SSQ insurance

2017 Annual Report

communities make us

Summary

Communities make us

Community spirit was the cornerstone of SSQ Insurance nearly 75 years ago.

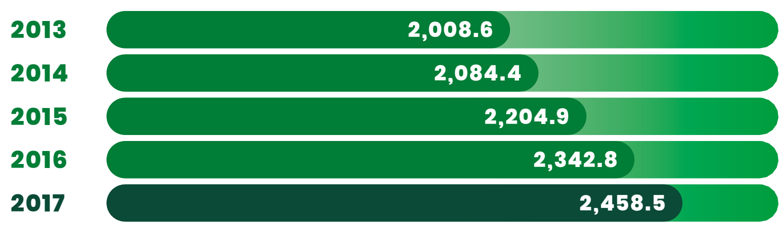
Drawing on its various constituent parts, the company has subsequently become an innovative, accessible, committed, respectful and ethical member of the community. The “communities make us” tagline continues to be our driving force. Now more than ever, we believe that the notion of community should lie at the heart of insurance because stronger communities make every individual stronger.

2017
Financial Highlights

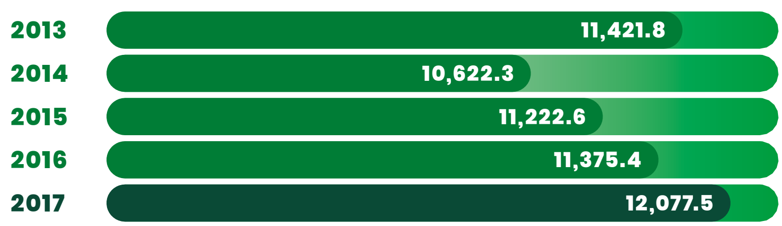
Consolidated data
(in millions of dollars)

	2017	2016	Variance
	$	$	%
Gross premiums	**2,458.5**	2,342.8	4.9
Assets under management and administration	**12,077.5**	11,375.4	6.2
Equity attributable to shareholders	**884.7**	791.7	11.7
Net income attributable to shareholders	**90.4**	77.6	16.5
Number of employees	**2,066**	2,091	-1.2

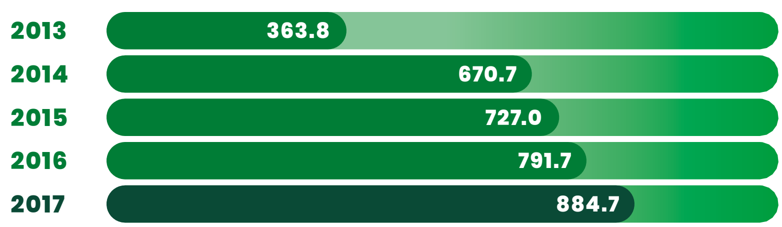
Gross premiums
(in millions of dollars)



Assets under management and administration
(in millions of dollars)



Equity attributable to shareholders
(in millions of dollars)



Chairman's message

René Hamel
Chairman of the Boards

I would like to begin by mentioning two major milestones for our company in 2017.

Departure of Pierre Genest

At our 2017 annual meeting, we marked the departure of Pierre Genest, who was an SSQ, Life Insurance Company Inc. (SSQ Life) board member from 1993 to 2017 and has been a key part of the SSQ family for over 30 years, including a decade as the company's Chief Executive Officer. SSQ was founded 74 years ago and Pierre has played a pivotal role in our storied history.

Pierre Genest has been part of the SSQ family for over 30 years.

Delegates Conference

The 2017 Delegates Conference was another milestone in our company's democratic life. The delegates expressed their views in an array of workshops concerning SSQ, Mutual Management Corporation and SSQ, Life Insurance Company Inc., and their role within the mutual.

Our progress in 2017 will set the course for the coming years by strengthening the foundations of our mutual's democratic life. The first concrete results of this consultation will be presented at the Delegates Conference in 2018.

Although this annual report deals primarily with SSQ, Mutual Management Corporation, the activities of SSQ, Life Insurance Company Inc. and its board of directors will also be discussed.

A busy year

2017-2019 strategic plan and transformation project

Throughout the year, the directors oversaw the implementation of the initial components of the 2017-2019 strategic plan, which was approved in early 2017. The transformation project currently underway is primarily designed to strengthen the role of our members, clients and partners at the heart of SSQ's mission and to meet their needs more effectively through the synergies derived from this project. Presentations were made regularly to the board members, who had opportunities to ask questions about this groundbreaking project and to monitor the progress being made. Employee support is essential; the excellent results of the staff mobilization survey, in which the vast majority of employees took part, are a testament to their enthusiasm.

Board members serve on various committees established by the boards, as described below.

Executive and Human Resources Committee

In 2017, the Executive and Human Resources Committee focused on several key issues, including efforts to implement the strategic plan and the organizational transformation program, the broad-based compensation review, talent management and succession planning. The committee recommended that the board adopt the 2018 budget as set out in its mandate.

Audit and Risk Management Committee

In early 2017, the Audit and Risk Management Committee recommended that the board approve the audited financial statements and the independent auditors' report. In addition to monitoring work on international financial reporting standards (IFRS), the committee received reports on integrated risk management, capital management, information security, regulatory compliance and business continuity, as well as various internal audit reports.

Investment Committee

The Investment Committee recommended the amended investment policy to the board of directors and monitored the management of SSQ's investments. It also formally approved the implementation of the responsible investment principles to which SSQ subscribes.

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.

Training sessions

In addition to their formal meetings, the board members took part in training sessions on the following topics:

- Strategic Planning: Focus on 2020
- Value Added of an ORSA Process (Own Risk Solvency Assessment): Internal Assessment of Risks and Solvency
- Governance Guideline Updated by the Regulatory Authorities
- The Future of Insurance: Technological Innovations That Will Disrupt the Industry
- Mutualism 2020.

Moreover, the board members regularly receive a management-issued strategic watch bulletin.

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 2017, their attendance at meetings of the various governing bodies was 98%, 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, 2017

	Board of Directors	Executive and Human Resources Committee	Investment Committee	Audit and Risk Management Committee	Ethics Committee	Total
Brouillet, Normand**	8/8	6/6				100%
Chalifoux, Jean-François*	8/8	6/6				100%
Choquette, Claude*	7/8		4/5			85%
Dubé, Carolle**	8/8					100%
Genest, Pierre** *(until April 29, 2017)*	2/2	2/2				100%
Hamel, René ** *(as of April 29, 2017)*	6/6	4/4				100%
Jomphe, Eddy**	7/8				2/2	90%
MacDougall, Andrew*	8/8					100%
Martineau, Jude*	8/8			6/6		100%
Martineau, Lucie**	8/8					100%
Morin, Gaétan*	8/8	6/6				100%
Nadeau, Michel**	8/8	6/6	5/5			100%
Paradis, Denyse**	6/8				2/2	80%
Paré, Sylvain*	8/8	6/6		6/6		100%
Pélissier, Alain**	8/8					100%
Perron, Jean**	8/8				2/2	100%
Picard, Sylvain**	8/8			6/6		100%
Piché, Bernard*	8/8		5/5			100%
Turnbull, Norman A.*	8/8		5/5			100%
Vallée, Émile**	8/8	6/6				100%
Total	**97%**	**100%**	**95%**	**100%**	**100%**	**98%**

** SSQ Life and SSQ Insurance board members*
*** SSQ, Mutual Management Corporation, SSQ Life and SSQ Insurance board members*

Giving back to the community

Solidarity remains one of SSQ's core values. It is expressed in a variety of ways, including our social commitment and that of our employees across Canada.

Inclusion Fund

In early 2017, tragic events unfolded at La Grande Mosquée de Québec. This prompted Quebec City's financial community to create a $3.5 million philanthropic fund called Inclusion, designed to promote the core values of openness, inclusion and equality. Along with the Fonds de solidarité FTQ, SSQ joined forces with 20 other financial companies to support this initiative in the belief that education is the best bulwark against intolerance, discrimination and bullying. Over the next five years, this fund will support education and awareness raising programs in schools, as well as programs aimed at building inclusive communities and fostering a greater openness among young people to difference in all its forms. The United Way Centraide network will play a supporting role in overseeing the Inclusion Fund's good governance.

United Way Centraide

The United Way Centraide campaign held in the fall of 2017 in Vancouver, Calgary, Toronto, Longueuil and Quebec City reached a new record as $334,000 was raised, up 5% from the previous year.

Jean-François Chalifoux surrounded by SSQ Insurance employees at the United Way Centraide campaign kickoff.

Socially committed employees

SSQ's employees are socially committed; they are also great promoters of mutualist values. They are encouraged in various ways, particularly via our volunteer support program and training sessions on mutualism.

The Association de parents de l'enfance en difficulté was the charity that received all the funds raised as part of this year's Marathon SSQ de Longueuil.

A number of employees took part in the mutual assistance days held by United Way-supported organizations. A collection event was held, thanks to which hundreds of arts and crafts supplies were donated to Carrefour des enfants de Saint-Malo, a children's charity in Quebec City, and to the Association de parents de l'enfance en difficulté (APED), a Longueuil-based family support group.

A number of SSQ employees in Longueuil volunteered to accompany children from APED on outings to the Granby Zoo and La Ronde amusement park, an enriching experience for all concerned. APED was the recipient of a $7,000 donation raised as part of the Marathon SSQ de Longueuil in the spring of 2017.

A team of employees at the Toronto office participated in the SickKids Foundation beach volleyball corporate challenge.

The Toronto office social club undertook various initiatives in which employees supported the North York Women's Shelter. Employees also participated, for the 10th year in a row, in a beach volleyball tournament held to benefit the SickKids Foundation.

As part of the SSQ Quebec City Marathon, SSQ presented Carrefour des enfants de Saint-Malo with a cheque for more than $80,000. Thanks to their tutoring activities, 23 employees from Quebec City made a difference in the lives of the Carrefour children at a time of year when volunteers are scarce.

The Carrefour des enfants de Saint-Malo was the charity that received all the proceeds generated at this year's SSQ Quebec City Marathon.

SSQ Foundation

Following its creation in 1996, the SSQ Foundation acquired and restored the site where SSQ was born, namely the residence of the company's founder, Dr. Jacques Tremblay. SSQ House (Maison SSQ) was subsequently entrusted to Pignon Bleu, an organization that takes action against hunger and supports child and family development in lower-income districts. Pignon Bleu also trains the jobless and gets them back into the labour market.

The SSQ Foundation's mission also includes supporting organizations whose charitable activities focus on young people, particularly those at risk of dropping out of school or developing addiction problems, and reintegrating them into the work force.

Home of company founder Dr. Jacques Tremblay.

Quebec City Mayor's Ball

We would be remiss if we did not mention the involvement of SSQ's CEO, Jean-François Chalifoux, as honorary president of the seventh annual Quebec City Mayor's Ball in support of the Jeunes en Tête Foundation, an organization that promotes physical and mental well-being of young people.

Jean-François Chalifoux was Honorary President of the 7th edition of the Quebec City Mayor's Ball for the benefit of Fondation Jeunes en Tête.

France Rodrigue, Vice-President of Realty, acted as governor of the event while several SSQ employees were involved as volunteers. The event was a dazzling success and raised $405,000.

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 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 to train 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 is among the cooperative and mutualist organizations that founded SOCODEVI in 1985. Through SOCODEVI, SSQ shares its expertise and experience with organizations in developing countries, for instance, by encouraging its employees to take part in missions and offer technical assistance.

In 2017, our Senior Vice-President of Human Resources and Corporate Affairs, Denis Légaré, ran various training workshops and gave HR management advice to some 50 managers and employees at three agricultural cooperatives involved in coffee/cacao production and marketing in Peru.

Denis Légaré, Senior Vice-President of Human Resources and Corporate Affairs (right), travelled to Peru for a humanitarian aid trip organized by SOCODEVI.

Sustainable development and societal responsibility

SSQ also embarked on a number of environmental initiatives. In 2017, in addition to collecting honey from urban hives on the roofs of our buildings in Quebec City, Longueuil and Toronto, we produced beeswax candles. But most importantly, a whole host of environmentally friendly actions have become a part of our day-to-day lives. For more information in this regard, we invite you to read our 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 the members.

Total revenues for 2017 were $26.2 million, including the proportional share of SSQ Life's net income, which amounted to $26.1 million. After deducting expenses of $0.1 million and the net result attributable to the non-controlling interest of $11.1 million, the net income attributable to the members was $15.0 million.

As at December 31, 2017, the members' equity totalled $148.0 million, up 11.7% from the previous year. SSQ, Mutual Management Corporation is delighted with the results obtained by SSQ Life as it endeavoured to strike a fair balance between members' rights, the company's financial stability and reasonable expectations for returns.

SSQ's 75th anniversary in 2019

We cannot conclude this annual review without mentioning Jacques Tremblay, a doctor from a working-class district of Quebec City who, during the Second World War, more specifically in 1944, created the Quebec City Health Care Cooperative with a view to facilitating his fellow citizens' access to health care. In 2019, we will be celebrating the 75th anniversary of the cooperative, which has been transformed over the years into what it is today: SSQ, a mutualist company that provides services across Canada, employs 2,000 people and manages over $12 billion in assets and nearly $2.5 billion in revenues.

We should take pride in our record of success, and we should take special pride in SSQ's business model, which, 74 years later, continues to support and uphold its founder's values: solidarity, accessibility, competence, social commitment, integrity and respect.

In a world in which financial capital is all too often associated with unreasonable and unhealthy activities, it is our hope that many other companies like SSQ will see the day and will flourish. Like SSQ, they too will aim to strike a balance between service quality, human concerns, environmental protection, social involvement and financial stability.

Acknowledgements

I would like to pay a special tribute to Hélène Plante who retired after more than 27 years with SSQ, 12 of which as Corporate Secretary. On behalf of the delegates, members, board members and myself, I would like to extend our gratitude to Hélène, along with our wishes for a very happy retirement.

The delegates have always responded enthusiastically to our invitations to take part in events surrounding SSQ's annual meeting. Their contributions are all the more valuable because they clarify and enrich the sense of democratic life at SSQ.

To all our members and partners and our 2,000 employees, I would also like to express my sincere thanks.

Lastly, I would like to acknowledge the tireless efforts of our board members, who represent SSQ's delegates and members. Thanks to their expertise and value added, they make a huge contribution to SSQ's democratic health and ongoing viability.

Thank you.

René Hamel

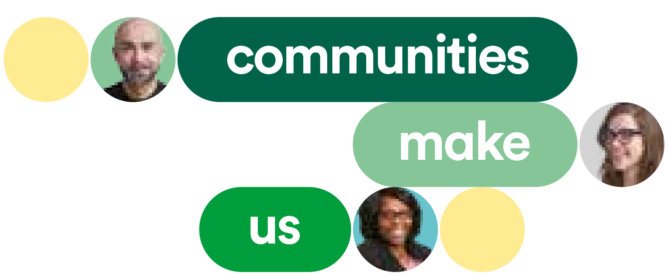
René Hamel
Chairman of the Boards
SSQ, Mutual Management Corporation
SSQ Insurance

CEO's message

Jean-François Chalifoux
Chief Executive Officer

Ever since it was founded nearly 75 years ago, SSQ Insurance has always been an organization that stands in solidarity. Created by a forward-thinking doctor working towards more democratic health care access, the company continues to place its members and customers at the forefront of its commitments. Buoyed by the strength of our mutualist model, we wish to create a genuine community of insureds consisting of our members and customers, while boosting their feelings of allegiance and capitalizing on each contact with them to strengthen those feelings. What better way to do so than by honouring our roots? That is why we decided to focus on our community of insured members and our collaborative values with a view to fully embracing what sets us apart: our insurance expertise. In keeping with that vision, SSQ Financial Group was renamed SSQ Insurance; we also adopted the "communities make us" tagline.

This rebranding project is closely connected with our 2017-2019 strategic plan. We wanted to provide a clear representation of our strategic positioning as an insurer while reaping the benefits of our reputation as we establish the company as a high-performing innovative cross-Canada brand. Amid constant change, SSQ Insurance must always strive to meet or exceed the expectations of its members, customers and partners. This ongoing renewal process hinges not only on the development of our service offer, product range, management practices and customer service quality, but also on our corporate image, which continues to evolve over time.



$2,457 M
Business volume – Insurance

4.9%
Business volume growth – Insurance

$90.4 M
Consolidated net income

10.8%
Return on equity

206%
Solvency ratio

	2017	2016
	$	$
BUSINESS VOLUME – INSURANCE ($M)		
Group insurance	2,019.3	1,925.2
Individual insurance	189.1	182.1
General insurance	248.6	235.2
TOTAL	2,457.0	2,342.5
FUNDS UNDER MANAGEMENT, INCLUDING SEGREGATED FUNDS, ANNUITIES AND GUARANTEED PRODUCTS ($M)	5,152.1	5,053.0
SALES ($M)		
Group insurance	162.8	184.5
Individual insurance	34.9	48.0
General insurance	61.7	57.0
TOTAL – INSURANCE	259.4	289.5
SAVINGS	523.6	558.1
CONSOLIDATED NET INCOME ($M)	90.4	77.6
RETURN ON EQUITY	10.8%	10.2%
SOLVENCY RATIO	206%	189%
COMPREHENSIVE INCOME ($M)	93.0	64.7
ASSETS UNDER MANAGEMENT AND ADMINISTRATION ($M)		
General funds	7,148.6	6,557.7
Segregated funds	4,928.9	4,817.7
TOTAL	12,077.5	11,375.4

2017-2019 strategic plan

Our strategic plan was in full swing in 2017 as we sought to achieve our ambition of becoming the insurance destination of choice for our members and customers. A committee tasked with implementing our strategic plan was created at the beginning of the year to organize the implementation of the plan into various programs. A common governance and reporting structure for each program was subsequently established to ensure that the various initiatives were aligned with the strategic objectives.

The main objectives of our strategic plan are to enhance the customer experience, foster business synergies and develop our people. This process is based on six strategic goals designed to come to terms with the main issues facing the company.

Profitability

- **Improve our efficiency**
- **Improve our claims and benefit costs**
- **Optimize capital deployment**

Growth

- **Provide a unique customer experience**
- **Focus on organic growth**
- **Modernize the distribution network**

A number of recalibration and optimization projects stem from the strategic planning programs, not only in terms of the company's operations but also in terms of its corporate sectors. To date, recurring savings have been achieved and we are already 30% of the way to reaching our target for late 2020. The company remains closely aligned with the pursuit of its business objectives.

A company in transformation

In 2016, SSQ Insurance undertook a major transformation aimed at consolidating its strengths while seizing all available opportunities. Change management plans were put in place and carried out in 2017 in order to obtain stakeholders' buy-in.

This transformation enabled us to streamline our corporate structure and revamp the organizational chart with a view to grouping our operating sectors by business function. Effective January 1, 2017, our two insurance subsidiaries SSQ Insurance Company Inc. and SSQ General Insurance Company Inc. were merged. The new entity is as active in the area of general insurance as it is in the area of life and health insurance — an approach that is highly innovative in Canada. The five distribution subsidiaries were consolidated into one under the newly merged company.

Following this transformation, a number of policies were reviewed and tailored to the new organizational structure, particularly risk management policies for third-party activities, operational continuity, information security, operational risk management and capital management.

A new master plan for the integrated risk management function was laid out. Under the plan, this function was turned into an even larger performance lever by adding a risk-based perspective to the company's strategic issues and by promoting better management of operational risks.

In terms of internal governance, creating a central registry for cataloguing the company's information assets was a very mature step to take. This registry lists and classifies all information managed by SSQ Insurance with respect to confidentiality, integrity and availability. The registry will serve as a springboard for sweeping changes in the area of information security, particularly cybersecurity.

Main financial results and highlights for 2017

SSQ Insurance posted a satisfactory return on equity of 10.8% in 2017. Net income of $90.4 million was up 16.5% from last year. Total comprehensive income was $93.0 million, 43% higher than in 2016. The net result and the markets' good performance for the year account for this favourable comprehensive income.

The synergies derived from the 2016 transformation continue to be felt. Efficiency gains were also noted in 2017. These factors, combined with optimization projects stemming from strategic objectives, enabled us to manage a higher business volume by keeping expenses at nearly the same level they were at last year.

Despite a market that is still highly competitive, SSQ Insurance finished the year with an insurance volume of $2,457 million, up 4.9%. In the area of group insurance, SSQ Insurance's customer service quality and expertise helped us retain our groups. However, achieving new sales targets for all sectors was particularly difficult in 2017.

Group insurance volume was up 4.9% to finish the year at $2,019 million. The improved profitability of short-term and specialized products, including travel insurance, contributed to the favourable net result in this sector. Meanwhile, the profitability of long-term products was consistent with action plan objectives for the coming years.

In the area of individual insurance, 2017 was a difficult year for achieving high sales targets, particularly in comparison with 2016, which was a banner year not only for SSQ Insurance, but also for the industry as a whole. Last year, record sales were fuelled, among other factors, by changes to the tax rules, which took effect on January 1, 2017. Nevertheless, this sector posted growth of 3.8% in 2017. The net result was adversely affected by updates to assumptions, some of which reflect changes to actuarial standards.

Although the profitability of general insurance improved overall in comparison with 2016, auto insurance conditions remained difficult. The competition is strong and sales targets were not reached for traditional insurance products. In contrast, the development of our business with the dealership network shows an overall growth of 5.7% in this sector.

The investment sector also contributed to the good results of 2017, thanks in particular to a reduction in actuarial liabilities. To rectify the profitability of certain individual insurance products and in light of high capital requirements, insurance premiums were raised in 2017. Major outflows following the application of these measures led to the freeing up of reserves and a favourable impact on this sector's results. Despite these outflows, the savings sector's business volume posted a growth of 2.0%.

SSQ Distribution, the new subsidiary arising from the merger of the distribution entities, turned in a strong performance, with sales of insurance products up 19.4% and warranty products up 35.2%, in comparison with sales figures for the pre-merger entities in 2016. This offset the 37.9% drop in sales of investment products, which was anticipated.

Thanks to the good results for the year and the various initiatives pertaining to the strategic capital deployment objective, the solvency ratio stood at 206% as at December 31, 2017, up from 189% in 2016. Beginning in 2018, the new capital sufficiency requirements guideline issued by Quebec's Autorité des marchés financiers will be applied. In the run-up to that event, steps were taken to confirm that SSQ Insurance would be well positioned when the new guideline takes effect in 2018.

For the sixth year in a row, the A.M. Best agency issued a financial strength rating of "A- (Excellent)" for the company and an issuer credit rating of "a-". The outlook remains stable. In other words, our financial strength has been confirmed by an internationally recognized external firm specializing in the insurance field.

Stepped-up presence Canada-wide

As part of our breakthrough with consultants outside Quebec, three major clients were added: Toromont, Aon Generation and Aon Choice. We concluded an agreement with Toromont Group to become their insurer and provide coverage to their 3,300 employees across Canada. SSQ Insurance was also enlisted for the Aon Generation product, which is offered to groups of fewer than 50 participants across the country, as well as Aon Choice, which is designed for medium-sized groups. Sales of the Mercer Solution product offering retiring workers an advantageous array of individual insurance products are growing strongly.

Multi-network distribution approach

The company's transformation has given concrete shape to plans to gradually develop business synergies with our customers. For example, under a new agreement signed with Biron Group Santé, its 800 employees will benefit from numerous general insurance products, as well as individual insurance products. Already a group insurance partner, Biron selected SSQ Insurance with a view to enhancing the services offered to its employees.

In parallel, SSQ Insurance concluded a new agreement with the Syndicat national des employés de garage du Québec Inc., a union representing garage employees across the province. As an SSQ Insurance group insurance client for several years, the union selected the company to offer its members a range of auto and home insurance products.

Those are two concrete examples of our efforts to branch out from group insurance and expand into individual insurance, a goal that ties in perfectly with our strategic objectives. The sales teams for affinity groups and group insurance are demonstrating how effective it is to work in synergy!

University of Montreal graduates now have access to SSQ Insurance's individual insurance and investment services. Under this agreement, our service offer will be optimized. We will also be advantageously positioned in the affinity product market while boosting our growing influence.

The auto dealership network (Réseau des concessionnaires) also turned in a standout performance in 2017 with a growth rate of 53.0%, thanks primarily to the agreement entered into with Albi le Géant. SSQ Insurance and Albi le Géant share the same customer experience goals, which certainly facilitated the signing of this agreement. In this regard, both organizations work on the same basis, i.e., seeking to provide an improved experience by exclusively offering SSQ's credit insurance, replacement insurance and extended warranty products to network-affiliated dealerships.

Longstanding partners

July 1, 2017, marked the 50th anniversary of the business partnership between the FSSS-FP (CSN) Insurance Committee and SSQ Insurance. The FSSS-FP (CSN) group insurance plan is offered to over 100,000 workers in the health and social services sector in every region of Quebec. This unique partnership is a testament to the values that both organizations share and to their concerted efforts to find constructive solutions over the decades with a view to better meeting customers' needs.

We were also pleased to announce the renewal of our agreement with FADOQ, Quebec's largest network of persons aged 50 and up. Under this agreement, FADOQ's 495,000 members, regional chapters and affiliated clubs will have access to all individual products offered by SSQ Insurance. As a partner for over 25 years, FADOQ placed its trust in us once again and became our largest affinity partner. In turn, SSQ Insurance is now FADOQ's major partner and official insurer.

SSQ Insurance also renewed in 2017 its agreement with the community centre for Hydro-Quebec's unionized employees. We are pleased to pursue and enhance our business relationship of over 20 years with this major union affiliated with SCFP Quebec (CUPE). In addition to benefiting from reduced auto and home insurance premiums, members now have access to a new insurance plan that includes life and travel insurance products.

Health sector restructuring

As the insurer for several public sector groups in the health care field (FSSS-FP CSN, CSQ, APTS), SSQ Insurance felt the impact of the restructuring of the Integrated Health and Social Services Centres (CISSS) and Integrated University Health and Social Services Centres (CIUSSS) in the spring of 2017, as a result of Bill 10. Despite a net loss in the number of insureds, more than 30,000 new insurance certificates were issued as a result of participants' switching plans. Various administrative operations were necessary and SSQ Insurance stood out for its efficiency, providing fresh confirmation of our public sector expertise in Quebec.

Rollout of digital services

SSQ Insurance continued to roll out new digital services in 2017. Our auto and home insurance policyholders can now consult insurance documents online, obtain information on their coverage and follow up on claims. They can also select the paperless option if they no longer wish to receive contracts via regular mail. In addition, auto and home insurance quotes are now available online, as are claim forms and our mobile application (including live workshops, accident reports and property inventories), together with all digital services available to group insurance and investment customers. This new service constitutes the first phase of SSQ's Customer Centre, which will eventually offer all SSQ Insurance customers a unique and user-friendly access point to their product portfolio.

The SSQ Customer Centre is a user-friendly gateway for our customers.

A new online auto insurance quote service was introduced during the year. Consisting of only nine questions, this quick quote service is among the fastest on the market.

SSQ Insurance now offers its auto insurance customers an enhanced roadside assistance program, which is now accessible online. This means that insured individuals whose vehicles break down can request assistance online via their smartphone.

Customers are at the very heart of our concerns

SSQ Insurance has long been recognized for its customer service quality, even though we seek to constantly improve our performance by offering our customers a distinctive experience in each interaction with us. In this regard, we launched a program to review our management and customer service processes with a view to improving our operational agility while simplifying things for our insureds and offering them an even more satisfying experience. During the year, our optimized services included implementing and registering new group insurance plans, managing health claims and disability benefit cases and issuing individual life insurance policies.

The Customer’s Voice program was also launched for employees. As part of this initiative, platforms are monitored to identify what people are saying about the company and consumers’ expectations in general. The program also measures and evaluates the customer experience using a real-time toolkit. Thanks to the implementation of this state-of-the-art program and industry best practices, the company is more proactive and can go above and beyond customers’ needs in line with customer loyalty objectives.

SSQ Insurance also introduced an innovative new service geared towards its insurance customers, known as “my**ally**.” This was launched in connection with SSQ’s health and wellness program Health *InSight* and serves as an add-on to the *HealthWise* program. Offered in partnership with Optima Global Health, my**ally** is based on the provision of assistance to employees by colleagues known as "allies" with a view to preventing psychological illnesses. The training of workplace allies is handled by a team of seasoned mental health professionals, supported by a web-based platform providing access to specialized content such as Web conferences, remote training, video clips, reference documents and relevant articles, along with simulated situations.

*My**ally**, offered in conjunction with Optima Global Health, aims to prevent psychological illnesses.*

Our employees are our ambassadors

2017 was also marked by concerted efforts to carry out a shift in our organizational culture. This was regarded as essential to consolidate the company's transformation and to support the implementation of our strategic plan. In the first quarter, the findings of our organizational culture consultation were unveiled. A new lexicon for our cultural ambitions soon began to emerge among our 2,000 employees and managers. An ambitious project, known as the cultural change program, was developed. Various activities and projects were organized to foster the transition of our organizational culture to the desired outcome. These included a review of all HR practices, the appropriation of expected and necessary behaviours and cultural change metrics.

A large-scale employee mobilization survey was carried and the 90% participation rate was truly outstanding. Amid sweeping organizational changes and an evolving culture, we realized that our investments in managerial leadership and change management in recent years have borne fruit. The 2017 mobilization index for our employees was in fact higher than the results in 2014, when the previous survey was carried out.

According to a survey conducted by Forbes Media and Statista, SSQ Insurance ranks among Canada's Top 300 employers.

Successful real estate activities

The overall occupancy rate of the company’s property portfolio is over 96%. This impressive result is a testament to the vitality of our business operations and the attractiveness of the buildings we own. It should be noted that the occupancy rate at SSQ Tower in Longueuil, which was delivered in September 2016, is 99%—a stunning success in an otherwise difficult market.

A major workspace redefinition project was carried out in the fall in the Quebec City head office. SSQ Insurance entirely redid the interior design concept of one floor of the building in order to update the signature style and adapt the space to new work methods. The new concept features an innovative model in which individual workstations are no longer the only places where people do their work. Employees and managers now work in an open-space floor plan; the extra floor space that was freed up was judiciously used to create a number of collaborative spaces, including a collaborative room dedicated to innovation. The densification of this floor of the building allowed us to welcome a new corporate tenant.

In addition, all condos in the Cité Verte project have been sold, along with 75% of the townhouses. The residential rental building La Klé, Phase 1, was delivered in the summer of 2017, on budget and on time. This is another success story as over 80% of the units were already rented out as at December 31, 2017, beating the first-year target.

11th floor layout at 2525 Laurier Boulevard in Quebec City.

Innovation designed to benefit the community

In keeping with its mission to offer innovative products and services, SSQ Insurance teamed up with Dialogue, a virtual platform that offers its employees and insured members instant access to a health care professional in the comfort of their home or office. This comes on the heels of a pilot project carried out during the year in which meetings were held with some 20 private-sector group insurance intermediaries and policyholders.

This telemedicine platform gives users same-day access to a health care professional via secure videoconference. The services offered by this application include online chats with a registered nurse, video consultations with general practitioners, issuing and renewing prescriptions, in addition to specialist referrals. SSQ Insurance has been focused on its customers' health (prevention as well as treatment) for many years, most notably via its Health *InSight* program.

The Innovation Challenge provided an opportunity to tap into the collective intelligence of SSQ Insurance's employees to find innovative solutions to very specific problems related to customer service. Over 150 ideas were submitted by employees wishing to take part in the innovation process. All employees voted for the five finalists, who will have the honour of presenting their innovative projects to a selection committee in early 2018. The winning idea from the inaugural Innovation Challenge will be prototyped for the company's customers. This initiative, which ties in with our desired shift in organizational culture, encourages employees to embrace innovation and fosters a sense of open-mindedness towards new ways of doing things.

SSQ Insurance teamed up with Dialogue, a virtual healthcare services platform, for its employees and plan members.

SSQ Insurance remains attuned to developments in the fintech and insurtech fields. Instead of regarding these small high-tech firms as potential threats, SSQ Insurance looks at them with interest because some of them could develop complementary offers to our existing products and services. Business opportunities could then arise that would enable us to provide our customers with even better service. Our partnership with Dialogue is a fine example of this.

Involved in the community

SSQ Insurance confirmed a significant financial contribution to Université Laval's major fundraising campaign. The contribution, totalling $700,000 over five years, will support Mon Équilibre UL (the university's healthy lifestyle program), in addition to a strategic research partnership project dealing with the digital customer experience and the "Rouge et Or" volleyball club. Through this financial commitment, we wish to demonstrate the emphasis we place on the university community, as well as research and personal excellence.

Many SSQ Insurance employees took part in a stairclimbing event, Les escaliers ça marche SSQ, organized by Mon Équilibre UL. SSQ Insurance served as partner and presenter for the first time.

Several employees participated in the Les escaliers ça marche SSQ event, including Stéphanie Sheasgreen and Yamanda Khima.

Implementing detailed pharmacy invoices

Since September 15, 2017, invoices for pharmacy-dispensed prescription drugs have been much more detailed. They now clearly indicate the price of each medication, the professional fee charged by the pharmacist for each service provided and the distributor's margin.

This measure represents an initial step towards more informed choices for insureds. An increase in drug prices and pharmacists' professional fees, together with increased consumption of prescription drugs, mean that group insurance program costs continue to rise.

Workers in Quebec covered by a group insurance plan and their employers, unions and associations pay more than individuals covered by the public plan because pharmacists' professional fees are higher for private plans. When consumers make more informed choices, savings can be achieved by better use of resources devoted to group insurance plans. This would benefit both policyholders and insureds.

Publication of a new accounting standard

After years of hard work, the International Accounting Standards Board ("IASB") finally published IFRS 17 "Insurance Contracts" ("IFRS 17") in May 2017. This standard will take effect on January 1, 2021; SSQ Insurance and all insurers that apply international financial reporting standards ("IFRS") will be required to comply with it. This new standard is designed to harmonize the accounting treatment of insurance contracts between countries and with accounting practices in other industries.

IFRS 17 will have a major impact on the insurance industry. The valuation of insurance contracts will be completely reviewed. Financial statements will be presented differently and the realization of revenues will be modified. IFRS 17 will be beneficial because it will mean greater consistency between the financial statements of insurers applying the IFRS.

This year, SSQ Insurance undertook a number of major projects aimed at putting key success factors in place so as to comply with the new standard within the prescribed timeframe. A formal governance structure was implemented to carry out the project and a team of experts entirely dedicated to IFRS 17 implementation was put together with the support of senior management. The team is also relying on numerous internal and external collaborators. Although the new standard will have a major impact on actuarial, financial and IT services, SSQ Insurance has taken all steps to meet the regulatory requirements of IFRS 17.

Communities make us

The launch of our new brand image certainly meets a strategic planning objective—but it also captures a spirit that characterizes our company and our employees.

- By focusing on the customer experience and by redefining how things are done, we are finding practical ways to serve our customers better.
- By making improvements to our processes and procedures and boosting their efficiency, we can simplify interactions with our customers.
- By assuming responsibility for our performance and results and by drawing on our expertise and talent, we contribute to SSQ Insurance's success.
- By being attached to the SSQ community and by taking pride in our company, we stay true to our identity and our positioning: communities make us.

Every step that is aligned with our ambitions will guide us towards their achievement. In other words, we are well on our way to becoming the insurance destination of choice for our members and our customers.

Acknowledgments

In closing, I would like to thank our members and our customers for placing their trust in us. They are why we strive for excellence day after day.

A warm thanks to all of our employees: I am proud of your openness to change and your professionalism. I also take pride in the skills that you demonstrate and the increased agility that that means for SSQ Insurance.

Thank you as well to the members of our Boards of Directors, and especially to its Chairman, René Hamel, for their support and guidance.

Jean-François Chalifoux
Chief Executive Officer

2017 Sustainable Development and Societal Responsibility Report

Sustainable development and societal responsibility

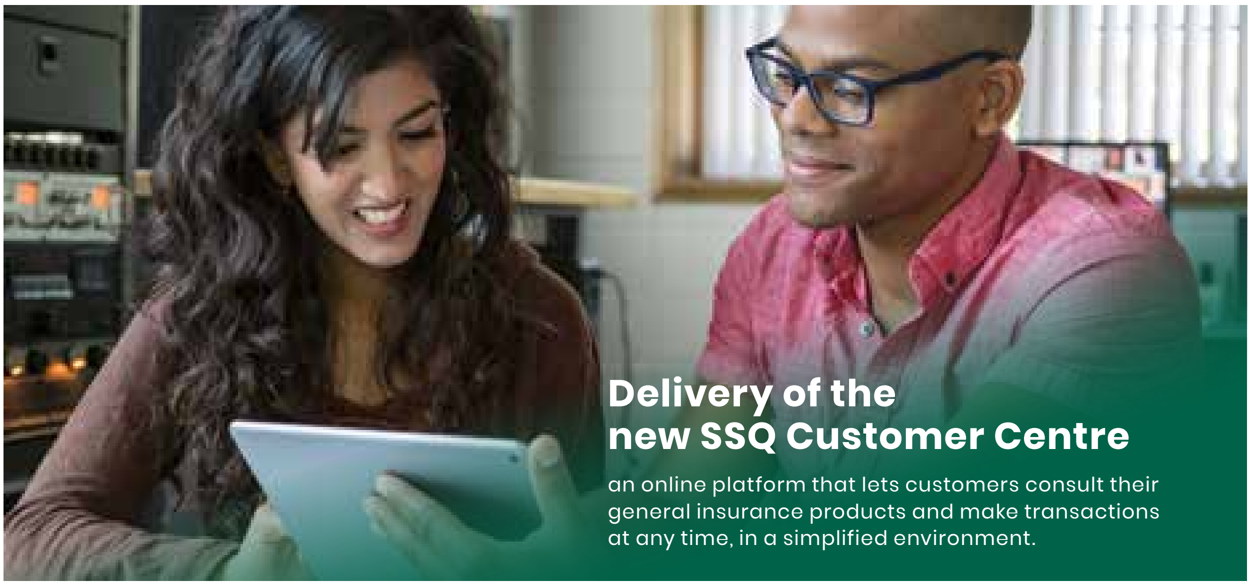
Now more than ever, we believe that communities should be at the heart of insurance because stronger communities make every person stronger. For this reason, SSQ Insurance will continue to be present in the community, be socially responsible and be committed to serving its insured community.

This vision manifests itself in our corporate culture and our business practices, which lead us to reconcile economic and financial issues with social and environmental causes. We have followed this path from the start, as we strongly believe that all companies must serve humankind.

Once again this year, several important milestones were reached in terms of sustainable development and societal responsibility.

Here are a few examples.

Innovative and efficient products and services



Delivery of the new SSQ Customer Centre

an online platform that lets customers consult their general insurance products and make transactions at any time, in a simplified environment.

Over 30,000 surveys compiled

and analyzed thanks to the implementation of our interactive survey platform to assess the post-transaction experience of customers.

Our Net Promoter Score (NPS) ranked as excellent

for group insurance benefits and services as well as general insurance claims.

Deployment of the Customer's Voice program

which helps us tap into the opinions of our group insurance and general insurance customers and use that feedback to make decisions in line with improved customer satisfaction.

Digital-focused development

Launch of the
Einstein learning management system
to better organize and centralize all the training programs available to employees.

Nearly 40,000 quotes

generated using the auto insurance quick online quote service.

Increased number of group insurance plan members

who signed up for online services and direct deposit.

A company committed to its community

Having formed a strong bond with the Carrefour des enfants de Saint-Malo

SSQ Insurance invited children from the Carrefour to run the SSQ Health 5K, one of the events at the SSQ Quebec City Marathon.

Over $80,000 raised

for the Carrefour des enfants de St-Malo as part of SSQ Quebec City Marathon initiatives.

Welcomed high school students to the

Jeunes explorateurs d'un jour activity

so that they could experience a day in the life of insurance and financial services, under the auspices of honorary president France Rodrigue, Vice-President of Realty.

SSQ Insurance employees

volunteered their time

to help kids from the Carrefour des enfants de Saint-Malo with their homework.

Several volunteering and outreach initiatives deployed across Canada

The United Way Centraide campaign had a
record year, raising $334,000
5% more than last year.

SSQ Insurance employees chaperoned the youth of the
Association de parents de l'enfance en difficulté
during special outings.

Office furniture donated

to non-profit organizations to help those in need.

Employee mobilization for the
North York Women's Shelter
in Toronto along with a corporate donation of $4,500.

Participation in the beach volleyball tournament, for the benefit of the
SickKids Foundation
for the 10th year in a row.

Healthy lifestyle: a priority!

An impressive 400 employees

and their family members participated in the SSQ Marathons in Longueuil and Quebec City.

Coup de cœur award

from the Ordre des conseillers en ressources humaines agréés (CRHA) for *HealthWise*, a health and wellness program designed to promote a healthy workplace and positive life choices.

Healthy Enterprise – Elite

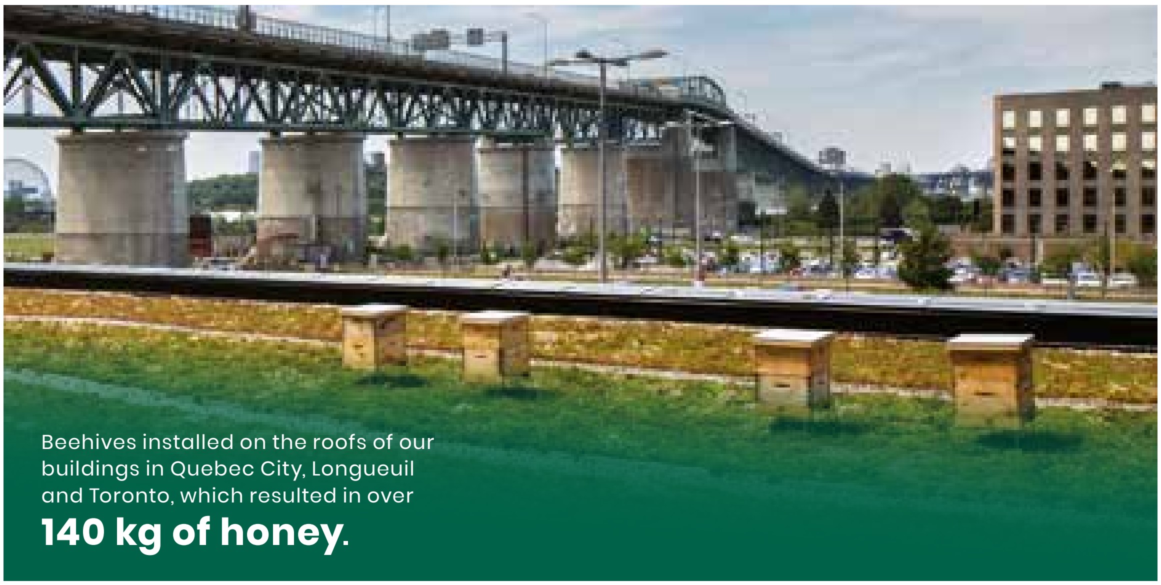
certification maintained.

SSQ Insurance was a first-time partner for the

Escaliers ça marche SSQ

event in which many of its employees took part.

Successful initiatives for environmental protection



Beehives installed on the roofs of our buildings in Quebec City, Longueuil and Toronto, which resulted in over
140 kg of honey.

Incentives on purchases

of low CO_2 emitting green cars for the automobile fleet maintained, resulting in an 8% decrease in CO_2 emissions with respect to 2016.

Use of cleaning products using
natural ingredients
to reduce impacts on the environment.

Implementation of an
ecofriendly paper-shredding program
that generated several environmental benefits, the equivalent of:

18,751 vehicles
removed from circulation in terms of CO_2 emissions;

2,247,429
trees saved;

3,671,292,285
gallons of water saved.

LEED® Gold Certification

for the SSQ Tower in Longueuil.

WE RECYCLE!

certification maintained.

Electrobac bins installed

at the offices in Quebec City and Longueuil to recycle outdated electronic devices.

Successful initiatives for environmental protection

Adoption of the paperless option

by SSQ personnel which saved 24% in paper consumption when compared to 2016.

Accreditation by the

Forest Stewardship Council (FSC®)

maintained, showing our commitment to responsible paper resources management practices.

Installation of water fountains with integrated filters connected directly to the city's water supply, instead of plastic bottles.

Wood ashes recycled

from Cité Verte's independent heating system to be added to the composting process as a substitute for lime, with resulting black soil and compost supplied to local market.

Responsible investment

Continued participation

as member of Quebec's PRI network allowing us to discuss with other members on best practices in terms of responsible investment.

Third-party analysis

of our Canadian and U.S. company investment portfolios.

Responsible investment principles

fully integrated into our decision-making and investment analysis processes.

Criteria for responsible investment integrated into the selection of new SSQ Fund managers.

SSQ, Mutual Management Corporation

Consolidated Financial Statements
As at December 31, 2017

Together with Independent
Auditor's Report

Independent auditor's report

To the Members of
SSQ, Mutual Management Corporation,

We have audited the accompanying consolidated financial statements of **SSQ, MUTUAL MANAGEMENT CORPORATION**, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Mallette L.L.P.[1]

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

Quebec, Canada
February 27, 2018

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

Consolidated statement of income

For the year ended December 31
(in thousands of dollars)

	2017	2016
	$	$
REVENUES		
Share in the net income of the Associate (Note 4)	**26,145**	22,433
Interest income (Note 5)	**65**	72
	26,210	22,505
EXPENSES		
Interest expense	**75**	70
	75	70
NET INCOME	**26,135**	22,435
NET INCOME ATTRIBUTABLE TO:		
Non-controlling interests	**11,098**	9,557
Members	**15,037**	12,878

Consolidated statement of comprehensive income

For the year ended December 31
(in thousands of dollars)

	2017	2016
	$	$
NET INCOME	**26,135**	22,435
Share in the other comprehensive income (loss) of the Associate (Note 4)		
Items that may be reclassified subsequently to net income	**4,702**	(2,517)
Items that will not be reclassified to net income	**(3,940)**	(1,221)
	762	(3,738)
COMPREHENSIVE INCOME	**26,897**	18,697
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	**11,425**	7,968
Members	**15,472**	10,729

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)

	2017	2016
	$	$
ASSETS		
Interest in the Associate (Note 4)	279,749	252,842
Note (Note 5)	900	900
	280,649	253,742
Cash (Note 5)	102	191
Interest receivable (Note 5)	11	11
TOTAL ASSETS	280,762	253,944
LIABILITIES		
Chattel mortgage (Note 5)	900	900
Advances from the Associate (Note 5)	705	227
Accounts payable to the Associate (Note 5)	44	143
Accrued interest payable (Note 5)	11	11
TOTAL LIABILITIES	1,660	1,281
EQUITY		
Attributable to members		
Retained earnings	157,786	142,749
Accumulated other comprehensive loss	(9,836)	(10,271)
	147,950	132,478
Attributable to non-controlling interests	131,152	120,185
TOTAL EQUITY	279,102	252,663
TOTAL LIABILITIES AND EQUITY	280,762	253,944

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)

	2017	2016
	$	$
Members		
Retained earnings		
Balance, beginning of year	142,749	129,871
Net income	15,037	12,878
	157,786	142,749
Accumulated other comprehensive loss		
Balance, beginning of year	(10,271)	(8,122)
Other comprehensive income (loss)	435	(2,149)
	(9,836)	(10,271)
Total equity attributable to members, end of year	147,950	132,478
Non-controlling interests		
Balance, beginning of year	120,185	113,477
Net income	11,098	9,557
Other comprehensive income (loss)	327	(1,589)
Net capital injections	(458)	(1,260)
Total equity attributable to non-controlling interests, end of year	131,152	120,185
TOTAL EQUITY	279,102	252,663

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)

	2017	2016
	$	$
OPERATING ACTIVITIES		
Interest received	**65**	72
Interest paid	**(64)**	(64)
Cash flows from operating activities	**1**	8
FINANCING ACTIVITIES		
Advances from the Associate	**467**	—
Net capital injections [1]	**(557)**	(761)
Cash flows from financing activities	**(90)**	(761)
DECREASE IN CASH	**(89)**	(753)
CASH, beginning of year	**191**	944
CASH, end of year	**102**	191

[1] *As at December 31, 2017, an amount of $44 related to capital injections is included in the accounts payable to the Associate (2016 – accounts payable of $143).*

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

Notes to the consolidated financial statements

For the year ended December 31, 2017

Notes to the consolidated financial statements

For the year ended December 31, 2017
(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, 2018.

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% (2016 – 57.43%), 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 the 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 using the equity method (2016 – 28.91%). Of this ownership interest, 16.65% (2016 – 16.60%) is attributable to members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in thousands of dollars, unless otherwise indicated)

2. Significant accounting policies (cont'd)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in thousands of dollars, unless otherwise indicated)

3. Changes in accounting policies

Application of a new accounting standard

Statement of cash flows

In February 2016, the IASB issued narrow-scope amendments to IAS 7, "*Statement of Cash Flows*", which require companies to provide disclosures on changes in liabilities in the financing section. The amendments are effective January 1, 2017. The amendments to this standard had no impact on the Mutual's consolidated financial statements.

New accounting standard not yet in effect

Financial instruments

In July 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9"), which, effective January 1, 2018, replaces IAS 39, "*Financial Instruments: Recognition and Measurement*", regarding the classification and measurement of financial assets and liabilities, impairment and hedge accounting. The Mutual is currently assessing the impact of IFRS 9 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 to January 1, 2021. This exemption remains valid with the issuance of IFRS 17, "*Insurance Contracts*", in May 2017. The Associate, in which the Mutual holds an interest, is eligible for the deferral and plans to make use of it until the maximum permissible date. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in thousands of dollars, unless otherwise indicated)

4. Interest in the Associate

	2017	2016
	$	$
Balance, beginning of year	252,842	234,147
Share in net income	26,145	22,433
Share in other comprehensive income (loss)	762	(3,738)
Balance, end of year	279,749	252,842

The following table presents summarized financial information for the Associate:

	2017	2016
	$	$
Consolidated statement of financial position		
Cash and equivalents	233,400	202,500
Total assets	12,077,300	11,373,800
Total liabilities	11,192,700	10,582,100
Total equity	884,600	791,700
Consolidated statement of income		
Interest income and amortization of discounts and premiums	116,400	115,200
Total revenues	2,310,400	2,135,400
Amortization of intangible assets and depreciation of fixed assets and investment properties	34,500	35,100
Interest expenses	11,300	11,100
Income taxes	29,900	25,200
Net income	90,400	77,600
Consolidated statement of comprehensive income		
Other comprehensive income (loss)	2,600	(12,900)
Comprehensive income	93,000	64,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in thousands of dollars, unless otherwise indicated)

5. Financial instruments

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

	2017		2016	
	Carrying value $	**Fair value $**	**Carrying value $**	**Fair value $**
Financial assets				
Note, 7.09%, maturing in May 2020 [1]	**900**	**957**	900	988
Interest receivable	**11**	**11**	11	11
Cash, bearing interest at prime rate less 1.72%	**102**	**102**	191	191
	1,013	**1,070**	1,102	1,190
Financial liabilities				
Chattel mortgage, 7.09%, maturing in May 2020 [1]	**900**	**957**	900	988
Accrued interest payable	**11**	**11**	11	11
Accounts payable to the Associate	**44**	**44**	143	143
Advance from the Associate, 2.63%, without repayment terms	**233**	**233**	227	227
Advances from the Associate, prime rate, without repayment terms	**472**	**472**	—	—
	1,660	**1,717**	1,281	1,369

[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, 2017
(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:

				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
Accounts 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

				2016
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Note, 7.09%, maturing in May 2020	—	—	988	988
Interest receivable	—	11	—	11
Cash, bearing interest at prime rate less 1.72%	—	191	—	191
	—	202	988	1,190
Financial liabilities				
Chattel mortgage, 7.09%, maturing in May 2020	—	—	988	988
Accrued interest payable	—	11	—	11
Accounts payable to the Associate	—	143	—	143
Advance from the Associate, 2.63%, without repayment terms	—	227	—	227
	—	381	988	1,369

As at December 31, 2017 and 2016, 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, 2017
(in thousands of dollars, unless otherwise indicated)

5. Financial instruments (cont'd)

b) Interest income

	2017	2016
	$	$
Note	64	64
Cash	1	8
	65	72

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. This risk is mitigated by the fact that the note is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in thousands of dollars, unless otherwise indicated)

6. Financial instruments risk management (cont'd)

The following table presents contractual maturities of the cash flows of the Mutual's financial liabilities:

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

				2016
	Payable on demand $	From 1 to 5 years $	Over 5 years $	Total $
Chattel mortage	—	900	—	900
Advance from the Associate	227	—	—	227
Accounts payable to the Associate	143	—	—	143
Accrued interest payable	11	—	—	11
	381	900	—	1,281

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

	2017	2016
	$	$
Chattel mortage	900	900
Members' equity	147,950	132,478
	148,850	133,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in thousands of dollars, unless otherwise indicated)

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 (2016 – $64) from the Associate. As at December 31, 2017, a balance of $11 (2016 – $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 $11 (2016 – $6) 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 Mutual.

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.

	2017	2016
	$	$
Statement of financial position		
Total assets	**280,760**	253,852
Total liabilities	**1,144**	1,138
Statement of income		
Revenues	**26,210**	22,497
Net income	**26,140**	22,427
Statement of comprehensive income		
Other comprehensive income (loss)	**762**	(3,738)
Comprehensive income	**26,902**	18,689

SSQ, Life Insurance Company Inc.

Consolidated Financial Statements
As at December 31, 2017

Together with Independent Auditor's Report

Independent auditor's report

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

We have audited the accompanying consolidated financial statements of **SSQ, LIFE INSURANCE COMPANY INC.**, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Mallette L.L.P.[1]

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

Quebec, Canada
February 27, 2018

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

Consolidated statement of income

For the year ended December 31
(in millions of dollars)

	2017	2016
	$	$
REVENUES		
Gross premiums (Note 22)	**2,458.5**	2,342.8
Premiums ceded to reinsurers	**(445.1)**	(421.8)
Net premiums	**2,013.4**	1,921.0
Change in unearned premiums (Note 14)	**(9.5)**	(0.5)
Investment income (Note 5)	**207.3**	104.8
Revenue on property (Note 26)	**29.9**	36.1
Administration fees and other revenues	**69.4**	74.0
	2,310.5	2,135.4
BENEFITS AND EXPENSES		
Insurance and annuities		
Gross benefits	**1,728.1**	1,713.1
Benefits recovered from reinsurers	**(360.3)**	(351.9)
Change in actuarial reserve of life and health insurance contracts	**351.6**	0.6
Change in actuarial reserve of ceded reinsurance assets	**(189.3)**	(18.7)
Interest on deposits	**3.9**	1.8
	1,534.0	1,344.9
Selling and administrative expenses (Notes 21, 22 and 23)	**352.1**	349.7
General fund investment expenses	**8.9**	8.2
Property expenses (Notes 22 and 26)	**22.8**	31.8
Commissions and fees on sales	**173.7**	186.5
Premium taxes	**72.6**	71.9
	2,164.1	1,993.0
INCOME BEFORE EXPERIENCE REFUNDS AND INCOME TAXES	**146.4**	142.4
Experience refunds	**26.1**	39.6
INCOME BEFORE INCOME TAXES	**120.3**	102.8
Income taxes (Note 20)	**29.9**	25.2
NET INCOME	**90.4**	77.6

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)

	2017	2016
	$	$
NET INCOME	**90.4**	77.6
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to net income		
Unrealized gains on available-for-sale financial assets	**24.7**	9.0
Income tax expense (Note 20)	**(6.6)**	(2.4)
Reclassification to net income of gains on disposal	**(2.4)**	(21.3)
Income tax expense (Note 20)	**0.5**	6.0
	16.2	(8.7)
Items that will not be reclassified to net income		
Actuarial losses arising from employee retirement benefits and the effect to the asset celling	**(18.6)**	(5.8)
Income tax recovery (Note 20)	**5.0**	1.6
	(13.6)	(4.2)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**2.6**	(12.9)
COMPREHENSIVE INCOME	**93.0**	64.7

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)

	2017	2016
	$	$
ASSETS		
Investments (Note 5)	**4,513.7**	4,063.9
Outstanding premiums	**274.0**	275.2
Ceded reinsurance assets (Notes 13 and 14)	**1,778.3**	1,621.2
Property under development	**25.6**	35.3
Income taxes receivable	**—**	13.1
Other assets (Note 9)	**150.7**	156.4
Investment property (Note 10)	**47.0**	28.2
Fixed assets (Note 11)	**175.9**	179.4
Intangible assets (Note 12)	**135.1**	148.3
Goodwill (Note 12)	**14.1**	14.1
Deferred income tax assets (Note 20)	**34.2**	22.6
Total general fund assets	**7,148.6**	6,557.7
Segregated fund investments (Note 24)	**4,928.9**	4,817.7
TOTAL ASSETS	**12,077.5**	11,375.4
LIABILITIES		
Life and health insurance contracts (Note 13)	**5,434.1**	5,084.0
Property and casualty insurance contracts (Note 14)	**251.2**	246.5
Accounts payable	**143.8**	143.2
Income taxes payable	**19.4**	0.1
Subordinated debt (Note 16)	**157.0**	160.0
Other liabilities (Note 17)	**214.1**	87.1
Deferred income tax liabilities (Note 20)	**44.3**	45.1
Total general fund liabilities	**6,263.9**	5,766.0
Segregated fund insurance contracts (Note 24)	**1,858.1**	1,841.6
Segregated fund investment contracts (Note 24)	**3,070.8**	2,976.1
TOTAL LIABILITIES	**11,192.8**	10,583.7
EQUITY		
Share capital (Note 18)	**343.2**	343.2
Retained earnings	**586.7**	496.3
Accumulated other comprehensive loss	**(45.2)**	(47.8)
TOTAL EQUITY	**884.7**	791.7
TOTAL LIABILITIES AND EQUITY	**12,077.5**	11,375.4

Contingencies and commitments (Note 25)

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)

	2017	2016
	$	$
Share capital	**343.2**	343.2
Retained earnings		
Balance, beginning of year	**496.3**	418.7
Net income	**90.4**	77.6
Balance, end of year	**586.7**	496.3
Accumulated other comprehensive income (loss)		
Balance, beginning of year	**(47.8)**	(34.9)
Other comprehensive income (loss)	**2.6**	(12.9)
Balance, end of year	**(45.2)**	(47.8)
TOTAL EQUITY	**884.7**	791.7

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)

	2017	2016
	$	$
OPERATING ACTIVITIES		
Income before income taxes	**120.3**	102.8
Income taxes paid, net of refunds received	**(12.7)**	(34.6)
Items not affecting cash		
Losses (gains) on investments	**(76.1)**	19.0
Gain on disposal of fixed asset	**—**	(7.4)
Amortization of discounts and premiums on bonds	**(20.9)**	(25.7)
Depreciation of investment property	**0.9**	0.7
Depreciation and amortization of fixed assets and intangibles assets	**33.6**	34.4
Life and health insurance contracts	**350.1**	56.8
Other items included in net income	**(4.1)**	1.8
	391.1	147.8
Net change in other operating assets and liabilities	**(42.3)**	(38.1)
Cash flows from operating activities	**348.8**	109.7
INVESTING ACTIVITIES		
Purchase of investments	**(1,194.1)**	(1,219.2)
Sales, maturities and repayments of investments	**906.1**	1,121.5
Purchase of investment property	**(9.6)**	(0.8)
Purchase of fixed assets and intangible assets	**(18.6)**	(48.2)
Disposals of fixed assets and intangible assets	**0.2**	14.3
Cash flows from investing activities	**(316.0)**	(132.4)
FINANCING ACTIVITIES		
Long-term debt repayment	**(3.0)**	(15.0)
Cash flows from financing activities	**(3.0)**	(15.0)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**29.8**	(37.7)
CASH AND CASH EQUIVALENTS, beginning of year	**203.6**	241.3
CASH AND CASH EQUIVALENTS, end of year	**233.4**	203.6
Cash flows from operating activities include:		
Cash	**207.3**	133.4
Deposits bearing interest	**26.1**	70.2
	233.4	203.6

Cash flows from operating activities include interest paid on subordinated debt in the amount of $11.3 (2016 — $11.1).

As at December 31, 2017, investment property in the amount of $0.1 (2016 — $0.1) and fixed assets and intangible assets in the amount of $3.3 (2016 — $4.8) were included in accounts payable.

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

Notes to the consolidated financial statements

For the year ended December 31, 2017

Notes to the consolidated financial statements

For the year ended December 31, 2017
(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 Blvd., Quebec City, Quebec, Canada.

The Company's consolidated financial statements were approved by the Board of Directors on February 27, 2018.

2. Restructuring

On June 8, 2016, the Company's Board of Directors approved a restructuring program (the "SSQ Transformation Program") essentially intended to combine the Company's direct and indirect subsidiaries, thereby simplifying its corporate structure and fostering synergies between its business lines and distribution networks.

The following transactions were carried out under the SSQ Transformation Program:

- On December 31, 2016, the Company disposed of its investment in its wholly owned subsidiary, 9352-1839 Québec Inc. (formerly 6801188 Canada Inc.) in favour of SSQ Insurance Company Inc., in consideration for that company's Class A shares.

- On January 1, 2017, SSQ General Insurance Company Inc. and SSQ Insurance Company Inc. were merged. The legal name of the merged entity is SSQ Insurance Company Inc. The Company received shares of SSQ Insurance Company Inc. with issued and paid-up capital equal to the total capital of the merged companies.

- On January 1, 2017, 9352-1839 Québec Inc., SSQ Distribution Inc. (formerly 3669203 Canada Inc.), Garantie supplémentaire 100 limite Inc., SSQ Financial Services Firm Inc. and 9318-3911 Québec Inc., all indirect subsidiaries of the Company, were merged. The legal name of the merged entity is SSQ Distribution Inc. SSQ Distribution Inc. is held directly by the new merged subsidiary of the Company, SSQ Insurance Company Inc., which received shares of SSQ Distribution Inc. with issued and paid-up capital equal to the total capital of the merged companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

3. 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"). Items included in the statement of financial position are presented according to a liquidity principle and each item includes both current and non-current balances. 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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

3. Significant accounting policies (cont'd)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

3. Significant accounting policies (cont'd)

Property and casualty insurance contracts

Revenue recognition and related expenses

Property and casualty insurance premiums are recognized as revenue when they are due, in pro rata to the duration of the policies. Unearned premiums represent the portion of written premiums for the unexpired in-force policies, according to the daily pro rata 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

3. Significant accounting policies (cont'd)

Investment contracts (cont'd)

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.

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

3. 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 carried 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) 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.

These financial instruments are held for trading. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

3. Significant accounting policies (cont'd)

Financial Instruments – classification and recognition (cont'd)

f) Derivative financial instruments (cont'd)

Held for trading (cont'd)

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.

g) 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.

h) 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.

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3. Significant accounting policies (cont'd)

Repurchase agreements and securities lending

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.

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.

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 and preferred shares

Fund units and preferred shares are measured at bid prices observed in active markets.

Derivative financial instruments

Future contracts are measured at bid prices observed in active markets. The fair value of 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.

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3. Significant accounting policies (cont'd)

Property under development

Investment property under development consists of a 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.

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.

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3. Significant accounting policies (cont'd)

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 equipment	10 years
Leasehold improvements	10 years or leases term

Intangibles assets

Intangible assets acquired separately

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

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 application software acquired separately meeting the criteria for deferral.

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.

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

Intangibles assets (cont'd)

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.

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 and liabilities 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.

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Changes in accounting policies

Application of new accounting standards

Income taxes

In January 2016, the IASB issued an amendment to IAS 12, "*Income Taxes*" to clarify the accounting of deferred tax assets related to debt instruments measured at fair value. The provisions of this amendment will apply retrospectively to financial statements of annual periods beginning on or after January 1, 2017. The amendment to this standard had no impact on the Company's consolidated financial statements.

Statement of cash flows

In February 2016, the IASB issued narrow-scope amendments to IAS 7, "*Statement of Cash Flows*", which require companies to provide disclosures on changes in liabilities in the financing section. The amendments will apply prospectively to annual periods beginning on or after January 1, 2017. The amendments to this standard had no impact on the Company's consolidated financial statements.

New accounting standards 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*", regarding the classification and measurement of financial assets and liabilities, impairment and hedge accounting as of January 1, 2018. 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 to January 1, 2021. This exemption remains valid with the issuance of IFRS 17, "*Insurance Contracts*", in May 2017. The Company qualifies for the deferral and expects to apply it until the maximum date permitted.

Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15"), which replaces IAS 18, "*Revenue*", and IAS 11, "*Construction Contracts*". This new standard establishes a single framework for how and when to recognize revenue, except in the case of leases, financial instruments and insurance contracts. Following the IASB's decision to defer the effective date of the standard by one year, IFRS 15 will apply retrospectively or prospectively with a cumulative adjustment as of January 1, 2018. This new standard will have no impact on the Company's consolidated financial statements.

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 Company is currently assessing the impact of this standard on its consolidated financial statements.

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

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

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 will apply retrospectively or prospectively with cumulative adjustment as of January 1, 2018. The Company is currently assessing the impact of this amendment on its consolidated financial statements.

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, as well as a variable fee approach, applicable to all insurance and reinsurance contracts. The standard also allows for a simplified approach for insurance contracts that meet certain criteria. The provisions of this standard will apply retrospectively as of January 1, 2021. In cases where retrospective application is impracticable, the standard proposes alternative methods. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

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 Company is currently assessing the impact of this new standard on its consolidated financial statements.

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5. Investments

a) Carrying value and fair value of general fund investments

	At fair value through profit or loss					2017
	Held for trading	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Total	Fair value [1]
	$	$	$	$	$	$
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	—	—	—	410.8	410.8	
Non-residential mortgages	—	—	—	19.6	19.6	
Other	—	—	—	233.2	233.2	
	—	—	—	663.6	663.6	658.8
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	26.1	—	—	207.3	233.4	233.4
Derivative financial instruments	28.7	—	—	—	28.7	28.7
	104.6	2,859.8	678.4	870.9	4,513.7	4,508.9

[1] *Refer to Note 6 "Fair value of assets and liabilities" for details on the fair value hierarchy levels.*

As at December 31, 2017, the carrying values of loaned securities and repurchased securities of the Company presented in investments were $311.6 (2016 — $237.1) and $96.2 (2016 — $0), respectively.

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

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

	At fair value through profit or loss					**2016**
	Held for trading	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Total	Fair value
	$	$	$	$	$	$
Bonds						
Canada, Quebec and other provinces	—	1,358.3	139.1	—	1,497.4	
Municipal and subsidized	—	360.6	81.7	—	442.3	
Canadian corporations	—	745.2	170.9	—	916.1	
U.S. corporations	—	—	—	—	—	
	—	2,464.1	391.7	—	2,855.8	2,855.8
Loans						
Residential mortgages	—	—	—	411.5	411.5	
Non-residential mortgages	—	—	—	18.6	18.6	
Other	—	—	—	199.9	199.9	
	—	—	—	630.0	630.0	630.9
Fund units and preferred shares						
Canadian fund units	—	57.5	43.5	—	101.0	
U.S. fund units	—	28.7	43.4	—	72.1	
International fund units	—	5.1	11.1	—	16.2	
Emerging market fund units	—	—	10.8	—	10.8	
Preferred shares	—	25.8	65.0	—	90.8	
	—	117.1	173.8	—	290.9	290.9
Investment fund	48.4	—	—	—	48.4	48.4
Cash and cash equivalents	70.2	—	—	133.4	203.6	203.6
Derivative financial instruments	35.2	—	—	—	35.2	35.2
	153.8	2,581.2	565.5	763.4	4,063.9	4,064.8

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

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

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:

						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	(7.9)
Currency swaps	—	—	4.0	4.0	—	(1.2)
	211.5	218.3	302.5	732.3	28.7	(10.0)

						2016
				Notional		Fair value
	Less than 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
	$	$	$	$	$	$
Foreign exchange contracts	92.8	—	—	92.8	—	(1.6)
Stock index contracts	116.1	—	—	116.1	0.5	—
Bond futures	14.5	—	—	14.5	—	(0.7)
Interest rate swaps	48.0	129.3	368.0	545.3	34.7	(5.8)
	271.4	129.3	368.0	768.7	35.2	(8.1)

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

b) General fund investments income

					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) gains [1]	—	—	(2.0)	—	(2.0)
Change in fair value	—	9.6	—	—	9.6
Investment fund					
Dividends	2.4	—	—	—	2.4
Cash and cash equivalents	2.8	—	—	0.7	3.5
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

[1] *Includes losses of $2.1 (2016 – $0) 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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5. Investments (cont'd)

b) General fund investments income (cont'd)

					2016
	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	—	81.5	11.1	—	92.6
Realized gains	—	—	14.4	—	14.4
Change in fair value	—	(35.9)	—	—	(35.9)
Loans					
Interest	—	—	—	17.8	17.8
Change in allowance for investment losses	—	—	—	2.0	2.0
Fund units and preferred shares					
Dividends	—	1.3	3.0	—	4.3
Distributed income	—	1.2	1.3	—	2.5
Realized gains	—	—	6.9	—	6.9
Change in fair value	—	6.7	—	—	6.7
Investment fund					
Dividends	2.2	—	—	—	2.2
Cash and cash equivalents	1.8	—	—	0.6	2.4
Derivative financial instruments					
Interest	4.8	—	—	—	4.8
Change in fair value	(15.9)	—	—	—	(15.9)
	(7.1)	54.8	36.7	20.4	104.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. 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.

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

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

				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	—	26.1	—	26.1
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)	(9.1)	—	(10.0)

The determination of the fair value hierarchy levels is performed at the end of each financial year. During the years ended December 31, 2017 and 2016, there were no transfers of financial assets between Levels 1 and 2.

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

				2016
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets at fair value through profit or loss				
Bonds				
Canada, Quebec and other provinces	7.9	1,350.4	—	1,358.3
Municipal and subsidized	0.2	360.4	—	360.6
Canadian corporations	3.3	741.9	—	745.2
Fund units and preferred shares				
Canadian fund units	57.5	—	—	57.5
U.S. fund units	28.7	—	—	28.7
International fund units	5.1	—	—	5.1
Preferred shares	25.8	—	—	25.8
Investment fund	48.4	—	—	48.4
Cash and cash equivalents	—	70.2	—	70.2
Derivative financial instruments	0.5	34.7	—	35.2
	177.4	2,557.6	—	2,735.0
Available-for-sale financial assets				
Bonds				
Canada, Quebec and other provinces	—	139.1	—	139.1
Municipal and subsidized	—	81.7	—	81.7
Canadian corporations	—	170.9	—	170.9
Fund units and preferred shares				
Canadian fund units	43.5	—	—	43.5
U.S. fund units	43.4	—	—	43.4
International fund units	11.1	—	—	11.1
Emerging market fund units	10.8	—	—	10.8
Preferred shares	65.0	—	—	65.0
	173.8	391.7	—	565.5
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	(1.6)	(6.5)	—	(8.1)

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6. 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:

2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Loans	—	—	658.8	658.8
Cash and cash equivalents	—	207.3	—	207.3
Investment property	—	—	54.2	54.2
Liabilities				
Subordinated debt	—	185.3	—	185.3

2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Loans	—	—	630.9	630.9
Cash and cash equivalents	—	133.4	—	133.4
Investment property	—	—	34.7	34.7
Liabilities				
Subordinated debt	—	188.5	—	188.5

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7. 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. 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 liability 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 only 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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7. Financial instruments risk management (cont'd)

Credit risk (cont'd)

Maximum exposure to credit risk

	2017	2016
	$	$
Bonds	3,169.4	2,855.8
Loans	663.6	630.0
Preferred shares	109.3	90.8
Cash and cash equivalents	233.4	203.6
Derivative financial instruments	28.7	35.2
Outstanding premiums	168.4	165.5
Ceded reinsurance assets	1,778.3	1,621.2
Other assets (Note 9)		
Other receivables	44.8	63.7
Investment income due and accrued	18.9	17.1
	6,214.8	5,682.9

Bond portfolio quality

	2017		2016	
	$	%	$	%
Bonds				
Canada, Quebec and other provinces	1,533.2	48.4	1,497.4	52.4
Municipal and subsidized	554.8	17.5	442.3	15.5
Canadian corporations, per credit rating				
AAA	13.3	0.4	14.0	0.5
AA	150.3	4.8	123.3	4.3
A	685.5	21.6	582.6	20.4
BBB	226.2	7.1	196.2	6.9
U.S. corporations				
AAA	6.1	0.2	—	—
	3,169.4	100.0	2,855.8	100.0

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7. Financial instruments risk management (cont'd)

Credit risk (cont'd)

Loan portfolio quality

	2017	2016
	$	$
Insured loans	**469.1**	449.0
Conventional loans	**194.5**	181.0
	663.6	630.0

As at December 31, 2017, the current portion of bonds and loans amount to $291.9 (2016 — $171.7) and to $142.3 (2016 — $166.6) respectively.

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:

	2017		2016	
	Impaired loans $	Allowance for investment losses $	Impaired loans $	Allowance for investment losses $
Other loans	**27.9**	**1.9**	28.3	1.7

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, 2017, the Company has financial assets past due before allowance for doubtful accounts receivable for $5.1 (2016 — $3.4). The allowance for losses amounted to $1.0 as at December 31, 2017 (2016 — $0.3).

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7. Financial instruments risk management (cont'd)

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.

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.

					2017
	Payable on demand $	**Less than 1 year $**	**1 to 5 years $**	**Over 5 years $**	**Total $**
Unpaid claims and stabilization funds (Note 14)	**1.0**	**30.1**	**2.9**	**—**	**34.0**
Accounts payable	**—**	**143.8**	**—**	**—**	**143.8**
Subordinated debt (Note 16)	**—**	**—**	**7.0**	**150.0**	**157.0**
Other liabilities (Note 17)	**—**	**106.5**	**0.2**	**—**	**106.7**
	1.0	**280.4**	**10.1**	**150.0**	**441.5**

					2016
	Payable on demand $	**Less than 1 year** $	**1 to 5 years** $	**Over 5 years** $	**Total** $
Unpaid claims and stabilization funds (Note 14)	0.9	33.1	4.5	—	38.5
Accounts payable	—	143.2	—	—	143.2
Subordinated debt (Note 16)	—	—	10.0	150.0	160.0
Other liabilities (Note 17)	0.2	8.3	0.2	—	8.7
	1.1	184.6	14.7	150.0	350.4

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7. Financial instruments risk management (cont'd)

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 $11.0 on net income of 2017 (2016 — $17.6).

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 $19.4 (2016 — $23.0) in other comprehensive income.

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 $16.5 (2016 — $12.7) in other comprehensive income.

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 $4.3 (2016 — $0.5) 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 $1.2 on the Company's income (2016 — $0).

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8. 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 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 table presents the impact of conditional compensation and that of other similar agreements, namely the GMRA and the CSA.

				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 5)	30.5	6.9	25.3	(1.7)
Financial liabilities				
Derivative financial instruments (Note 17)	10.0	6.9	0.9	2.2
Commitments under repurchase agreements (Note 17)	96.2	—	94.9	1.3
Total financial liabilities	106.2	6.9	95.8	3.5

[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 $1.8 (2016 — $2.0).*

				2016
	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 5)	37.2	4.2	29.1	3.9
Financial liabilities				
Derivative financial instruments (Note 17)	8.1	4.2	4.2	(0.3)

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9. Other assets

	2017	2016
	$	$
Prepaid expenses	86.8	74.0
Other receivables	44.8	63.7
Investment income due and accrued	18.9	17.1
Employee retirement benefits (Note 21)	0.2	1.6
	150.7	156.4

10. Investment property

	2017	2016
	$	$
Cost		
Balance, beginning of year	30.0	29.4
Additions	9.6	0.6
Transfer of investment property under development	10.1	—
Balance, end of year	49.7	30.0
Accumulated depreciation		
Balance, beginning of year	1.8	1.1
Depreciation expense	0.9	0.7
Balance, end of year	2.7	1.8
Carrying value, end of year	47.0	28.2
Fair value (Note 6)	54.2	34.7

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11. Fixed assets

						2017
	Land $	Buildings $	IT equipment $	Office furniture and equipment $	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

As at December 31, 2017 and 2016, there is no building under construction not depreciated.

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11. Fixed assets (cont'd)

						2016
	Land $	Buildings $	IT equipment $	Office furniture and equipment $	Leasehold improvements $	Total $
Cost						
Balance, beginning of year	26.1	147.4	25.8	10.2	17.8	227.3
Additions	—	5.1	6.5	8.3	6.1	26.0
Disposals	(6.5)	—	(3.4)	(2.9)	(2.7)	(15.5)
Balance, end of year	19.6	152.5	28.9	15.6	21.2	237.8
Accumulated depreciation						
Balance, beginning of year	—	27.7	14.1	5.5	9.7	57.0
Disposals	—	—	(3.4)	(2.5)	(2.7)	(8.6)
Depreciation expense	—	1.9	4.9	1.4	1.8	10.0
Balance, end of year	—	29.6	15.6	4.4	8.8	58.4
Carrying value, end of year	19.6	122.9	13.3	11.2	12.4	179.4

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12. Intangible assets and goodwill

a) Intangible assets

	Indefinite useful life	Finite useful life				2017
	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

Application software acquired separately in the amount of $0 (2016 — $0.9) and developed internally in the amount of $3.0 (2016 — $0) are not amortized since these are not ready for use.

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12. Intangible assets and goodwill (cont'd)

a) Intangible assets (cont'd)

						2016
	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	99.5	25.6	75.9	29.9	232.6
Additions	—	11.5	5.5	—	0.3	17.3
Disposals	—	(7.8)	(2.1)	—	—	(9.9)
Balance, end of year	1.7	103.2	29.0	75.9	30.2	240.0
Accumulated depreciation						
Balance, beginning of year	—	44.2	13.2	11.2	8.6	77.2
Disposals	—	(7.8)	(2.1)	—	—	(9.9)
Depreciation expense	—	14.3	5.0	2.8	2.3	24.4
Balance, end of year	—	50.7	16.1	14.0	10.9	91.7
Carrying value, end of year	1.7	52.5	12.9	61.9	19.3	148.3

b) Goodwill

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

	Cost $
Balance as at December 31, 2016	14.1
Variation	—
Balance as at December 31, 2017	**14.1**

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

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12. Intangible assets and goodwill (cont'd)

c) Impairment test

The Company performs an annual impairment test for the goodwill and the trademark. The test was performed as at September 30, 2017, and no impairment was recorded in 2017 and 2016.

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.

		2017		2016
	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:

	2017	2016
	%	%
Individual insurance	14.0	11.3
Group insurance	14.0	11.3
Property and casualty insurance	14.0	14.5

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13. Life and health insurance contracts

	2017	2016
	$	$
Composition of assets backing the net obligations		
Bonds	2,666.4	2,448.3
Fund units and preferred shares	143.4	117.0
Loans	579.7	587.4
Cash and cash equivalents	126.1	108.6
Derivative financial instruments	19.2	28.1
Investment property	12.1	11.7
Fixed assets	96.7	73.2
Other assets	12.5	88.6
	3,656.1	3,462.9

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

					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

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

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

					2016
	Actuarial reserve $	Provision for claims $	Provision for experience refunds $	Deposits $	Total $
Liability related to life and health insurance contracts					
Individual life	1,492.9	9.4	—	0.6	1,502.9
Group life	199.2	47.6	6.5	38.1	291.4
Individual annuities	263.3	—	—	—	263.3
Group annuities	57.1	—	—	2.1	59.2
Individual accident and health	77.6	1.1	—	0.3	79.0
Group accident and health	2,512.3	61.5	64.7	249.7	2,888.2
	4,602.4	119.6	71.2	290.8	5,084.0
Ceded reinsurance assets					
Individual life	561.4	6.1	—	—	567.5
Group life	35.7	7.2	2.6	5.9	51.4
Individual accident and health	42.4	0.2	—	—	42.6
Group accident and health	883.2	7.8	31.1	37.5	959.6
	1,522.7	21.3	33.7	43.4	1,621.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. Life and health insurance contracts (cont'd)

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

	2017	2016
	$	$
Liability related to life and health insurance contracts		
Balance, beginning of year	5,084.0	5,027.2
Normal change due to the passage of time	(639.8)	(681.5)
Normal change due to new businesses	776.8	794.4
Normal change due to updated assumptions	183.1	(53.5)
Basic changes	30.0	(2.6)
Balance, end of year	5,434.1	5,084.0
Ceded reinsurance assets		
Balance, beginning of year	1,621.1	1,567.0
Normal change due to the passage of time	(176.9)	(173.7)
Normal change due to new businesses	250.1	263.3
Normal change due to updated assumptions	65.2	(32.8)
Basic changes	18.5	(2.7)
Balance, end of year	1,778.0	1,621.1

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.

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

Mortality

The mortality assumption is 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.

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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13. 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:

	2017	2016
	$	$
Mortality	**(5.0)**	(4.2)
Improvement in mortality	**1.7**	—
Morbidity	**—**	0.3
Investment returns	**72.4**	(8.1)
Lapses and withdrawals	**22.2**	(5.1)
Operating expenses	**2.7**	1.4
Data and methods	**0.3**	0.7
	94.3	(15.0)

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:

		2017	2016
		$	$
Assumptions	**Adverse variation**		
Mortality	1%	**(3.2)**	(3.0)
Morbidity	5%	**(56.1)**	(56.8)
Lapses	1%	**(3.4)**	(2.9)

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

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.

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.

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

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.

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.

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

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:

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

2016	Payable on demand $	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $
Actuarial reserve	125.8	465.4	1,297.9	6,483.3	8,372.4
Provision for claims	—	113.0	6.7	—	119.7
Provision for experience refunds	—	71.0	0.3	—	71.3
Deposits	146.0	41.0	11.4	93.1	291.5
	271.8	690.4	1,316.3	6,576.4	8,854.9

	2017 $	2016 $
Ceded reinsurance assets		
Current portion	128.4	153.2
Non-current portion	2,979.9	2,945.0
	3,108.3	3,098.2

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14. Property and casualty insurance contracts

Breakdown of property and casualty insurance contracts

	2017	2016
	$	$
Unearned premiums	217.2	208.0
Unpaid claims	33.0	37.6
Stabilization fund	1.0	0.9
	251.2	246.5

Changes in liability related to unearned premiums

	2017	2016
	$	$
Balance, beginning of year	208.0	207.5
Additional liabilities generated during the year	243.2	228.3
Premiums recognized during the year	(233.7)	(227.8)
Other	(0.3)	—
Balance, end of year	217.2	208.0
Current portion	88.6	84.2
Non-current portion	128.6	123.8

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

Changes in liability related to unpaid claims

	2017		2016	
	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	**33.7**	**3.9**	30.1	4.1
Additional provisions generated during the year	**147.1**	**7.6**	147.6	7.5
Claims paid	**(150.2)**	**(4.6)**	(147.1)	(3.4)
Change in prior years provisions	**(1.3)**	**(3.2)**	3.1	(4.3)
Balance, end of year	**29.3**	**3.7**	33.7	3.9

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 2017 and 2016.

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14. 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:

		2017	2016
		$	$
Assumptions	**Variation**		
Margin for claims development	+ 1%	**(0.2)**	(0.2)
Discount rates	+ 1%	**0.1**	0.2

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, 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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14. Property and casualty insurance contracts (cont'd)

Claims development by year of occurrence

	2010	2011	2012	2013	2014	2015	2016	2017	Total
	$	$	$	$	$	$	$	$	$
Undiscounted gross unpaid claims, end of year of occurrence	21.2	22.0	22.6	26.6	26.6	26.8	27.9	25.4	
Cumulative gross claims paid									
One year later	18.0	20.2	20.7	25.0	25.5	23.7	27.0		
Two years later	18.4	21.1	21.4	26.7	27.0	24.9			
Three years later	18.4	21.1	21.9	27.5	26.6				
Four years later	18.1	21.0	22.0	27.5					
Five years later	18.5	21.1	21.7						
Six years later	18.7	21.0							
Seven years later	18.9								
	18.9	21.0	21.7	27.5	26.6	24.9	27.0	—	
Revaluation of undiscounted gross final cost									
One year later	20.0	22.0	22.3	27.1	26.2	26.6	29.7		
Two years later	19.4	21.3	21.3	27.3	27.4	25.9			
Three years later	19.0	21.3	22.9	28.0	26.0				
Four years later	18.7	21.7	23.1	27.6					
Five years later	18.8	21.7	22.7						
Six years later	18.9	21.1							
Seven years later	18.9								
	18.9	21.1	22.7	27.6	26.0	25.9	29.7	25.4	
Excess of initial provision over revalued gross final costs									
Amount	2.3	0.9	(0.1)	(1.0)	0.6	0.9	(1.8)	—	
Percentage	10.8%	4.1%	(0.4%)	(3.8%)	2.3%	3.4%	(6.5%)	—	
Undiscounted gross unpaid claims	**—**	**0.1**	**1.0**	**0.1**	**(0.6)**	**1.0**	**2.7**	**25.4**	**29.7**
Undiscounted gross unpaid claims, 2009 and earlier									**0.1**
Undiscounted gross unpaid claims									**29.8**
Discounting									**(0.4)**
Provision for adverse deviations									**2.9**
Risk sharing plan									**0.7**
Discounted gross unpaid claims									**33.0**

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

Claims development by year of occurrence (cont'd)

	2010	2011	2012	2013	2014	2015	2016	2017	Total
	$	$	$	$	$	$	$	$	$
Undiscounted net unpaid claims, end of year of occurrence	18.5	18.5	21.1	26.6	26.6	26.8	27.8	25.4	
Cumulative net claims paid									
One year later	15.5	16.7	19.2	25.0	25.5	23.7	26.6		
Two years later	15.7	17.6	19.9	26.7	27.0	24.9			
Three years later	15.7	17.6	20.4	27.5	26.6				
Four years later	15.5	17.7	20.5	27.5					
Five years later	16.0	17.7	20.3						
Six years later	16.2	17.7							
Seven years later	16.4								
	16.4	17.7	20.3	27.5	26.6	24.9	26.6	—	
Revaluation of undiscounted net final cost									
One year later	17.0	18.3	20.8	27.1	26.7	26.6	29.1		
Two years later	16.5	17.8	19.8	27.2	27.4	25.9			
Three years later	16.2	17.8	21.4	27.9	26.0				
Four years later	16.2	18.3	21.6	27.6					
Five years later	16.3	18.3	21.4						
Six years later	16.4	17.7							
Seven years later	16.4								
	16.4	17.7	21.4	27.6	26.0	25.9	29.1	25.4	
Excess of initial provision over revalued net final costs									
Amount	2.1	0.8	(0.3)	(1.0)	0.6	0.9	(1.3)	—	
Percentage	11.4%	4.3%	(1.4%)	(3.8%)	2.3%	3.4%	(4.7%)	—	
Undiscounted net unpaid claims	—	—	1.1	0.1	(0.6)	1.0	2.5	25.4	29.5
Undiscounted net unpaid claims, 2009 and earlier									0.1
Undiscounted net unpaid claims									29.6
Discounting									(0.4)
Provision for adverse deviations									2.8
Risk sharing plan									0.7
Discounted net unpaid claims									32.7

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

Changes in deferred acquisition costs

	2017	2016
	$	$
Balance, beginning of year	27.1	26.5
Acquisition costs for the year	22.5	16.8
Vested costs of the year	(17.3)	(16.2)
Balance, end of year	32.3	27.1

Changes in ceded reinsurance assets

	2017	2016
	$	$
Balance, beginning of year	0.1	0.1
Additional assets generated during the year	0.7	(0.2)
Claims recognized during the year	(0.5)	0.2
Balance, end of year	0.3	0.1
Current portion	0.3	0.1
Non-current portion	—	—

15. Bank loans

The Company has authorized lines of credit with financial institutions amounting to $6.0 (2016 — $6.0) bearing interest at prime rate, unsecured and renewable yearly.

As at December 31, 2017 and 2016, no amount had been taken on these bank loans.

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16. Subordinated debt

	2017	2016
	$	$
Debenture at 7.5%, maturing in 2027 and redeemable by the Company under certain conditions	50.0	50.0
Debenture payable to majority shareholder at 6.4%, maturing in 2027	10.0	10.0
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 payable to majority shareholder at 7.4%, maturing in 2032 and redeemable by the Company under certain conditions	30.0	30.0
Debenture, Series A at 7.8%, repaid during the year	—	3.0
	130.0	133.0
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 in 2023 bearing interest at 5.9% compounded semi-annually until 2018, bearing interest at the 3-month Canadian Dealer Offered Rate plus 2.5% compounded quarterly until maturity	20.0	20.0
	157.0	160.0
Fair value (Note 6)	185.3	188.5

[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.*

17. Other liabilities

	2017	2016
	$	$
Employee retirement benefits (Note 21)	98.2	70.7
Commitments under repurchase agreements	96.2	—
Derivative financial instruments (Note 5)	10.0	8.1
Other	9.7	8.3
	214.1	87.1

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18. 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.

	2017	2016
	$	$
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

19. 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. To ensure sound and prudent capital management, the Company is required to comply with the guideline on capital adequacy requirements.

The Company is subject to the requirements defined by the *Autorité*. According to the *Autorité*'s guideline on MCCSR, the capital adequacy ratio is calculated by dividing available capital by required capital. Available capital represents total capital, less the deductions prescribed by the *Autorité*. Required capital is determined on the basis of 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 solvency ratio and changes to the solvency 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 plausible unfavourable events. These documents are submitted and presented to the Board of Directors.

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19. Capital management (cont'd)

The *Autorité's* guideline states that the Company must set a target level of available capital that exceeds the minimum requirements. The Company's current solvency ratio exceeds minimum requirements and is higher than the set target.

Available capital position

	2017	2016
	$	$
Equity	**884.7**	791.7
Subordinated debt	**157.0**	160.0
Prescribed reductions and other adjustments	**(85.0)**	(92.7)
Available capital	**956.7**	859.0

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 MCCSR and on capital adequacy requirements, namely "MCT", which apply to the subsidiary. The solvency ratios of the subsidiary as at December 31, 2017 and 2016 exceed the level required under the guidelines.

Regulatory initiatives by the Autorité regarding capital

On January 1, 2018, the *Autorité* will apply a new guideline on capital adequacy requirements for life and health insurance. The current MCCSR solvency ratio will be replaced by the capital adequacy requirements for life and health insurance ("CARLI"). The Company is preparing to implement this new guideline.

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20. Income taxes

	2017	2016
	$	$
Income tax expenses for the year — Net income		
Current income taxes	37.0	25.7
Deferred income taxes resulting from the origination or reversal of temporary differences	(7.1)	(0.5)
	29.9	25.2
Reconciliation of income tax expense for the year — Net income		
Base income taxes of 26.8% (2016 - 26.8%)	32.2	27.7
(Decrease) increase caused by differences between accounting and tax treatment		
Investments	(1.8)	(3.3)
Other	(0.5)	0.8
	29.9	25.2
Tax recovery for the year — Comprehensive income (loss)		
Current income taxes	6.1	(3.6)
Deferred income taxes	(5.0)	(1.6)
	1.1	(5.2)
Deferred income tax assets		
Investment property, fixed assets and intangible assets	—	0.1
Life and health insurance contracts	19.8	21.0
Employee retirement benefits	26.2	18.5
Other	1.3	0.8
	47.3	40.4
Deferred income tax liabilities		
Investments	(16.6)	(19.9)
Investment property, fixed assets and intangible assets	(37.0)	(39.9)
Other	(3.8)	(3.1)
	(57.4)	(62.9)
Presented as:		
Deferred income tax assets	34.2	22.6
Deferred income tax liabilities	(44.3)	(45.1)

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21. 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:

	2017		2016	
	Pension plans $	**Other benefits $**	**Pension plans $**	**Other benefits $**
Defined benefit obligation				
Obligation, beginning of year	**480.5**	**39.3**	438.3	35.4
Employee contributions	**10.2**	**—**	10.7	—
Transfers between plans	**2.6**	**—**	2.5	—
Current service cost	**17.0**	**2.9**	15.2	2.3
Interest	**19.7**	**1.7**	18.9	1.6
Experience	**(1.8)**	**1.2**	(2.5)	(0.9)
Actuarial loss (gain) arising from changes in financial assumptions	**51.5**	**6.2**	15.7	2.7
Benefits paid	**(20.8)**	**(0.9)**	(18.3)	(1.8)
Obligation, end of year	**558.9**	**50.4**	480.5	39.3
Pension plan assets				
Fair value, beginning of year	**450.7**	**—**	426.3	—
Remeasurement of assets	**—**	**—**	—	—
Interest	**17.4**	**—**	16.8	—
Difference between actual return and interest	**38.5**	**—**	0.1	—
Employer contributions	**12.7**	**0.9**	12.6	1.8
Employee contributions	**10.2**	**—**	10.7	—
Transfers between plans	**2.6**	**—**	2.5	—
Benefits paid	**(20.8)**	**(0.9)**	(18.3)	(1.8)
Fair value, end of year	**511.3**	**—**	450.7	—
Defined benefit liability including the effect of asset ceiling				
Funded plans deficit	**22.5**	**—**	7.6	—
Unfunded plans deficit	**25.1**	**50.4**	22.2	39.3
Net defined benefit liability	**47.6**	**50.4**	29.8	39.3
Effect of timing net defined benefit asset to asset ceiling	**—**	**—**	—	—
	47.6	**50.4**	29.8	39.3

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21. Employee retirement benefits (cont'd)

	2017		2016	
	Pension plans $	Other benefits $	Pension plans $	Other benefits $
Employee retirement benefit expenses				
Current service cost	**17.0**	**2.9**	15.2	2.3
Net interest	**2.3**	**1.7**	2.1	1.6
Expenses for the year — Net income	**19.3**	**4.6**	17.3	3.9
Actuarial loss for the year and effect of asset ceiling — Other comprehensive income	**11.2**	**7.4**	4.0	1.8

Cash payments for employee retirement benefits for the year totalled $14.0 (2016 — $14.0). The Company expects to pay contributions in the amount of $13.5 into defined benefit plans during the next year.

	2017	2016
	%	%
Actuarial assumptions used for calculation of obligation and cost according to the weighted average		
Discounted rate — obligation	**3.5**	4.0
Discounted rate — cost	**4.0**	4.2
Rate of salary increase — obligation (3.3% starting in 2018)	**3.0**	3.0
Rate of salary increase — cost (3.3% starting in 2018)	**3.0**	3.3
Rate of increase in cost of covered health care (decreasing linearly at 4% in 2021)	**7.0**	9.0

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

	2017	2016
	$	$
Discount rate	**141.2**	116.9
Rate of salary increase	**50.6**	43.9
Rate of increase in cost of covered health care	**12.0**	7.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(in millions of dollars, unless otherwise indicated)

21. 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:

	2017	2016
	%	%
Bonds	**52.5**	62.1
International shares	**40.0**	26.7
Canadian shares	**5.0**	8.9
Other	**2.5**	2.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
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22. Components of the consolidated statement of income

	2017	2016
	$	$
Gross premiums		
Life and health insurance	2,170.9	2,077.1
Property and casualty insurance	243.0	227.8
Investment and retirement	44.6	37.9
	2,458.5	2,342.8
Selling and administrative expenses		
Employee benefits	195.5	194.9
Depreciation and amortization of fixed assets and intangibles assets	30.9	32.5
Interest on subordinated debt payable to the majority shareholder	4.5	4.6
Interest on subordinated debt	6.8	6.5
Investment property expenses		
Depreciation of investment property	0.9	0.7
Depreciation of fixed assets	2.7	1.9

23. Remuneration of key management personnel

The restructuring program presented in Note 2 of the consolidated financial statements was followed by a change in the Company's corporate structure and, as a result, by a review of the concept of key management. Key management personnel includes directors and senior executives. The following table summarizes cumulative remuneration of key management personnel:

	2017	2016
	$	$
Short-term employee benefits	4.8	9.7
Post-employment benefits	1.0	2.0
	5.8	11.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

24. Segregated funds

a) Carrying value of segregated fund investments

	2017	2016
	$	$
Fund units	3,793.5	3,677.3
Bonds	498.6	505.5
Cash and cash equivalents	45.1	83.4
Shares	569.2	534.4
Derivative financial instruments	1.6	1.5
Total investments	4,908.0	4,802.1
Other assets and liabilities	20.9	15.6
	4,928.9	4,817.7

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 6 "*Fair value of assets and liabilities*" and exclude all other financial assets except derivative financial instruments:

				2017
	Level 1 $	Level 2 $	Level 3 $	Total $
Segregated fund financial assets at fair value through profit or loss				
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)

During the years ended December 2017 and 2016, there were no transfers of investments related to segregated funds between Levels 1 and 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

24. Segregated funds (cont'd)

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

				2016
	Level 1 $	Level 2 $	Level 3 $	Total $
Segregated fund financial assets at fair value through profit or loss				
Fund units	3,159.5	517.8	—	3,677.3
Bonds	—	505.5	—	505.5
Cash and cash equivalents	—	83.4	—	83.4
Shares	525.0	—	9.4	534.4
Derivative financial instruments	1.5	—	—	1.5
	3,686.0	1,106.7	9.4	4,802.1
Segregated fund financial liabilities at fair value through profit or loss				
Derivative financial instruments	(1.9)	—	—	(1.9)

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

	Shares $
Fair value as at December 31, 2015	9.5
Acquisition	0.4
Disposal	(1.1)
Realized gains	0.2
Unrealized gains	0.4
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017
(in millions of dollars, unless otherwise indicated)

24. Segregated funds (cont'd)

c) Changes in segregated fund insurance contracts and investment contracts

	2017		2016	
	Insurance contracts $	Investments contracts $	Insurance contracts $	Investments contracts $
Balance, beginning of year	**1,841.6**	**2,976.1**	1,697.5	3,072.3
Amounts collected from policyholders	**308.4**	**199.3**	316.3	232.7
Investment income	**81.5**	**267.7**	67.6	175.9
Amounts paid to policyholders	**(373.4)**	**(372.3)**	(239.8)	(504.8)
Balance, end of year	**1,858.1**	**3,070.8**	1,841.6	2,976.1

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

25. Contingencies and commitments

Contingencies

The Company and its subsidiaries are subject to legal actions, including proposed class actions. 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, 2017, these letters of credit amount to $3.1 (2016 — $3.2). No assets were pledged against these letters of credit.

Commitments

The Company leases vehicle, IT equipment and office spaces as lessee. These leases mature between 2018 and 2025. Minimum lease payments recognized as an expense during the year totalled $6.0 (2016 — $9.6).

The expected payments on the leases are as follows:

	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $
Basic rents	**5.4**	**16.8**	**9.1**	**31.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(in millions of dollars, unless otherwise indicated)

26. Leases

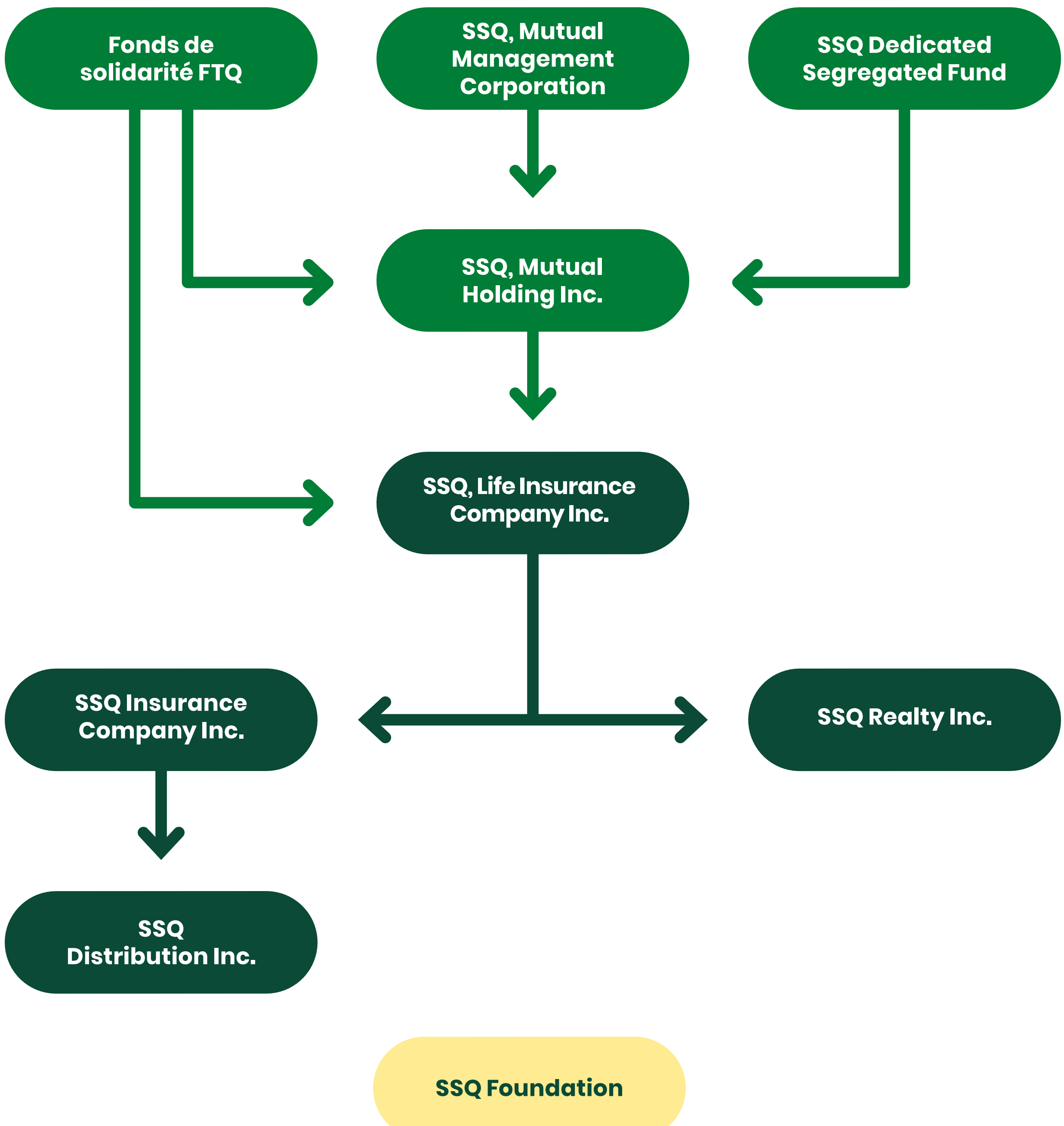
The Company leases as lessor its investment property and certain fixed assets under operating leases. These leases mature between 2018 and 2036.

During the year, the Company's rental revenue from its investment property and fixed assets totalled $27.7 (2016 — $22.3), while direct operating expenses totalled $19.4 (2016 — $16.5).

Expected receipts from operating leases are as follows:

	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $
Basic rents	**14.1**	**50.7**	**67.5**	**132.3**

Ownership Structure



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

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Élise Poulin

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

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Transformation Bureau Lead

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Strategic Advisor

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Marie-Claude Harvey
Vice-President – Business Development Activities

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Vice-President – Operations and Partner Services

Aurel Lessard
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Éric Thériault
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