SSQ insurance

Communities make us

2018 Annual Report

Summary

Insurance for the future

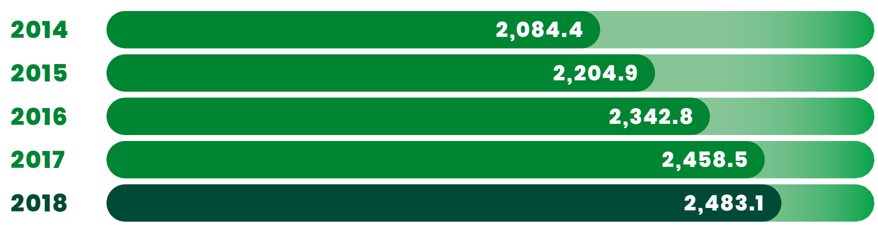
Over the past few years, we have implemented the necessary elements to strengthen the Company with a view to positioning it more favourably in the market so that it can seize every opportunity. Together, we are working to serve our community of members and customers.

As we move forward, everything is in place to deliver an even more conclusive level of performance. In this regard, SSQ Insurance remains firmly focused on the future.

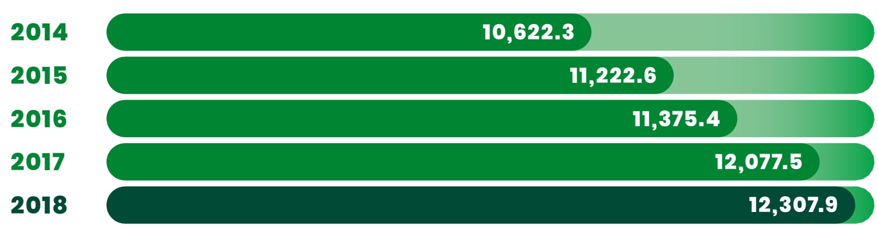
2018 Financial Highlights

Consolidated data ($M)	**2018**	2017	Variation
	$	$	%
Gross premiums	**2,483.1**	2,458.5	1.0
Assets under management and administration	**12,307.9**	12,077.5	1.9
Equity attributable to shareholders	**974.2**	884.7	10.1
Net income attributable to shareholders	**94.6**	90.4	4.6
Number of employees	**2,020**	2,066	(2.2)

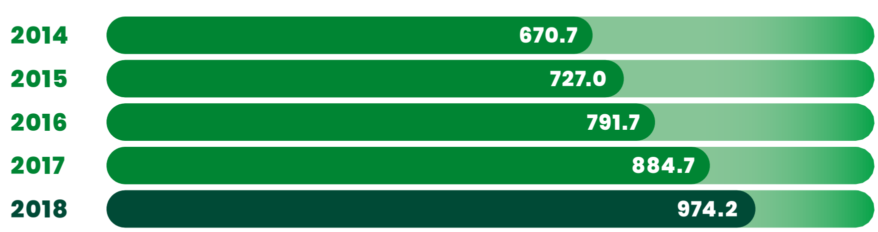
Gross premiums
($M)



Assets under management and administration
($M)



Equity attributable to shareholders
($M)



Chairman's Message

René Hamel
Chairman of the Boards

As an insurance and financial services company, SSQ Insurance is required to exercise diligence in protecting the solid bonds of trust it has forged with its delegates, customers, partners and members of the public over the past 75 years. With a view to ensuring the long-term nature of these relationships, the essential principles to follow are transparency and sound management.

Delegates' Conference

The delegates' role in the Company's business is a concrete expression of our mutualist values. In addition, their participation and contribution to the Delegates' Conference and the Annual Meeting are shining examples of their personal commitment to mutualism.

At the last Conference, in response to a need expressed by the delegates, we pledged to improve how we communicate with them. To that end, SSQ, Mutual Management Corporation created the *InfoDelegates* newsletter.

Published several times a year, this newsletter aims to keep delegates informed about their Mutual's business and that of SSQ Enterprises. We hope it will reinforce their belief that they exercise a real influence on the Company's actions and that they too can uphold the mutualist model that sets us apart, as eloquently expressed by our tagline: *Communities make us.*

René Hamel leading a training session on mutualism at the Delegates' Conference to pass on the values of SSQ Insurance.

An organization in motion

The events of last year unfolded in keeping with decisions taken as part of the current strategic plan. The theme of organizational transformation was discussed at great length, accompanied by corporate changes resulting from the merger of SSQ General Insurance Company Inc. and SSQ Insurance Company Inc. In addition, the five distribution subsidiaries more recently acquired by SSQ Insurance were combined to form SSQ Distribution Inc.

In 2018, we took the opportunity to reflect on how the governance mechanisms of SSQ Enterprises should be updated and kept relevant. In 2019, concrete measures will be taken to ensure that these mechanisms continue to evolve.

The directors of SSQ, Mutual Management Corporation began their review of the Mutual's bylaws, a topic that will be taken up at the 2019 Annual Meeting. They also reflected on potential avenues enabling the Mutual to make an even more significant contribution to SSQ's mission, in keeping with its members' interests. These efforts will be ongoing in 2019.

The 2018 Annual Report reflects a healthy shift that will enable SSQ to remain modern and efficient while, as set out in its mission, drawing daily inspiration from the mutualist values that place the individual and social development at the heart of its actions.

With these goals in mind, the committees on which the board directors serve were very active in 2018.

Executive and Human Resources Committee

In 2018, the Executive and Human Resources Committee looked into a number of important topics. One of these pertained to the review of the governance rules applicable to insurance companies, as well as to SSQ, Mutual Management Corporation. The ongoing and growing changes since our transformation, started in 2016, required that the Committee reconsider the number of members serving on the boards of SSQ, Life Insurance Company Inc. and SSQ Insurance Company Inc., with a view to allowing committee members to serve on a substantive committee and bring in new expertise.

For SSQ, Mutual Management Corporation, these governance changes are driven by a desire to take on an even more significant role within the Company, thereby representing a source of added value for its members.

The committee also continued its talent management efforts and recommended that the board adopt the 2019 budget.

Audit and Risk Management Committee

The Audit and Risk Management Committee recommended that the board approve the audited consolidated financial statements of SSQ, Life Insurance Company Inc. and received the independent Auditor's Report. It also supervised work on the new Capital Adequacy Requirements for Life and Health Insurance (CARLI), with respect to which the Company is favourably positioned in the industry. The Committee also received and recommended that the board approve the Risk Appetite and Tolerance Statement, which was entirely revised in 2018.

The Audit and Risk Management Committee also expressed an interest in the progess of the work done on the new International Financial Reporting Standards (IFRS). A number of reports and policies were submitted to the Committee, particularly as regards integrated risk management, capital management, information security, compliance and reinsurance. The decision was made to issue a call for tenders for the selection of an external auditor for 2019. The Committee took part in the review of the tenders received, as well as in the selection of the auditor, and had a mandate to make a recommendation to the board.

Risk Appetite and Tolerance Statement

The board approved an update to the Company's Risk Appetite and Tolerance Statement. This was aimed not only at clarifying the Company's position on its overall risk approach, but also at supporting its position by means of quantitative monitoring measures associated with various risk categories.

Here are a number of excerpts from the Risk Appetite and Tolerance Statement:

"SSQ manages its activities within the framework of guidelines established in its Risk Appetite and Tolerance Statement. This forward-looking document defines the types and level of risk that the Company is willing to accept. This overall level of risk ensures that the Company will be able to fulfil its commitments to its customers at all times and implement its strategic objectives and financial plan.

The Company's decision-making process, involving multiple stakeholders, is guided by the following principles:

- The Company treats its customers as its central focus. It undertakes to protect their personal information and to deal with them fairly while ensuring that their customer experience is a distinctive one.
- Insurance risks lie at the heart of the Company's business and are the key leverage to create value. The Company engages in activities that it masters and for which it has the required skills and expertise. If necessary, it collaborates with insurance partners, particularly reinsurers complementing its areas of expertise.
- The Company acknowledges that certain risks are associated with its operations. Nevertheless, it undertakes to protect its business and its customers by adequately managing these risks and by putting in place the necessary measures to mitigate them.
- The Company takes all steps necessary to safeguard its reputation and its brand."

Investment Committee

The Investment Committee began the year by reflecting on the real estate investment strategy. Among other projects carried out in 2018, the Committee recommended that the board make changes to the investment policy with respect to the new Capital Adequacy Requirements for Life and Health Insurance (CARLI), and recommended the addition of an investment category.

Training sessions

In addition to regular meetings, the board members played an active role during training sessions on a variety of topics, including governance, social media, components of financial compensation and integrated risk management. The members of the Investment Committee and the Audit and Risk Management Committee faithfully attended the sessions on the new International Financial Reporting Standards (IFRS 9 and 17).

Ethics Committee

The Ethics Committee reviewed conflict-of-interest declarations by directors and officers, in addition to ethical compliance declarations, and submitted reports to the regulatory authorities. The Committee also recommended that the board approve a new bond financing structure, which was completed in the fall of 2018.

Sustained presence

Year after year, SSQ's board members take their roles and responsibilities very seriously, as evidenced by their high levels of attendance and preparation for meetings. In 2018, their attendance at meetings of the various governing bodies was 97%, a remarkable result.

Board member attendance record

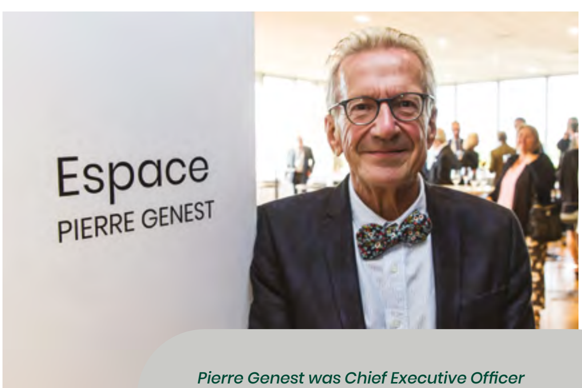
SSQ, Mutual Management Corporation, SSQ, Life Insurance Company Inc. and SSQ Insurance Company Inc.
For the year ended December 31, 2018

	Boards of Directors	Executive and Human Resources Committee	Investment Committee	Audit and Risk Management Committee	Ethics Committee	Total
Brouillet, Normand**	10/10	9/9				**19/19**
Chalifoux, Jean-François*	8/8	9/9				**17/17**
Choquette, Claude*	5/8		5/5			**10/13**
Dubé, Carolle**	9/10					**9/10**
Dutil, Marie-Josée** *(as of Dec. 13, 2018)*	1/1					**1/1**
Hamel, René**	10/10	9/9				**19/19**
Jomphe, Eddy**	10/10				3/3	**13/13**
MacDougall, Andrew*	8/8					**8/8**
Martineau, Jude*	8/8			7/7		**15/15**
Martineau, Lucie**	10/10					**10/10**
Morin, Gaétan*	8/8	8/9				**16/17**
Nadeau, Michel**	9/10	9/9	5/5			**23/24**
Paradis, Denyse**	10/10				3/3	**13/13**
Paré, Sylvain*	7/8	8/9		7/7		**22/24**
Pélissier, Alain** *(until Dec. 13, 2018)*	9/9					**9/9**
Perron, Jean**	10/10				3/3	**13/13**
Picard, Sylvain**	10/10			7/7		**17/17**
Piché, Bernard*	8/8		5/5			**13/13**
Turnbull, Norman A.*	8/8		5/5			**13/13**
Vallée, Émile**	10/10	9/9				**19/19**
Total	**168/174**	**61/63**	**20/20**	**21/21**	**9/9**	**279/287**

**SSQ, Life Insurance Company Inc. and SSQ Insurance Company Inc. board members.*
***SSQ, Mutual Management Corporation, SSQ, Life Insurance Company Inc. and SSQ Insurance Company Inc. board members.*

Tribute to a great builder

On September 6, 2018, the Espace Pierre Genest, located on the executive floor of the Company's head office in Quebec City, was inaugurated. This beautiful reception area was unveiled during an official ceremony attended by Mr. Genest, who was deeply moved by this expression of recognition. He was a pivotal figure in the history of SSQ Insurance, having played a key role for over 30 years, in particular as SSQ's CEO and Chairman.



Pierre Genest was Chief Executive Officer from 1986 to 2001, and Chairman of the Boards from 2006 to 2017.

Jean-François Chalifoux, 2018 Financial Personality of the Year

I would like to extend my warmest congratulations to our CEO, who was named 2018 Financial Personality of the Year! This honour was awarded by an independent jury consisting of leading figures from Quebec's financial sector as part of *Finance et Investissement*'s annual Top 25 ranking. The jury members recognized Mr. Chalifoux's strategic boldness and innovative approach, in addition to SSQ Insurance's business growth.

Indeed, this honour casts a flattering light on our entire organization. Congratulations Jean-François!

Socially committed employees

Even though it is now a major coast-to-coast player in Canada's insurance and financial services sector, SSQ Insurance has not forgotten its humble beginnings in a working-class neighbourhood of Quebec City. From the outset, the Company sought to facilitate access to health care and services for a less affluent clientele. Buoyed by growth and financial success, we continue to uphold the value of sharing today. That is why we take pride in our contribution to the economic, cultural and social well-being of our community through donations and sponsorships and why we support volunteerism among our employees and management. Here are some examples.

Toronto employee initiatives

The employees of SSQ's Toronto office banded together to support Camp Oochigeas, which gives young cancer patients unique opportunities for growth through stimulating experiences. And for the 11th year in a row, our Toronto employees took part in the beach volleyball tournament organized by the SickKids Foundation.

United Way Centraide

In 2018, the United Way Centraide campaign notched a new record at SSQ Insurance. Combined with the institutional contribution, donations by current and retired employees helped us exceed our target with over $368,000 raised, up more than 10% from last year. SSQ Insurance was also honoured by Centraide Quebec City/Chaudière-Appalaches with an award for its campaign, conducted in all its offices under the theme of "Small donations matter."

Employees gave out apples at the launch of the United Way Centraide campaign in the fall of 2018.

SSQ Quebec City Marathon

Through its major annual fundraising activities, SSQ Insurance upholds the values of solidarity and social commitment in a tangible way, most notably through its partnership with the SSQ Quebec City Marathon. Over the past 13 years, the Company has donated more than $1 million to organizations in the region through this partnership.

This year, SSQ Insurance's employees decided to support Les Œuvres Jean Lafrance, which reaches out to underprivileged boys and provides them with support. SSQ Insurance donated a total of $81,662 to this organization. In addition, over 300 employees and their family members took part in one of the Marathon events.

The course for the 2018 Marathon was redesigned and passed by the Company's head office, which served as the final refreshment station in the 42.2 km event—a unique opportunity to demonstrate SSQ Insurance's community spirit! Large numbers of employees welcomed the opportunity to cheer on the participants as they ran by our offices.

Employees supporting marathon runners as they pass by SSQ Insurance's head office.

SSQ Marathon in Longueuil

Showing their community spirit, over 100 employees and their family members took up the challenge of taking part in events organized for the third edition of the Marathon SSQ de Longueuil. Collectively, they ran nearly 800 km! SSQ Insurance chose to support La Maison de Jonathan by making a donation. Representatives of this organization, which serves as a resource for at-risk young people, attended the event and promoted the services they offer. In fact, a number of young beneficiaries of La Maison's services also rose to the challenge by taking part in the 5K event.

Young people from La Maison de Jonathan running in the 5K event.

Keeping our promise

During our 13-year partnership with the SSQ Quebec City Marathon, various organizations have benefited from our annual fundraising efforts. The campaign on behalf of Leucan, in 2011, certainly stands out. Leucan's ambassador, Raphaël Martel, who was 11 years old at the time and living with cancer, came out to support the 25 employees who "lost their locks" in the Shaved Head Challenge!

To demonstrate our appreciation, then-CEO René Hamel offered Raphaël a complimentary first year of auto insurance as soon as he was old enough to get his driver's licence. When the time came, Raphaël remembered Mr. Hamel's promise. Consequently, a signing ceremony was held last October to mark Raphaël's very first auto insurance policy.

Now in remission, Raphaël is a student in police sciences and is living life to the fullest like other young people his age. Our promise to Raphaël is a wonderful example of our community spirit, and SSQ Insurance is proud to have crossed his path!

As promised by René Hamel back in 2011, Raphaël got his first auto insurance policy.

Contributions inspired by our values

As a responsible corporate citizen, SSQ Insurance cares about people's well-being and quality of life. Via meaningful partnerships aligned with its values, the Company continues to affirm its community commitment, responding to over 400 partnership and sponsorship requests each year.

While continuing its capitalization efforts of the SSQ Foundation, in 2018 the company paid out nearly half a million dollars in corporate donations and sponsorships to over 30 organizations working to improve the living conditions of the community. Various hospital foundations were supported, including those associated with the CHU de Québec–Université Laval, CHU Sainte-Justine, Maisonneuve-Rosemont Hospital and the Institut universitaire de cardiologie et de pneumologie de Québec, to name but a few.

SSQ also supported the Toronto Foundation following the tragic events of April 2018 in the Toronto suburb of North York, as well as the Canadian Red Cross, which came to the aid of Ottawa-Gatineau residents affected by the tornado in September 2018.

SSQ Foundation

In 2018, through its financial support to its own Foundation, SSQ Insurance achieved a capitalization level of over $2 million, a new milestone. A little more than 20 years after its creation, the SSQ Foundation now more than ever plays a major role in the community.

The Foundation's efforts are focused on young people: nearly $90,000 in funding was distributed to approximately 30 youth-oriented organizations, particularly those fighting to keep students in school, address addiction issues and create job opportunities for unemployed youth.

The SSQ Foundation also supported the Centre résidentiel Jacques-Cartier in Quebec City and Maison Kekpart in Longueuil, both of which encourage young people to define and take their place in society via processes involving guidance, learning, individual/collective action and support for improved living conditions.

Founded in 1996, the SSQ Foundation engages with organizations whose charitable work is dedicated to young people.

CQCM (Quebec Council on Cooperation and Mutualism)

SSQ continues to play an active role in the activities of CQCM, an organization made up of 34 cooperatives and mutuals that seeks to foster Quebec's social and economic development while promoting the cooperative and mutualist movement. Through the CQCM, SSQ is also a member of Cooperatives and Mutuals Canada.

FECM (Foundation for Cooperative and Mutualist Education)

As a founding member of FECM, SSQ helps in the training of the citizens of tomorrow. FECM's mission is to promote the cooperative and mutualist model among young people.

SOCODEVI (Society for Cooperation and International Development)

SSQ Insurance has financially supported SOCODEVI's projects for nearly 35 years. As a founding member of the organization, SSQ helps developing countries to flourish so that local populations can take charge of their own lives, particularly as regards health care delivered via mutualist and cooperative initiatives.

SOCODEVI helps businesses meet the demand of agricultural producers and markets while remaining competitive.

Sustainable development and societal responsibility

SSQ Insurance plays an active role in building a promising future. For that reason, our first Sustainable Development and Societal Responsibility Plan was developed, covering the 2013–2017 period. A number of significant steps were taken and 96% of the objectives set out in the initial plan were achieved.

In light of the relevance of this initiative, a second plan covering the 2018–2020 period was put in place. In addition, a report was issued on the results for the plan's first year of implementation. For further information, please consult our 2018 Sustainable Development and Societal Responsibility Report.

SSQ, Mutual Management Corporation's financial results

SSQ, Mutual Management Corporation's financial results represent a percentage of SSQ Enterprises' results, in accordance with its ownership stake. Accumulating over the years, these results constitute the consolidated equity attributable to members.

Total revenues for 2018 were $27.4 million, including the proportional share of SSQ, Life Insurance Company's net income, which amounted to $27.3 million. After deducting expenses of $0.1 million and the net income attributable to the non-controlling interest of $11.6 million, the net income attributable to the members was $15.7 million.

As at December 31, 2018, the members' equity totalled $162.8 million, up 10.1% from the previous year. SSQ, Mutual Management Corporation is delighted with the results obtained by SSQ, Life Insurance Company Inc. as it endeavoured to strike a fair balance between members' rights, financial stability and reasonable expectations regarding returns.

Donation campaign marking SSQ Insurance's 75th anniversary

2019 will mark a major milestone in our organization's history: SSQ is all set to celebrate its 75th anniversary! This will be an opportunity to recognize the millions of people who have contributed to the long-term viability of our collective spirit and the development of an ever-stronger community. Those millions of people are our employees, insureds, members and partners: they have placed their trust in us since Day 1, and they continue to form the heart and soul of our day-to-day actions.

To mark the occasion, the SSQ Foundation will be allocated a special budget. Donations will be distributed in 2019 to various organizations that applied for support via ssq.ca. In this regard, 2018 served as a run-up for this extra-special anniversary.

Board member news

Alain Pélissier left his positions as board director on December 13, 2018. He had joined the boards of SSQ, Mutual Management Corporation and SSQ, Life Insurance Company Inc. back on February 25, 2009. He had also been a member of the Mutualism Promotion Committee since 2012. Over the past 10 years, Mr. Pélissier shared his insights on various initiatives in which he was involved, in addition to representing the union group to which he belonged, the Centrale des syndicats du Québec (CSQ). On behalf of myself and the other board members, I would like to thank Mr. Pélissier warmly for his hard work and dedication.

Marie-Josée Dutil, IT and Technical Director of CSQ, was appointed to fill the vacancy created by Mr. Pélissier's departure. I would like to thank Ms. Dutil for agreeing to join the extended SSQ family; I wish her a warm welcome.

Acknowledgments

I would like to acknowledge the important contribution made by many people to the Company's success. Since my appointment as Chairman of the Boards in April 2017, I have witnessed the board members' unwavering commitment. I would like to thank each and every one of them for their invaluable support and availability.

I am grateful to our delegates for their high-quality work. I am pleased to be able to count on their commitment to bringing our members' community spirit to life.

I would also like to extend my warmest thanks to our members, partners and employees. They play an instrumental role in promoting the Company and its values.

Together, we are taking concrete steps to ensure that SSQ Insurance remains a modern company with efficient and transparent governance mechanisms, backed by our solid mutualist values.

Happy 75th to all!

René Hamel
Chairman of the Boards
SSQ, Mutual Management Corporation
SSQ Insurance

CEO's Message

Jean-François Chalifoux
Chief Executive Officer

On the eve of SSQ Insurance's 75th anniversary, we are firmly focused on the future, backed by a solid financial position, a well-thought-out growth strategy and excellent earnings! Again this year, SSQ Insurance delivered remarkable results. Since its founding, the Company has remained true to its values and to a business culture in which human concerns lie at the heart of development efforts. Indeed, the desire of our founder, Dr. Jacques Tremblay, to protect workers' health is as relevant today as it ever was.

A year of consolidation

A good deal of effort has gone into realizing our vision of becoming "the insurance destination of choice for our members and customers."

In 2016, a major transformation was undertaken with a view to making SSQ Insurance a single entity. At that time, it was important to consolidate the Company's strengths so that it could continue to develop in a fast-changing industry. After implementing a new organizational model, merging several legal entities and carrying out an ambitious strategic plan, a new brand identity was launched in 2018, thus giving concrete expression to these changes in the eyes of our members, customers and partners.

We have now completed the first two years of our 2017–2019 strategic plan. The objectives it sets out remain relevant, and some significant milestones were reached over the past year.

$2,469M Business volume — Insurance

$1B Equity attributable to shareholders

$94.6M Consolidated net income

10.2% Return on equity

145% Solvency ratio

	2018	2017
	$	$
Business Volume – Insurance ($M)		
Group insurance	**2,005.0**	2,019.3
Individual insurance	**200.1**	189.1
General insurance	**264.2**	248.6
Total	**2,469.3**	2,457.0
Funds under management, including segregated funds, annuities and guaranteed products ($M)	**5,091.5**	5,152.1
Sales ($M)		
Group insurance	**155.8**	162.8
Individual insurance	**33.9**	34.9
General insurance	**68.5**	61.7
Total – Insurance	**258.2**	259.4
Savings	**646.8**	523.6
Consolidated net income ($M)	**94.6**	90.4
Return on equity	**10.2%**	10.8%
Comprehensive income ($M)	**89.5**	93.0
Assets under management and administration ($M)		
General funds	**7,440.4**	7,148.6
Segregated funds	**4,867.5**	4,928.9
Total	**12,307.9**	12,077.5

Main financial results and highlights for 2018

SSQ Insurance finished the year with an excellent net income of $94.6 million, for a return on equity of 10.2%. This result is up 4.6% from last year. The diversity of our operations, our multiple initiatives and our ongoing efforts to reduce our expenses helped to bring us to this level of profitability.

Group insurance was a significant driver of our results. Although the profitability of long-term disability insurance continues to be a concern, health and life insurance both benefited from a favourable experience. Our profitability level also stems from our rigorous and disciplined approach to achieving our financial and strategic objectives. The decisions we made to restore the profitability of certain distribution channels and the impact of Quebec's health sector restructuring in 2018 all generated the expected profits. As anticipated, however, these choices affected the results of the group insurance sector, which posted negative growth of 0.7%. Even so, thanks to the diversity of our operations, we finished the year with positive insurance volume growth of 0.5% overall, as the individual insurance sector recorded robust growth, together with the general insurance sector.

Individual insurance finished the year with a 5.8% increase in volume. As for sales in this sector, its negative growth was actually less than what was seen in the industry-wide market. General insurance also posted an enviable volume increase of 6.3%. Meanwhile, SSQ Distribution, the subsidiary encompassing the Company's distribution entities, had an excellent year in terms of business development, as sales of distributed products within the dealership network were up by nearly 12%. This demonstrates the positive impacts of business synergies attributable to the corporate transformation.

In terms of profitability, these sectors had a more difficult year. In individual insurance, fourth-quarter market variations and revised actuarial assumptions, particularly regarding the lapse rate, had an unfavourable impact on the result. Meanwhile, general insurance compensation costs once again exceeded the rise in premiums; as a result, premiums still do not cover these costs. This situation, which can be seen industry-wide, obliged SSQ Insurance and other insurers to raise their rates.

In 2018, the investment sector posted excellent results, despite an unfavourable market in the fourth quarter. The market effect also accounted for the slight drop of 1.2% in funds under management despite higher-than-expected sales which grew by 24%. New customers in group investment products and individual sales in Quebec underpinned this excellent performance.

SSQ Insurance's financial position is rock solid, as its equity reached nearly $1 billion. The solvency ratio, subject to a new guideline on capital adequacy requirements since the beginning of the year, amounts to 145%, an enviable level in the industry.

Our solid position was again recognized by the A.M. Best agency which, for the seventh year in a row, issued a financial strength rating of "A- (Excellent)" and an issuer credit rating of "a-". In addition, A.M. Best revised its outlook for the Company from stable to positive.

SSQ Insurance also benefits from the trust of its financial partners, including its main shareholder, the Fonds de solidarité FTQ, as well as a major institutional partner, the Caisse de dépôt et placement du Québec (the "Caisse"). In the past year, the Caisse announced that it would boost its investment in SSQ Insurance via a loan, which means we have the opportunity to invest in our business and earnings growth.

New accounting standard IFRS 17

Information Financial Reporting Standard IFRS 17 – Insurance contracts (IFRS 17), which is slated to take effect on January 1, 2022, revises the valuation and the recognition of income from insurance contracts, as well as financial statement presentation.

2018 was marked by significant efforts to broaden our knowledge of IFRS 17 and to analyze its impacts. Among other things, this enabled SSQ Insurance to take stands on approximately 200 positions relating to the principles set out in the standard, which requires an in-depth interpretation of various concepts while also leaving room for judgment. Taking these stands will help shed light on this new standard's potential impacts for SSQ Insurance.

Since the IFRS 17 project began, the team dedicated to implementing the new standard has trained 140 people, including the Audit and Risk Management Committee members. Disseminating this information will allow SSQ Insurance to ensure that all its sectors are well prepared for the arrival of IFRS 17, in addition to evaluating the impacts thereof and putting in place appropriate strategies for an efficient transition.

The coming into force of IFRS 17 was recently deferred for one year, i.e., until January 1, 2022, with a parallel production year in 2021. Although SSQ Insurance was aligned with the original implementation time frame, the deferral is a welcome decision, as it will facilitate a smoother execution of various project-related activities and a better use of our internal resources.

New momentum for Sales and Distribution activities

In April 2018, SSQ Insurance welcomed the appointment of Geneviève Fortier as Senior Vice-President, Sales and Distribution. There is no doubt that her extensive experience and leadership skills will prove invaluable to our business development efforts across the country.

In 2018, a new five-year master plan was put in place to oversee the Sales and Distribution sector. As a result, the year was marked by the segmentation of policy holders and intermediaries in order to clearly understand their needs and thus modernize the Company's service offer. The new master plan also brought about a reorganization of the sector, including the hiring of more staff—a move aimed at strengthening SSQ Insurance's position in Canada's growing markets. →

Here are some highlights of 2018 for the Sales and Distribution sector:

- 100% retention rate of public-sector groups in the area of group insurance
- New sales record of $103 million by the dealership network
- Numerous partnership agreements were enhanced to diversify the product offering for affinity group members
- Over 1,000 new active advisors were added to boost the sales of individual products

SSQ Insurance entered into an exclusive partnership with Allianz Global Benefits, a global leader in the area of employee benefit plans, thus putting in place another driver of the Company's nationwide business development plan. Since this partnership was established, a major agreement was signed with a new cross-Canada client. In addition, SSQ Insurance was asked to present a number of service offers introduced by Allianz.

Products tailored to today's realities

SSQ Insurance teamed up with BiogeniQ, a company specializing in pharmacogenomics, to offer our group insurance clientele an innovative solution for treating depression. This decision reflects our desire to offer solutions favouring health and well-being. In other words, our insureds can now consider treatments that are better adapted to their situation, as well as a faster return to an active life. This could ultimately help to control the cost of group insurance plans for policyholders.

The Company also announced that, effective January 1, 2019, it will offer interested group insurance policyholders a new group insurance coverage option for medical cannabis expenses. SSQ Insurance decided to make this option available in light of clinical advances demonstrating the substance's effectiveness in treating or relieving certain medical conditions. This coverage will be offered with a view to meeting the needs of customers for whom traditional medical treatments are ineffective, in accordance with federal regulations governing access to medical cannabis.

SSQ Insurance continues to make adjustments to its products in order to remain relevant to its clientele. For example, in the past year, the Company revised the investment options for universal life insurance policies and enhanced the offer of its critical illness rider.

The importance of innovation

Innovation, particularly in the area of technological advances, helps to foster multi-channel communication, increases analytical capacities to understand and meet customers' expectations and needs and, ideally, makes it possible to anticipate them. Innovation remains a strategic pillar of the Company's development plan.

In this regard, SSQ Insurance's representatives took part in the 2018 Canada FinTech Forum, serving on the organizing committee, as guest speakers and panelists. This provided an opportunity to demonstrate how the use of open data and artificial intelligence can create advances in the insurance sector. It also showed that we can work with our competitors to solve shared industry-specific problems.

A key way of fostering innovation within the Company was implemented in the past year. Under this program, employees volunteer to participate in pilot projects. Their involvement may vary, but the value of their contribution is constant, whether they are responding to an online survey, testing a smartphone application or taking part in panels discussing various development aspects.

SSQ Insurance also invested in Portag3 Ventures II LP, the second fund launched by Portag3 Ventures, an investment platform dedicated to financial and insurance technologies, otherwise known as "fintechs". In addition to providing SSQ Insurance with real strategic leverage in the area of innovation, our investment in this fund will drive new business opportunities while giving us a unique vantage point for observing new technologies and determining how we can bring the related benefits to our customers.

PORTAGΞ

Evolving digital services

Digital services represent one of the cornerstones of our strategic planning process, and our teams are continually striving to enhance them.

Our complete makeover of the ssq.ca website included various improvements. The site architecture and navigation functions were entirely redesigned in order to enhance the user experience with the most popular tasks foregrounded to facilitate searches. From coast to coast, the website is now more relevant because a technological solution can be used to target various clienteles while offering specific information to each market.

The website of assurancevoyages.ca was also refurbished during the year. Improved navigation and enhanced content now make it easier for travelers to select the coverage that is right for them.

SSQ Insurance signed an agreement with Now Solutions Group, a young fintech company, to develop innovative sales solutions. An initial project was delivered in 2018, and SSQ Insurance is now offering online insurance applications to its firm's financial security advisors. This tool makes client meetings more efficient, speeds up processing times and improves customer experience. It has also contributed to developing the advisor network while boosting sales in the individual insurance sector.

Committed to our customers

More than ever, we are driven by our desire to make constant improvements by offering our customers a distinctive experience during each interaction with us. Various initiatives aimed at optimizing call centre management and improving customer service were put in place. For example, revamping certain group insurance processes means we can handle more calls during peak periods and improve customer experience by promoting first-call resolution. In the general insurance sector, a number of agents expanded their areas of expertise to include travel insurance. Inverted seasonal demand between general insurance and travel insurance means that this type of operational synergy can be achieved while obtaining faster response rates as well as relevant cross-selling opportunities.

Our insureds compare us not only to our competitors in the financial services sector, but also to the very best companies overall, regardless of industry. Against that backdrop, the SSQ Customer Promise, launched in February 2018, has proved instrumental in delivering a unique and distinctive customer experience. For that reason, we will continue to promote this customer-centric approach while measuring our customers' experience and identifying all opportunities to improve it whenever they interact with SSQ Insurance. Needless to say, the real-time experience is measured using a broad cross-section of our clientele, with over 50,000 surveys conducted in 2018 under the Customer's Voice program.

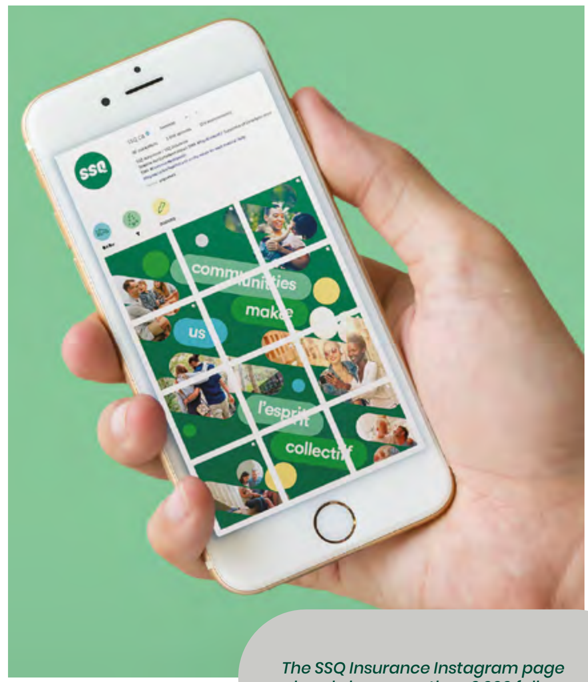
A chair with the Customer Promise sash in all of our meeting rooms reminds us to always consider the customer in all our decisions.

Initiatives designed to boost SSQ Insurance's profile

The Company carried out a major makeover with respect to its identity and branding at the beginning of 2018, changing its name to SSQ Insurance and adopting the *Communities make us* tagline. This new positioning reflects a customer-centric company, characterized by its community spirit while remaining faithful to its roots.

To accompany the launch and rollout of the new corporate brand, a cross-Canada advertising campaign was launched in early 2018, with a view to boosting SSQ Insurance's profile and supporting the distribution networks and partners. An integrated general insurance advertising campaign was also developed to generate direct sales while supporting the affiliated agents' efforts.

2018 was marked by the addition of Instagram to the Company's social media portfolio and by the rollout of the Company's very first coast-to-coast influence campaign.



The SSQ Insurance Instagram page already has more than 2,000 followers.

A strong organizational culture

Our cultural change program is one of our major initiatives in the 2017–2019 strategic plan. SSQ Insurance is working to institute an organizational culture focused on performance, customer experience and innovation, in keeping with its organizational values and commitment to promoting healthy lifestyles.

Efforts to achieve this cultural change are being concentrated on three areas, with a view to promoting the target culture and fostering employees' adherence:

- Appropriation: communicating and discussing expectations in line with the behaviours valued at SSQ Insurance by today's employees and leaders
- Consolidation: reviewing all HR programs and practices in line with the target culture
- Measurement: rolling out a cultural index and measuring perceptions of SSQ Insurance's changing culture

An organizational action plan was presented during the year, in line with the findings of the mobilization survey conducted in the fall of 2017. This plan sets out the following principles: capitalizing on the mobilizing skills of our leadership and the strength of collegial relations, adapting the organizational vision to each team, improving the organization's cross-functional knowledge and emphasizing the Company's recognition and feelings of support.

To determine whether SSQ Insurance is becoming an innovative, high-performance, customer-centric company, a corporate culture survey was completed in late 2018. The findings, which will be released in 2019, will guide future actions favouring the establishment of the target culture.

The provincial standard-setting body, the Bureau de la normalisation du Québec (BNQ), renewed SSQ Insurance's Elite health status. The Company is the first and only insurer to hold this certification. SSQ Insurance is seeking to develop and maintain its employee health program while embedding the concepts of health and well-being within its organizational culture.

The results of the recent employee mobilization survey improved since 2014.

Encouraging the next generation

SSQ Insurance hosted a number of high school students in connection with the Young Explorers for a Day activity, using the opportunity to promote the diversified world of insurance and financial services. Paired with employees, the students familiarized themselves with the inner workings of various professions.

In addition, a student enrolled in HEC Montreal’s bachelor of business administration program, Olivier Houde, experienced the reality of being CEO for a day. Olivier visited SSQ’s headquarters in connection with the Become a CEO activity—a unique experience during which he attended several important meetings, including that of the Management Committee.

In October 2018, SSQ Insurance hosted approximately 30 students in human resources, industrial relations and business administration as part of Discovery Day, organized by the Quebec order of certified HR advisors (Ordre des conseillers en ressources humaines agréés/CRHA). This gave the students an immersive experience in the day-to-day activities of HR professionals, and SSQ Insurance is pleased to have taken part.

Olivier Houde presiding over a senior management meeting.

HR professionals giving a presentation on the work they do in a company like ours.

Sustained real estate activities

SSQ Insurance's real estate portfolio comprises more than 1 million square feet of rental office space. At 97%, the overall occupancy rate reflects a high level of interest in our buildings and the effectiveness of our leasing approach.

Our BOMA BEST certification was renewed for SSQ Insurance's Quebec City headquarters. This year, the building was given an even higher rating, thanks to a more efficient use of water and better energy management.

In 2018, a development project for the Company's buildings in Quebec City was rolled out for the spaces occupied by the Company's employees. This project had two separate objectives: to bring certain teams together with a view to fostering synergies and boosting performance and to optimize the available surface area. It is worth noting that these spaces were designed to facilitate multi-site working, thanks to the integration of state-of-the-art technological tools.

The corporate floor of SSQ Insurance's headquarters was also completely redesigned and refurbished in accordance with new collaborative trends. For example, all workstations, including those of the senior vice-presidents and the CEO, are now located in the "open concept" area. Workspaces, conference areas, an event room and various lounges complete the new layout.

As regards the Cité Verte green district project, the construction of a new building began in September 2018. This 11-storey structure will contain 141 rental units; delivery is scheduled for late spring 2020. All aspects relating to Cité Verte's innovation and environmental responsibility features and infrastructure were delivered several years ago. The development of residential housing, fully integrated into existing structures, is thus continuing with the construction of this new building.

The open-concept layout of the corporate floor of the head office is designed to make management more accessible.

Involved in the community

In addition to key annual events such as the SSQ Marathons in Quebec City and Longueuil and the major fundraising activities associated with them, SSQ Insurance is involved with Le Grand Chemin Foundation, which seeks to support its centres' efforts to provide specialized treatment services (primarily drug, alcohol, gambling and Internet addiction) among Quebec adolescents between the ages of 12 and 17. SSQ Insurance is particularly interested in studies focusing on cyberdependence among young people, a phenomenon of interest for insurers. SSQ Insurance was also a partner in the 2018 OcSober campaign, thanks to which over $13,000 was raised for this organization. A seminar on addiction among young people was also presented to employees.

SSQ Insurance also partnered with the FitSpirit Foundation, which targets young Canadian women while promoting the benefits and enjoyment derived from physical exercise. Our commitment includes a $20,000 annual donation for five years. Among other fundraising activities, FitSpirit organizes the Father-Daughter Ball, in which various SSQ Insurance executives took part.

The 24th edition of the Bal des Grands romantiques (Great Romantic Ball) organized by the Quebec City CHU Foundation was held in March 2018, and I eagerly served as honorary president of the event. A total of $610,000 was raised and will be used to further specialized care at the CHU de Québec-Université Laval.

Le Grand CHEMIN La Fondation

Volunteering employees encourage young girls at the 2018 FitSpirit Celebration.

A record 750 participants from the business industry attending the Bal des Grands romantiques, organized by the Quebec City CHU Foundation.

Acknowledgments

Over the past 75 years, millions of people have inspired us and encouraged us to do our very best while protecting the health and financial security of workers in Quebec, and now across Canada as well.

In closing, I would like to thank:

Our members and our customers,
for their loyalty and their trust.
Our employees, for their expertise and their dedication.
Our delegates and partners, for their support.
Our board members, for their guidance.

Jean-François Chalifoux
Chief Executive Officer

Sustainable Development and Societal Responsibility Report

Sustainable Development and Societal Responsibility

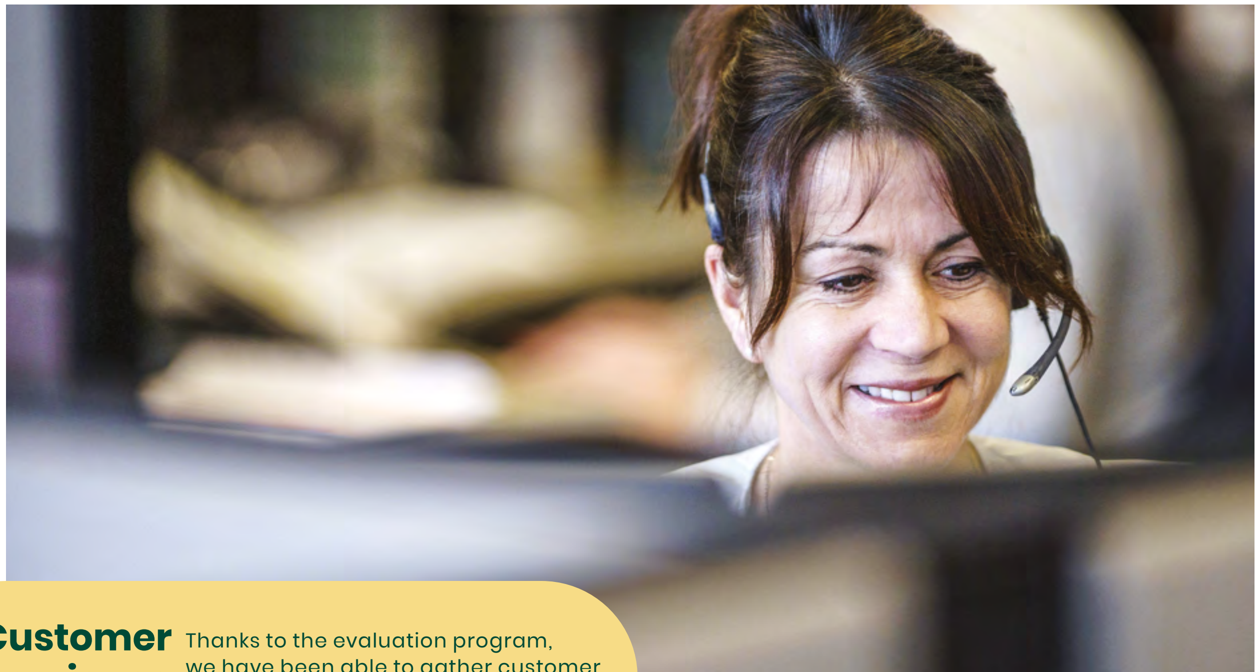
SSQ Insurance's culture of engagement naturally led the company to becoming sensitive to the footprint it leaves on both the environment and our community. This is why sustainable development and societal responsibility are an integral part of how we conduct business and how we assert ourselves in all other spheres of activity.

This guided us to draft our first Sustainable Development and Societal Responsibility Plan a few years back. It is our belief that a company that is focused on the economic, social and environmental impacts of its operations is better equipped to obtain the expected results in the medium to long term, and to ensure its sustainability by responding to the new expectations of its market in an innovative way.

Our Sustainable Development and Societal Responsibility Plan is therefore an extension of our corporate culture and the work we have accomplished to date. It represents the natural evolution of SSQ Insurance's bid to fulfill its mission.

A number of outstanding activities were accomplished in 2018. Here are some of them:

Providing a distinctive customer experience

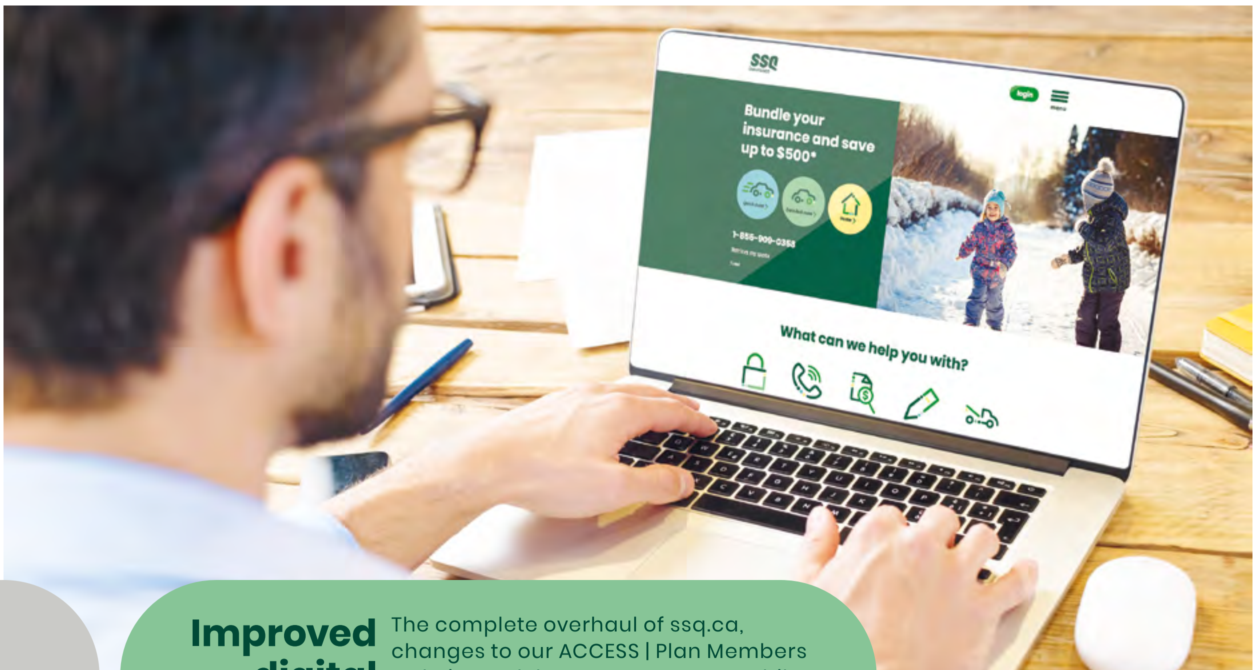


Customer experience evaluation
Thanks to the evaluation program, we have been able to gather customer satisfaction data, particularly in general insurance.

Satisfaction survey
The results of the survey indicate that customer satisfaction is in the excellence zone of the Net Promoter Score (NPS) standard.

The launch of the Customer Promise
guides all our actions and decisions.

Developing our digital offering



Improved digital services

The complete overhaul of ssq.ca, changes to our ACCESS | Plan Members website and the SSQ Insurance mobile application are aimed at encouraging greater use of these services.

The launch of the electronic insurance application

allows financial security advisors of the SSQ Financial Services firm to complete an individual insurance application on line.

A success for the Customer Centre

More than 32,000 customers have registered for the paperless option this year and consult the electronic version of their documents on line.

Promoting social and environmental considerations in our business practices

Local

Environmentally responsible

Recycled

Application of criteria for environmentally responsible practices

for the tendering and contract awarding process.

The use of VOC-free paint certified *Green Seal GS-11* and suitable for LEED® projects.

The addition of criteria for buying locally in our calls for tenders allows for the inclusion of local companies when it comes to invited suppliers and evaluated criteria.

The use of biodegradable cleaning products

certified with the Green Seal and/or compliant with the BOMA BEST Plus environmental program.

GREEN SEAL®

New carpet installation at SSQ Insurance offices containing 73% recycled content.

Reducing our environmental footprint

The company's car fleet

Additional allocation of $1,000 to employees choosing a hybrid or electric vehicle.

Maintaining the acquisition standard for vehicles with an emission rating of 0.255 kg CO_2/km or less.

Promotion of alternative transportation

to employees with incentives to encourage them to use alternative modes of transportation, such as carpooling, and maintaining our association with Covoiturage.ca.

Renewal of the BOMA BEST certification

of our head office and qualification for the Bronze level.

Decrease paper use

thanks to our employees' motivation to go paperless and reduce the consumption of paper by 15% in 2018.

Maintaining our waste disposal practices

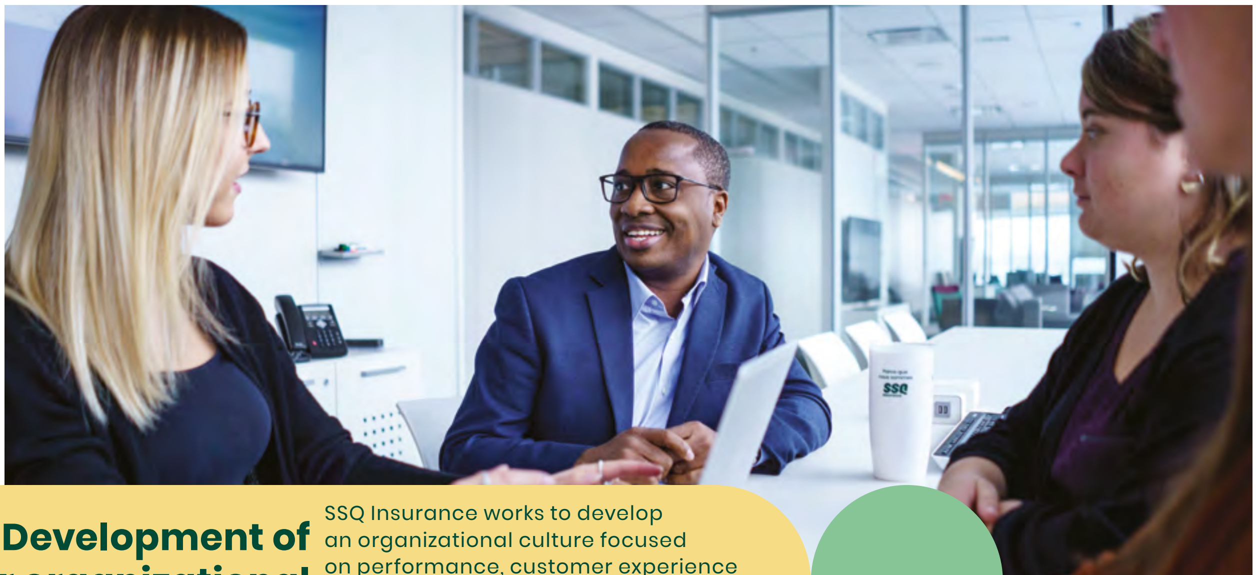
Implementation of the reuse and recovery program for various materials such as small appliances, batteries, ink cartridges and carpets.

ICI ON RECYCLE!
ENGAGEMENT MISE EN ŒUVRE PERFORMANCE

Maintain the certification for the Quebec City offices.

Donation of used furniture to non-profit organizations or sorting centres.

Promoting the company's culture and facilitating adherence



Development of our organizational culture

SSQ Insurance works to develop an organizational culture focused on performance, customer experience and innovation, while respecting its values and commitment to promoting healthy lifestyle habits.

Employee adherence

is confirmed by a survey which revealed that more than 95% of employees want to work in an organization that adopts the target organizational culture. Employees even indicate that they are already seeing a change in SSQ Insurance's culture as it moves toward the objective.

Offering a stimulating work environment

Review of HR programs to support the cultural change and the elements of the action plan that promote employee mobilization.

The HealthWise program

has been revised to ensure optimal use in all SSQ Insurance offices.

Women in management Between 2016 and 2018, the company's ratio of women in management positions increased by 7% for a total of 53%, and the ratio of women in senior management positions rose from 32% to 37%.

We continue our efforts to support leadership development for female executives.

Office layout design A new open-floor concept at the company offices made it possible to create a harmonious and collaborative work environment.

Giving back to the community

Supporting runners

More than 250 employees and members of their families showed their support for their community by cheering on the participants in the 42.2 km SSQ Quebec City Marathon as they ran past the company's head office.

Massive participation

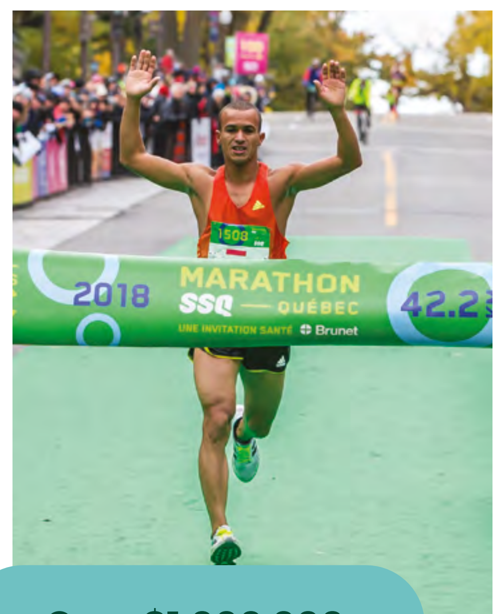
of 430 employees and members of their families at the SSQ marathons in Longueuil and Quebec City.

More than $81,000

raised for the Œuvres Jean Lafrance during the 2018 SSQ Quebec City Marathon.

La Maison de Jonathan is the community organization supported by SSQ Insurance as part of the Marathon SSQ de Longueuil.

Young people from these organizations took part in the marathon events.



Over $1,000,000

raised over the past 13 years, thanks to a major annual fundraising campaign through SSQ Insurance's partnership with the event.

Giving back to the community

Commitment to young people

The SSQ Foundation maintains a significant commitment to organizations devoted to young people, particularly with respect to staying in school, alcohol and drug abuse and job reintegration.

A donation to the Red Cross

was made to help those affected by the powerful tornado that struck Ottawa and Gatineau in September 2018.

United Way Centraide Ambassadors

The 2018 United Way Centraide campaign served as an opportunity to combine philanthropy with talent development.

Nearly 100 ambassadors from among SSQ Insurance employees were trained on such key skills as active listening, tact and group influence.

Affected by the tragedy in Toronto

A donation was made to the Toronto Foundation following the attack near the SSQ Insurance building in North York on April 23, 2018. Support was also offered to the employees.

Success of the United Way Centraide campaign

The 2018 campaign raised a record $368,196, 10% more than last year.

SSQ Insurance also received a special recognition for the campaign.

Being a socially engaged corporate citizen

Association with the FitSpirit Foundation first through a financial commitment over a five-year period and then also through participation of employees as volunteers at the Father-Daughter Ball and the FitSpirit Celebrations event.

Half-day volunteering More than 110 employees generously gave their time to the United Way Centraide-sponsored organizations: La Croisée de Longueuil, Sentier Urbain in Montreal, Centre Bonne Entente and La Baratte in Quebec City, as well as 360°kids in Toronto.

Social involvement of senior executives

SSQ Insurance encourages the social involvement of its executives– a concrete way of demonstrating how communities make us!

A 25-year partnership with Groupe TAQ whose mission is to integrate people with functional limitations. Employees work on assembling marketing documents, processing mail from Canada Post and preparing mass mailings for SSQ Insurance.

Building on the sustainable and responsible profile of our investments

Integration of responsible investment Presentation to various committees, including the Investment Committee, Financial Management Committee and Executive Committee, on integrating responsible investment into the investment decision process so that the governance bodies support this approach.

Evaluation criteria for external managers

In the selection and monitoring of external investment managers, the overall evaluation takes into account the fact that the manager is a Principles for Responsible Investment (PRI) signatory or that it complies with a policy on socially responsible investments.

Responsible investment is on the agenda of every periodic meeting with external investment managers.

Analysis of ESG issues

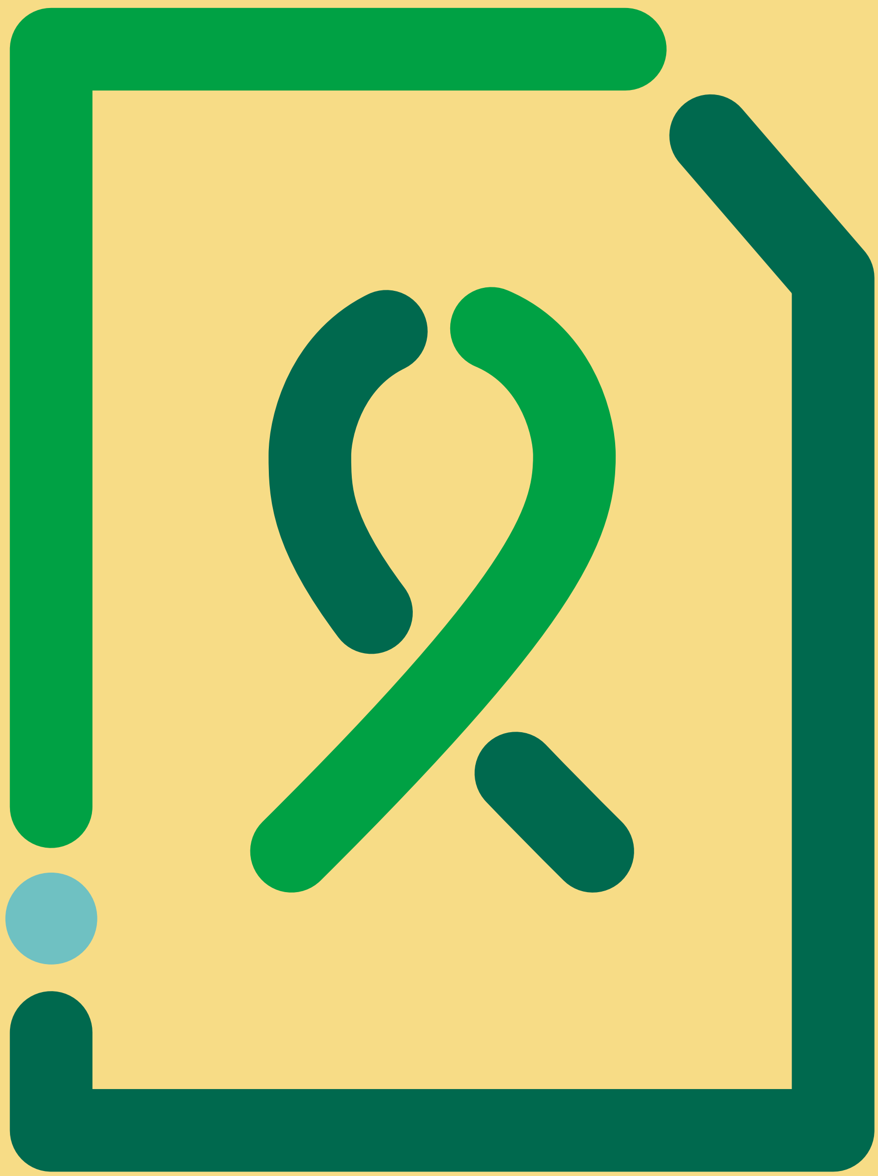
SSQ Insurance chose Sustainalytics for research and data on environmental, social and governance (ESG) issues. Access to this platform enables the investment team to better integrate ESG factors into its corporate bond investment decisions.

The corporate bond portfolio carbon footprint of the general fund is being analyzed in order to monitor its progress.

SSQ, Mutual Management Corporation Consolidated Financial Statements

As at December 31, 2018

Together with Independent Auditor's Report



Independent Auditor's Report

To the Members of
SSQ, Mutual Management Corporation,

Opinion

We have audited the accompanying consolidated financial statements of **SSQ, MUTUAL MANAGEMENT CORPORATION** (Mutual), which comprise the consolidated statement of financial position as at December 31, 2018, 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.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Mutual in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Mutual's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Mutual or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditor's Report (cont'd)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mutual's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mutual's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Mutual to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Mallette L.L.P.[1]

MALLETTE L.L.P.
Partnership of chartered professional accountants

Québec, Canada
February 27, 2019

[1] *CPA auditor, CA, public accountancy permit No. A119429*

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31,
(in thousands of dollars)

	2018	2017
	$	$
REVENUES		
Share in the net income of the Associate (Note 4)	**27,350**	26,145
Interest income (Note 5)	**66**	65
	27,416	26,210
EXPENSES		
Interest expense	**89**	75
	89	75
NET INCOME	**27,327**	26,135
NET INCOME ATTRIBUTABLE TO:		
Non-controlling interests	**11,588**	11,098
Members	**15,739**	15,037

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31,
(in thousands of dollars)

	2018	2017
	$	$
NET INCOME	**27,327**	26,135
Share in the other comprehensive income (loss) of the Associate (Note 4)		
Items that may be reclassified subsequently to net income	**(6,875)**	4,702
Items that will not be reclassified to net income	**5,399**	(3,940)
	(1,476)	762
COMPREHENSIVE INCOME	**25,851**	26,897
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	**10,964**	11,425
Members	**14,887**	15,472

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31,
(in thousands of dollars)

	2018	2017
	$	$
ASSETS		
Interest in the Associate (Note 4)	**305,623**	279,749
Note (Note 5)	**900**	900
	306,523	280,649
Cash (Note 5)	**103**	102
Account receivable from the Associate (Note 5)	**94**	—
Interest receivable (Note 5)	**11**	11
TOTAL ASSETS	**306,731**	280,762
LIABILITIES		
Chattel mortgage (Note 5)	**900**	900
Advances from the Associate (Note 5)	**949**	705
Account payable to the Associate (Note 5)	**—**	44
Accrued interest payable (Note 5)	**11**	11
TOTAL LIABILITIES	**1,860**	1,660
EQUITY		
Attributable to members		
Retained earnings	**173,525**	157,786
Accumulated other comprehensive loss	**(10,688)**	(9,836)
	162,837	147,950
Attributable to non-controlling interests	**142,034**	131,152
TOTAL EQUITY	**304,871**	279,102
TOTAL LIABILITIES AND EQUITY	**306,731**	280,762

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

René Hamel
Chairman of the Board

Émile Vallée
Vice-Chairman of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31,
(in thousands of dollars)

	2018	2017
	$	$
MEMBERS		
Retained earnings		
Balance, beginning of year	157,786	142,749
Net income	15,739	15,037
	173,525	157,786
Accumulated other comprehensive loss		
Balance, beginning of year	(9,836)	(10,271)
Other comprehensive income (loss)	(852)	435
	(10,688)	(9,836)
Total equity attributable to members, end of year	162,837	147,950
Non-controlling interests		
Balance, beginning of year	131,152	120,185
Net income	11,588	11,098
Other comprehensive income (loss)	(624)	327
Net capital injections	(82)	(458)
Total equity attributable to non-controlling interests, end of year	142,034	131,152
TOTAL EQUITY	304,871	279,102

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31,
(in thousands of dollars)

	2018	2017
	$	$
OPERATING ACTIVITIES		
Interest received	66	65
Interest paid	(64)	(64)
Cash flows from operating activities	2	1
FINANCING ACTIVITIES		
Advances from the Associate	219	467
Net capital injections [1]	(220)	(557)
Cash flows from financing activities	(1)	(90)
INCREASE (DECREASE) IN CASH	1	(89)
CASH, beginning of year	102	191
CASH, end of year	103	102

[1] *As at December 31, 2018, an amount of $94 related to capital repayments is included in the account receivable from the Associate (2017 – account payable of $44).*

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended December 31, 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

1. Governing statutes and nature of activities

SSQ, Mutual Management Corporation (the "Mutual") was incorporated under the *Act respecting Quebec Health Services*. The Mutual's main activity is to hold an investment in SSQ, Life Insurance Company Inc. (the "Associate").

The Mutual's head office is located at 2525 Laurier Blvd., Quebec City, Quebec, Canada. The Mutual's consolidated financial statements were approved by the Board of Directors on February 27, 2019.

2. Significant accounting policies

Presentation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the *International Accounting Standards Board* ("IASB"). The consolidated financial statements include the accounts of the Mutual and those of SSQ, Mutual Holding Inc. (the "Subsidiary"), owned at 57.60% (2017 – 57.60%), whose principal office is located in Quebec City, Quebec, Canada and which holds an investment in SSQ, Life Insurance Company Inc. The Mutual's consolidated financial statements are presented in Canadian dollars, which correspond to its functional currency.

Use of estimates and Management's judgments

The preparation of consolidated financial statements in accordance with IFRS requires Management to rely on best estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting year. Actual results may differ from these estimates. Those estimates are periodically reviewed, and adjustments are made, if needed, to the year's results in which they are known. Management uses its judgment to prepare the consolidated financial statements.

Revenue recognition

The share in the net income of the Associate is recognized when it is earned.

The interest income on the note is calculated using the effective interest rate method.

Interest in the Associate

The Mutual accounts for its 28.91% interest in the Associate (2017 – 28.91%) using the equity method. Of this ownership interest, 16.65% (2017 – 16.65%) is attributable to members.

Financial instruments – classification and recognition

When financial instruments are initially recognized, the Mutual records them at their fair value. The subsequent measurement of financial instruments depends on their classification.

Financial instruments are classified based on their nature and the Mutual's use of the financial instrument at the time of its initial recognition.

a) Note

Loans and receivables

The note to the Associate, which is classified as loans and receivables, is recognized at amortized cost using the effective interest rate method. The fair value disclosed for the note is determined by discounting the anticipated cash flows at the rate currently required by the market for this type of receivable and for a term corresponding to the maximum maturity date provided for the note.

b) Cash

Loans and receivables

Cash is made up of bank account balances held with financial institutions. It is classified as loans and receivables and is recognized at amortized cost using the effective interest rate method. Due to their short-term nature, the carrying amount of cash approximates its fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

2. Significant accounting policies (cont'd)

Financial instruments – classification and recognition (cont'd)

c) Chattel mortgage

Other financial liabilities at amortized cost

The chattel mortgage is classified as other financial liabilities at amortized cost and valued at amortized cost using the effective interest rate method. The fair value of the chattel mortgage disclosed is measured using an expected discounted future cash flows model. The discount rate used corresponds to a rate of return of a benchmark index that has a similar risk profile as the underlying assets and a term matching the maximum term for the chattel mortgage.

d) Other financial assets and liabilities

Other financial assets and liabilities are recognized at amortized cost using the effective interest rate method and classified respectively as loans and receivables and other financial liabilities at amortized cost.

Financial instruments – impairment

A financial asset is impaired if there is objective evidence of impairment as a result of one or more loss events that occurred following the initial recognition and had an impact on the financial asset's estimated future cash flows.

At the end of each financial reporting period, the Mutual determines whether there is any objective evidence that a financial asset has been impaired.

3. Changes in accounting policies

New accounting standard not yet in effect

Financial instruments

In July 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9"), which replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9:

- Establishes a new model for the classification and measurement of financial assets to determine whether an asset should be classified at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This is based on the entity's business model for managing its assets and the cash flow characteristics of these assets. The classification of debt instruments for which cash flows are solely payments of principal and interest ("SPPI") will be determined, on initial recognition, based on the business model for managing these financial assets, i.e., to collect contractual cash flows, to collect contractual cash flows and sell financial assets or to be held for trading;
- Proposes a new accounting model for recognizing expected credit losses rather than incurred losses, as required under the current impairment model. The Company will therefore be required to account for expected credit losses in cash flows;
- Changes recognition of financial liabilities measured using the fair value option;
- Also changes hedge accounting, whose objective is to present the impacts of risk management activities in the financial statement.

The Mutual is currently assessing the impact of this new standard on its consolidated financial statements. An amendment to IFRS 4, "*Insurance Contracts*", issued by the IASB on September 12, 2016 sets out measures giving companies whose business model is predominantly to issue insurance contracts the option to defer the effective date of IFRS 9 until effective date of IFRS 17, "*Insurance Contracts*" ("IFRS 17").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

3. Changes in accounting policies (cont'd)

New accounting standard not yet in effect (cont'd)

Financial instruments (cont'd)

In November 2018, the IASB postponed the effective date of IFRS 17 until January 1, 2022, which also serves to postpone the exemption from adopting IFRS 9 until this date. The Associate, in which the Mutual holds an interest, is eligible for this postponement since the percentage of the total carrying value of insurance-related liabilities versus the total carrying amount of all liabilities was greater than 90% at the time of the temporary exemption as at December 31, 2015. The Associate expects to avail itself of the postponement for as long as permitted. The amendment also sets out certain measures to allow investors that hold an investment in an associate able to use the deferral not to adjust the application of the equity method to make the associate accounting practices uniform with those of the investor, as would be required by IAS 28, "*Investments in Associates and Joint Ventures*". The Mutual is eligible for this temporary exemption and plans to apply it until IFRS 9 comes into effect for the Associate.

4. Interest in the Associate

	2018	2017
	$	$
Balance, beginning of year	**279,749**	252,842
Share in net income	**27,350**	26,145
Share in other comprehensive income (loss)	**(1,476)**	762
Balance, end of year	**305,623**	279,749

The following table presents summarized financial information for the Associate:

	2018	2017
	$	$
Consolidated statement of financial position		
Cash and equivalents	**248,600**	212,200
Total assets	**12,308,100**	12,077,500
Total liabilities	**11,333,800**	11,192,800
Total equity	**974,300**	884,700
Consolidated statement of income		
Interest income and amortization of discounts and premiums	**123,100**	116,400
Total revenues	**2,190,800**	2,310,400
Amortization of intangible assets and depreciation of fixed assets and investment properties	**32,800**	34,500
Interest expenses	**10,500**	11,300
Income taxes	**29,600**	29,900
Net income	**94,600**	90,400
Consolidated statement of comprehensive income		
Other comprehensive income (loss)	**(5,100)**	2,600
Comprehensive income	**89,500**	93,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

5. Financial instruments

a) Carrying value and fair value of financial assets and liabilities

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Note, 7.09%, maturing in May 2020 [1]	**900**	**918**	900	957
Interest receivable	**11**	**11**	11	11
Account receivable from the Associate	**94**	**94**	—	—
Cash, bearing interest at prime rate less 1.72%	**103**	**103**	102	102
	1,108	**1,126**	1,013	1,070
Financial liabilities				
Chattel mortgage, 7.09%, maturing in May 2020 [1]	**900**	**918**	900	957
Accrued interest payable	**11**	**11**	11	11
Account payable to the Associate	**—**	**—**	44	44
Advance from the Associate, 3.08% (2017 – 2.63%), without repayment terms	**240**	**240**	233	233
Advances from the Associate, prime rate, without repayment terms	**709**	**709**	472	472
	1,860	**1,878**	1,660	1,717

[1] *The chattel mortgage is secured by the note.*

Financial instruments for which the fair value is disclosed in the notes to the consolidated financial statements are classified according to a three-level hierarchy that reflects the importance of the inputs used to determine their valuation:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – A valuation based on inputs observable in markets for the asset or liability, obtained either directly or indirectly;

Level 3 – A valuation based on inputs other than inputs observable in markets for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

5. Financial instruments (cont'd)

a) Carrying value and fair value of financial assets and liabilities (cont'd)

The assets and liabilities whose fair values are disclosed in the notes to the consolidated financial statements are classified into the levels of the fair value measurement hierarchy as follows:

				2018
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Note, 7.09%, maturing in May 2020	—	—	918	918
Interest receivable	—	11	—	11
Account receivable from the Associate	—	94	—	94
Cash, bearing interest at prime rate less 1.72%	—	103	—	103
	—	208	918	1,126
Financial liabilities				
Chattel mortgage, 7.09%, maturing in May 2020	—	—	918	918
Accrued interest payable	—	11	—	11
Advance from the Associate, 3.08%, without repayment terms	—	240	—	240
Advances from the Associate, prime rate, without repayment terms	—	709	—	709
	—	960	918	1,878

				2017
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets				
Note, 7.09%, maturing in May 2020	—	—	957	957
Interest receivable	—	11	—	11
Cash, bearing interest at prime rate less 1.72%	—	102	—	102
	—	113	957	1,070
Financial liabilities				
Chattel mortgage, 7.09%, maturing in May 2020	—	—	957	957
Accrued interest payable	—	11	—	11
Account payable to the Associate	—	44	—	44
Advance from the Associate, 2.63%, without repayment terms	—	233	—	233
Advances from the Associate, prime rate, without repayment terms	—	472	—	472
	—	760	957	1,717

As at December 31, 2018 and 2017, no financial instrument is recognized at fair value in the Consolidated Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

5. Financial instruments (cont'd)

b) Interest income

	2018	2017
	$	$
Note	**64**	64
Cash	**2**	1
	66	65

6. Financial instruments risk management

The Mutual adopted control policies and procedures to manage risks related to financial instruments. The Board of Directors approves the investment policy and its objective is to supervise investment decision-making. The procedures arising from this policy ensure sound management of the risks related to investments.

Risks related to Mutual's financial instruments consist of credit risk, liquidity risk and interest rate risk.

Credit risk corresponds to the risk of financial loss for the Mutual if a debtor does not respect its commitments.

The Mutual is exposed to credit risk in terms of the note and the account receivable. This risk is mitigated by the fact that the note and the account receivable are issued to the Associate.

Liquidity risk refers to the risk that the Mutual may have difficulty generating sufficient cash flows to cover its financial liabilities. The Mutual manages liquidity risk by matching cash flows from its note with those required to cover its chattel mortgage.

The Mutual is exposed to interest rate risk through its advances from the Associate bearing interest at variable rates. Therefore, the Mutual incurs an interest rate risk depending on the fluctuation of the prime interest rate.

The following tables present contractual maturities of the cash flows of the Mutual's financial liabilities:

				2018
	Payable on demand	**From 1 to 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**
Chattel mortgage	**—**	**900**	**—**	**900**
Advances from the Associate	**949**	**—**	**—**	**949**
Accrued interest payable	**11**	**—**	**—**	**11**
	960	**900**	**—**	**1,860**

				2017
	Payable on demand	From 1 to 5 years	Over 5 years	Total
	$	$	$	$
Chattel mortgage	—	900	—	900
Advances from the Associate	705	—	—	705
Account payable to the Associate	44	—	—	44
Accrued interest payable	11	—	—	11
	760	900	—	1,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in thousands of dollars, unless otherwise indicated)

7. Capital management

In terms of capital management, the Mutual's objective is to preserve its assets. The Mutual defines its capital as the chattel mortgage and members' equity.

The Mutual achieves its objective through careful management of the capital generated by internal growth and by making optimal use of low-cost capital.

Composition of the capital

	2018	2017
	$	$
Chattel mortgage	900	900
Member's equity	162,837	147,950
	163,737	148,850

8. Related party transactions

In the normal course of operations, the Mutual carries out transactions with the Associate. These transactions are measured at the exchange amount.

During the year, the Mutual received interest of $64 (2017 – $64) from the Associate. As at December 31, 2018, a balance of $11 (2017 – $11) is included under interest receivable. This amount is not guaranteed and will be settled in cash.

During the year, the Mutual capitalized interest of $25 (2017 – $11) to the advance from the Associate.

The Associate offers an opportunity to participate in an investment fund to some of its employees. This investment fund owns a non-controlling interest in the Subsidiary.

9. Interests in the Subsidiary

The following table presents the impact of the consolidation of the Subsidiary in which the non-controlling interest is substantial:

	2018	2017
	$	$
Statement of financial position		
Total assets	306,636	280,760
Total liabilities	1,151	1,144
Statement of income		
Revenues	27,416	26,210
Net income	27,345	26,140
Statement of comprehensive income		
Other comprehensive income (loss)	(1,476)	762
Comprehensive income	25,869	26,902

SSQ, Life Insurance Company Inc. Consolidated Financial Statements

As at December 31, 2018

Together with Independent Auditor's Report

Independent Auditor's Report

To the Shareholders of
SSQ, Life Insurance Company Inc.,

Opinion

We have audited the accompanying consolidated financial statements of **SSQ, LIFE INSURANCE COMPANY INC.** (Company), which comprise the consolidated statement of financial position as at December 31, 2018, 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.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditor's Report (cont'd)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Mallette L.L.P.[1]

MALLETTE L.L.P.
Partnership of chartered professional accountants

Québec, Canada
February 27, 2019

[1] *CPA auditor, CA, public accountancy permit No. A119429*

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31,
(in millions of dollars)

	2018	2017
	$	$
REVENUES		
Gross premiums (Note 21)	2,483.1	2,458.5
Premiums ceded to reinsurers	(453.5)	(445.1)
Net premiums	2,029.6	2,013.4
Change in unearned premiums (Note 13)	(17.5)	(9.5)
Investment income (Note 4)	76.1	207.3
Revenue on property (Note 25)	32.6	29.9
Administration fees and other revenues	73.4	69.4
	2,194.2	2,310.5
BENEFITS AND EXPENSES		
Insurance and annuities		
Gross benefits	1,756.4	1,728.1
Benefits recovered from reinsurers	(368.3)	(360.3)
Change in actuarial reserve of life and health insurance contracts	152.6	351.6
Change in actuarial reserve of ceded reinsurance assets	(114.3)	(189.3)
Interest on deposits	3.5	3.9
	1,429.9	1,534.0
Selling and administrative expenses (Notes 20, 21 and 22)	355.7	352.1
General fund investment expenses	12.0	8.9
Property expenses (Notes 21 and 25)	25.6	22.8
Commissions and fees on sales	162.0	173.7
Premium taxes	75.7	72.6
	2,060.9	2,164.1
INCOME BEFORE EXPERIENCE REFUNDS AND INCOME TAXES	133.3	146.4
Experience refunds	9.1	26.1
INCOME BEFORE INCOME TAXES	124.2	120.3
Income taxes (Note 19)	29.6	29.9
NET INCOME	94.6	90.4

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31,
(in millions of dollars)

	2018	2017
	$	$
NET INCOME	**94.6**	90.4
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to net income		
Unrealized gains (losses) on available-for-sale financial assets	**(29.6)**	24.7
Income tax expense (Note 19)	**7.9**	(6.6)
Reclassification to net income of gains on disposal	**(2.9)**	(2.4)
Income tax expense (Note 19)	**0.8**	0.5
	(23.8)	16.2
Items that will not be reclassified to net income		
Actuarial gains (losses) arising from employee retirement benefits and impact of asset celling	**25.5**	(18.6)
Income tax expense (Note 19)	**(6.8)**	5.0
	18.7	(13.6)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(5.1)**	2.6
COMPREHENSIVE INCOME	**89.5**	93.0

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31,
(in millions of dollars)

	2018	2017
	$	$
ASSETS		
Investments (Note 4)	**4,673.8**	4,513.7
Outstanding premiums	**284.7**	274.0
Ceded reinsurance assets (Notes 12 and 13)	**1,888.5**	1,778.3
Property under development	**16.8**	25.6
Income taxes receivable	**14.8**	—
Other assets (Note 8)	**156.8**	150.7
Investment property (Note 9)	**51.9**	47.0
Fixed assets (Note 10)	**178.2**	175.9
Intangible assets (Note 11)	**127.7**	135.1
Goodwill (Note 11)	**14.1**	14.1
Deferred income tax assets (Note 19)	**33.1**	34.2
Total general fund assets	**7,440.4**	7,148.6
Segregated fund investments (Note 23)	**4,867.5**	4,928.9
TOTAL ASSETS	**12,307.9**	12,077.5
LIABILITIES		
Life and health insurance contracts (Note 12)	**5,536.0**	5,434.1
Property and casualty insurance contracts (Note 13)	**275.7**	251.2
Accounts payable	**148.9**	144.0
Income taxes payable	**—**	19.4
Subordinated debt (Note 15)	**157.0**	157.0
Other liabilities (Note 16)	**308.7**	213.9
Deferred income tax liabilities (Note 19)	**39.9**	44.3
Total general fund liabilities	**6,466.2**	6,263.9
Segregated fund insurance contracts (Note 23)	**1,751.2**	1,858.1
Segregated fund investment contracts (Note 23)	**3,116.3**	3,070.8
TOTAL LIABILITIES	**11,333.7**	11,192.8
EQUITY		
Share capital (Note 17)	**343.2**	343.2
Retained earnings	**681.3**	586.7
Accumulated other comprehensive loss	**(50.3)**	(45.2)
TOTAL EQUITY	**974.2**	884.7
TOTAL LIABILITIES AND EQUITY	**12,307.9**	12,077.5

Contingencies and commitments (Note 24)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board:

René Hamel
Chairman of the Board

Jean-François Chalifoux
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31,
(in millions of dollars)

	2018	2017
	$	$
Share capital	343.2	343.2
Retained earnings		
Balance, beginning of year	586.7	496.3
Net income	94.6	90.4
Balance, end of year	681.3	586.7
Accumulated other comprehensive loss		
Balance, beginning of year	(45.2)	(47.8)
Other comprehensive income (loss)	(5.1)	2.6
Balance, end of year	(50.3)	(45.2)
TOTAL EQUITY	974.2	884.7

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31,
(in millions of dollars)

	2018	2017
	$	$
OPERATING ACTIVITIES		
Income before income taxes	**124.2**	120.3
Income taxes paid, net of refunds received	**(65.7)**	(12.7)
Items not affecting cash		
Losses (gains) on investments	**70.1**	(76.1)
Impairment loss on property under development	**1.9**	—
Impairment loss on intangible assets	**0.5**	—
Amortization of discounts and premiums on bonds	**(21.5)**	(20.9)
Depreciation of investment property	**1.0**	0.9
Depreciation and amortization of fixed assets and intangible assets	**31.9**	33.6
Life and health insurance contracts	**101.9**	350.1
Other items included in net income	**(5.7)**	(4.2)
	238.6	391.0
Net change in other operating assets and liabilities	**21.2**	(42.3)
Cash flows from operating activities	**259.8**	348.7
INVESTING ACTIVITIES		
Purchase of investments	**(1,555.2)**	(1,223.0)
Sales, maturities and repayments of investments	**1,315.1**	958.3
Purchase of investment property	**(5.9)**	(9.6)
Purchase of fixed assets and intangible assets	**(27.5)**	(18.6)
Disposals of fixed assets and intangible assets	**0.1**	0.2
Cash flows from investing activities	**(273.4)**	(292.7)
FINANCING ACTIVITIES		
Issue of subordinated debt	**80.0**	—
Subordinated debt repayment	**(30.0)**	(3.0)
Cash flows from financing activities	**50.0**	(3.0)
INCREASE IN CASH AND CASH EQUIVALENTS	**36.4**	53.0
CASH AND CASH EQUIVALENTS, beginning of year	**212.2**	159.2
CASH AND CASH EQUIVALENTS, end of year	**248.6**	212.2
Cash and cash equivalents include:		
Cash	**238.9**	207.3
Cash equivalents	**9.7**	4.9
	248.6	212.2

Cash flows from operating activities include interest paid on subordinated debt in the amount of $10.5 (2017 — $11.3).

As at December 31, 2018, investment property in the amount of $0.1 (2017 — $0.1) and fixed assets and intangible assets in the amount of $2.8 (2017 — $2.9) were included in accounts payable.

The Company reimbursed $50.0 in subordinated debt during the year through the investment fund ($40.8) and receivables ($9.2).

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended December 31, 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in millions of dollars, unless otherwise indicated)

1. Governing statutes and nature of activities

SSQ, Life Insurance Company Inc., majority owned by the Fonds de solidarité des travailleurs du Québec, was incorporated under a private law and is governed by the *Insurance Act*. SSQ, Life Insurance Company Inc. and its subsidiaries (the "Company") offer a complete range of financial services including financial protection in the event of death, disability, illness or retirement through a variety of individual and group insurance products as well as savings, retirement and investment products. The Company is also active in property and casualty insurance and real estate management. The Company's head office is located at 2525 Laurier Boulevard, Quebec City, Quebec, Canada.

The Company's consolidated financial statements were approved by the Board of Directors on February 27, 2019.

2. Significant accounting policies

Presentation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the *International Accounting Standards Board* ("IASB"). The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiaries. The following table presents the subsidiaries held by the Company:

	Participation %	Principal place of business
SSQ Insurance Company Inc.	100	Quebec (Quebec), Canada
SSQ Reality Inc.	100	Quebec (Quebec), Canada
9338-2083 Quebec inc.	100	Quebec (Quebec), Canada

In accordance with industry practice for insurance companies, the Company has not presented its consolidated statement of financial position on a current and non-current basis, generally presenting it by order of liquidity instead. Most of its assets and liabilities are considered to be current since they are expected to be realized and settled, respectively, within the Company's normal operating cycle. The Company's other assets and liabilities, considered to be non-current, include property under development, investment property, fixed and intangible assets, goodwill, deferred income tax assets, subordinated debt, deferred income tax liabilities as well as the non-current portions of investments, financial liabilities, ceded reinsurance assets and the liability related to insurance contracts presented in Notes 4, 6, 12 and 13.

**Use of estimates
and Management's judgments**

The preparation of financial statements in accordance with IFRS requires Management to rely on best estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting year. Actual results may differ from those estimates. The most important estimates involve determining:

- liabilities related to life and health insurance contracts, property and casualty insurance contracts and ceded reinsurance assets;
- fair values of financial instruments in the general funds and segregated funds and insurance and investment contracts liabilities in the segregated funds;
- assumptions used in determining provisions, income taxes and write-downs of financial instruments and non-financial assets;
- retirement benefits asset and liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
(in millions of dollars, unless otherwise indicated)

2. Significant accounting policies (cont'd)

Use of estimates and Management's judgements (cont'd)

Management used its judgment to evaluate the exercise of control for consolidation purposes, to classify insurance and investment contracts and financial instruments. Management's judgment is also required in the recognition of investment property, fixed assets, intangible assets and goodwill.

Foreign currencies

The Company's consolidated financial statements are presented in Canadian dollars, which correspond to its functional currency. Fund units and bonds denominated in foreign currencies are converted at the exchange rate in effect at the date of the financial statements.

Insurance contracts and investment contracts — classification

The Company issues contracts that transfer an insurance risk, a financial risk, or both. Insurance contracts are contracts that involve a significant insurance risk. A significant insurance risk exists when the Company agrees to indemnify policyholders or policy beneficiaries should a specified uncertain future event have an adverse effect on the policyholder. Investment contracts are contracts that carry a financial risk with no significant insurance risk.

Life and health and segregated fund insurance contracts

Revenue recognition and related expenses

Life and health insurance premiums are recognized as revenues when they become due. Once premiums are recognized, liability related to life and health insurance contracts is computed in a manner such that expenses are matched with such revenues. Claims are recognized when a notice is received of an event that gives entitlement to compensation. Furthermore, commissions and premium taxes are recognized on the same basis as life and health insurance premiums.

The Company collects commission revenues on individual contracts ceded to reinsurance. The commissions are recorded when the contracts are ceded to reinsurance and are posted uniformly to the consolidated statement of income over the term of the corresponding ceded contracts. Unearned reinsurance commissions correspond to the portion of the commissions for the unexpired period of the corresponding contracts, prorated over the remaining number of days. The portion attributable to subsequent periods is recognized in liabilities related to life and health insurance.

Life and health insurance contracts

The actuarial reserve, provisions for claims and experience refunds, and deposits related to life and health insurance contracts are established by the actuary in accordance with the standards of practice of the Canadian Institute of Actuaries and reflect the amounts required to meet obligations resulting from insurance contracts in force. The actuarial reserve is calculated according to the Canadian asset liability method, a recognized actuarial method established by the Canadian Institute of Actuaries. This method requires the use of assumptions based on best estimates of future experience, according to the Company's own experience and that of the industry, and includes additional amounts for plausible adverse deviations related to assumptions made on the different factors considered.

Some insurance contracts may contain embedded derivative instruments. These derivative instruments either meet the definition of insurance contracts themselves or correspond to an option to surrender an insurance contract for a fixed amount and are not valued separately from the host contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018
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2. Significant accounting policies (cont'd)

Life and health and segregated fund insurance contracts (cont'd)

Segregated fund insurance contracts

Liabilities for segregated fund insurance contracts include the deposit portion of these contracts, recognized in the same manner as investment contracts. The guaranteed portion recognized from the life and health insurance contracts liability, which is determined by the actuary in accordance with the practice standards of the Canadian Institute of Actuaries, corresponds to the amount required to cover current insurance contract commitments. The insurance contract liabilities of segregated funds are calculated according to the Canadian asset liability method, and include additional amounts for plausible adverse deviations related to assumptions made on the different factors considered.

Segregated fund insurance premiums related to the insurance component of the contract are recognized as revenue when they become due.

Liability adequacy test

On each date of the financial statements, a liability adequacy test is performed to ensure the adequacy of liability related to life and health insurance contracts, net of deferred acquisition costs. Since the concept of liability adequacy is an integral part of the Canadian asset liability method, any inadequacy of provisions is immediately carried to profit or loss in order to ensure compliance.

Property and casualty insurance contracts

Revenue recognition and related expenses

Property and casualty insurance premiums are recognized as revenue when they are due, in prorata to the duration of the policies. Unearned premiums represent the portion of written premiums for the unexpired in-force policies, according to the daily prorata method. For some products, unearned premiums are adjusted to account for changes in the related risks. Furthermore, commissions and premium taxes are recognized on the same basis as property and casualty insurance premiums.

Unpaid claims

Unpaid claims are attributable to events associated with the ultimate settlement of claims. The amount of unpaid claims is established in accordance with the standards of practice of the Canadian Institute of Actuaries. It is presented on a discounted basis, based on the experience of the Company and the industry. Claims are recognized when a notice is received of an event that gives entitlement to compensation.

Claims liability adequacy test

The claims liability adequacy analysis is done on each reporting date and reviewed as necessary, if an event that could affect results occurs. To this end, past claims development by business sector are analyzed in order to project anticipated claims at the time of the valuation. Assumptions regarding the rate of payment of liabilities are necessary to value obligations on a discounted basis. Finally, margins for adverse deviations in interest rates, claims development and reinsurance are added to consider the uncertainties related to the assumptions.

Premiums liability adequacy test

Premiums liability adequacy is evaluated on each reporting date. Unearned premiums are decreased by deferred acquisition costs, reinsurance premium, claims and adjustment costs anticipated between the valuation date and the expiry of the contracts, and expected maintenance costs to administer the contracts. In addition, the impact of the time value of money is considered. Finally, margins for adverse deviations in interest rates, claims development and reinsurance are added to consider the uncertainties related to the assumptions.

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2. Significant accounting policies (cont'd)

Ceded reinsurance assets

In the normal course of business, the Company uses reinsurance to manage its level of risk exposure. The risk and the corresponding premium are transferred to duly registered reinsurers that are subject to the same regulatory bodies as the Company. The ceded reinsurance assets are valued in a similar manner to the liabilities related to life and health insurance contracts and property and casualty insurance contracts and in accordance with the terms and conditions of each reinsurance contract. Ceded reinsurance assets represent amounts due to the Company with respect to the liabilities of the ceded policies. Ceding a risk does not release the Company from its obligation to fully comply with the commitments made to its insureds. These assets are subject to an impairment test and, if they are impaired, their carrying value is reduced and the impairment loss is recognized to profit and loss.

Investment contracts

Revenue recognition

Investment contracts fall under the scope of IAS 39, "*Financial Instruments: Recognition and Measurement*". Deposit accounting applies to these contracts, which involves recording the premiums received and benefits paid on these contracts as deposits and withdrawals, with no impact on the income statement. Revenues from these contracts consist of fees related to contract issue, administration and surrender as well as asset management, and are recognized in Administration fees and other revenues.

Investment contract liabilities

All investment contracts are designated at fair value through profit or loss, since changes in net income are offset by changes in the value of investments related to the general funds and segregated funds and are managed on a fair value basis.

Recognition of revenue on property

Revenue on property is recognized in net income on a straight-line basis over the term of the lease.

Recognition of administration fees and other revenues

Fees for the management of segregated funds and for the management of administrative service contracts are recognized when earned in Administration fees and other revenues.

Other revenues mainly include gains on disposal of fixed assets and are recognized when earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (cont'd)

Financial Instruments – classification and recognition

On initial recognition of its financial instruments, the Company records them at their fair value. The subsequent measurement of financial instruments depends on their classification. The Company classifies financial assets into one of the following categories: at fair value through profit or loss, held to maturity, available for sale and loans and receivables. The fair value through profit or loss category includes financial assets held for trading and financial assets designated at fair value through profit or loss. The Company classifies financial liabilities into one of the following categories: designated at fair value through profit or loss and at amortized cost.

Financial instruments are classified based on their nature and the Company's use of the financial instrument at the time of its initial recognition.

a) Bonds

Designated at fair value through profit or loss

Bonds backing liability related to life and health insurance contracts are designated at fair value through profit or loss, since changes in their fair value on the income statement are offset by changes in liability related to life and health insurance contracts.

Available for sale

Bonds not backing liability related to life and health insurance contracts, property and casualty insurance contracts and investment contracts are classified as assets available for sale. Purchases and disposals of bonds are recognized at trade date. They are recognized at fair value. Changes in fair value of these bonds are recorded in other comprehensive income (loss). Upon disposal of these bonds, or upon the recognition of any impairment loss, the gain or loss is reclassified from accumulated other comprehensive income (loss) to net income. Reversals of impairment losses may occur and are recognized in profit or loss when there is objective evidence of recovery.

b) Loans

Loans and receivables

Loans are classified as loans and receivables and are carried at amortized cost according to the effective interest rate method, less the allowance for investment losses. The allowance for investment losses is established on an individual basis from the estimated realizable value measured by discounting the expected future cash flows.

Commissions paid on issuance of new loans are recognized with loans and amortized according to the effective interest rate method.

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2. Significant accounting policies (cont'd)

Financial Instruments – classification and recognition (cont'd)

c) Fund units and preferred shares

Designated at fair value through profit or loss

Fund units and preferred shares backing liability related to life and health insurance contracts are designated at fair value through profit or loss, since changes in their fair value on the income statement are offset by changes in liability related to life and health insurance contracts.

Available for sale

Fund units and preferred shares not backing liability related to life and health insurance contracts and property and casualty insurance contracts are classified as asset available for sale. Purchases and disposals of fund units and preferred shares are recognized at trade date. They are recognized at fair value and all changes in fair value are recorded in other comprehensive income (loss). Transaction costs paid upon purchase, if any, are capitalized at cost. Upon disposal of these fund units and shares, or upon the recognition of any impairment loss, the gain or loss is reclassified from accumulated other comprehensive income (loss) to net income. No reversal of impairment losses is allowed. However, fund units and preferred shares continue to be carried at fair value, even if an impairment loss has previously been recognized.

d) Investment fund

Held for trading

The investment fund is held for trading and includes Canadian equity securities acquired with the proceeds from the offering of certain debentures. In accordance with the debenture acts, the excess fair value of these securities over the capital of the debentures is recorded to the liability account of the Company. When fair value of the securities is less than the capital value of the debentures, the Company records a receivable from the decline in value equal to the difference.

e) Cash and cash equivalents

Cash and cash equivalents are made up of bank accounts and money market securities held with financial institutions.

Held for trading

Money market securities are designated as held for trading. These include interest-bearing deposits that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value or with a maturity of three months or less from the date of acquisition.

Loans and receivables

The bank accounts are classified as loans and receivables and are carried at amortized cost according to the effective interest rate method.

f) Interest-bearing deposits

Held for trading

Interest-bearing deposits are monetary securities that are not readily convertible into known amounts of cash or with a maturity of more than three months from the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (cont'd)

Financial Instruments – classification and recognition (cont'd)

g) Derivative financial instruments

Held for trading

Derivative financial instruments include foreign exchange contracts, stock index contracts settled daily, bond futures and interest rate and currency swaps. Futures contracts, which are negotiated contracts in an organized market, represent firm commitments to buy or sell financial instruments at a given date. Swaps are contracts in which the Company and a third party commit to paying flows based on a notional amount, during a set time period and frequency.

Derivative financial instruments with a positive fair value are presented as investments while derivative financial instruments with a negative fair value are presented as other liabilities.

The Company uses derivative financial instruments in support of the liability related to life and health insurance contracts. Gains and losses related to these contracts are recognized in net income under investment income.

The Company also uses foreign exchange contracts and currency swaps under its currency risk management strategy. Such financial instruments hedge fair value of assets and their effectiveness is reviewed on a monthly basis. Foreign exchange gains and losses on forward contracts and changes in fair value related to exchange rate fluctuations of hedge assets are recognized in net income under investment income.

h) Other investments

Other investments include investments in joint venture arrangements and investments in limited partnerships. The Company recognizes arrangements over which it has joint control and rights to net assets using the equity method. Joint control is a contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The investments in limited partnerships that are not controlled are classified as available for sale.

i) Subordinated debt

Other financial liabilities at amortized cost

Subordinated debt is classified as other financial liabilities at amortized cost and measured at amortized cost using the effective interest rate method. Interest expense is recognized in the consolidated statement of income under selling and administrative expenses.

The fair value of subordinated debt disclosed is measured using an expected discounted future cash flows model. The discount rate used corresponds to the rate of return of a benchmark index that has a similar risk profile as the underlying assets and a term matching the maximum term for the subordinated debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (cont'd)

Financial Instruments – classification and recognition (cont'd)

j) Other financial assets and liabilities

Other financial assets and liabilities are recognized at amortized cost and classified respectively as loans and receivables and other financial liabilities at amortized cost.

Financial instruments – impairment

A financial asset is impaired if there is objective evidence of impairment as a result of one or more loss events after initial recognition and that event has an impact on the estimated future cash flows of the financial asset.

At the end of each reporting period, the Company determines whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated at fair value through profit or loss, is impaired. Such financial assets are written off using an impairment model for debt securities, equity interests, or loans and receivables.

The appropriate impairment model is determined based on the specifications of each instrument, the ability of the issuer to pay dividends or interest and the Company's intention to hold long-term financial assets or sell them.

Impairment model for debt securities

The impairment model for debt securities is used to measure impairment of the Company's bonds and preferred shares. Under this impairment model, a security is impaired when future cash flows are unlikely to be recovered, based on credit considerations.

Impairment model for equity interests

The impairment model for equity interests is used to measure impairment of the Company's fund units. Under this impairment model, objective evidence of impairment includes a significant or prolonged decline in the fair value of the investment below cost.

Impairment model for loans and receivables

The impairment model for loans and receivables is used to measure impairment of the Company's loans. Under this impairment model, loans and receivables are tested for impairment in the event of default or if there is objective evidence that the counterparty will not meet its obligations. When it is determined that a financial asset in this class is impaired, its carrying amount is adjusted to the highest of its estimated realizable value or the fair value of collateral, if applicable.

Securities lending and repurchase agreements

The Company makes securities lending to generate additional revenue, which is recognized in net income under investment income. The Company receives collateral for at least 102% of the fair value of the loaned securities. This collateral is deposited by the borrower with a custodian where it is kept until the loaned securities have been returned to the Company. The fair value of the loaned securities is monitored daily. Additional collateral is required or a portion of the collateral provided is refunded based on changes in the value of the underlying loaned securities. The loaned securities are not derecognized since the Company retains the risk and rewards of ownership.

The Company sells securities and simultaneously commits to repurchase them in the short term, at a specified date and price. These repurchase agreements are recognized in the consolidated statement of financial position at the consideration received plus accrued interest. Commitments related to securities sold under repurchase agreements are recognized at amortized cost according to the effective interest rate method. Interest related to repurchase operations is recorded in investment income in the consolidated statement of income. Securities sold for repurchase are not derecognized, given that the Company retains the related risks and rewards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (cont'd)

Recognition of investment income

Interest income and amortization of discounts and premiums are calculated using the effective interest rate method.

Dividend income and distributed income are recognized when the right to receive payment is established.

Investments fair value

Cash and cash equivalents

Due to their short-term maturities, the carrying value of cash and cash equivalents represents their fair value.

Interest-bearing deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows at current interest rates available on the market for deposits with essentially the same period and takes into account estimated repayments that are expected to be made. The fair value of deposits with variable-rate features or whose maturity has not been determined is deemed to be equivalent to the carrying value.

Bonds

Bonds are measured at bid prices observed in active markets. If prices in active markets are not available, fair value is established by using a valuation technique that makes maximum use of inputs observed from the markets.

Loans

The fair value of loans is established by discounting expected cash flows at rates currently required by the market for this type of receivable and for a term equal to the term of the loan.

Fund units, preferred shares and investment funds

Fair value is based on bid prices observed in active markets.

Other investments – Investments in limited partnerships

The fair value of other investments is measured at acquisition cost given the nature of these items.

Derivative financial instruments

Futures contracts are measured at bid prices observed in active markets. The fair value of derivative financial instruments bought or sold by private contract, the value of which is not observable from the market, is established by using a valuation technique that makes maximum use of inputs observed from the markets.

Non-consolidated structured entities

The Company has commitments to non-consolidated structured entities created for the purpose of generating investment income. While it is entitled to receive a substantial portion of the returns generated due to the units held, these units do not provide authority over the relevant activities of these entities. Control over the entity is therefore not determined based on voting rights held. The maximum exposure to the risk of loss attributable to the Company's interests does not exceed the value of the investment in these non-consolidated structured entities.

Property under development

Investment property under development consists of portion of real estate properties under construction held for resale. These properties are valued at the lower of cost and net realizable value. Cost is determined according to the specific identification method, and net realizable value corresponds to the estimated disposal price of the property less estimated completion costs and disposal costs.

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2. Significant accounting policies (cont'd)

Investment property

Investment property held by the Company, real estate properties held either to earn rentals or for capital appreciation, are recognized at acquisition cost less impairment losses. The cost of property is depreciated by major component, using each component's estimated useful life and according to the straight-line method. Useful lives, residual values and the depreciation method are reviewed at the end of each year. The impact of any change in estimates is recorded prospectively.

The fair value of investment property is measured using a present value of expected cash flows method. The discount rate used is based on the market's expected rate of return, which is determined based on the type and geographical location of the property. Measurements are made on an annual basis by the Company's qualified personnel.

The profit or loss on the disposal or retirement of an investment property, which is the difference between proceeds on the asset's disposal and its carrying value, is recognized in profit or loss.

Depreciation is calculated using the following useful lives:

Structure	100 years
Building envelope	60 years
Mechanical services	40 years
Fixtures and fittings	20 years

Government grants

The Company receives government grants to build properties under development and investment properties. It recognizes the grants to reduce the carrying amount of these assets. The grants related to properties under development are recognized in income when the assets are sold and are presented to reduce gains. The grants related to investment properties are recognized in income in proportion to the depreciation of the assets, and presented to reduce the depreciation expense.

Foreclosed assets

Property acquired by foreclosure and held for resale are recorded at the lower of either the investment in the mortgage foreclosed or the estimated net proceeds from the disposal of the property. Gains and losses on resale of these properties are recorded in income in the period in which they arise.

Fixed assets

Fixed assets are recognized at acquisition cost less impairment losses. The cost of these fixed assets is depreciated by major component, using each component's estimated useful life and according to the straight-line method except for lands, which are not depreciated. Useful lives, residual values and the depreciation method are reviewed at the end of each year. The impact of any change in estimates is recorded prospectively.

The profit or loss on the disposal or retirement of a fixed asset, which is the difference between proceeds on the asset's disposal and its carrying value, is recognized in profit or loss.

Depreciation is calculated using the following useful lives:

Buildings	
Structure	100 years
Building envelope	60 years
Mechanical services	40 years
Land improvements	20 years
IT equipment	5 years
Office furniture and equipments	10 years
Leasehold improvements	10 years or leases term

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately include application software acquired separately and are recorded at acquisition cost less impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (cont'd)

Intangible assets (cont'd)

Intangible assets resulting from business combinations

Intangible assets resulting from business combinations include finite life intangible assets, i.e., a portfolio of in-force policies, application software acquired separately, distribution networks, and other items as well as an indefinite life intangible asset, i.e., a trademark. These intangible assets are initially recognized at their fair value at the date of the business combination.

Subsequent to initial recognition, intangible assets resulting from business combinations are recognized at cost less impairment losses.

Internally developed intangible assets

Internally developed intangible assets include internally developed application software and meet the criteria for recognition.

The amount initially recognized as an internally developed intangible asset is equal to the sum of expenses incurred from the date that the asset first met the recognition criteria. When no internally developed intangible asset can be recognized, development expenses are charged to income in the year in which they were incurred.

Following their initial recognition, internally developed intangible assets are recognized at cost less impairment losses.

Amortization periods and method

Intangible assets with indefinite lives are not amortized but are tested annually for impairment.

Intangible assets with finite lives are amortized on a straight-line basis over the following expected useful lives:

Application software acquired separately	5 to 10 years
Internally developed application software	5 to 10 years
Portfolio of in-force policies	27 years
Distribution networks and other	5 to 20 years

Useful lives and the amortization method of intangible assets are reviewed at the end of each year, and the impact of any change in estimates is recognized prospectively.

Depreciation of investment property, fixed assets and intangible assets with finite useful lives

At each reporting date, the Company reviews the carrying values of investment property, fixed assets and intangible assets to determine whether there is any evidence that these assets are impaired. If such evidence exists, an estimate is made of the recoverable amount of the asset to determine the amount of the impairment loss.

If the estimated recoverable value of an asset is less than its carrying value, the asset's carrying value is reduced to its recoverable value. An impairment loss is immediately recognized in profit or loss.

If an impairment loss is subsequently reversed, the carrying value of the asset is increased to the revised estimate of its recoverable value up to a maximum of its amortized cost. The reversal of impairment is immediately recognized in profit or loss.

At each year-end date, intangible assets with finite useful lives not yet available for use are subject to an annual impairment test. For purposes of the impairment test, if the estimated recoverable value of an asset is less than its carrying value, the asset's carrying value is reduced to its recoverable value. An impairment loss is immediately recognized in profit or loss.

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2. Significant accounting policies (cont'd)

Goodwill and intangible asset with indefinite useful life

Goodwill represents the excess of the fair value of the transferred consideration over the identifiable assets acquired and liabilities assumed and is deemed to have an indefinite useful life. An intangible asset with an indefinite useful life is classified as such when the Company determines that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Goodwill and intangible asset with indefinite useful life are not amortized but are tested for impairment at least annually.

For purposes of the impairment test, goodwill and intangible asset with indefinite useful life are allocated to cash-generating units ("CGU"), which are the smallest groups of assets for which the identifiable cash inflows are independent.

Within each CGU, net carrying value is compared with the recoverable amount. The recoverable amount corresponds to the higher of the fair value less costs to sell and the value in use corresponding to estimated discounted future cash flows. The recoverable amount is measured based on management's judgments and assumptions. Impairment losses related to the CGU are applied against the carrying value of the goodwill and intangible assets with indefinite useful lives allocated to the CGU. No impairment loss reversal is allowed.

Segregated fund investments

Segregated fund investments are the accumulated net assets of the segregated funds, including inter-fund eliminations. They include bonds, shares, investment fund units and other assets and liabilities, including derivative financial instruments.

The investments are designated at fair value through profit or loss since they are managed and valued on a fair value basis in accordance with the investment strategy approved by Management.

Other assets and liabilities are classified as loans and receivables and other liabilities at amortized cost, respectively, and are recognized at amortized cost except for derivative financial instruments, which are held for trading and recognized at their fair value.

Employee retirement benefits

The Company offers its employees pension plans and other retirement benefits such as severance pay and life and health insurance coverage. The cost of pensions and other retirement benefits earned by employees is actuarially determined according to the projected benefit method prorated on services and Management's best estimate of salary increases, retirement ages of employees and expected health care costs. Actuarial gains or losses are recorded immediately in other comprehensive income (loss). The cost of past services is included in the statement of income when a modification arises. The plans' assets are carried at fair values and are held in separate trustee pension funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant accounting policies (cont'd)

Income taxes

The income tax expense includes current and deferred taxes. It is recognized in profit or loss, except for income tax on items included under other comprehensive income (loss) or equity. In these specific cases, the income tax expense is recognized in other comprehensive income (loss) and equity, respectively.

Income taxes receivable and payable are obligations to or claims by tax authorities for prior years or the current year that have not been received or paid at the end of the year. Current income taxes are calculated based on taxable income, which is different from net income. The calculation is made based on the tax rates and laws in force at the end of the year.

The Company recognizes income taxes using the deferred tax asset and liability method. According to this method, deferred tax assets and liabilities are determined based on the difference between the carrying value and the taxable value of the assets and liabilities. Any change in the net amount of deferred assets and liabilities is posted to income and accumulated other comprehensive income (loss). Deferred tax assets and liabilities are determined based on currently applicable or applied tax rates and laws which, to the extent that can be predicted, will apply to the taxable income in the periods in which the assets and liabilities will be recovered or paid. Deferred tax assets are recognized when it is probable that they will be realized.

Operating leases

Leases that do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases. Payments made under operating leases are presented on the income statement in selling and administrative expenses. The amounts of future rents under operating leases are presented in the note on contingencies and commitments.

3. Changes in accounting policies

Application of new accounting standards

Revenue from Contracts with Customers

In May 2014, the IASB published IFRS 15, "*Revenue from Contracts with Customers*" which aims to replace IAS 18, "*Revenue*" and IAS 11, "*Construction Contracts*". This new standard sets out the requirements for recognising revenue according to a unique model, other than for leases, insurance contracts and financial instruments. Further to a decision by the IASB to postpone the effective date of the standard by one year, this standard now applies retrospectively or prospectively with a cumulative adjustment being made to the financial statements for fiscal periods beginning on or after January 1, 2018. This new standard had no impact on the Company's consolidated financial statements.

Investment property

In December 2016, the IASB published an amendment to IAS 40, "*Investment Property*", to clarify the requirements on transfers to, or from, investment property. The provisions of this amendment apply retrospectively or prospectively with a cumulative adjustment being made to the financial statements for fiscal periods beginning on or after January 1, 2018. This new standard had no impact on the Company's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Changes in accounting policies (cont'd)

New accounting standards not yet in effect

Leases

In January 2016, the IASB issued IFRS 16, "*Leases*", which replaces IAS 17, "*Leases*". This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. However, lessor accounting remains largely unchanged, and the distinction between operating and finance leases is retained. This standard will apply retrospectively to annual periods beginning on or after January 1, 2019. The standard will especially have an impact on the Company's operating leases. Given that IFRS 16 replaces straight-line recognition for operating leases with a depreciation charge for right-of-use assets and an interest expense on a lease liabilities, the nature of these lease costs will change. The estimated impact on the consolidated statement of financial position as at January 1, 2019 is a $15.5 increase in right-of-use assets, an $18.3 increase in lease liabilities and a $2.8 decrease in retained earnings.

Financial instruments

In July 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9"), which replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9:

- Establishes a new model for the classification and measurement of financial assets to determine whether an asset should be classified at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This is based on the entity's business model for managing its assets and the cash flow characteristics of these assets. The classification of debt instruments for which cash flows are solely payments of principal and interest ("SPPI") will be determined, on initial recognition, based on the business model for managing these financial assets, i.e., to collect contractual cash flows, to collect contractual cash flows and sell financial assets or to be held for trading;

- Proposes a new accounting model for recognizing expected credit losses rather than incurred losses, as required under the current impairment model. The Company will therefore be required to account for expected credit losses in cash flows;

- Changes recognition of financial liabilities measured using the fair value option;

- Also changes hedge accounting, whose objective is to present the impacts of risk management activities in the financial statement.

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3. Changes in accounting policies (cont'd)

New accounting standards not yet in effect (cont'd)

Financial instruments (cont'd)

The Company is currently assessing the impact of this new standard on its consolidated financial statements. An amendment to IFRS 4, "*Insurance Contracts*" issued by the IASB on September 12, 2016 sets out measures giving companies whose business model is predominantly to issue insurance contracts the option to defer the effective date of IFRS 9 until effective date of IFRS 17, "*Insurance Contracts*" ("IFRS 17"). In November 2018, the IASB postponed the effective date of IFRS 17 until January 1, 2022, which also serves to postpone the exemption from adopting IFRS 9 until this date. The Company is eligible for this postponement since the percentage of the total carrying value of insurance-related liabilities versus the total carrying amount of all liabilities was greater than 90% at the time of the temporary exemption as at December 31, 2015. The Company expects to avail itself of the postponement for as long as permitted.

Insurance contracts

In May 2017, the IASB issued IFRS 17, "*Insurance Contracts*" ("IFRS 17"), which replaces IFRS 4, "*Insurance Contracts*". IFRS 17 establishes the principles for the recognition, measurement and presentation of insurance contracts. The standard establishes a general recognition model, which applies to all insurance and reinsurance contracts. It also proposes a variable fee approach for insurance contracts that meet certain criteria. Finally, the standard allows for a simplified approach for insurance and reinsurance contracts that meet certain criteria. In November 2018, the IASB postponed the effective date of IFRS 17 until January 1, 2022. The provisions of this standard will apply retrospectively as of this date. In cases where retrospective application is impracticable, the standard proposes alternative methods. The Company is currently assessing the impact that this new standard will have on its consolidated financial statements, in particular the presentation, disclosure and valuation of insurance and reinsurance contracts.

Uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC 23, "*Uncertainty over Income Tax Treatments*". This interpretation clarifies some issues regarding the application of IAS 12, "*Income Taxes*" regarding the recognition and measurement of uncertainty concerning income taxes. The provisions of this interpretation will apply retrospectively for annual periods beginning on or after January 1, 2019. The changes in this standard will have no significant impact on the Company's consolidated financial statements.

Employee benefits

In February 2018, the IASB published amendments to IAS 19, "*Employee Benefits*" with regard to the plan amendments, curtailments or settlements. These amendments provide that, if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions that served as the basis for the remeasurement. The changes will apply to plan amendments or curtailments that occur in fiscal periods beginning on or after January 1, 2019. The changes to this standard will have no significant impact on the Company's consolidated financial statements.

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4. Investments

a) Carrying value and fair value of general fund investments

	At fair value through profit or loss						2018
	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Other	Total	Fair value[1]
	$	$	$	$	$	$	$
Bonds							
Canada, Quebec and other provinces	—	1,319.2	202.1	—	—	1,521.3	
Municipal and subsidized	—	485.7	144.0	—	—	629.7	
Canadian corporations	—	819.1	276.8	—	—	1,095.9	
U.S. corporations	—	31.2	—	—	—	31.2	
	—	2,655.2	622.9	—	—	3,278.1	3,278.1
Loans							
Residential mortgages	—	—	—	387.2	—	387.2	
Non-residential mortgages	—	—	—	17.9	—	17.9	
Other	—	—	—	288.3	—	288.3	
	—	—	—	693.4	—	693.4	685.6
Fund units and preferred shares							
Canadian fund units	—	74.8	60.6	—	—	135.4	
U.S. fund units	—	39.0	64.7	—	—	103.7	
International fund units	—	6.2	16.7	—	—	22.9	
Emerging market fund units	—	0.1	16.2	—	—	16.3	
Preferred shares	—	32.3	93.7	—	—	126.0	
	—	152.4	251.9	—	—	404.3	404.3
Cash and cash equivalents	9.7	—	—	238.9	—	248.6	248.6
Interest-bearing deposits	19.6	—	—	—	—	19.6	19.6
Other investments							
Investment in a joint venture	—	—	—	—	1.1	1.1	
Investments in limited partnerships	—	—	4.8	—	—	4.8	4.8
	—	—	4.8	—	1.1	5.9	4.8
Derivative financial instruments	23.9	—	—	—	—	23.9	23.9
	53.2	2,807.6	879.6	932.3	1.1	4,673.8	4,664.9

[1] *Refer to Note 5 "Fair value of assets and liabilities" for details on the fair value hierarchy levels.*

As at December 31, 2018, the carrying values of loaned securities and repurchased securities of the Company presented in investments were $329.8 (2017 — $311.6) and $189.6 (2017 — $96.2), respectively.

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4. Investments (cont'd)

a) Carrying value and fair value of general fund investments (cont'd)

2017

	At fair value through profit or loss						
	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$	$
Bonds							
Canada, Quebec and other provinces	—	1,389.8	143.4	—	—	1,533.2	
Municipal and subsidized	—	462.2	92.6	—	—	554.8	
Canadian corporations	—	858.4	216.9	—	—	1,075.3	
U.S. corporations	—	6.1	—	—	—	6.1	
	—	2,716.5	452.9	—	—	3,169.4	3,169.4
Loans							
Residential mortgages	—	—	—	409.9	—	409.9	
Non-residential mortgages	—	—	—	19.6	—	19.6	
Other	—	—	—	233.2	—	233.2	
	—	—	—	662.7	—	662.7	657.9
Fund units and preferred shares							
Canadian fund units	—	74.8	57.8	—	—	132.6	
U.S. fund units	—	35.2	56.6	—	—	91.8	
International fund units	—	5.7	14.6	—	—	20.3	
Emerging market fund units	—	—	14.8	—	—	14.8	
Preferred shares	—	27.6	81.7	—	—	109.3	
	—	143.3	225.5	—	—	368.8	368.8
Investment fund	49.8	—	—	—	—	49.8	49.8
Cash and cash equivalents	4.9	—	—	207.3	—	212.2	212.2
Interest-bearing deposits	21.2	—	—	—	—	21.2	21.2
Other investments							
Investment in a joint venture	—	—	—	—	0.9	0.9	
Derivative financial instruments	28.7	—	—	—	—	28.7	28.7
	104.6	2,859.8	678.4	870.0	0.9	4,513.7	4,508.0

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4. Investments (cont'd)

a) Carrying value and fair value of general fund investments (cont'd)

Other investments – Investment in a joint venture

The Company holds a 32.3% interest in Fonds d'aide à la rénovation de l'habitation communautaire, S.E.C., a joint venture whose principal place of business is in Montreal.

This joint venture, whose year-end is December 31, manages an investment fund whose objective is to finance the renovation of multiple unit residential buildings owned by housing cooperatives and non-profit organizations through loans.

The Company's estimated net assets in the joint venture are as follows:

	2018	2017
	$	$
Net assets	1.0	0.9

Derivative financial instruments

The following tables detail the notional principal amounts and remaining terms to expiration and the fair value of the Company's derivative financial instruments:

						2018
	Notional				Fair value	
	Less than 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
	$	$	$	$	$	$
Foreign exchange contracts	97.1	—	—	97.1	—	(2.3)
Stock index contracts	88.6	—	—	88.6	0.9	—
Bond futures	10.5	—	—	10.5	—	(0.2)
Interest rate swaps	32.3	328.0	379.5	739.8	23.0	(9.6)
Currency swaps	—	—	19.7	19.7	—	(7.8)
	228.5	328.0	399.2	955.7	23.9	(19.9)

						2017
	Notional				Fair value	
	Less than 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
	$	$	$	$	$	$
Foreign exchange contracts	72.8	—	—	72.8	1.9	—
Stock index contracts	86.7	—	—	86.7	—	(0.9)
Bond futures	42.0	—	—	42.0	1.6	—
Interest rate swaps	10.0	218.3	298.5	526.8	25.2	(7.7)
Currency swaps	—	—	4.0	4.0	—	(1.2)
	211.5	218.3	302.5	732.3	28.7	(9.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Investments (cont'd)

b) General fund investments income

	2018				
	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
	$	$	$	$	$
Bonds					
Interest and amortization of discounts and premiums	—	86.0	14.3	—	100.3
Realized losses	—	—	(1.4)	—	(1.4)
Change in fair value	—	(59.5)	—	—	(59.5)
Loans					
Interest	—	—	—	20.9	20.9
Change in allowance for investment losses	—	—	—	(0.4)	(0.4)
Fund units and preferred shares					
Dividends	—	1.5	3.9	—	5.4
Distributed income	—	4.7	5.7	—	10.4
Realized gains [1]	—	—	7.5	—	7.5
Change in fair value	—	(9.3)	—	—	(9.3)
Investment fund					
Dividends	2.5	—	—	—	2.5
Cash and cash equivalents	3.3	—	—	1.3	4.6
Interest-bearing deposits	0.4	—	—	—	0.4
Derivative financial instruments					
Interest	2.1	—	—	—	2.1
Change in fair value	(7.4)	—	—	—	(7.4)
	0.9	23.4	30.0	21.8	76.1

[1] *Includes gains of $3.2 (2017 – losses of $2.1) on U.S. fund units recognized in profit or loss in the course of fair value hedging related to currency rates.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Investments (cont'd)

b) General fund investments income (cont'd)

					2017
	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
	$	$	$	$	$
Bonds					
Interest and amortization of discounts and premiums	—	82.7	10.8	—	93.5
Realized gains	—	—	2.3	—	2.3
Change in fair value	—	80.1	—	—	80.1
Loans					
Interest	—	—	—	19.4	19.4
Change in allowance for investment losses	—	—	—	(0.2)	(0.2)
Fund units and preferred shares					
Dividends	—	1.4	3.1	—	4.5
Distributed income	—	1.6	3.0	—	4.6
Realized losses	—	—	(2.0)	—	(2.0)
Change in fair value	—	9.6	—	—	9.6
Investment fund					
Dividends	2.4	—	—	—	2.4
Cash and cash equivalents	2.4	—	—	0.7	3.1
Interest-bearing deposits	0.4	—	—	—	0.4
Derivative financial instruments					
Interest	3.5	—	—	—	3.5
Change in fair value	(13.9)	—	—	—	(13.9)
	(5.2)	175.4	17.2	19.9	207.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Fair value of assets and liabilities

Assets and liabilities recorded at fair value in the consolidated statements of financial position or whose fair values are disclosed in the notes to the consolidated financial statements are classified according to a hierarchy that reflects the importance of the inputs used to determine their valuation:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – A valuation based on inputs observable in markets for the asset or liability, obtained either directly or indirectly;
Level 3 – A valuation based on inputs other than inputs observable in markets for the asset or liability.

The following tables show the classification of financial assets and liabilities recorded at fair value based on the fair value hierarchy:

				2018
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets at fair value through profit or loss				
Bonds				
Canada, Quebec and other provinces	6.8	1,312.4	—	1,319.2
Municipal and subsidized	0.2	485.5	—	485.7
Canadian corporations	2.7	816.4	—	819.1
U.S. corporations	—	31.2	—	31.2
Fund units and preferred shares				
Canadian fund units	74.8	—	—	74.8
U.S. fund units	39.0	—	—	39.0
International fund units	6.2	—	—	6.2
Emerging market fund units	0.1	—	—	0.1
Preferred shares	32.3	—	—	32.3
Cash and cash equivalents	—	9.7	—	9.7
Interest-bearing deposits	—	19.6	—	19.6
Derivative financial instruments	0.9	23.0	—	23.9
	163.0	2,697.8	—	2,860.8
Available-for-sale financial assets				
Bonds				
Canada, Quebec and other provinces	—	202.1	—	202.1
Municipal and subsidized	—	144.0	—	144.0
Canadian corporations	—	276.8	—	276.8
Fund units and preferred shares				
Canadian fund units	60.6	—	—	60.6
U.S. fund units	64.7	—	—	64.7
International fund units	16.7	—	—	16.7
Emerging market fund units	16.2	—	—	16.2
Preferred shares	93.7	—	—	93.7
Other investments				
Investments in limited partnerships	—	—	4.8	4.8
	251.9	622.9	4.8	879.6
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	1.0	18.9	—	19.9

The determination of the fair value hierarchy levels is performed at the end of each financial year. During the years ended December 31, 2018 and 2017, there were no transfers of financial assets between levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Fair value of assets and liabilities (cont'd)

				2017
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets at fair value through profit or loss				
Bonds				
Canada, Quebec and other provinces	7.2	1,382.6	—	1,389.8
Municipal and subsidized	0.2	462.0	—	462.2
Canadian corporations	2.9	855.5	—	858.4
U.S. corporations	—	6.1	—	6.1
Fund units and preferred shares				
Canadian fund units	74.8	—	—	74.8
U.S. fund units	35.2	—	—	35.2
International fund units	5.7	—	—	5.7
Preferred shares	27.6	—	—	27.6
Investment fund	49.8	—	—	49.8
Cash and cash equivalents	—	4.9	—	4.9
Interest-bearing deposits	—	21.2	—	21.2
Derivative financial instruments	1.2	27.5	—	28.7
	204.6	2,759.8	—	2,964.4
Available-for-sale financial assets				
Bonds				
Canada, Quebec and other provinces	—	143.4	—	143.4
Municipal and subsidized	—	92.6	—	92.6
Canadian corporations	—	216.9	—	216.9
Fund units and preferred shares				
Canadian fund units	57.8	—	—	57.8
U.S. fund units	56.6	—	—	56.6
International fund units	14.6	—	—	14.6
Emerging market fund units	14.8	—	—	14.8
Preferred shares	81.7	—	—	81.7
	225.5	452.9	—	678.4
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	0.9	8.9	—	9.8

Changes in assets measured at fair value and classified in Level 3

Investments in limited partnerships measured at fair value and classified in Level 3 were acquired during the year.

Fair value measurement of assets classified in Level 3

Where investments in limited partnerships measured at fair value and classified in Level 3 are concerned, the Company put in place procedures to ensure that the fair value measurement of these assets is reliable.

The technique for measuring the fair value of these investments is described in Note 2. It makes it possible to identify and analyze various quantitative and qualitative information, available since the acquisition, which could have an impact on the investments' fair value measurement. There was no indication of impairment at year-end.

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5. Fair value of assets and liabilities (cont'd)

The following tables present the classification of financial assets and liabilities whose fair values are disclosed in the notes to the consolidated financial statements based on the fair value hierarchy:

				2018
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Assets				
Loans	**—**	**—**	**685.6**	**685.6**
Cash and cash equivalents	**—**	**238.9**	**—**	**238.9**
Investment property	**—**	**—**	**60.0**	**60.0**
Liabilities				
Subordinated debt	**—**	**160.7**	**—**	**160.7**

				2017
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Loans	—	—	657.9	657.9
Cash and cash equivalents	—	207.3	—	207.3
Investment property	—	—	54.2	54.2
Liabilities				
Subordinated debt	—	185.3	—	185.3

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6. Financial instruments risk management

The Company has adopted control policies and procedures to manage risks related to financial instruments. An investment policy was approved by the Board of Directors to provide a framework for making investment decisions. The control procedures arising from this policy ensure sound management of investment risks.

Segregated funds are excluded from the financial instruments risk management analysis since the policyholders assume the risks and benefit from the rewards of the segregated fund contracts.

Risks related to financial instruments are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to honour its obligations. The Company is exposed to this type of risk through its investment portfolios and, in particular, through credit extended as loans, with the exception of investments in joint venture arrangements and limited partnerships. The Company is also exposed to credit risk with regard to outstanding premiums, amounts receivable from reinsurers and other assets. Securities lending operations also expose the Company to credit risk. It manages credit risk by applying the following control procedures:

- utilization guidelines that set minimum and maximum limits are established for each class of investment to meet the specific needs of each business sector;
- the guidelines allocate bonds among various quality Canadian issuers with credit ratings from recognized sources of BBB or higher at trade date;
- an overall limit is established for each credit rating quality level;
- an overall limit is also established for investments of a related issuer or group of issuers to mitigate concentration risk;
- a detailed mortgage loan policy specifies the requirements for guarantees and credit;
- loans to insureds, included in other loans, correspond to the unpaid capital balances of policy loans and are fully secured by the cash surrender value of the insurance contracts on which the respective loans are made;
- the Investment Committee of the Board of Directors carries out regular reviews of the investment portfolio and its transactions;
- the Company enters into reinsurance agreements with certified and non-certified reinsurers that have undergone an independent financial analysis. In addition, no non-traditional reinsurance agreements are entered into;
- for securities lending operations, credit risk is considered to be minimal since the value of the assets held as collateral by the Company represents at least 102% of the fair value of the securities loaned.

Exposure to credit risk is mainly mitigated by the minimum quality levels for bond issuers imposed by the investment policy, the consideration payable for futures contracts and the monitoring of the reinsurance process. In addition, the Company's cash is invested with Canadian chartered banks and recognized financial institutions with superior credit ratings.

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6. Financial instruments risk management (cont'd)

Credit risk (cont'd)

Maximum exposure to credit risk

	2018	2017
	$	$
Bonds	**3,278.1**	3,169.4
Loans	**693.4**	662.7
Preferred shares	**126.0**	109.3
Cash and cash equivalents	**248.6**	212.2
Interest-bearing deposits	**19.6**	21.2
Derivative financial instruments	**23.9**	28.7
Outstanding premiums	**172.4**	168.4
Ceded reinsurance assets	**1,888.5**	1,778.3
Other assets (Note 8)		
Other receivables	**37.7**	44.8
Investment income due and accrued	**20.0**	18.9
	6,508.2	6,213.9

Bond portfolio quality

	2018		2017	
	$	**%**	$	%
Bonds				
Canada, Quebec and other provinces	**1,521.3**	**46.4**	1,533.2	48.4
Municipal and subsidized	**629.7**	**19.2**	554.8	17.5
Canadian corporations, per credit rating				
AAA	**26.3**	**0.8**	13.3	0.4
AA	**157.0**	**4.8**	150.3	4.8
A	**637.2**	**19.5**	685.5	21.6
BBB	**275.4**	**8.4**	226.2	7.1
U.S. corporations				
AAA	**11.3**	**0.3**	6.1	0.2
AA	**19.9**	**0.6**	—	—
	3,278.1	**100.0**	3,169.4	100.0

Loan portfolio quality

	2018	2017
	$	$
Insured loans	**505.5**	469.1
Conventional loans	**187.9**	193.6
	693.4	662.7

As at December 31, 2018, the current portion of bonds and loans amount to $311.4 (2017 — $291.9) and to $152.9 (2017 — $142.3) respectively.

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6. Financial instruments risk management (cont'd)

Credit risk (cont'd)

Allowance for investment losses

The allowance for investment losses is established based on the Company's assessment of its financial assets, considering all objective evidence of impairment. Such evidence stems from the financial difficulties of the issuer or from defaults on principal or interest payments. Obligations towards insureds also include an allowance to cover any potential loss on loans and investments in debt securities.

The Company maintains an allowance for credit losses relating to the carrying value of its loans. A loss provision is established when the Company entertains doubt regarding the full recovery of the principal or interest on a loan. For allowance purposes, estimated realizable loan value takes into account recovery forecasts, guarantee valuations and market conditions.

The following table summarizes impaired loans and allowances for investment losses:

	2018		2017	
	Impaired loans	**Allowance for investment losses**	Impaired loans	Allowance for investment losses
	$	**$**	$	$
Other loans	**28.0**	**2.3**	27.9	1.9

Past due financial assets

A financial asset is deemed past due when the counterparty has failed to make a payment when contractually due. A financial asset that is past due is subject to a provision for loss to adjust its accounting value in relation to its estimated net realizable value when the Company doubts its recovery.

As at December 31, 2018, the Company has financial assets past due before allowance for doubtful accounts receivable for $3.7 (2017 — $5.1). The allowance for losses amounted to $0.4 as at December 31, 2018 (2017 — $1.0).

Liquidity risk

Liquidity risk refers to the risk that the Company might experience cash flow difficulties arising from its obligations and financial liabilities. The Company manages liquidity risk by applying the following control procedures:

- the Company manages its liquidities by matching cash flows from its operations and investments to those required to meet its obligations and to meet the needs of the different business sectors;
- its cash position is analyzed on short and medium term horizons to meet the needs of the different business sectors;
- the Company ensures that an appropriate proportion of its investments is held in readily negotiable securities so it can meet any immediate liquidity needs.

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6. Financial instruments risk management (cont'd)

Liquidity risk (cont'd)

The following tables present contractual maturities of financial liabilities and unsettled claims of the liabilities related to the Company's property and casualty insurance contracts.

					2018
	Payable on demand	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Unpaid claims and stabilization funds (Note 13)	**0.9**	**36.6**	**3.5**	**—**	**41.0**
Accounts payable	**—**	**148.9**	**—**	**—**	**148.9**
Subordinated debt (Note 15)	**—**	**—**	**7.0**	**150.0**	**157.0**
Other liabilities (Note 16)	**—**	**199.5**	**0.3**	**10.4**	**210.2**
	0.9	**385.0**	**10.8**	**160.4**	**557.1**

					2017
	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$	$
Unpaid claims and stabilization funds (Note 13)	1.0	30.1	2.9	—	34.0
Accounts payable	—	144.0	—	—	144.0
Subordinated debt (Note 15)	—	—	7.0	150.0	157.0
Other liabilities (Note 16)	—	106.3	0.2	—	106.5
	1.0	280.4	10.1	150.0	441.5

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to market factors. Market risk includes three types of risk: interest rate risk, market price risk and currency risk.

a) Interest rate risk

The Company matches its assets with liabilities from obligations in each of its business sectors. Interest rate risk exists when interest rates fluctuate due to widening spreads in matching expected cash flows between assets and liabilities.

In managing interest rate risk, the Company focuses on matching expected cash flows of assets and liabilities in selecting the investments backing its obligations. It uses different measures and performs sensitivity analyses to evaluate the spreads between the cash flows generated by investments held and those required to meet obligations according to various future interest rate scenarios.

The Company's investment policy sets maximum spread limits for those measures as applied to assets and liabilities. This information is disclosed to the Investment Committee on a quarterly basis.

The results of the interest rate sensitivity analyses also serve to establish the amounts to be included in the valuation of obligations towards insureds for interest rate risk. A change of 1% in the interest rate curve would have an impact of $3.3 on net income of 2018 (2017 — $11.0).

For its available-for-sale financial assets not matched to obligations towards insured, the Company believes that a 1% increase in the interest rate curve would result in a decrease of $28.2 (2017 — $19.4) in other comprehensive income (loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. Financial instruments risk management (cont'd)

Market risk (cont'd)

b) Market price risk

The Company is exposed to market price risk through its available-for-sale preferred shares investments and fund units. The investment policy puts restrictions on equity investments and fund units and sets out their limits.

Changes in the fair value of these investments are recognized in comprehensive income (loss). A sudden 10% decrease in the value of such investments would result in an estimated decrease of $18.5 (2017 — $16.5) in other comprehensive income (loss).

The Company is also exposed to market price risk in respect of fees it receives for managing investment funds and charges resulting from the capital guarantee offered on segregated funds. A sudden 10% decrease in securities markets would result in an estimated decrease of $5.0 (2017 — $4.3) in income.

c) Currency risk

Currency risk exists when transactions in currencies other than the Canadian dollar are affected by unfavourable exchange rate changes.

The Company uses derivative financial instruments to hedge, in whole or in part, the currency risk related to financial instruments denominated in foreign currencies.

Thus, a 10% adverse change in the exchange rate would have a net negative impact of $1.3 on the Company's income as at December 31, 2018 (2017 — $1.2).

7. Right of offset, collateral held and transferred

The Company negotiates financial instruments in accordance with the Credit Support Annex ("CSA") of the International Swaps and Derivative Association's ("ISDA") Master Agreement and in accordance with the Supplemental Terms and Conditions Annex of the Global Master Repurchase Agreement ("GMRA"). These agreements require guarantees by the counterparty or by the Company. The amount of assets received/pledged is based on changes in fair value of financial instruments. Under those agreements, the Company has the right to offset in the event of default, insolvency, bankruptcy or other early termination. The Company does not offset financial instruments due to conditional rights. The following tables present the impact of conditional compensation and that of other similar agreements, namely the GMRA and the CSA.

				2018
	Financial instruments presented in the consolidated statement of financial position	Amount covered by an enforceable offsetting framework agreement	Financial collateral received or pledged [1]	Net amount
	$	$	$	$
Financial assets				
Derivative financial instruments [2] (Note 4)	25.4	4.6	18.1	2.7
Financial liabilities				
Derivative financial instruments [3] (Note 16)	20.5	4.6	12.1	3.8
Commitments under repurchase agreements (Note 16)	189.6	—	190.0	(0.4)
Total financial liabilities	210.1	4.6	202.1	3.4

[1] *Financial collateral received/pledged exclude initial margin on derivative financial instruments settled in an organized market and oversizing. These are not offset in the consolidated statement of financial position.*

[2] *Financial assets in the table above include accrued interest of $1.5 (2017 — $1.8).*

[3] *Financial liabilities in the table above include accrued interest of $0.6 (2017 — $0.2).*

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7. Right of offset, collateral held and transferred (cont'd)

				2017
	Financial instruments presented in the consolidated statement of financial position	Amount covered by an enforceable offsetting framework agreement	Financial collateral received or pledged [1]	Net amount
	$	$	$	$
Financial assets				
Derivative financial instruments [2] (Note 4)	30.5	6.9	25.3	(1.7)
Financial liabilities				
Derivative financial instruments [3] (Note 16)	10.0	6.9	0.9	2.2
Commitments under repurchase agreements (Note 16)	96.2	—	94.9	1.3
Total financial liabilities	106.2	6.9	95.8	3.5

8. Other assets

	2018	2017
	$	$
Prepaid expenses	**97.8**	86.8
Other receivables	**37.7**	44.8
Investment income due and accrued	**20.0**	18.9
Employee retirement benefits (Note 20)	**1.3**	0.2
	156.8	150.7

9. Investment property

	2018	2017
	$	$
Cost		
Balance, beginning of year	**49.7**	30.0
Additions	**5.9**	9.6
Transfer of investment property under development	**—**	10.1
Balance, end of year	**55.6**	49.7
Accumulated depreciation		
Balance, beginning of year	**2.7**	1.8
Depreciation expense	**1.0**	0.9
Balance, end of year	**3.7**	2.7
Carrying value, end of year	**51.9**	47.0
Fair value (Note 5)	**60.0**	54.2

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10. Fixed assets

						2018
	Lands	**Buildings**	**IT equipment**	**Office furniture and equipments**	**Leasehold improvements**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Cost						
Balance, beginning of year	**19.6**	**154.6**	**29.5**	**16.2**	**17.5**	**237.4**
Additions	**—**	**2.5**	**6.0**	**2.2**	**2.2**	**12.9**
Disposals	**—**	**—**	**(6.0)**	**(0.6)**	**(0.2)**	**(6.8)**
Balance, end of year	**19.6**	**157.1**	**29.5**	**17.8**	**19.5**	**243.5**
Accumulated depreciation						
Balance, beginning of year	**—**	**32.3**	**17.9**	**5.4**	**5.9**	**61.5**
Disposals	**—**	**—**	**(6.0)**	**(0.6)**	**(0.2)**	**(6.8)**
Depreciation expense	**—**	**2.7**	**4.7**	**1.7**	**1.5**	**10.6**
Balance, end of year	**—**	**35.0**	**16.6**	**6.5**	**7.2**	**65.3**
Carrying value, end of year	**19.6**	**122.1**	**12.9**	**11.3**	**12.3**	**178.2**

						2017
	Lands	Buildings	IT equipment	Office furniture and equipments	Leasehold improvements	Total
	$	$	$	$	$	$
Cost						
Balance, beginning of year	19.6	152.5	28.9	15.6	21.2	237.8
Additions	—	2.1	3.3	1.1	0.9	7.4
Disposals	—	—	(2.7)	(0.5)	(4.6)	(7.8)
Balance, end of year	19.6	154.6	29.5	16.2	17.5	237.4
Accumulated depreciation						
Balance, beginning of year	—	29.6	15.6	4.4	8.8	58.4
Disposals	—	—	(2.7)	(0.5)	(4.4)	(7.6)
Depreciation expense	—	2.7	5.0	1.5	1.5	10.7
Balance, end of year	—	32.3	17.9	5.4	5.9	61.5
Carrying value, end of year	19.6	122.3	11.6	10.8	11.6	175.9

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11. Intangible assets and goodwill

a) Intangible assets

						2018
	Indefinite useful life	Finite useful life				
	Trademark	Application software acquired separately	Application software developed internally	Portfolio of in-force policies	Distribution networks and other	Total
	$	$	$	$	$	$
Cost						
Balance, beginning of year	1.7	90.6	35.9	75.9	30.6	234.7
Additions	—	0.3	13.4	—	0.8	14.5
Disposals	—	(10.9)	(7.0)	—	(1.4)	(19.3)
Write-offs	—	(0.5)	(0.3)	—	—	(0.8)
Balance, end of year	1.7	79.5	42.0	75.9	30.0	229.1
Accumulated depreciation						
Balance, beginning of year	—	51.6	18.4	16.8	12.8	99.6
Disposals	—	(10.9)	(7.0)	—	(1.3)	(19.2)
Write-offs	—	(0.3)	—	—	—	(0.3)
Depreciation expense	—	11.3	5.4	2.8	1.8	21.3
Balance, end of year	—	51.7	16.8	19.6	13.3	101.4
Carrying value, end of year	1.7	27.8	25.2	56.3	16.7	127.7

Application software developed internally in the amount of $8.0 (2017 — $3.0) is not amortized since it is not ready for use.

						2017
	Indefinite useful life	Finite useful life				
	Trademark	Application software acquired separately	Application software developed internally	Portfolio of in-force policies	Distribution networks and other	Total
	$	$	$	$	$	$
Cost						
Balance, beginning of year	1.7	103.2	29.0	75.9	30.2	240.0
Additions	—	0.1	9.2	—	0.4	9.7
Disposals	—	(12.7)	(2.3)	—	—	(15.0)
Balance, end of year	1.7	90.6	35.9	75.9	30.6	234.7
Accumulated depreciation						
Balance, beginning of year	—	50.7	16.1	14.0	10.9	91.7
Disposals	—	(12.7)	(2.3)	—	—	(15.0)
Depreciation expense	—	13.6	4.6	2.8	1.9	22.9
Balance, end of year	—	51.6	18.4	16.8	12.8	99.6
Carrying value, end of year	1.7	39.0	17.5	59.1	17.8	135.1

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11. Intangible assets and goodwill (cont'd)

b) Goodwill

The carrying value and changes in goodwill are broken down as follows:

	Cost
	$
Balance as at December 31, 2017	14.1
Variation	—
Balance as at December 31, 2018	**14.1**

Goodwill does not present any accumulated impairment loss and is not deductible for tax purposes.

c) Impairment test

The Company performs an annual impairment test for the goodwill and the trademark. The test was performed as at September 30, 2018, and no impairment was recorded in 2018 and 2017.

The following table presents the allocation of goodwill and trademark to the various CGU based on the same assumptions as the allocation of the purchase prices.

	2018		2017	
	Trademark	**Goodwill**	Trademark	Goodwill
	$	**$**	$	$
Individual insurance	**1.7**	**4.8**	1.7	4.8
Group insurance	**—**	**6.3**	—	6.3
Property and casualty insurance	**—**	**3.0**	—	3.0
	1.7	**14.1**	1.7	14.1

Individual insurance

The recoverable amount of CGUs in the individual insurance sector was determined based on the value in use calculation. The value in use takes into account the discounted projected cash flows before income taxes which are based on the expected future profitability of in-force business approved by the Board of Directors.

Property and casualty and group insurance

The property and casualty insurance and group insurance CGU's recoverable amounts were determined based on the value in use calculation. The value in use takes into account the discounted projected cash flows before income taxes which are based on the financial budgets approved by the Board of Directors, which cover a five-year period and a terminal value. The projections are based on the Company's past experience and forecasts in accordance with published information.

The discount rates used for each CGU are as follows:

	2018	2017
	%	%
Individual insurance	**13.5**	14.0
Group insurance	**13.5**	14.0
Property and casualty insurance	**13.5**	14.0

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12. Life and health insurance contracts

	2018	2017
	$	$
Composition of assets backing the net general fund obligations		
Bonds	**2,599.3**	2,666.4
Fund units and preferred shares	**152.4**	143.3
Loans	**608.4**	579.8
Interest-bearing deposits	**18.8**	19.5
Cash and cash equivalents	**118.7**	106.6
Derivative financial instruments [1]	**12.8**	19.2
Investment property	**12.6**	12.1
Fixed assets	**115.4**	96.7
Other assets	**9.3**	12.5
	3,647.7	3,656.1

[1] *As part of its matching process, the Company considers the net value of its derivative financial instruments, which include both assets and liabilities.*

Breakdown of liability related to life and health insurance contracts and of ceded reinsurance assets

					2018
	Actuarial reserve	**Provision for claims**	**Provision for experience refunds**	**Deposits**	**Total**
	$	**$**	**$**	**$**	**$**
Liability related to life and health insurance contracts					
Individual life	**1,788.5**	**12.1**	**—**	**0.7**	**1,801.3**
Group life	**226.9**	**46.4**	**(7.3)**	**36.1**	**302.1**
Individual annuities	**237.1**	**—**	**—**	**—**	**237.1**
Group annuities	**51.8**	**—**	**—**	**1.1**	**52.9**
Individual accident and health	**84.9**	**2.5**	**—**	**0.3**	**87.7**
Group accident and health	**2,717.4**	**61.8**	**8.8**	**266.9**	**3,054.9**
	5,106.6	**122.8**	**1.5**	**305.1**	**5,536.0**
Ceded reinsurance assets					
Individual life	**741.4**	**8.3**	**—**	**—**	**749.7**
Group life	**46.1**	**8.0**	**(2.1)**	**5.7**	**57.7**
Individual accident and health	**51.9**	**0.8**	**—**	**—**	**52.7**
Group accident and health	**986.6**	**7.0**	**(0.8)**	**35.4**	**1,028.2**
	1,826.0	**24.1**	**(2.9)**	**41.1**	**1,888.3**

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12. Life and health insurance contracts (cont'd)

Breakdown of liability related to life and health insurance contracts and of ceded reinsurance assets (cont'd)

					2017
	Actuarial reserve	Provision for claims	Provision for experience refunds	Deposits	Total
Liability related to life and health insurance contracts	$	$	$	$	$
Individual life	1,734.7	7.4	—	0.6	1,742.7
Group life	218.1	46.9	3.4	40.5	308.9
Individual annuities	220.8	—	—	—	220.8
Group annuities	55.3	—	—	2.3	57.6
Individual accident and health	84.5	2.0	—	1.5	88.0
Group accident and health	2,640.6	54.0	22.6	298.9	3,016.1
	4,954.0	110.3	26.0	343.8	5,434.1
Ceded reinsurance assets					
Individual life	682.3	5.1	—	—	687.4
Group life	40.7	7.3	0.7	5.5	54.2
Individual accident and health	49.7	0.8	—	—	50.5
Group accident and health	939.0	6.6	6.1	34.2	985.9
	1,711.7	19.8	6.8	39.7	1,778.0

Change in liability related to life and health insurance contracts and of ceded reinsurance assets

	2018	2017
	$	$
Liability related to life and health insurance contracts		
Balance, beginning of year	**5,434.1**	5,084.0
Normal change due to the passage of time	**(621.3)**	(639.8)
Normal change due to new businesses	**837.0**	776.8
Normal change due to updated assumptions	**(135.9)**	183.1
Basic changes	**22.1**	30.0
Balance, end of year	**5,536.0**	5,434.1

	2018	2017
Ceded reinsurance assets	**$**	$
Balance, beginning of year	**1,778.0**	1,621.1
Normal change due to the passage of time	**(140.6)**	(176.9)
Normal change due to new businesses	**291.5**	250.1
Normal change due to updated assumptions	**(48.5)**	65.2
Basic changes	**7.9**	18.5
Balance, end of year	**1,888.3**	1,778.0

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12. Life and health insurance contracts (cont'd)

Fair value of actuarial reserve

The fair value of the actuarial reserve is determined based on the fair value of assets supporting the liabilities it represents. Insofar as the assets supporting the actuarial reserve are recorded on the statement of financial position at fair value, the carrying value of the actuarial reserve reflects fair value.

Nature of obligations

The liability related to life and health insurance contracts are amounts that, added to future premiums and investment revenues, will allow the Company to respect its commitment to pay future claims, experience refunds and corresponding expenses originating from contracts in force. The liability related to life and health insurance contracts are periodically reviewed and allow for additional amounts required to cover risks originating from plausible adverse deviations in experience as compared to the most probable assumptions. These amounts take into account the uncertainty included in the valuation assumptions.

Inherent uncertainty of the valuation process

In order to estimate the liability related to life and health insurance contracts, assumptions are required regarding future events related to mortality, morbidity, lapses, investment returns and operating expenses. These assumptions also include a provision for adverse deviations attributable to the inherent uncertainty of the valuation process.

Mortality and improvement in mortality

Mortality represents death that occurs in a given population. Assumptions pertaining to mortality and improvement in mortality are based on a combination of the Company's most recent experience and the recent industry experience published by the Canadian Institute of Actuaries.

Morbidity

The morbidity assumptions used are those published by the industry adjusted to consider the Company's own experience over a long period of time. Each year, the actual experience is compared to the one anticipated to ensure that the morbidity assumptions used are adequate.

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12. Life and health insurance contracts (cont'd)

Investment returns

The investment returns considered in the valuation of liability related to life and health insurance contracts are based mostly on those of the assets held to back these obligations. In this context, cash inflows from assets are compared to those of the liability related to life and health insurance contracts to detect any mismatch taking properly into account the reinvestment or disinvestment risks inherent to such situations. To ensure that the amount of assets will be sufficient to cover all the obligations, a multi-scenario analysis is performed regarding future evolution of interest rates when cash flow mismatches are expected.

Losses due to credit impairment have impacts on the future cash flows of assets backing the obligations. In addition to the allowance for investment losses already deducted from the carrying value of investments, additional credit risk, whose level is close to the one experienced by the Company or determined through analysis performed by the industry, is considered in the determination of future cash flows from invested assets.

Lapses and withdrawals

Policyholders may choose to let their contracts lapse by ceasing to pay their premiums. The Company bases its estimate of the lapse rate on past results of each of its business portfolios. A business portfolio is considered to be lapse-supported if an increase in the ultimate lapse rate is associated with increased profitability. On the other hand, if a decrease in the ultimate lapse rate is associated with increased profitability, the business portfolio is not considered to be lapse-supported.

Operating expenses

The assumptions regarding operating expenses are drawn from internal analyses performed yearly by the Company, with adjustments for expected future inflation.

Inputs and methods

Changes and updates in the Company's systems and calculations methods, which allow for more relevant information and valuation, may affect the valuation of liabilities related to life and health insurance contracts.

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12. Life and health insurance contracts (cont'd)

Impact of changes in assumptions

Using the same assumptions as those used in to establish priors year's liability related to life and health insurance contracts would have had the following impact on net income as at December 31:

	2018	2017
	$	$
Mortality	**(5.5)**	(5.0)
Improvement in mortality	**—**	1.7
Morbidity	**(11.9)**	—
Investment returns	**(47.5)**	72.4
Lapses and withdrawals	**11.4**	22.2
Operating expenses	**(1.5)**	2.7
Data and methods	**1.7**	0.3
	(53.3)	94.3

Sensitivity analysis

Changing the assumptions used to establish the liability related to the life and health insurance contracts would have had the following impacts on net income, as at December 31:

		2018	2017
		$	$
Assumptions	**Adverse variation**		
Mortality	**1%**	**(3.6)**	(3.2)
Morbidity	**5%**	**(54.7)**	(56.1)
Lapses	**1%**	**(3.6)**	(3.4)

Insurance risk

Individual contracts

The insurance risk to which the Company is exposed through its individual insurance contracts is the risk of loss arising from actual results that differ from the results anticipated when the product was designed and priced, depending on the rates of mortality, morbidity and lapses, policyholders' behaviour and expenses. Insured events may occur at any time during the coverage period and may result in varying amounts of losses.

The Company's objective is to ensure that provisions are adequate to cover its future obligations.
The Company manages this risk by implementing appropriate risk selection policies and procedures and ensuring that they are properly applied.

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12. Life and health insurance contracts (cont'd)

Insurance risk (cont'd)

Group contracts

Through its insurance contracts, the Company is exposed to insurance risk, which consists of price risk and selection risk.

Price risk arises from potential differences between the actual experience associated with the assumptions described above and the experience originally anticipated when the contracts were priced. A review of experience and financial results is conducted on a regular basis for each guarantee offered within the contracts. The pricing of new contracts and contracts up for renewal reflects recent experience and observed trends. The pricing and contractual terms of the Company's products reflect market conditions, and market developments are monitored for this purpose. For certain contracts subject to contractual limits, the premium may be changed during the life of the contract. This allows for a partial reduction in price risk. Furthermore, a risk control procedure is applied to new products before they are launched.

Selection risk is the risk that the Company will inadequately assess the risks associated with an insured, thereby agreeing to provide coverage to an insured that does not meet the criteria for an acceptable risk profile. The Company manages this risk by implementing appropriate selection risk policies and procedures as well as by ensuring that these policies and procedures are properly applied.

Reinsurance risk

The Company makes use of reinsurance agreements related to individual and group contracts in order to limit its exposure to insurance risk, which does not, however, release the Company from its obligations towards insureds. In particular, the Company enters into reinsurance agreements for contracts for which the sum insured exceeds a maximum amount or percentage established on the basis of criteria regarding the nature of risks, and also to share the risks of large group contracts. It also uses reinsurance to protect itself against major disasters. However, its recourse to reinsurance agreements exposes the Company to a risk of default by the reinsurers. In order to control this risk, the Company adopted a risk management policy related to reinsurance approved by the Board of Directors. In addition, the Company deals with reinsurers with high credit ratings and diversifies its reinsurance treaties.

Mortality and morbidity risk

Mortality and morbidity risk represents the risk of loss for the Company in the event that the number and/or severity of claims for life, accident and health insurance are higher than estimated. This might happen as a result of an epidemic, a natural disaster or a change in the population's living habits.

The Company manages this risk by implementing procedures to collect information on policyholders that is used for pricing insurance contracts and by setting up procedures to examine claims in order to identify unfounded or fraudulent claims.

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12. Life and health insurance contracts (cont'd)

Lapse risk

For lapse-supported policies, this represents the risk of loss for the Company in the event that the number of insureds who decide to let their contracts lapse by ceasing to pay their premiums is lower than estimated. For non-lapse-supported policies, it represents the risk of loss for the Company in the event that the number of insureds who decide to let their contracts lapse by ceasing to pay their premiums is higher than forecast. The Company takes this risk into account in setting its actuarial reserve.

Investment income risk

This is the risk of loss for the Company in the event that actual investment income is lower than estimated. The projected future investment income is an essential element in establishing the amount of the actuarial reserve. Thus, future disbursements are discounted on the basis of the anticipated rate of return on the investments supporting the actuarial reserve.

Segregated fund risk

The Company offers individual annuity contracts in its segregated funds, guaranteeing a level of income or a value upon death or contract maturity. Policyholder behaviour risk is combined with market risk to define the presence of risk, which emerges from the combination of maintaining contracts in force and a market decline. In order to limit the Company's exposure by association to policyholder mortality risk and behaviour risk, the Company has implemented a program to hedge the market risk. The Company regularly monitors the effectiveness of this program.

Maturity analysis of cash flows

The following tables present an analysis, by expected maturity, of estimated undiscounted cash flows related to liability related to life and health insurance contracts and ceded reinsurance assets:

					2018
	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$	$
Actuarial reserve	127.2	475.6	1,435.3	6,925.2	8,963.3
Provision for claims	—	117.1	5.9	—	123.0
Provision for experience refunds	—	0.3	1.2	—	1.5
Deposits	166.7	48.6	16.1	74.4	305.8
	293.9	641.6	1,458.5	6,999.6	9,393.6

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12. Life and health insurance contracts (cont'd)

Maturity analysis of cash flows (cont'd)

					2017
	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$	$
Actuarial reserve	123.3	436.5	1,350.7	6,642.6	8,553.1
Provision for claims	—	104.8	5.8	—	110.6
Provision for experience refunds	—	25.3	0.6	—	25.9
Deposits	214.0	27.2	12.5	90.8	344.5
	337.3	593.8	1,369.6	6,733.4	9,034.1

	2018	2017
	$	$
Ceded reinsurance assets		
Current portion	**145.2**	128.4
Non-current portion	**3,170.0**	2,979.9
	3,315.2	3,108.3

13. Property and casualty insurance contracts

Breakdown of property and casualty insurance contracts

	2018	2017
	$	$
Unearned premiums	**234.7**	217.2
Unpaid claims	**40.1**	33.0
Stabilization fund	**0.9**	1.0
	275.7	251.2

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13. Property and casualty insurance contracts (cont'd)

Changes in liability related to unearned premiums

	2018	2017
	$	$
Balance, beginning of year	**217.2**	208.0
Additional liabilities generated during the year	**259.8**	243.2
Premiums recognized during the year	**(242.3)**	(233.7)
Other	**—**	(0.3)
Balance, end of year	**234.7**	217.2
Current portion	**96.7**	88.6
Non-current portion	**138.0**	128.6

Changes in liability related to unpaid claims

	2018		2017	
	Provision for reported claims	**Provision for incurred but not reported claims**	Provision for reported claims	Provision for incurred but not reported claims
	$	**$**	$	$
Balance, beginning of year	**29.3**	**3.7**	33.7	3.9
Additional provisions generated during the year	**157.5**	**9.1**	147.1	7.6
Claims paid	**(150.7)**	**(4.5)**	(150.2)	(4.6)
Change in prior years provisions	**—**	**(4.3)**	(1.3)	(3.2)
Balance, end of year	**36.1**	**4.0**	29.3	3.7

Nature of obligations

Liabilities related to property and casualty insurance contracts represent the amounts that, increased by future investment income, will enable the Company to honour the appraised amount of future claims and the corresponding fees under the terms of the contracts in force. Liabilities related to property and casualty insurance contracts are periodically reviewed and include additional amounts representing possible adverse deviations in relation to the most probable assumptions; these additional amounts vary based on the degree of uncertainty inherent in the assumptions used.

Inherent uncertainty of the valuation process

In calculating the liability related to property and casualty insurance contracts, assumptions are made regarding probable future events related to materialization and the discount rate. These assumptions also include a margin for adverse deviations attributable to the inherent uncertainty of the valuation process.

Margin for claims development

The margin for claims development assumption is used to take several factors into account such as the frequency and severity of claims. This assumption is based on the Company's experience and on forecasts made in accordance with the requirements of the Canadian Institute of Actuaries.

Discount rates

Discount rates are used in calculating the liability related to property and casualty insurance contracts to take the time value of money into account.

Impacts of changes in assumptions

Using the same assumptions as those used to establish the prior year's provision for claims would not have had a significant impact on net income for 2018 and 2017.

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13. Property and casualty insurance contracts (cont'd)

Sensitivity analysis

Changing the assumptions used to establish the provision for claims would have had the following impacts on net income, as at December 31:

		2018	2017
		$	$
Assumptions	**Variation**		
Margin for claims development	**+ 1%**	**(0.3)**	(0.2)
Discount rates	**+ 1%**	**0.2**	0.1

Insurance risk

Through its insurance contracts, the Company is exposed to insurance risk, which consists of price risk and selection risk.

Price risk arises from potential differences between the actual experience associated with the assumptions described above and the experience originally anticipated when the contracts were priced. The experience and financial results of each type of coverage offered in the contracts are examined regularly. The prices for new contracts and contracts up for renewal reflect recent experience and observed trends. The pricing and contractual terms and conditions of the Company's products reflect the market, and market developments are monitored for this purpose.

Selection risk is the risk that the Company will inadequately assess the risks associated with an insured, thereby agreeing to provide coverage to an insured who does not meet the criteria for an acceptable risk profile. The Company manages this risk by implementing appropriate risk selection policies and procedures and ensuring that they are properly applied.

Investment-related risk

Investment-related risk results from the probability that the value of the investments held by the Company will decrease, thus reducing the capital available to honour its liability related to property and casualty insurance contracts.

An overall increase in interest rates, resulting in a decrease in the fair value of the bond portfolio, and a sharp decline in stock markets, with an adverse impact on the fund units portfolio and preferred shares, represent the two events that could significantly affect the value of the Company's investments.

To limit this risk, the Company invests in compliance with an investment policy that considers the capital required by the various classes of investments. In addition, the actuary appointed by the Board of Directors in accordance with the *Act respecting Insurance* performs an annual review to measure the impact of adverse fluctuations in interest rates and markets on the Company's financial soundness and its ability to honour its liability related to property and casualty insurance contracts.

Reinsurance risk

The Company employs reinsurance treaties to protect itself against major losses in property damage and civil liability in excess of a maximum amount. It also uses reinsurance as protection against major catastrophic events. These treaties mitigate the insurance risk to which the Company is exposed. Using reinsurance treaties nevertheless exposes the Company to the risk of default by a reinsurer. In order to control this risk, the Company adopted a risk management policy related to reinsurance approved by the Board of Directors.

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13. Property and casualty insurance contracts (cont'd)

Claims development by year of occurrence

	2011	2012	2013	2014	2015	2016	2017	**2018**	**Total**
	$	$	$	$	$	$	$	**$**	**$**
Undiscounted gross unpaid claims, end of year of occurrence	22.0	22.6	26.6	26.6	26.8	27.9	25.4	33.1	
Cumulative gross claims paid									
One year later	20.2	20.7	25.0	25.5	23.7	27.0	24.1		
Two years later	21.1	21.4	26.7	27.0	24.9	29.6			
Three years later	21.1	21.9	27.5	26.6	25.5				
Four years later	21.0	22.0	27.5	26.1					
Five years later	21.1	21.7	27.5						
Six years later	21.0	21.6							
Seven years later	21.0								
	21.0	21.6	27.5	26.1	25.5	29.6	24.1	—	
Revaluation of undiscounted gross final cost									
One year later	22.0	22.3	27.1	26.7	26.6	29.7	26.3		
Two years later	21.3	21.3	27.3	27.4	25.9	30.0			
Three years later	21.3	22.9	28.0	26.0	25.1				
Four years later	21.7	23.1	27.6	26.1					
Five years later	21.7	22.7	27.5						
Six years later	21.1	22.1							
Seven years later	21.0								
	21.0	22.1	27.5	26.1	25.1	30.0	26.3	33.1	
Excess of initial provision over revalued gross final costs									
Amount	1.0	0.5	(0.9)	0.5	1.7	(2.1)	(0.9)	—	
Percentage	4.5%	2.2%	(3.4%)	1.9%	6.3%	(7.5%)	(3.5%)	—	
Undiscounted gross unpaid claims	**—**	**0.5**	**—**	**—**	**(0.4)**	**0.4**	**2.2**	**33.1**	**35.8**
Undiscounted gross unpaid claims, 2010 and earlier									**0.1**
Undiscounted gross unpaid claims									**35.9**
Discounting									**(0.3)**
Provision for adverse deviations									**3.3**
Risk sharing plan									**1.2**
Discounted gross unpaid claims									**40.1**

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13. Property and casualty insurance contracts (cont'd)

Claims development by year of occurrence (cont'd)

	2011	2012	2013	2014	2015	2016	2017	**2018**	**Total**
	$	$	$	$	$	$	$	**$**	**$**
Undiscounted net unpaid claims, end of year of occurrence	18.5	21.1	26.6	26.6	26.8	27.8	25.4	32.8	
Cumulative net claims paid									
One year later	16.7	19.2	25.0	25.5	23.7	26.6	24.0		
Two years later	17.6	19.9	26.7	27.0	24.9	28.7			
Three years later	17.6	20.4	27.5	26.6	25.5				
Four years later	17.7	20.5	27.5	26.1					
Five years later	17.7	20.3	27.5						
Six years later	17.7	20.3							
Seven years later	17.7								
	17.7	20.3	27.5	26.1	25.5	28.7	24.0	—	
Revaluation of undiscounted net final cost									
One year later	18.3	20.8	27.1	26.7	26.6	29.1	26.2		
Two years later	17.8	19.8	27.2	27.4	25.9	29.2			
Three years later	17.8	21.4	27.9	26.0	25.1				
Four years later	18.3	21.6	27.6	26.1					
Five years later	18.3	21.4	27.4						
Six years later	17.7	20.7							
Seven years later	17.9								
	17.9	20.7	27.4	26.1	25.1	29.2	26.2	32.8	
Excess of initial provision over revalued net final costs									
Amount	0.6	0.4	(0.8)	0.5	1.7	(1.4)	(0.8)	—	
Percentage	3.2%	1.9%	(3.0%)	1.9%	6,3%	(5.0%)	(3.1%)	—	
Undiscounted net unpaid claims	**0.2**	**0.4**	**(0.1)**	**—**	**(0.4)**	**0.5**	**2.2**	**32.8**	**35.6**
Undiscounted net unpaid claims, 2010 and earlier									**0.1**
Undiscounted net unpaid claims									**35.7**
Discounting									**(0.3)**
Provision for adverse deviations									**3.3**
Risk sharing plan									**1.2**
Discounted net unpaid claims									**39.9**

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13. Property and casualty insurance contracts (cont'd)

Changes in ceded reinsurance assets

	2018	2017
	$	$
Balance, beginning of year	**0.3**	0.1
Additional assets generated during the year	**0.4**	0.7
Claims recognized during the year	**(0.5)**	(0.5)
Balance, end of year	**0.2**	0.3
Current portion	**0.2**	0.3
Non-current portion	**—**	—

Changes in deferred acquisition costs

	2018	2017
	$	$
Balance, beginning of year	**32.3**	27.1
Acquisition costs for the year	**25.1**	22.5
Vested costs of the year	**(18.8)**	(17.3)
Balance, end of year	**38.6**	32.3

14. Bank loans

The Company has authorized lines of credit with financial institutions amounting to $6.0 (2017 — $6.0) bearing interest at prime rate, unsecured and renewable yearly.

As at December 31, 2018 and 2017, no amount had been taken on these bank loans.

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15. Subordinated debt

	2018	2017
	$	$
Debenture maturing in 2028, bearing interest at 4.8%, compounded semi-annually until 2023, three-month CDOR (Canadian Dealer Offered Rate) thereafter, plus 2.1% compounded quarterly and redeemable at the Company's option after 5 years	80.0	—
Debenture payable to majority shareholder at 7.4%, maturing in 2032 and redeemable by the Company under certain conditions	30.0	—
Debenture at 6.3%, maturing in 2030 and redeemable by the Company under certain conditions	20.0	20.0
Debenture at 6.0%, maturing in 2032 and redeemable by the Company under certain conditions	20.0	20.0
Debenture at 7.5%, maturing in 2027 and redeemable by the Company under certain conditions, repaid during the year	—	50.0
Debenture payable to majority shareholder at 6.4%, maturing in 2027, repaid during the year	—	10.0
Debenture payable to majority shareholder at 7.4%, maturing in 2032 and redeemable by the Company under certain conditions, repaid during the year	—	30.0
	150.0	130.0
Subordinated notes, maturing in 2020 and bearing interest at 7.1% compounded semi-annually [1]		
Majority shareholder	6.1	6.1
Shareholder	0.9	0.9
	7.0	7.0
Subordinated note payable to majority shareholder, maturing 2023, bearing interest at 5.9%, compounded semi-annually until 2018, three-month CDOR (Canadian Dealer Offered Rate) thereafter, plus 2.5%, compounded quarterly, repaid during the year	—	20.0
	—	20.0
	157.0	157.0
Fair value (Note 5)	160.7	185.3

[1] Convertible at the discretion of the holder into shares under certain circumstances such as change in control, merger, public offering or default in the payment of interest and principal at maturity.

16. Other liabilities

	2018	2017
	$	$
Employee retirement benefits (Note 20)	88.3	98.2
Commitments under repurchase agreements	189.6	96.2
Derivative financial instruments (Note 4)	19.9	9.8
Other	10.9	9.7
	308.7	213.9

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17. Share capital

Authorized

Class A

150,000,000 shares, with no par value, with participating and voting right

Class B

150,000,000 shares, with no par value, with participating and voting right, convertible at the discretion of the holder in whole or in part into Class A shares, one Class A share for each Class B share exchanged, redeemable by mutual agreement in whole or in part

Class C

100,000,000 shares, with a par value of one dollar each, non-voting, giving the right to fixed preferred dividends before Class A and B shares, issuable in one or several series

	2018	2017
	$	$
Issued		
20,615,293 Class A shares	95.4	95.4
50,690,905 Class B shares	247.8	247.8
	343.2	343.2

18. Capital management

The Company's capital management policy is designed to satisfy the laws, regulations, guidelines of the *Autorité des marchés financiers* ("*Autorité*") and applicable instructions regarding capital management. Since January 1, 2018, the capital adequacy requirements guideline (CAR) was prospectively replaced by the new capital adequacy requirements guideline for life insurers ("CARLI"). To ensure sound and prudent capital management, the Company is required to comply with the guideline on CARLI.

According to the *Autorité*'s guideline on CARLI, two capital adequacy ratios must be submitted. The total ratio is calculated by dividing available capital, attributed equity and eligible deposits by the overall solvency buffer. The basic ratio is calculated by dividing Tier 1 available capital, 70% of attributed equity and 70% of eligible deposits by the overall solvency buffer. This required solvency buffer is determined based on certain risk factors.

To maintain a capital amount that satisfies the criteria of the *Autorité*, the Company makes annual financial forecasts for the next five years; among the data reviewed are the CARLI ratio and changes to the CARLI ratio. The actuary, appointed by the Board of Directors in conformity with *An Act respecting insurance*, prepares an annual assessment of the financial position of the Company; he carries out dynamic capital adequacy testing ("DCAT") of which one objective is to verify the capital adequacy of the Company despite but plausible unfavourable events. These documents are submitted and presented to the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. Capital management (cont'd)

The *Autorité*'s guideline states that the Company must set a target total ratio that exceeds the minimum requirements. The Company's current ratios exceeds minimum requirements and the total ratio exceeds the target as at December 31, 2018.

	2018
	$
Equity	974.3
Subordinated debt	157.0
Prescribed reductions and other adjustments	(168.7)
Available capital	962.6

The solvency ratio in the Company's consolidated financial statements as at December 31, 2017 was determined based on the calculations required under CAR. The Company's ratio exceeded the minimum requirements as well as the set target. As at December 31, 2017, available capital amounted to $956.7.

Concerning its subsidiary, SSQ Insurance Company Inc., the Company's policy is to maintain a higher target level of capital than required under the *Autorité*'s guidelines on CARLI and on capital adequacy requirements, namely "MCT", which apply to the subsidiary. The subsidiary's CARLI (2017 – CAR) and MCT of the subsidiary as at December 31, 2018 and 2017 exceed the level required under the guidelines.

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19. Income taxes

	2018	2017
	$	$
Income tax expenses for the year — Net income		
Current income taxes	39.6	37.0
Deferred income taxes resulting from the origination or reversal of temporary differences	(10.0)	(7.1)
	29.6	29.9
Reconciliation of income tax expense for the year — Net income		
Base income taxes of 26.8% (2017 – 26.8%)	33.2	32.2
Increase (decrease) caused by differences between accounting and tax treatment		
Investments	(3.3)	(2.4)
Other	(0.3)	0.1
	29.6	29.9
Tax expense for the year — Comprehensive income (loss)		
Current income taxes	(8.7)	6.1
Deferred income taxes	6.8	(5.0)
	(1.9)	1.1
Deferred income tax assets		
Life and health insurance contracts	20.4	19.8
Employee retirement benefits	23.2	26.2
Other	2.0	1.3
	45.6	47.3
Deferred income tax liabilities		
Investments	(13.5)	(16.6)
Investment property, fixed assets and intangible assets	(35.0)	(37.0)
Other	(3.9)	(3.8)
	(52.4)	(57.4)
Presented as:		
Deferred income tax assets	33.1	34.2
Deferred income tax liabilities	(39.9)	(44.3)

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20. Employee retirement benefits

The Company offers its employees contributory defined benefit pension plans based on years of service and final average salary. It also offers its eligible employees retirement benefits such as severance payments as well as health and life insurance coverage. The following tables show the amounts recorded in the Company's consolidated financial statements under other assets and other liabilities, as well as selling and administrative expenses:

	2018		2017	
	Pension plans	**Other benefits**	Pension plans	Other benefits
	$	**$**	$	$
Defined benefit obligation				
Obligation, beginning of year	**558.9**	**50.4**	480.5	39.3
Employee contributions	**10.4**	**—**	10.2	—
Transfers between plans	**3.5**	**—**	2.6	—
Current service cost	**21.4**	**3.4**	17.0	2.9
Interest	**20.2**	**1.9**	19.7	1.7
Experience	**(0.5)**	**(1.3)**	(1.8)	1.2
Actuarial loss (gain) arising from changes in financial assumptions	**(54.1)**	**(4.6)**	51.5	6.2
Benefits paid	**(19.4)**	**(1.2)**	(20.8)	(0.9)
Obligation, end of year	**540.4**	**48.6**	558.9	50.4
Pension plan assets				
Fair value, beginning of year	**511.3**	**—**	450.7	—
Remeasurement of assets	**—**	**—**	—	—
Interest	**17.3**	**—**	17.4	—
Difference between actual return and interest	**(35.0)**	**—**	38.5	—
Employer contributions	**13.9**	**1.2**	12.7	0.9
Employee contributions	**10.4**	**—**	10.2	—
Transfers between plans	**3.5**	**—**	2.6	—
Benefits paid	**(19.4)**	**(1.2)**	(20.8)	(0.9)
Fair value, end of year	**502.0**	**—**	511.3	—
Defined benefit liability including the effect of asset ceiling				
Funded plans deficit	**13.8**	**—**	22.5	—
Unfunded plans deficit	**24.6**	**48.6**	25.1	50.4
Net defined benefit liability	**38.4**	**48.6**	47.6	50.4
Effect of timing net defined benefit asset to asset ceiling	**—**	**—**	—	—
	38.4	**48.6**	47.6	50.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. Employee retirement benefits (cont'd)

	2018		2017	
	Pension plans	**Other benefits**	Pension plans	Other benefits
	$	**$**	$	$
Employee retirement benefit expenses				
Current service cost	**21.4**	**3.4**	17.0	2.9
Net interest	**2.9**	**1.9**	2.3	1.7
Expenses for the year — Net income	**24.3**	**5.3**	19.3	4.6
Actuarial loss (gain) for the year and effect of asset ceiling — Other comprehensive income (loss)	**(19.6)**	**(5.9)**	11.2	7.4

Cash payments for employee retirement benefits for the year totalled $15.0 (2017 — $14.0). The Company expects to pay contributions in the amount of $14.4 into defined benefit plans during the next year.

	2018	2017
	%	%
Actuarial assumptions used for calculation of obligation and cost according to the weighted average		
Discounted rate – obligation	**4.0**	3.5
Discounted rate – cost	**3.5**	4.0
Rate of salary increase – obligation	**3.3**	3.0
Rate of salary increase – cost (3.3% starting in 2019)	**3.0**	3.0
Rate of increase in cost of covered health care (decreasing linearly at 4.0% in 2025)	**7.0**	7.0

An unfavourable change of 1% in the assumptions used would have the following impact on the defined benefit obligation:

	2018	2017
	$	$
Discount rate	**127.3**	141.2
Rate of salary increase	**43.7**	50.6
Rate of increase in cost of covered health care	**8.3**	12.0

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20. Employee retirement benefits (cont'd)

Valuation date

The Company measures its defined benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. An actuarial valuation of pension plan funding is also performed as at December 31 of each year. This assessment includes evaluating the financial viability of the pension plans to fulfill their commitments to all of the actual participants and their survivors, depending on the asset values of the plans and the future contributions to the pension plans by the participants and the Company.

Pension plans' assets

The pension plans apply an investment policy with the objective of providing the optimal return on their assets while respecting the main attributes of the plans' liabilities and the restrictions imposed on by the *Supplemental Pension Plans Act*. Pension plans' assets are invested in the Company's segregated funds. Asset allocation as at December 31 is as follows:

	2018	2017
	%	%
Bonds	**46.9**	52.5
International shares	**32.0**	35.0
Canadian shares	**4.7**	5.0
Other	**16.4**	7.5

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21. Components of the consolidated statement of income

	2018	2017
	$	$
Gross premiums		
Life and health insurance	2,168.0	2, 170.9
Property and casualty insurance	259.5	243.0
Investment and retirement	55.6	44.6
	2,483.1	2,458.5
Selling and administrative expenses		
Employee benefits	198.3	195.5
Depreciation and amortization of fixed assets and intangible assets	29.2	30.9
Interest on subordinated debt payable to the majority shareholder	4.2	4.5
Interest on subordinated debt	6.3	6.8
Investment property expenses		
Depreciation of investments property	1.0	0.9
Depreciation of fixed assets	2.7	2.7

22. Remuneration of key management personnel

Key management personnel includes directors and senior executives. The following table summarizes cumulative remuneration of key management personnel:

	2018	2017
	$	$
Short-term employee benefits	5.5	4.8
Post-employment benefits	1.2	1.0
	6.7	5.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. Segregated funds

a) Carrying value of segregated fund investments

	2018	2017
	$	$
Investments fund units	**3,812.7**	3,793.5
Bonds	**475.8**	498.6
Cash and cash equivalents	**44.3**	45.1
Shares	**512.6**	569.2
Derivative financial instruments	**0.3**	1.6
Total investments	**4,845.7**	4,908.0
Other assets and liabilities	**21.8**	20.9
	4,867.5	4,928.9

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23. Segregated funds (cont'd)

b) Fair value of segregated fund investments

The following tables present investments in segregated funds classified according to the fair value hierarchy as defined in Note 5 "*Fair value of assets and liabilities*" and exclude all other financial assets except derivative financial instruments:

				2018
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Segregated fund financial assets at fair value through profit or loss				
Investments fund units	**3,230.6**	**582.1**	**—**	**3,812.7**
Bonds	**—**	**475.8**	**—**	**475.8**
Cash and cash equivalents	**—**	**44.3**	**—**	**44.3**
Shares	**501.8**	**—**	**10.8**	**512.6**
Derivative financial instruments	**0.3**	**—**	**—**	**0.3**
	3,732.7	**1,102.2**	**10.8**	**4,845.7**
Segregated fund financial liabilities at fair value through profit or loss				
Derivative financial instruments	**1.6**	**—**	**—**	**1.6**

During the years ended December 2018 and 2017, there were no transfers of investments related to segregated funds between Levels 1 and 2.

				2017
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Segregated fund financial assets at fair value through profit or loss				
Investments fund units	3,243.1	550.4	—	3,793.5
Bonds	—	498.6	—	498.6
Cash and cash equivalents	—	45.1	—	45.1
Shares	559.1	—	10.1	569.2
Derivative financial instruments	1.6	—	—	1.6
	3,803.8	1,094.1	10.1	4,908.0
Segregated fund financial liabilities at fair value through profit or loss				
Derivative financial instruments	0.8	—	—	0.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. Segregated funds (cont'd)

b) Fair value of segregated fund investments (cont'd)

Change in the fair value measurement of financial assets classified Level 3

	Shares
	$
Fair value as at December 31, 2016	9.4
Acquisition	—
Disposal	(0.6)
Realized gains	0.2
Unrealized gains	1.1
Fair value as at December 31, 2017	10.1
Acquisition	**—**
Disposal	**(0.3)**
Realized gains	**0.1**
Unrealized gains	**0.9**
Fair value as at December 31, 2018	**10.8**

c) Changes in segregated fund insurance contracts and investment contracts

	2018		2017	
	Insurance contracts	**Investments contracts**	Insurance contracts	Investments contracts
	$	**$**	$	$
Balance, beginning of year	**1,858.1**	**3,070.8**	1,841.6	2,976.1
Amounts collected from policyholders	**273.4**	**343.8**	308.4	199.3
Investment income	**(110.3)**	**(97.2)**	81.5	267.7
Amounts paid to policyholders	**(270.0)**	**(201.1)**	(373.4)	(372.3)
Balance, end of year	**1,751.2**	**3,116.3**	1,858.1	3,070.8

In accordance with the contractual maturities of cash flows, segregated fund insurance contracts and investment contracts are payable on demand.

24. Contingencies and commitments

Contingencies

The Company and its subsidiaries are subject to legal actions, including proposed class actions in the normal course of business. The Company does not expect that settlement of current legal actions will have a material adverse effect on its consolidated financial position.

Letters of credit

In the normal course of business, banking institutions issue letters of credit on the Company's behalf.
As at December 31, 2018, these letters of credit amount to $2.0 (2017 — $3.1). No assets were pledged against these letters of credit as at December 31, 2018 and 2017.

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24. Contingencies and commitments (cont'd)

Contractual commitments and leases

The Company has a commitment, as a lessee, under operating leases or various contracts that are difficult to terminate for the use of premises, automotive equipment, computer hardware and services, expiring on various dates until 2026. Minimum lease payments recognized as an expense during the year totalled $6.2 (2017 — $6.0).

The expected payments on the leases are as follows:

	Less than 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$
Basic rents	10.8	17.8	5.0	33.6

Investment commitment

The Company is committed to invest $15.0 in a limited partnership in the normal course of its operations ($4.7 invested as at December 31, 2018). The remaining disbursements are expected to be made between now and 2028.

25. Leases

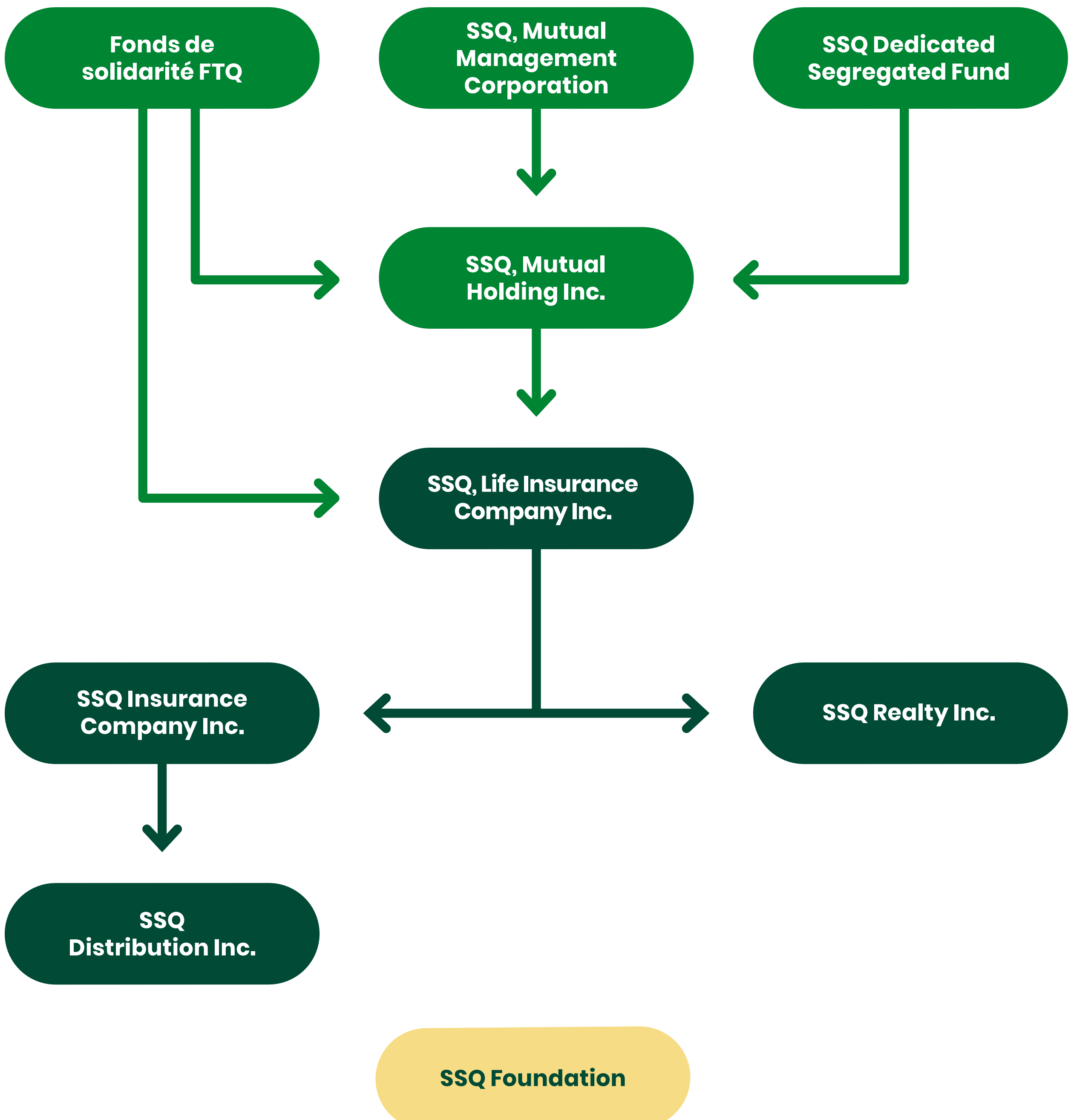
The Company leases as lessor its investment property and certain fixed assets under operating leases. These leases mature between 2019 and 2036.

During the year, the Company's rental revenue from its investment property and fixed assets totalled $31.1 (2017 — $27.7), while direct operating expenses totalled $20.6 (2017 — $19.4).

Expected receipts from operating leases are as follows:

	Less than 1 year	1 to 5 years	Over 5 years	Total
	$	$	$	$
Basic rents	14.6	49.0	56.8	120.4

Ownership Structure



SSQ, LIFE INSURANCE COMPANY INC. AND SSQ INSURANCE COMPANY INC.

BOARDS OF DIRECTORS

CHAIRMAN

★ ■ **René Hamel* / Quebec City**
Chairman of the Board
SSQ, Mutual Management Corporation

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Retiree
Fédération des travailleurs
et travailleuses du Québec (FTQ)

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Fonds de solidarité FTQ

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▲ **Bernard Piché / Montréal**
Corporate Director

▲ **Norman A. Turnbull / Varennes**
Corporate Director and
Business Advisor

CORPORATE SECRETARY

Élise Poulin

* Member of the Board of Directors
of SSQ, Mutual Management Corporation

★ Member of the Mutualism Promotion Committee
■ Member of the Executive and Human Resources Committee
● Member of the Audit and Risk Management Committee
▲ Member of the Investment Committee
◆ Member of the Ethics Committee

SSQ INSURANCE

MANAGEMENT TEAM

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Chief Executive Officer

Patrick Cyr
Senior Vice-President – Finance

Geneviève Fortier
Senior Vice-President – Sales and Distribution

Marie Lamontagne
Strategic Advisor

France LeBlanc
Risk Management Lead

Denis Légaré
Senior Vice-President – Human Resources and Corporate Affairs

Michel Loranger
Senior Vice-President – Organizational Performance and Technology

Gilles Mourette
Senior Vice-President – Customer Experience and Operational Management

Éric Trudel
Senior Vice-President – Strategy and Product Management

CORPORATE DIVISIONS

CUSTOMER EXPERIENCE AND OPERATIONAL MANAGEMENT

Chantal Auger
Vice-President – Benefits and Claims

Geneviève Hamel
Vice-President – Operational Excellence Support

Marie-Claude Harvey
Vice-President – Operations and Partner Services

Aurel Lessard
Vice-President – Direct Sales and Customer Service

FINANCE

Thierry Brochu
Vice-President – Corporate Actuarial and Appointed Actuary

Carl Cleary
Vice-President – Capital and Financing

Hugo Drouin
Vice-President – Finance and Investments

France Rodrigue
Vice-President – Realty and Strategic Procurement

HUMAN RESOURCES AND CORPORATE AFFAIRS

Daniel Ouellet
Vice-President – HR Operations and Management Consulting

Élise Poulin
Vice-President – Corporate Affairs and Compliance

Martin Robert
Vice-President – Talent, Culture and Communications

ORGANIZATIONAL PERFORMANCE AND TECHNOLOGY

Éric Benoit
Vice-President – IT Engineering and Innovations

Peter Myddelton
Vice-President – IT Services and Operations

Éric Savard
Vice-President – IT Risks and Project Portfolio Management

Éric Thériault
Vice-President – Costumer Experience and Performance

SALES AND DISTRIBUTION

Chantal Auger
Vice-President – Sales Support

David Fortier
Vice-President – Sales, Affinity Groups and Partners

Diane Gaulin
Vice-President – Sales, Groups Public Sector

Douglas Paul
Vice-President – Sales, Individual and Investments

Marc Trépanier
Vice-President – Sales, Groups Private Sector

STRATEGY AND PRODUCT MANAGEMENT

Donald Cyr
Vice-President – Actuarial and Product Expertise

Annie Lafond
Vice-President – Marketing and E-Business

Louis Régimbal
Vice-President – Strategy and Innovation

Claudine Yelle
Senior Director – Operational and Network Compliance

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Josée Grondines
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