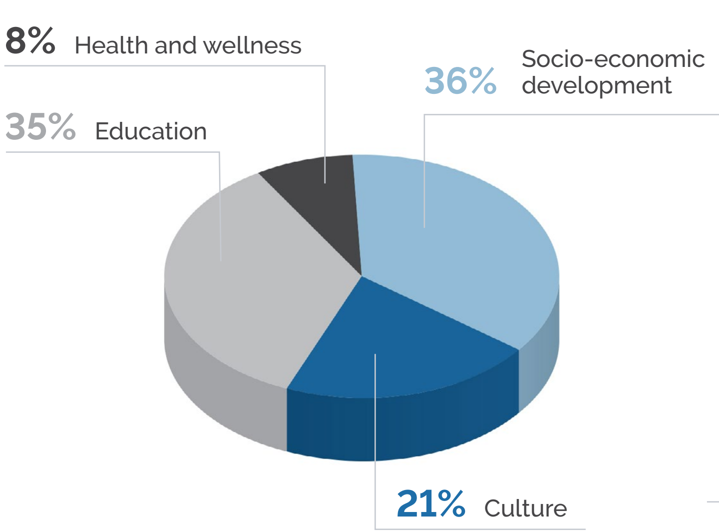
The year 2017 also marked the return of the Assumption Life Golf Tournament. For the occasion, more than 140 players gathered at the Fox Creek Golf Club to talk with guest of honour Guy Lafleur and, in particular, to support the Atlantic Cancer Research Institute.

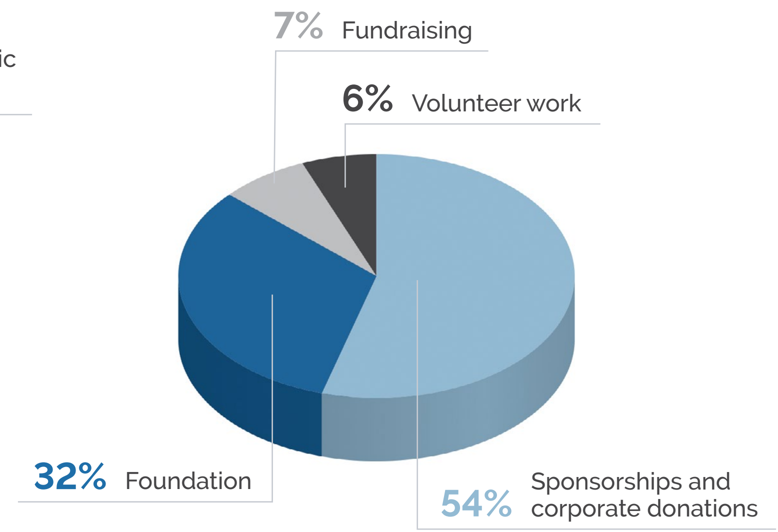
“Now more than ever, we are determined to play an important role in our community and to continue being a responsible, authentic and human company.”

— André Vincent, President and CEO

Our commitment at a glance

In 2017, 6% of the Assumption Group's net profit was distributed to various community agencies and groups working in a variety of areas.





To find out more about our many philanthropic actions, see our 2017 Social Responsibility Report.

Assumption Life's Financial Health in 2017

$1.8 BILLION | Assets under management

$182 MILLION | Premium income

$7.4 MILLION | Profit attributable to policyholders

$128 MILLION | Policyholders' equity

228% Solvency ratio at December 31, 2017

A – For a 18th consecutive year

Rating from A.M. Best, an agency specializing in independent evaluations of the financial health and creditworthiness of insurance and reinsurance companies worldwide.

ASSUMPTION MUTUAL LIFE INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT **TO THE POLICYHOLDERS**

We have audited the attached consolidated financial statements of **Assumption Mutual Life Insurance Company,** which include the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Assumption Mutual Life Insurance Company** as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Dieppe, Canada
February 22, 2018

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, 2017, 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 16, 2018

Luc Farmer
Fellow, Canadian Institute of Actuaries

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION

(in thousands) As at December 31

	Notes	2017	2016
ASSETS		$	$
Invested assets	5		
Cash and cash equivalents		10,952	4,288
Debt securities		535,560	496,317
Equity securities		69,868	66,606
Mortgages		111,566	116,238
Other invested assets		2,030	2,117
Policy loans		10,065	9,384
Investment properties		30,195	30,781
		770,236	725,731
Other assets	8	16,724	18,924
Reinsurance assets	12	218,418	181,623
Deferred tax assets	18	2,979	2,510
Property and equipment	9	6,086	5,062
Intangible assets	10	3,189	4,413
Goodwill		1,854	467
Segregated fund net assets	11	758,174	706,782
		1,777,660	1,645,512
LIABILITIES			
Insurance contract liabilities	12	829,883	753,259
Investment contract liabilities	13	20,967	21,383
Other liabilities	15	22,775	22,099
Employee benefit liability	16	11,661	11,240
Deferred tax liabilities	18	4,636	4,694
Borrowings	17	469	4,247
Segregated fund net liabilities	11	758,174	706,782
		1,648,565	1,523,704
EQUITY			
Policyholders' equity			
Accumulated Surplus		121,905	116,891
Accumulated other comprehensive income		6,341	4,130
		128,246	121,021
Non-controlling interests		849	787
		129,095	121,808
		1,777,660	1,645,512
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

REVENUE	Notes	2017 $	2016 $
Gross premiums		182,033	184,497
Premiums ceded to reinsurers		(32,933)	(31,519)
Net premiums	22	149,100	152,978
Fees and commission income	24	20,589	20,124
Investment income	25	15,831	15,885
Realized gains from available-for-sale financial assets	27	1,921	1,893
Fair value gains and losses	28	38,370	11,692
Other operating revenue		437	506
Other revenue		77,148	50,100
Total revenue		226,248	203,078
EXPENSES			
Gross benefits and claims paid	23	131,666	137,661
Claims ceded to reinsurers	23	(23,648)	(20,387)
Gross change in contract liabilities		75,383	18,337
Change in contract liabilities ceded to reinsurers		(36,435)	(12,731)
Net benefits and claims		146,966	122,880
Borrowing costs		28	106
Fees and commission expenses	29	27,700	31,208
Administrative expenses	30	35,122	32,244
Other operating expenses	30	5,035	5,023
Other expenses		67,885	68,581
Total expenses		214,851	191,461
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		11,397	11,617
Policyholder dividends		1,266	1,172
PROFIT BEFORE INCOME TAXES		10,131	10,445
Income taxes	18	2,382	2,665
PROFIT FOR THE YEAR		7,749	7,780
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		393	508
Policyholders		7,356	7,272
		7,749	7,780

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

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

(in thousands) Year ended December 31

	2017	2016
	$	$
PROFIT FOR THE YEAR	7,749	7,780
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 $1,371 (($348) in 2016)	3,601	(856)
Reclassification of realized gains included in other revenue, net of income taxes of ($530) (($486) in 2016)	(1,391)	(1,407)
Total of items that will be reclassified subsequently to net income	2,210	(2,263)
Items that will not be reclassified subsequently to net income		
Remeasurement of defined benefit pension plans, net of income taxes of ($902) (($440) in 2016)	(2,342)	(893)
Total of other comprehensive income	(132)	(3,156)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,617	4,624
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	392	533
Policyholders	7,225	4,091
	7,617	4,624

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

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

(in thousands) Year ended December 31

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

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

(in thousands) Year ended December 31

	2016				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	110,512	6,418	116,930	704	117,634
Profit for the year	7,272	-	7,272	508	7,780
Items that will be reclassified subsequently to net income	-	(2,288)	(2,288)	25	(2,263)
Remeasurement of defined benefit pension plans	(893)	-	(893)	-	(893)
Total comprehensive income	6,379	(2,288)	4,091	533	4,624
Dividends	-	-	-	(450)	(450)
Balance, end of year	116,891	4,130	121,021	787	121,808

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 STATEMENT

CONSOLIDATED STATEMENT
OF CASH FLOWS

(in thousands) Year ended December 31

	2017	2016
	$	$
OPERATING ACTIVITIES		
Profit for the year	7,749	7,780
Items not affecting cash:		
Deferred income taxes	374	605
Change in reinsurance assets	(36,795)	(12,740)
Change in insurance and investment contract liabilities	76,983	18,360
Amortization of property and equipment and intangible assets	2,392	2,394
Fair value gains and losses (note 28)	(38,370)	(11,692)
Realized gains on disposal of available-for-sale financial assets (note 27)	(1,921)	(1,893)
Employee benefit plan expense	2,263	2,057
Other	(4,593)	(3,922)
	8,082	949
Change in non-cash working capital items related to operations	(3,824)	(3,441)
Cash flows from operating activities	4,258	(2,492)
INVESTING ACTIVITIES		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	102,510	81,648
Purchases and loans	(92,313)	(79,098)
Acquisition of property and equipment and intangible assets	(2,191)	(2,424)
Acquisition of additional interest in a subsidiary	(1,387)	-
Others	(435)	(919)
Cash flows from investing activities	6,184	(793)
FINANCING ACTIVITIES		
Change in borrowings	(3,778)	(1,245)
Cash flows from financing activities	(3,778)	(1,245)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	6,664	(4,530)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	4,288	8,818
CASH AND CASH EQUIVALENTS – END OF YEAR	10,952	4,288

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, 2017

1. CORPORATE INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Declaration of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), 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 22, 2018.

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 of the reporting date. Liabilities are considered current when the Group expects to settle them in its normal operation cycle within twelve months of 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%)**
- **697159 N.B. Inc. (Tech Knowledge Solutions) (60%)**

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

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

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

Financial Instruments

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

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

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

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

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

Invested Assets

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

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

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

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

Equity Securities

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

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

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

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

Mortgages

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

Property and Equipment

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

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.

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

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

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

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

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

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

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

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

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

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

(e) Lapses
Each year, an internal study of the Group's policy lapse rates is conducted. The valuation assumptions are chosen by considering both this internal study and 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.

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

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

Investment Contract Liabilities

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

Other Liabilities

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

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 rates 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, 2017

Borrowings

The Group has chosen to classify its borrowings as financial liabilities at amortized cost. 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.

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 are 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, 2017

Investment Income

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

Realized gains and losses

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

Recognition of Expenses

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

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

Changes in accounting policies

As of January 1, 2017, the group did not adopt any changes in accounting policies.

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 17 - Insurance contrats

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

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". The standard makes changes to the accounting for financial instruments in relation to the following; the classification and measurement of financial instruments reflecting for the financial assets the business model of the management and the cash flow characteristics of these financial assets, the impairment based on the expected loss model and the hedge accounting that takes into account the entity's risk management practices. The provisions of this standard will apply retrospectively for fiscal years beginning on or after January 1, 2018. However, insurers who qualify for the temporary exemption from the application of IFRS 9 will only apply this standard for fiscal years beginning January 1, 2021. 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 insurance liabilities represents more than 90% of its total liabilities. The Group will use this exemption and is evaluating the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16 - Leases

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

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23 "Tax Treatment Uncertainty", 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 provisions of this standard will apply retrospectively for fiscal years beginning on or after January 1, 2019. The Group is currently evaluating the impact of this new interpretation on its consolidated financial statements.

IFRS 15 – Revenue from contracts with customers

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Classification of insurance and investment contracts

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

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

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

Classification of properties

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

Estimates and assumptions

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

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.

(in thousands) Year ended December 31, 2017

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 7.

Fair value of investment contract liabilities
Because of their short-term nature, the fair value of investment contract liabilities is 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 14.

4. BUSINESS ACQUISITION

In fiscal 2017, a new 60% subsidiary of the Company, 697159 N.B. Inc. (Tech Knowledge Solutions), acquired net assets of a corporation in the information technology sector for a total cash consideration of $1.5 million.

The fair value of identifiable assets acquired at the date of acquisition is presented below.

	2017
	$
Identifiable assets acquired	
Property, plant and equipment	30
Intangible assets	83
Total of identifiable assets acquired	113
Goodwill resulting from the acquisition	1,387
Cash consideration	1,500

The net income of this subsidiary is a loss of $3 for the period ended December 31, 2017.

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

5. INVESTED ASSETS

Carrying Value and Fair Value

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

Carrying Value and Fair Value

	2016					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	4,288	-	-	-	4,288	4,288
Debt securities						
Government	387,383	101,714	-	-	489,097	489,097
Municipal	1,076	-	-	-	1,076	1,076
Corporations & other	6,144	-	-	-	6,144	6,144
	394,603	101,714	-	-	496,317	496,317
Equity securities						
Common stocks	-	188	-	-	188	188
Preferred stocks	43,886	-	-	-	43,886	43,886
Investment fund units	21,978	554	-	-	22,532	22,532
	65,864	742	-	-	66,606	66,606
Mortgages						
Insured residential	-	-	8,589	-	8,589	8,818
Other residential	-	-	23,842	-	23,842	23,836
Commercial	-	-	83,807	-	83,807	83,139
	-	-	116,238	-	116,238	115,793
Other invested assets	-	-	2,117	-	2,117	2,118
Policy loans	-	-	9,384	-	9,384	9,384
Investment properties	-	-	-	30,781	30,781	30,781
	464,755	102,456	127,739	30,781	725,731	725,287

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

Investment Properties

The following table details the transactions on investment properties.

	2017	2016
	$	$
Balance, beginning of year	30,781	30,869
Disposition	(258)	-
Change in fair value	(328)	(88)
Balance, end of year	30,195	30,781
Rental income and service charge income	6,106	6,367
Operating expenses that generate rental income	(4,164)	(4,204)
Operating expenses that do not generate rental income	(505)	(558)

6. 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.

(in thousands) Year ended December 31, 2017

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.

	2017	2016
	$	$
Cash and cash equivalents	10,952	4,288
Debt securities	535,560	496,317
Mortgages	111,566	116,238
Other invested assets	2,030	2,117
Policy loans	10,065	9,384
Reinsurance assets	218,418	181,623
Other receivables (note 8)	14,075	15,047
	902,666	825,014

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

Quality of the Debt Securities Portfolio

	2017	2016
	$	$
AAA	535	562
AA	217,757	209,872
A	317,268	285,883
	535,560	496,317

Quality of the Preferred Equity Securities Portfolio

	2017	2016
	$	$
PF-2	40,424	37,220
PF-3	7,160	6,666
	47,584	43,886

Loans in Arrears and Provisions for Losses

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

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

There were no mortgages in arrears for more than 31 days for the previous year.

Provision for losses

Management concluded that no provision for losses was necessary based on their analysis for the current and previous year.

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	2,894	-	-

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

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

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

	2016						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	4,288	-	-	-	-	4,288	4,288
Debt securities							
Government	-	2,374	17,895	56,864	411,964	489,097	489,097
Municipal	-	514	562	-	-	1,076	1,076
Corporations & other	-	1,016	-	-	5,128	6,144	6,144
	-	3,904	18,457	56,864	417,092	496,317	496,317
Equity securities							
Common stocks	188	-	-	-	-	188	188
Preferred stocks	43,886	-	-	-	-	43,886	43,886
Investment fund units	22,532	-	-	-	-	22,532	22,532
	66,606	-	-	-	-	66,606	66,606
Mortgages							
Insured residential	-	1,420	4,343	-	2,826	8,589	8,818
Other residential	-	13,050	5,632	5,160	-	23,842	23,836
Commercial	-	30,323	30,024	19,779	3,681	83,807	83,139
	-	44,793	39,999	24,939	6,507	116,238	115,793
Other invested assets	-	1,360	-	757	-	2,117	2,118
Policy loans	9,384	-	-	-	-	9,384	9,384
Other receivables	15,047	-	-	-	-	15,047	15,047

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).

(in thousands) Year ended December 31, 2017

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.

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

	2016		
	Investment funds units	Common Stocks	Preferred stocks
	$	$	$
Energy	-	31	4,333
Finance	-	57	31,271
Industrial	-	21	-
Utilities	-	-	8,282
Other	22,532	79	-
	22,532	188	43,886

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

7. 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).

(in thousands) Year ended December 31, 2017

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

	2016			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value	$	$	$	$
Cash and cash equivalents	4,288	-	-	4,288
Financial assets designated at fair value through profit or loss				
Debt securities	-	394,603	-	394,603
Equity securities	65,864	-	-	65,864
Financial assets available-for-sale				
Debt securities	-	101,714	-	101,714
Equity securities	742	-	-	742
Investment properties	-	-	30,781	30,781
Assets disclosed at fair value				
Mortgages	-	115,793	-	115,793
Other invested assets	-	2,118	-	2,118
Policy loans	-	9,384	-	9,384
	70,894	623,612	30,781	725,287
Liabilities measured at fair value				
Investment contract liabilities	-	21,383	-	21,383
Liabilities disclosed at fair value				
Borrowings	-	4,144	-	4,144
	-	25,527	-	25,527

There were no transfers between level 1 and level 2 during the period.

Refer to Note 5 for details of changes in fair value of investment properties.

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

The fair value of investment properties is determined by various recognized methods and standards of assessment in the real estate sector. These methods are based on expected capitalization rates and models which update the expected future cash flows at prevailing interest rates on the market based on the characteristics, location and market of each property. 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:

	2017	2016
	%	%
Overall discount rate	9 to 10	9 to 10
Growth rate		
Rent	0 to 2	0 to 2
Operating expenses	2	2
Vacancy rate	5	5

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(in thousands) Year ended December 31, 2017

8. OTHER ASSETS

	2017	2016
	$	$
Financial assets		
Insurance receivables:		
Policyholders	4,013	3,606
Reinsurers	4,389	5,433
Agents, brokers and intermediates	589	574
Accrued investment income	1,075	1,226
Accounts receivable	4,009	4,208
	14,075	15,047
Non financial assets		
Commissions and prepaid expenses	2,436	2,677
Income tax receivable	168	1,171
Other	45	29
	2,649	3,877
	16,724	18,924

9. PROPERTY AND EQUIPMENT

Cost	$
At December 31, 2016	9,224
Additions	1,954
Other movements	(606)
At December 31, 2017	10,572
Accumulated amortization	
At December 31, 2016	4,162
Amortization	930
Other movements	(606)
At December 31, 2017	4,486
Carrying amount	
At December 31, 2016	5,062
At December 31, 2017	6,086

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

10. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Client list	Total
	$	$	$	$	$
Cost					
At December 31, 2016	1,091	13,172	956	898	16,117
Cost capitalized	311	837	110	-	1,258
Completed projects	-	-	(1,021)	-	(1,021)
Other movements	(287)	(64)	-	-	(351)
At December 31, 2017	1,115	13,945	45	898	16,003
Accumulated amortization					
At December 31, 2016	867	10,837	-	-	11,704
Amortization	172	1,290	-	-	1,462
Other movements	(287)	(65)	-	-	(352)
At December 31, 2017	752	12,062	-	-	12,814
Carrying amount					
At December 31, 2016	224	2,335	956	898	4,413
At December 31, 2017	363	1,883	45	898	3,189

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

11. SEGREGATED FUNDS NET ASSETS

	2017	2016
NET ASSETS	$	$
Investments:		
Debt securities	24,389	21,217
Equity securities	10,179	9,033
Pooled funds	721,614	675,109
Cash and term deposits	1,113	648
Accrued investment income	111	86
Other	1,054	1,765
	758,460	707,858
Liabilities	286	1,076
NET ASSETS	758,174	706,782

	2017	2016
CHANGE IN NET ASSETS	$	$
NET ASSETS – BEGINNING OF YEAR	706,782	657,596
Net contributions:		
Contributions	128,863	126,295
Withdrawals	(115,745)	(121,762)
	13,118	4,533
Investment income:		
Change in value of investments	23,360	32,317
Interest and dividends	28,271	24,876
Management and administrative fees	51,631	57,193
NET ASSETS – END OF YEAR	(13,357)	(12,540)
	758,174	706,782

(in thousands) Year ended December 31, 2017

12. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

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

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

	2016		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	478,894	(142,582)	336,312
Group insurance	57,018	(36,718)	20,300
Annuities and pensions	213,894	(780)	213,114
Other insurance contract liabilities	3,453	(1,543)	1,910
	753,259	(181,623)	571,636

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

Change in insurance contract liabilities and reinsurance assets

The change for the year is explained as follows:

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

(in thousands) Year ended December 31, 2017

	2016		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	732,146	(167,727)	564,419
Change in balances on in-force policies	(15,520)	(5,427)	(20,947)
Balances arising from new policies	36,296	(9,065)	27,231
Method and assumption changes	(3,116)	2,139	(977)
Increase (decrease) in insurance contract liabilities and reinsurance assets	17,660	(12,353)	5,307
Balance before the following:	749,806	(180,080)	569,726
Other insurance contract liabilities	3,453	(1,543)	1,910
Total insurance contract liabilities and reinsurance assets	753,259	(181,623)	571,636

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

	2017	2016
	$	$
Mortality	(2,283)	(1,319)
Interest	3,008	(295)
Lapses	1,618	2,522
Segregated funds	-	-
Expense	(2,139)	(2,204)
Other (dividends, data)	(827)	319
Total	(623)	(977)

(in thousands) Year ended December 31, 2017

13. INVESTMENT CONTRACT LIABILITIES

	2017	2016
	$	$
Balance, beginning of period	21,383	22,138
Deposits	3,475	2,362
Interest	359	338
Withdrawals	(4,250)	(3,455)
Decrease in investment contract liabilities	(416)	(755)
Total investment contract liabilities	20,967	21,383

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 insureds.

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

(in thousands) Year ended December 31, 2017

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	(14,499)	(13,436)	38,854	357,312	368,231
Group insurance	9,431	7,287	4,413	3,858	24,989
Annuities and pensions	58,880	90,363	25,099	43,903	218,245

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(in thousands) Year ended December 31, 2017

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**	**2017**	**2016**
	$	$	$
Mortality - life insurance products	+ 2%	(2,222)	(2,207)
Mortality - annuity products	- 2%	(383)	(385)
Morbidity	5% adverse	(1,759)	(1,709)
Expenses (contracts maintenance)	+ 5%	(1,709)	(1,658)
Policy termination rates	10% adverse	(7,616)	(6,232)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	1,222	(1,155)
	- 100 bps	(1,606)	784
Investment properties			
Immediate change in market value	+ 10%	2,182	2,229
	- 10%	(2,182)	(2,229)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	627	435
	- 10%	(1,927)	(1,762)

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

15. OTHER LIABILITIES

	2017	2016
	$	$
Financial liabilities		
Insurance payable:		
Policyholders	8,870	9,263
Reinsurers	3,270	3,301
Agents, brokers and intermediates	1,464	2,193
Suppliers and other charges	6,546	6,060
Other	1,053	1,068
	21,203	21,885
Non financial liabilities		
Income tax	1,572	214
	22,775	22,099

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

16. EMPLOYEE BENEFIT PLANS

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

	2017	2016
	$	$
Changes in accrued benefit obligation of defined benefits:		
Balance at beginning of year	63,248	58,260
Current service cost	1,783	1,566
Employees' contributions	761	746
Interest cost	2,506	2,433
Benefits paid	(2,896)	(2,323)
Actuarial losses (gains) resulting from experience adjustments	(453)	151
Actuarial losses resulting from changes of financial assumptions	5,251	2,415
Balance at end of year	70,200	63,248
Changes in plan assets:		
Fair value at beginning of year	52,581	45,803
Employer's contributions	5,086	5,173
Employees' contributions	761	746
Return on plan assets	3,660	3,182
Benefits paid	(2,896)	(2,323)
Fair value at end of year	59,192	52,581

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

	2017	2016
	$	$
Present value of the defined benefit obligation	70,200	63,248
Fair value of plan assets	(59,192)	(52,581)
Pension plan liability	11,008	10,667

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

Re-measurement effects recognized in other comprehensive income:

	2017	2016
	$	$
Actuarial gains (losses) of defined benefit obligation		
Experience adjustments	453	(151)
Changes of financial assumption	(5,251)	(2,415)
Return on plan assets greater than discount rate	1,554	1,233
Total effect in other comprehensive income	(3,244)	(1,333)

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

	2017	2016
	$	$
Current service cost	1,783	1,566
Net interest on the net defined benefit liability	400	484
	2,183	2,050

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

	2017	2016
	$	$
Group insurance benefits liability	653	573
Pension plan liability	11,008	10,667
	11,661	11,240

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

Plan members contribute 7.5% (7.5% in 2016) 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, 2016 for the Assumption Mutual Life Insurance Company Agent and Employee Pension Plan ("AML") and December 31, 2016 for the Assumption Place Employee Pension Plan ("Place"). The average remaining service periods of the active employees covered by the AML pension plan is 20 years (20 years in 2016) and 12 years (9 years in 2016) 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, 2018, is $4,913.

The pension fund monies are invested in the following assets:

	2017	2016
	$	$
Assumption Life and Assumption Place Pension Plan Fund	58,638	52,239
Cash	554	342
	59,192	52,581

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 (4.2%), Canadian bonds (41.8%) and equities (27.3%), foreign equities (22.5%) and hedge funds (4.2%). The Pension Plan Fund is eligible as a registered retirement savings plan under the *Income Tax Act of Canada*.

(in thousands) Year ended December 31, 2017

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

	2017	2016
	%	%
Discount rate	3.4 to 3.5	3.8 to 3.9
Rate of compensation increase	3.25 to 3.75	3.25 to 3.75
Mortality rate	CPM-B2D2014	CPM-B2D2014

Sensitivity analysis

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

	2017	
	+ 1%	- 1%
Discount rate	(12,114)	16,083
Rate of compensation increase	2,408	(2,280)
Mortality rate	(113)	114

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 $265 for the year ended December 31, 2017 ($172 in 2016).

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

17. BORROWINGS

The Group has authorized credit lines totaling $500 bearing interest at the bank's base rate. These bank loans are renewable annually, are not guaranteed and are not used as at December 31, 2017.

	2017	2016
	$	$
Mortgage Loans		
Mortgage loan repaid in full in 2017	-	2,072
Mortgage loan repaid in full in 2017	-	1,265
Bank Loans and Other		
Loan repaid in full in 2017	-	297
Promissory note without interest, repayable in annual instalments of $166, maturing in September 2020	469	613
	469	4,247
Fair value	469	4,144

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

Years ending December 31	2018	$166
	2019	$166
	2020	$166

(in thousands) Year ended December 31, 2017

18. TAXES

Income tax expense consists of the following:

	2017	2016
	$	$
Current income taxes	1,869	2,073
Adjustments from prior years	139	(13)
Deferred income taxes	374	605
	2,382	2,665

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:

	2017		2016	
	$	%	$	%
Income tax at statutory rate	2,808	27,7	2,883	27,6
Increase (decrease) in the tax rate resulting from:				
Non taxable investment income	(653)	(6,4)	(651)	(6,2)
Change in deferred tax rate	-	-	338	3,2
Differences in tax rates in other provincial jurisdictions	53	0,5	63	0,6
Adjustments from prior year	139	1,4	(13)	(0,1)
Other	35	0,3	45	0,4
	2,382	23,5	2,665	25,5

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

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

	2017	2016
	$	$
Investment properties, property and equipment and intangible assets	5,166	5,429
Insurance contract	(268)	(36)
Debt securities	150	202
Employee benefit plans	(3,242)	(3,125)
Other	(149)	(286)
	1,657	2,184
Deferred tax assets	(2,979)	(2,510)
Deferred tax liabilities	4,636	4,694
	1,657	2,184

19. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2017	2016
	$	$
Interest received	7,525	7,919
Income taxes paid	951	1,481
Dividends paid	358	475
Dividends received	2,393	2,326
Cash flows related to financing activities include the following:		
Interest paid on financing	29	103

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

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

	2017			2016
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	$	$	$	$
Individual insurance	64,998	(15,120)	49,878	46,826
Group insurance	65,469	(17,813)	47,656	49,015
Annuities and pensions	51,566	-	51,566	57,137
	182,033	(32,933)	149,100	152,978

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

23. NET BENEFITS AND CLAIMS PAID

	2017			2016
	Gross benefits and claims paid	Claims ceded to reinsurers	Net benefits and claims paid	Net benefits and claims paid
	$	$	$	$
Individual insurance	28,854	(9,947)	18,907	18,718
Group insurance	45,546	(13,630)	31,916	34,784
Annuities and pensions	57,266	(71)	57,195	63,772
	131,666	(23,648)	108,018	117,274

24. FEES AND COMMISSION INCOME

	2017	2016
	$	$
Policyholder administration and investment management services	16,866	16,504
Surrender charges and other contract fees	1,226	888
Reinsurance commission income	2,497	2,732
	20,589	20,124

(in thousands) Year ended December 31, 2017

25. INVESTMENT INCOME

	2017	2016
	$	$
Interest on cash and cash equivalents	100	96
Interest on debt securities designated at fair value through profit or loss	1,551	1,781
Interest on debt securities available-for-sale	4,107	3,546
Dividends on equity securities designated at fair value through profit or loss	2,331	2,302
Dividends on equity securities available-for-sale	21	81
Interest on mortgage loans and other invested assets	5,294	5,461
Interest on policy loans	485	455
Rental income from investment properties	2,936	3,045
Service charge income from investment properties	3,170	3,322
Service charge expense from investment properties	(4,164)	(4,204)
	15,831	15,885

26. RENTAL INCOME

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

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

	2017	2016
	$	$
Not later than one year	5,362	4,617
Later than one year and not later than five years	12,602	9,037
Later than five years	124	424
	18,088	14,078

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2017

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

	2017	2016
	$	$
Realized gains		
Equity securities	54	485
Debt securities	1,869	1,438
Realized losses		
Equity securities	(2)	(30)
	1,921	1,893

28. FAIR VALUE GAINS AND LOSSES

	2017	2016
	$	$
Financial assets at fair value through profit or loss	38,698	11,780
Investment properties	(328)	(88)
	38,370	11,692

29. FEES AND COMMISSION EXPENSES

	2017	2016
	$	$
Fees expenses	1,394	1,408
Commission expenses	26,306	29,800
	27,700	31,208

(in thousands) Year ended December 31, 2017

30. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2017	2016
	$	$
Administrative expenses		
Salaries and employee benefits expense	22,750	20,670
Amortization on property and equipment (note 9)	930	945
Amortization of intangible assets (note 10)	1,462	1,449
Professional and consultant fees	4,387	3,393
Investment property related expenses (note 5)	505	558
Other	5,088	5,229
	35,122	32,244
Other operating expenses		
Other	5,035	5,023
	5,035	5,023

31. CAPITAL MANAGEMENT

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

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

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2017

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 minimum requirement of 150%. As of December 31, 2017, the Group's ratio is 228% (245% in 2016).

A ratio of 228% means that the Group has sufficient capitalization to face unexpected negative results of approximately $41.1 million ($45.3 million in 2016) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory capital

	2017	2016
Available capital according to requirements	$119,962	$116,978
Required capital	$52,547	$47,808
Solvency ratio	228%	245%

32. 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:

	2017	2016
	$	$
Salaries and other short-term employment benefits	3,879	3,558
Fees	240	236
Post employment pension benefits	307	261
	4,426	4,055

Organizational Chart

Assumption Mutual Life Insurance Company

Atlantic Holdings (1987) Ltd.
100% Assumption Mutual Life Insurance Company
$2,752

Assumption Place Ltd.
100% Assumption Mutual Life Insurance Company
$24,002

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.

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

2017 ANNUAL REPORT

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Assumption Life

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