FINANCIAL STATEMENTS 2016

TOGETHER

WE MAKE THE DIFFERENCE

HUMANIA ASSURANCE MD®

A subsidiary of **LS Mutual Management**

HUMANIA ASSURANCE INC.

Consolidated financial statements

December 31, 2016

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Shareholders of
Humania Assurance Inc.

We have audited the accompanying consolidated financial statements of Humania Assurance Inc., which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of earnings, 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 (IFRS) 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Humania Assurance Inc. as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Raymond Chabot Grant Thornton LLP[1]

Québec

February 24, 2017

[1] CPA auditor, CA public accountancy permit no. A125181

HUMANIA ASSURANCE INC.
Consolidated Statement of Earnings
Year ended December 31, 2016 (in thousands of Canadian dollars)

	2016	2015
	$	$
INCOME		
Premiums		
Gross premiums	**133,619**	130,889
Premiums ceded to reinsurers	**(28,940)**	(27,715)
Net premiums	**104,679**	103,174
Investment		
Investment income (Note 4)	**14,539**	15,682
Change in fair value of financial assets designated at fair value through profit or loss (Note 4)	**12**	(3,972)
Net investment income	**14,551**	11,710
Distribution revenues	**9,051**	5,945
	128,281	120,829
EXPENSES		
Gross benefits	**64,010**	66,189
Benefits ceded to reinsurers	**(11,134)**	(13,709)
Change in policy reserves	**19,783**	14,104
Change in reinsurance assets	**(9,034)**	(6,965)
Gross commissions	**25,845**	25,174
Commissions ceded to reinsurers	**(7,586)**	(7,528)
Premium taxes	**2,853**	2,936
Experience refunds and participations	**2,161**	2,200
General expenses	**35,051**	33,357
	121,949	115,758
EARNINGS BEFORE INCOME TAXES	**6,332**	5,071
Income taxes (Note 17)	**1,704**	550
NET INCOME	**4,628**	4,521
Attributable to the shareholder	**4,544**	4,502
Attributable to the non-controlling interests	**84**	19
	4,628	4,521

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Comprehensive Income
Year ended December 31, 2016 (in thousands of Canadian dollars)

	2016	2015
	$	$
NET INCOME	**4,628**	4,521
Other comprehensive income		
Items that will be reclassified subsequently as net income		
Available for sale financial assets		
Unrealized gains and losses [net of income taxes of $714 ($367 in 2015)]	**1,939**	(996)
Reclassification as net income of realized gains and losses [net of income taxes of $476 ($17 in 2015)]	**(1,292)**	47
Cash flow hedges		
Unrealized gains and losses [net of income taxes of $63 ($363 in 2015)]	**(169)**	987
Reclassification as net income of realized gains and losses [net of income taxes of $220 ($276 in 2015)]	**(599)**	(750)
	(121)	(712)
Items that will not be reclassified subsequently as net income		
Employee benefits		
Remeasurement of net defined benefit liability [net of income taxes of $176 ($241 in 2015)] (Note 14)	**478**	(656)
	357	(1,368)
COMPREHENSIVE INCOME	**4,985**	3,153
Attributable to the shareholder	**4,901**	3,134
Attributable to the non-controlling interests	**84**	19
	4,985	3,153

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Financial Position
December 31, 2016 (in thousands of Canadian dollars)

	2016	2015
	$	$
ASSETS		
Investment (Note 4)		
Cash	**14,195**	13,524
Money market	**23,959**	3,667
Bonds	**250,320**	255,832
Shares	**26,670**	40,399
Infrastructure fund	**10,222**	10,133
Real estate fund	**10,249**	-
Policy loans	**1,578**	1,630
	337,193	325,185
Other asset components		
Investment income receivable	**1,570**	1,587
Premiums receivable	**2,111**	2,132
Prepaid commissions	**8,176**	7,885
Other assets (Note 7)	**8,503**	10,261
Reinsurance assets (Note 8)	**150,725**	141,500
Deferred tax assets (Note 17)	**365**	400
Property and equipment (Note 9)	**10,440**	10,156
Intangible assets (Note 10)	**15,823**	14,941
	197,713	188,862
	534,906	514,047

HUMANIA ASSURANCE INC.
Consolidated Statement of Financial Position
December 31, 2016 (in thousands of Canadian dollars)

	2016	2015
	$	$
LIABILITIES		
Policy liabilities		
Policy reserves (Note 11)	**405,784**	386,001
Investment contract liabilities	**1,201**	1,408
Benefits payable	**18,969**	20,724
Deposits	**8,437**	8,272
Participations and experience refunds payable	**841**	1,035
	435,232	417,440
Other liability components		
Other liabilities (Note 13)	**18,116**	19,549
Deferred tax liabilities (Note 17)	**2,165**	2,548
Debenture (Note 16)	**4,937**	4,928
	25,218	27,025
	460,450	444,465
EQUITY		
Share capital (Note 18)	**49,883**	49,883
Contributed surplus	**12,257**	12,257
Retained earnings	**20,104**	15,560
Non-controlling interests	**(1,015)**	(988)
Accumulated other comprehensive income (Note 19)	**(6,773)**	(7,130)
	74,456	69,582
	534,906	514,047

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

On behalf of the Board,

Director

Jacques Martineau
Director

HUMANIA ASSURANCE INC.
Consolidated Statement of Changes in Equity
Year ended December 31, 2016 (in thousands of Canadian dollars)

2016	**Share capital**	**Contributed surplus**	**Retained earnings**	**Non-controlling interests**	**Accumulated other comprehensive income**	**Total equity**
	$	**$**	**$**	**$**	**$**	**$**
Balance, beginning of year	**49,883**	**12,257**	**15,560**	**(988)**	**(7,130)**	**69,582**
Net income	**-**	**-**	**4,544**	**84**	**-**	**4,628**
Other comprehensive income	**-**	**-**	**-**	**-**	**357**	**357**
	-	**-**	**4,544**	**84**	**357**	**4,985**
Change in non-controlling interests	**-**	**-**	**-**	**(111)**	**-**	**(111)**
Balance, end of year	**49,883**	**12,257**	**20,104**	**(1,015)**	**(6,773)**	**74,456**

2015	Share capital	Contributed surplus	Retained earnings	Non-controlling interests	Accumulated other comprehensive income	Total equity
	$	$	$	$	$	$
Balance, beginning of year	35,000	12,257	11,058	(46)	(5,762)	52,507
Net income	-	-	4,502	19	-	4,521
Other comprehensive income	-	-	-	-	(1,368)	(1,368)
	-	-	4,502	19	(1,368)	3,153
Change in non-controlling interests	-	-	-	(961)	-	(961)
Issuance of common shares	14,883	-	-	-	-	14,883
Balance, end of year	49,883	12,257	15,560	(988)	(7,130)	69,582

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Cash Flows
Year ended December 31, 2016 (in thousands of Canadian dollars)

	2016	2015
	$	$
Operating activities		
Net income	**4,628**	4,521
Non-cash items		
Change in policy reserves	**19,783**	14,104
Change in reinsurance assets	**(9,034)**	(6,965)
Depreciation and loss on disposal of property and equipment	**1,125**	1,093
Amortization of intangible assets	**1,181**	590
Amortization of premiums and discounts on bonds	**(3,134)**	(3,802)
Unrealized gains and losses on financial assets designated at fair value through profit or loss	**(12)**	3,972
Realized gains and losses on financial assets designated at fair value through profit or loss and as available for sale	**(2,333)**	(1,148)
Gain from business combinations achieved in stages	**-**	(2,451)
Share of income from investments in an associate	**(13)**	(11)
Change in employee benefits	**75**	3
Amortization of transaction costs	**9**	87
Deferred income taxes	**(479)**	1,129
	11,796	11,122
Change in working capital items	**(2,643)**	6,546
	9,153	17,668
Financing activities		
Net proceeds on issuance of common shares	**-**	9,883
Investing activities		
Net disposal (acquisition) of money market	**(20,292)**	1,270
Net disposal (acquisition) of bonds	**8,137**	6,200
Net disposal (acquisition) of shares	**16,941**	(12,165)
Net disposal (acquisition) of infrastructure fund units	**189**	(10,133)
Net disposal (acquisition) of real estate fund units	**(10,000)**	-
Net increase (decrease) in policy loans	**52**	10
Subsidiary acquisitions	**-**	(5,368)
Net advances to associate	**(36)**	(143)
Proceeds of disposal of property and equipment	**11**	203
Acquisition of property and equipment	**(1,421)**	(3,869)
Acquisition of intangible assets	**(2,063)**	(1,421)
	(8,482)	(25,416)
Increase (decrease) in cash	**671**	2,135
Cash, beginning of year	**13,524**	11,389
Cash, end of year	**14,195**	13,524

Supplementary cash flow information (Note 21)

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

1. GENERAL INFORMATION

Humania Assurance Inc. (hereinafter “Humania Assurance” or the “Company”) operates in the field of life and health insurance in Canada. The Company is governed by the *Act respecting insurance,* is incorporated under the laws of Quebec and is headquartered at 1555 Girouard Street West, P.O. Box 10000, Saint-Hyacinthe, Quebec, Canada, J2S 7C8.

On February 24, 2017, the Board of Directors approved and authorized for issue the consolidated financial statements of Humania Assurance, the Group’s parent company.

Humania Assurance is a subsidiary of LS Mutual Management, the ultimate parent company.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”).

b) Significant estimates

The preparation of consolidated financial statements requires management to use its judgment and make estimates and assumptions that impact the application of accounting policies, amounts of assets and liabilities, the presentation of contingent assets and liabilities and recognized amounts of income and expenses. Actual results could differ from those estimates.

The most significant estimates relate to the determination of policy reserves (Note 11), reinsurance assets (Note 8), investment contract liabilities, the fair value of financial instruments (Note 5), employee benefits and other expenses (Note 14) and on the fair value of intangible assets acquired in a business combination (Note 10).

The underlying estimates and assumptions are reviewed periodically. Accounting estimate revisions are recognized in the revision period and in subsequent periods affected by the revisions.

The main accounting policies used in the preparation of the consolidated financial statements are the following:

c) Principles of consolidation

Subsidiaries

The Company consolidates the financial statements of all its subsidiaries, that is, entities it controls. In this respect, control relates to the Company’s power to direct the activities of the investee, its ability to receive variable benefits from its investment in the investee and the direct link between the power to direct activities and the ability to receive benefits. The subsidiaries’ financial statements are included in consolidated earnings from the date control is determined and excluded as of the date control stops.

Inter-company transactions and balances have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Principles of consolidation (continued)

The consolidated financial statements include the accounts of the Company and its subsidiaries: LS-Travel Insurance Company, which provides travel insurance, Les Services Financiers Surtech Inc., Aurrea Signature Inc., Pro Vie assurances collectives inc., 9290-3152 Québec Inc., Le Groupe Y. Pilon Inc. and Gestion FTM Inc., financial services firms, and 9098-0061 Quebec Inc., a company providing information technology services to the Company.

Associate

The investment in an associate over which the Company has significant influence is recognized using the equity method. There is significant influence when, generally, an investor holds an interest of 20% or more but does not have control.

d) Consolidated statement of financial position presentation

The Company has elected to present its assets and liabilities in the consolidated statement of financial position by category based on liquidity to better reflect its operations. Assets present investments separately from other asset components. Liabilities include two categories: policy liabilities and other liability components.

Generally, investments are held on a long-term basis, even though individual securities are regularly transacted.

Investment income receivable, premiums receivable, prepaid commissions, receivables, derivative financial instruments, receivables from agents, receivables from reinsurers, income taxes receivable and prepaid expenses are generally recovered within twelve months of the year-end date.

The Company's long-term obligations consist of policy reserves, investment contract liabilities, employee benefits and the debenture.

Benefits payable, participations and experience refunds payable, trade and other payables and income taxes payable are generally settled within twelve months of the year-end date.

e) Business combination

Business acquisitions are recognized using the acquisition method. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets transferred and the liabilities assumed. Acquisition-related costs are recognized in income as they are incurred.

f) Investment

The Company has elected to classify and designate investments matching policy reserves at fair value through profit or loss to reduce a disparity in accounting treatment, that would otherwise occur as the annual changes in policy reserves and reinsurance assets are recognized in net income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment (continued)

Money market, bonds and shares

Investments in money market, bonds and shares are financial assets at fair value through profit or loss or available for sale. Purchases and sales of these assets are recognized or derecognized on the trade date, that is, the date on which the Company commits itself to purchase or sell the asset. The fair value of money market and bonds is determined using the bid price for similar assets in active markets. The fair value of shares is determined using the market bid price.

Money market, bond and share investments that support the Company's liabilities are classified or designated at fair value through profit or loss and those that do not support them are classified as available for sale.

At fair value through profit or loss

Investments at fair value through profit or loss are recognized on the consolidated statement of financial position at fair value and changes in fair value are recognized immediately on the consolidated statement of earnings. Revenues from these investments are recognized in investment revenues. Transaction costs are charged to earnings and deducted from investment income.

Available for sale

Available for sale investments are recognized on the consolidated statement of financial position at fair value and changes in fair value are recognized in unrealized gains and losses on other comprehensive income within items that will be reclassified subsequently as net income. Realized gains and losses on the sale of available for sale investments that are recorded in accumulated other comprehensive income are reclassified and recognized within investment income on the consolidated statement of earnings. Revenues from these investments are recognized in investment income. Transaction costs are added to the value of the asset at the time of acquisition

Infrastructure fund and real estate fund

The infrastructure fund and the real estate fund are financial assets that support the Company's liabilities. They are designated at fair value through profit or loss. The fair value is determined using the listed value for each fund. Purchases and sales of fund units are recognized and derecognized at the transaction date, that is, the date on which the Company commits itself to purchase or sell the units.

Funds at fair value through profit or loss are recognized on the consolidated statement of financial position at fair value and changes in fair value are recognized immediately on the consolidated statement of earnings. Revenues are recognized in investment income. Administrative fees are charged to earnings and deducted from investment income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment (continued)

Policy loans

Policy loans are presented at cost and are fully guaranteed by the cash surrender value of the insurance policies.

Impairment of financial assets

At each reporting date, available for sale financial assets are tested to determine if there is objective evidence of impairment. The Company recognizes an impairment loss on bonds if it is unlikely that the Company will be able to recover all amounts due according to the contractual terms of the obligation. The Company recognizes an impairment loss on shares when there is a significant or prolonged decline in the fair value. When an investment is impaired, the accumulated profit or loss in other comprehensive income is reclassified in net income.

g) Derivative financial instruments

The Company uses derivative financial instruments as foreign exchange contracts in order to manage the exchange rate risk related to the payment of travel insurance benefits.

Foreign exchange contracts are designated as cash flow hedges and the hedge is considered effective. Changes in fair value of hedging instruments are recognized in “Other comprehensive income” in items that will be reclassified subsequently in net earnings. Accumulated gains and losses in “Other comprehensive income” are reclassified and recognized in net income in the period that the hedged items are recognized in the consolidated statement of earnings.

Derivative financial instruments with a positive fair value are presented in the consolidated statement of financial position with “Other assets” and those with a negative value are presented with “Other liabilities”.

h) Foreign currency translation

The Company’s consolidated financial statements are prepared in Canadian dollars, which is the Company’s functional and presentation currency.

Monetary items on the consolidated statement of financial position are translated at the exchange rate in effect at the end of the year and expenses are translated at the average exchange rate for the period.

i) Reinsurance assets

In the normal course of operations, the Company uses reinsurance to reduce the exposure with respect to its policyholders. Reinsurance assets are the Company’s net contractual rights under reinsurance treaties relating to ceded insurance contracts.

The calculation of reinsurance assets is similar to that of policy reserves relating to the underlying insurance contracts, in accordance with the contractual provision of the reinsurance agreements.

Year ended December 31, 2016 (in thousands of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Other financial assets

Financial assets other than investments and derivative financial instruments are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method. They are classified as loans and receivables.

Investment income receivable, receivables and receivables from agents represent the Company's other financial assets. Given that they will mature shortly, the fair value of these financial assets corresponds to their cost.

k) Property and equipment

Property and equipment are recognized using the cost model. The building cost was allocated into five main components, including the land, which is not amortized.

The depreciation methods and estimated useful lives are as follows:

	Methods	Rates/Periods
Building		
Foundation and structure	Straight-line	40 years
Shell and fenestration	Straight-line	20 years
Equipment	Straight-line	10-20 years
Layout	Straight-line	8-12 years
Furniture and equipment	Diminishing balance	20%-30%
Computer equipment	Straight-line	5 years

l) Intangible assets

Intangible assets are recognized at cost and amortized over their estimated useful lives as follows:

	Methods	Rate/Periods
Operating systems acquired	Diminishing balance	30%
Internally developed operating systems	Straight-line	8-15 years
Application software acquired	Straight-line	2-5 years
Distribution networks	Straight-line	20 years

m) Impairment of non-financial assets

At each year-end, the Company determines whether there is evidence that an asset is impaired. An impairment is recognized when an asset's recoverable amount is less than its carrying amount. The recoverable amount is the higher of an asset's fair value less its selling cost or its value in use, which is the present value of recoverable future cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Contract classification

The Company’s products are classified at contract inception as insurance or investment contracts, depending on the existence of significant insurance risk.

Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown.

When significant insurance risk exists, the contract is accounted for as an insurance contract in accordance with IFRS 4, *Insurance Contracts*.

In the absence of significant insurance risk and discretionary participating feature, the contract is classified as an investment contract in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in features, such as the interest rate or price of a financial instrument.

o) Policy reserves

Insurance policy reserves represent the amount equal to the carrying value of the Company's assets that, taking into account the other relevant items in the consolidated statement of financial position, will be sufficient without being excessive to discharge the Company's obligations over the term of the liabilities for its insurance policies and to pay expenses related to the administration of those policies.

Policy reserves are established using the Canadian Asset Liability Method (CALM) in accordance with generally accepted actuarial practices established by the Canadian Institute of Actuaries (CIA). Several actuarial assumptions are used in determining policy reserves, which are based on best estimates of future earnings and include margins to take account of unfavourable variances (Note 11).

The Company has designated a valuation actuary who determines the liabilities required to cover the Company’s obligations to the policyholders.

p) Employee benefits

The Company offers a contributory defined benefit pension plan to its employees, post-retirement benefits to eligible employees and group insurance coverage to certain retirees.

The cost of employees' accrued pension benefits is actuarially determined using the projected benefit method prorated over years of eligible service, with salary projections, based on management's best estimate assumptions regarding the future salary increases and retirement age.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Employee benefits (continued)

The current service cost and net interest on the net defined benefit liability (asset) are recognized in the consolidated statement of earnings under “General expenses”. Remeasurements of the net defined benefit liability (asset) are recognized in the consolidated statement of comprehensive income with items that will not be reclassified subsequently as net income. Remeasurements include actuarial gains and losses, the return on plan assets and any change in the effect of the asset ceiling, as applicable, excluding amounts included in net interest on the net defined benefit liability (asset) calculation.

The annual cost associated with the group insurance coverage offered to a group of retirees is actuarially determined based on management's best estimate assumptions regarding the expected cost of health care and life expectancy of retirees.

Employee benefit liabilities, net of the fair value of the contributory pension plan, are presented in the consolidated statement of financial position under “Other liabilities”.

q) Financial liabilities

Financial liabilities are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest method.

Trade and other payables as well as the debenture represent the Company’s financial liabilities.

The fair value of trade and other payables corresponds to their cost given that they will mature shortly.

r) Transaction costs

Transaction costs related to financial liabilities other than those classified at fair value through profit or loss are incremental costs directly attributable to the issuance of a financial liability and reduce the value of the instrument issued. They are recognized in net earnings using the effective interest method.

s) Revenue recognition

Insurance policy premiums are recognized as revenues when they are payable under the policies in force. Once the premiums have been recognized, policy reserves are calculated and recognized to match benefits and expenses in revenues.

Investment income is recognized on the accrual basis and presented net of investment expenses.

Distribution revenues are recognized when the service is rendered, the amount is known or determinable and the recovery is assured.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Income taxes

Income taxes are recognized using the tax liability method, under which the tax expense includes current and deferred taxes. Current and deferred taxes are recognized in net income, unless they relate to items that are presented in other comprehensive income or directly in equity. In this case, they are presented in other comprehensive income or in equity.

Current income taxes are the amount received or paid to the tax administrations and are calculated using enacted or substantively enacted tax rates at the year-end date.

Deferred income tax assets and liabilities are recognized annually for all temporary differences between the carrying amount in the financial statements and the corresponding tax base. These deferred income tax assets or liabilities are calculated using enacted or substantively enacted tax rates in the years in which the temporary differences are expected to reverse. A deferred income tax asset is recognized when it is more likely than not that the tax benefit will be realized in the future.

3. FUTURE ACCOUNTING CHANGES

IFRS are constantly changing and the following changes could have an impact on the Company's consolidated financial statements.

a) IFRS 9 – Financial instruments

In July 2014, the IASB issued a final version of IFRS 9, "*Financial Instruments"*, to replace IAS 39, *Financial Instruments: Recognition and Measurement.* The standard provides changes to financial instruments accounting to the following:

- Classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset;
- Impairment based on an expected loss model; and
- Hedge accounting that incorporates the risk management practices of an entity.

This standard is effective on January 1, 2018. However, in September 2016, the IASB amended the current version of IFRS 4, *"Insurance Contracts"* to provide for an exemption from applying IFRS 9 until 2021 for entities whose predominant activity is issuing insurance contracts. Insurers that adopt IFRS 9 will also have an option to adjust profit or loss to remove some of the additional accounting volatility that may arise as a result of IFRS 9.

3. FUTURE ACCOUNTING CHANGES (CONTINUED)

b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers",* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The revenue arising from insurance contracts, leases and financial instruments are not required to apply the revenue recognition requirements of IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of the consideration the company expects to receive from the customer.

The standard is effective January 1, 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

c) IFRS 16 – Leases

In January 2016, the IASB published IFRS 16 which will replace IAS 17, "*Leases".* IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the consolidated statement of financial position for all lease with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes: the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

Year ended December 31, 2016 (in thousands of Canadian dollars)

4. INVESTMENT

a) Value of investments

The carrying amount, allocation and classification of investments are as follows:

2016	**At fair value through profit or loss**	**Designated at fair value through profit or loss**	**Available for sale**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Cash	**14,195**	**-**	**-**	**-**	**14,195**
Money market	**779**	**-**	**23,180**	**-**	**23,959**
Bonds	**-**	**237,018**	**13,302**	**-**	**250,320**
Shares	-	**26,670**	**-**	**-**	**26,670**
Infrastructure fund	-	**10,222**	**-**	**-**	**10,222**
Real estate fund	-	**10,249**	**-**	**-**	**10,249**
Policy loans	**-**	**-**	**-**	**1,578**	**1,578**
	14,974	**284,159**	**36,482**	**1,578**	**337,193**

2015	At fair value through profit or loss	Designated at fair value through profit or loss	Available for sale	Other	Total
	$	$	$	$	$
Cash	13,524	-	-	-	13,524
Money market	2,073	-	1,594	-	3,667
Bonds	-	241,656	14,176	-	255,832
Shares	-	18,830	21,569	-	40,399
Infrastructure fund	-	10,133	-	-	10,133
Policy loans	-	-	-	1,630	1,630
	15,597	270,619	37,339	1,630	325,185

Year ended December 31, 2016 (in thousands of Canadian dollars)

4. INVESTMENT (CONTINUED)

b) Investment income

2016	At fair value through profit or loss	Designated at fair value through profit or loss	Available for sale	Other	Total
	$	$	$	$	$
Cash					
Interest	58	-	-	-	58
Money market					
Interest	9	-	9	-	18
Bonds					
Interest	-	9,980	314	-	10,294
Realized gains and losses	-	565	132	-	697
Shares					
Dividends	-	1,046	513	-	1,559
Realized gains and losses	-	-	1,636	-	1,636
Infrastructure fund and real estate fund					
Income distributions	-	1,086	-	-	1,086
Policy loans					
Interest	-	-	-	139	139
Other income					
Share in earnings of associate	-	-	-	13	13
Other	-	-	-	(42)	(42)
	67	12,677	2,604	110	15,458
Expenses					(919)
					14,539

Year ended December 31, 2016 (in thousands of Canadian dollars)

4. INVESTMENT (CONTINUED)

b) Investment income (continued)

2015	At fair value through profit or loss	Designated at fair value through profit or loss	Available for sale	Other	Total
	$	$	$	$	$
Cash					
Interest	52	-	-	-	52
Money market					
Interest	9	-	13	-	22
Bonds					
Interest	-	10,185	231	-	10,416
Realized gains and losses	-	1,212	124	-	1,336
Shares					
Dividends	-	669	802	-	1,471
Realized gains and losses	-	-	(188)	-	(188)
Infrastructure fund	-	-	-	-	-
Income distributions	-	653	-	-	653
Policy loans					
Interest	-	-	-	141	141
Other income					
Gain on business acquisitions achieved in stages	-	-	-	2,451	2,451
Share of income from associates	-	-	-	11	11
Other	-	-	-	71	71
	61	12,719	982	2,674	16,436
Expenses					(754)
					15,682

c) Change in fair value

The change in the fair value of assets designated at fair value through profit or loss of $12 (decrease of $3,972 in 2015) presented in the consolidated statement of earnings relates to investments supporting the Company’s liabilities.

Year ended December 31, 2016 (in thousands of Canadian dollars)

5. FAIR VALUE MEASUREMENT

Assets and liabilities recognized at fair value in the consolidated statement of financial position are categorized in a hierarchy according to the significance of the input used in making the measurements.

The fair value hierarchy comprises the following three levels:

Level 1 uses quoted prices (unadjusted) in active markets for identical financial assets to which the Company has access;

Level 2 uses input other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. prices) or indirectly (i.e. derived from prices). Such input includes the price of similar assets on active markets and input other than observable prices for the asset. The fair value of level 2 securities was provided by a pricing agency;

Level 3 uses input for the asset that is not based on observable market data (unobservable input).

The fair value of bonds is determined using the bid price of similar assets observed in active markets.

The fair value of the infrastructure fund and the real estate fund is the one issued by each fund. The funds mainly use discounted future cash flows to determine the fair value of their investments.

The following table presents the financial assets and liabilities categorized using the fair value hierarchy:

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Asset				
Cash	**-**	**14,195**	**-**	**14,195**
Money market	**-**	**23,959**	**-**	**23,959**
Bonds	**-**	**250,320**	**-**	**250,320**
Shares	**26,670**	**-**	**-**	**26,670**
Infrastructure fund	**-**	**10,222**	**-**	**10,222**
Real estate fund	**-**	**10,249**	**-**	**10,249**
	26,670	**308,945**	**-**	**335,615**
Liability				
Derivative financial instruments	**-**	**235**	**-**	**235**

Year ended December 31, 2016 (in thousands of Canadian dollars)

5. FAIR VALUE MEASUREMENT (CONTINUED)

No transfers were made between hierarchical levels of fair value during the year. In addition, evaluation techniques have not been modified.

2015	Level 1	Level 2	Level 3	Total
	$	$	$	$
Asset				
Cash	-	13,524	-	13,524
Money market	-	3,667	-	3,667
Bonds	-	255,832	-	255,832
Shares	40,399	-	-	40,399
Infrastructure funds	-	10,133	-	10,133
Derivative financial instruments	-	816	-	816
	40,399	283,972	-	324,371

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT

The Company has financial instrument risk management policies, procedures and practices. Effective risk management depends on identifying, understanding, communicating and controlling risks. In this regard, the main risks to which the Company is exposed as part of its activities are:

- Credit risk;
- Liquidity risk;
- Market risk:
  - Interest rate risk,
  - Stock market risk,
  - Exchange risk.

During the year, there were no changes in the financial instrument risk management policies, procedures and practices.

The means used by the Company to manage each of these risks are described as follows.

Year ended December 31, 2016 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

a) Credit risk

Credit risk is the risk that a debtor will cause a financial loss for the Company by failing to discharge its obligations. The Company manages this risk by applying the following policies and procedures:

- Development and review of the investment policy that establishes standards for the acquisition of securities, including the following elements:
  - Establishing guidelines to ensure adequate diversification and reduce concentration in one sector,
  - Setting minimum and maximum limits to be respected for each class of assets,
  - Reviewing the inherent quality of the securities held by using, in particular, ratings by external recognized credit agencies;
- Regular monitoring and review of compliance with the investment policy by the Investment Committee and Board of Directors.

Maximum credit risk

The Company's maximum credit risk from financial instruments corresponds to the carrying amount of the asset, net of any allowance for losses. The maximum credit risk is as follows:

	2016	2015
	$	$
Cash	**14,195**	13,524
Money market	**23,959**	3,667
Bonds	**250,320**	255,832
Policy loans	**1,578**	1,630
Investment income receivable	**1,570**	1,587
Other financial assets (Note 7)	**3,389**	3,139
	295,011	279,379

Year ended December 31, 2016 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Credit risk concentration

Credit risk concentration results from exposure to one debtor or one group of debtors sharing similar credit risk characteristics.

The following table presents the bond portfolio allocation by issuer category:

	2016	**2016**	2015	2015
	$	**%**	$	%
Government issued or guaranteed bonds:				
Federal government	**460**	**-**	121	-
Provincial governments	**140,855**	**56**	145,808	57
Municipalities and school boards	**4,479**	**2**	3,052	1
Foreign governments	**-**	**-**	86	-
	145,794	**58**	149,067	58
Canadian corporate bonds by industry:				
Energy	**23,467**	**9**	22,567	9
Industrial products	**4,174**	**2**	4,161	2
Financial services	**43,043**	**17**	48,708	19
Telecommunications	**1,861**	**1**	2,178	1
Public services	**31,981**	**13**	29,151	11
	104,526	**42**	106,765	42
	250,320	**100**	255,832	100

Year ended December 31, 2016 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Bond portfolio quality

The quality of the bond portfolio is determined using the ratings of recognized external credit agencies. The credit rating allocation of the bond portfolio is as follows:

	2016	2015
	$	$
AAA	**978**	1,115
AA	**37,168**	35,200
A	**186,196**	193,124
BBB	**25,978**	26,393
	250,320	255,832

b) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in raising the funds it needs to fulfill its obligations. Policy reserves represent 88% (87% in 2015) of the Company's liabilities. The amounts relating to these policy reserves are disbursed according to the terms and conditions in the insurance contracts. The Company knows these terms and conditions and maintains the necessary liquidities to fulfil its obligations through the management of operating liquidities by matching cash flows generated by assets and liabilities.

c) Market risk

Market risk is defined as the risk that the fair value or cash flows of a financial instrument will fluctuate and result in a loss due to fluctuating market factors. These factors comprise three risks: interest rate risk, stock market risk and exchange risk.

Interest rate risk

There is an interest rate risk when interest rates fluctuate and cash flows from assets and liabilities are not perfectly matched. The Company manages this risk by applying the following policies and procedures:

- Segmentation of assets and liabilities;
- Asset management in connection with liabilities from each segment;
- Investment in assets compatible with the characteristics of insurance and investment contracts;
- Calculation of the average term of assets and liabilities by segment;
- Periodic review and analysis of the risk of mismatching terms and cash flows by the Investment Committee.

Year ended December 31, 2016 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Interest rate risk (continued)

The terms to maturity of the bond portfolio are as follows:

	2016	2015
	$	$
Less than 1 year	**1,609**	1,213
Between 1 and 5 years	**8,450**	9,923
Between 6 and 10 years	**12,278**	14,286
Between 11 and 15 years	**34,094**	31,306
Between 16 and 20 years	**62,070**	50,373
More than 20 years	**131,819**	148,731
	250,320	255,832

The effective rate of return on bonds varies between 0.68% and 7.32% (between 0.77% and 6.99% in 2015).

The sensitivity analysis relating to a fluctuation in the interest rates of bonds supporting the policy reserves is presented in Note 11 b).

Stock market risk

Stock market risk corresponds to the uncertainty in measuring assets as a result of stock market fluctuations. To manage this risk, the investment policy sets out the types of equity securities in which the Company can invest, as well as quantitative limits or diversification rules.

Equity securities by way of preferred shares are used to support the liabilities. Additionally, the Company's intention is that a portion of its equity be invested in equity securities in order to increase its long-term capital. This is done as part of the investment policy that aims to maximize returns while minimizing risk.

Equity investments total $26,670 ($40,399 in 2015) or 7.9% (12.4% in 2015) of the Company's investments. Consequently, a 10% stock market fluctuation would lead to the recognition in the Company's equity of a gain or loss (net of income taxes) of $1,950 ($2,953 in 2015).

Fund investments total $20,471 ($10,133 in 2015), or 6.1% (3.1% in 2015) of the Company's investments. Consequently, a 10% stock market fluctuation would lead to the recognition in the Company's equity of a gain or loss (net of income taxes) of $1,496 ($741 in 2015).

Year ended December 31, 2016 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Exchange risk

Exchange risk relates to the risk that the Company incurs losses from exposure to foreign currency fluctuations. Transactions denominated in foreign currencies are related to the travel insurance sector. To manage exchange rate risk, the Company uses foreign exchange contracts and acquires currencies to be able to pay benefits in the same currency. No derivative financial instrument is used for speculative purposes.

As at December 31, cash denominated in U.S. dollars is $483 ($1,372 in 2015). In addition, the Company has foreign exchange contracts to purchase U.S. dollars (Note 12).

A 10% positive or negative fluctuation in exchange rates would have a negligible effect on the Company's equity.

7. OTHER ASSETS

	2016	2015
	$	$
Financial assets		
Accounts receivable	**3,307**	2,028
Derivative financial instruments (Note 12)	**-**	816
Receivable from agents	**382**	295
	3,389	3,139
Other asset components		
Receivables from reinsurers	**1,966**	2,981
Income taxes receivable	**371**	1,754
Prepaid expenses	**1,767**	1,640
Investment in an associate	**203**	154
Other receivables	**807**	593
	5,114	7,122
	8,503	10,261

Year ended December 31, 2016 (in thousands of Canadian dollars)

8. REINSURANCE ASSETS

	2016	2015
	$	$
Policy reserves (Note 11)	**145,116**	136,082
Provision for benefits	**5,609**	5,418
	150,725	141,500

Note 11 presents explanations regarding the actuarial assumptions.

9. PROPERTY AND EQUIPMENT

2016	**Land**	**Building**	**Furniture and equipment**	**Computer equipment**	**Total**
	$	**$**	**$**	**$**	**$**
Gross carrying amount					
Balance, beginning of year	**565**	**10,469**	**2,528**	**933**	**14,495**
Additions	**-**	**198**	**948**	**275**	**1,421**
Disposals	**-**	**-**	**(60)**	**(87)**	**(147)**
Balance, end of year	**565**	**10,667**	**3,416**	**1,121**	**15,769**
Accumulated depreciation					
Balance, beginning of year	**-**	**2,349**	**1,470**	**520**	**4,339**
Depreciation	**-**	**657**	**304**	**165**	**1,126**
Disposals	**-**	**-**	**(49)**	**(87)**	**(136)**
Balance, end of year	**-**	**3,006**	**1,725**	**598**	**5,329**
Net carrying amount	**565**	**7,661**	**1,691**	**523**	**10,440**

The depreciation expense for the year is $1,126 ($928 in 2015) and is presented under “General expenses” in the consolidated statement of earnings.

Year ended December 31, 2016 (in thousands of Canadian dollars)

9. PROPERTY AND EQUIPMENT (CONTINUED)

2015	Land	Buildings	Furniture and equipment	Computer equipment	Total
	$	$	$	$	$
Gross carrying amount					
Balance, beginning of year	640	7,640	1,912	892	11,084
Business combination	-	-	175	48	223
Additions	-	3,228	497	144	3,869
Disposals	(75)	(399)	(56)	(151)	(681)
Balance, end of year	565	10,469	2,528	933	14,495
Accumulated depreciation					
Balance, beginning of year	-	1,944	1,260	520	3,724
Depreciation	-	512	265	151	928
Disposals	-	(107)	(55)	(151)	(313)
Balance, end of year	-	2,349	1,470	520	4,339
Net carrying amount	565	8,120	1,058	413	10,156

Year ended December 31, 2016 (in thousands of Canadian dollars)

10. INTANGIBLE ASSETS

2016	Operating software acquired	Application software acquired	Internally developed software	Distribution networks	Total
	$	$	$	$	$
Gross carrying amount					
Balance, beginning of year	859	796	7,455	9,312	18,422
Acquired additions	-	23	410	-	433
Internally developed additions	-	-	1,630	-	1,630
Disposals	-	(7)	-	-	(7)
Balance, end of year	859	812	9,495	9,312	20,478
Accumulated amortization					
Balance, beginning of year	858	654	1,969	-	3,481
Amortization	1	79	635	466	1,181
Disposals	-	(7)	-	-	(7)
Balance, end of year	859	726	2,604	466	4,655
Net carrying amount	-	86	6,891	8,846	15,823

The amortization expense for the year is $1,181 ($590 in 2015) and is presented under “General expenses” in the consolidated statement of earnings.

Year ended December 31, 2016 (in thousands of Canadian dollars)

10. INTANGIBLE ASSETS (CONTINUED)

2015	Operating software acquired	Application software acquired	Internally developed software	Distribution networks	Total
	$	$	$	$	$
Gross carrying amount					
Balance, beginning of year	859	777	6,054	-	7,690
Business combinations	-	-	-	9,312	9,312
Acquired additions	-	20	452	-	472
Internally developed additions	-	-	949	-	949
Disposals	-	(1)	-	-	(1)
Balance, end of year	859	796	7,455	9,312	18,422
Accumulated amortization					
Balance, beginning of year	857	547	1,488	-	2,892
Amortization	1	108	481	-	590
Disposals	-	(1)	-	-	(1)
Balance, end of year	858	654	1,969	-	3,481
Net carrying amount	1	142	5,486	9,312	14,941

11. POLICY RESERVES

a) Composition of policy reserves

	2016	2015
	$	$
Individual life insurance	**186,796**	180,970
Group life insurance	**58,135**	55,603
Individual and group annuities	**6,507**	7,217
Individual accident and health insurance	**127,216**	119,017
Group accident and health insurance	**27,130**	23,194
	405,784	386,001

Year ended December 31, 2016 (in thousands of Canadian dollars)

11. POLICY RESERVES (CONTINUED)

b) Composition of assets backing net policy reserves

Assets are segmented to match the net cash flows of assets and liabilities for each business line. For each date presented, the first table reconciles net policy reserves, and the second presents the composition of assets covering net policy reserves.

2016	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Policy reserves	**244,931**	**6,507**	**154,346**	**405,784**
Reinsurance assets	**(46,060)**	**-**	**(99,056)**	**(145,116)**
	198,871	**6,507**	**55,290**	**260,668**

2016	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Bonds	**175,072**	**5,456**	**42,569**	**223,097**
Preferred shares	**15,597**	**693**	**5,407**	**21,697**
Infrastructure fund	**7,240**	**322**	**2,510**	**10,072**
Other	**962**	**36**	**4,804**	**5,802**
	198,871	**6,507**	**55,290**	**260,668**

The impact of an immediate and permanent 1% increase in interest rates of investments backing net policy reserves would be an increase of about $7,000 ($6,800 in 2015) of net income.

The impact of an immediate and permanent 1% decrease in interest rates of investments backing net policy reserves would be a decrease of about $9,000 ($8,700 in 2015) of net income.

Year ended December 31, 2016 (in thousands of Canadian dollars)

11. POLICY RESERVES (CONTINUED)

b) Composition of assets backing net policy reserves (continued)

2015	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Policy reserves	236,573	7,217	142,211	386,001
Reinsurance assets	(44,893)	-	(91,189)	(136,082)
	191,680	7,217	51,022	249,919

2015	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Money market	614	-	1,618	2,232
Bonds	182,840	4,642	25,740	213,222
Preferred shares	7,314	2,546	8,313	18,173
Infrastructure fund	-	-	10,133	10,133
Other	912	29	5,218	6,159
	191,680	7,217	51,022	249,919

11. POLICY RESERVES (CONTINUED)

c) Assumptions

Assumptions used in calculating policy reserves are based on best estimates for the term of the policies with respect to numerous variables, including mortality, morbidity, interest rates, fees, policy lapse rate, inflation, policyholders' participations and taxes. These estimates may be revised on subsequent valuation dates.

The methods used to determine the most significant assumptions are explained below:

Mortality

The Company conducts an annual mortality study for the individual life insurance sector.

For mortality in individual life insurance, the assumption is taken from recent industry experience published by the CIA, adjusted in accordance with the Company's results in the last five years to recognize its actual mortality experience.

For mortality in individual annuities, the assumption is taken from recent industry experience published by the CIA. Also, the assumption used incorporates an improvement in the actual mortality level.

Morbidity

The assumption is based on the Company's and industry's results in recent years.

Interest rate

The Company has assets backing policy reserves. Cash flows of assets and liabilities are projected then accumulated until the end of the cash flow projection period using an assumed interest rate. Future interest rates reflect the current economic outlook and the Company's investment policy.

Fees

Policy management fees are based on internal studies on the distribution of the Company's costs by line of business.

Policy lapse rate

Assumptions concerning the policy lapse rate are based on the Company's experience and reflect a decrease in lapse rates in the insurance products line of business based on industry-forecasted lapse rates.

Year ended December 31, 2016 (in thousands of Canadian dollars)

11. POLICY RESERVES (CONTINUED)

c) Assumptions (continued)

Margin for adverse deviations

A margin for adverse deviations was added to each assumption in order to recognize the uncertainty surrounding the establishment of best estimates, to consider a possible deterioration in experience and to provide greater assurance that the amount of policy reserves is sufficient to pay future benefits.

d) Change in policy reserves

Change in policy reserves is as follows:

2016	**Gross**	**Reinsurance ceded**	**Net**
	$	**$**	**$**
Balance, beginning of year	**386,001**	**136,082**	**249,919**
New contracts	**1,668**	**2,442**	**(774)**
Standard changes in policies in force	**22,394**	**8,098**	**14,296**
Changes to methods and assumptions	**(4,279)**	**(1,506)**	**(2,773)**
Balance, end of year	**405,784**	**145,116**	**260,668**

2015	**Gross**	**Reinsurance ceded**	**Net**
	$	**$**	**$**
Balance, beginning of year	371,897	129,117	242,780
New contracts	3,872	2,141	1,731
Standard changes in policies in force	11,888	6,488	5,400
Changes to methods and assumptions	(1,656)	(1,664)	8
Balance, end of year	386,001	136,082	249,919

e) Impact of changes to methods and assumptions

	2016	2015
	$	$
Mortality and morbidity	**(165)**	(3,248)
Lapse and policyholder behaviour	**928**	2,725
Other updates	**(3,536)**	531
	(2,773)	8

Year ended December 31, 2016 (in thousands of Canadian dollars)

11. POLICY RESERVES (CONTINUED)

f) Insurance risk

Insurance risk is the risk that an insured event occur and that there be large deviations between actual results and the actuarial assumptions used.

As an insurance company, the Company is in the business of accepting risk associated with insurance contract liabilities. The Company mitigates its exposure to insurance risk through various means, including product design, product rating and the use of reinsurance treaties.

Product design and rate-setting

The Company has a product design and rate-setting policy which relates to the rate-setting methods, choice of assumptions and profitability objectives. Periodic analyses are carried out to compare forecasts with actual results.

Reinsurance

In the normal course of its activities, the Company uses reinsurance to reduce its exposure to high amount claims. All reinsurance is underwritten by reinsurers registered with a federal or provincial authority. Reinsurance treaties also protect the Company in case of disasters or events affecting numerous policyholders. These reinsurance agreements do not release the Company from its obligations to policyholders.

Contractual maturities of insurance contracts

These estimated cash flows, net of reinsurance, are based on the assumptions used in calculating policy reserves.

2017	2018	2019	2020	2021	2022 and following	Total
$	$	$	$	$	$	$
82	(5,146)	(1,348)	1,004	1,610	264,466	260,668

Year ended December 31, 2016 (in thousands of Canadian dollars)

11. POLICY RESERVES (CONTINUED)

f) Insurance risk (continued)

Sensitivity analysis

Policy reserves are determined in accordance with generally accepted actuarial practices established by the CIA.

The following table presents the estimated impact of adverse deviations in the actuarial assumptions used on the Company's net income.

	2016		2015	
	Adverse deviation	**Impact on net income**	Adverse deviation	Impact on net income
	%	**$**	%	$
Mortality	**2**	**735**	2	704
Morbidity	**5**	**3,904**	5	3,691
Expenses	**5**	**2,755**	5	2,639
Policy lapse rate	**10**	**5,785**	10	5,738

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has foreign exchange contracts to purchase a nominal amount of seven million U.S. dollars to pay travel insurance benefits. These contracts mature in less than one year. As at December 31, the fair value of this derivative financial instrument is a liability of $235 (asset of $816 in 2015).

13. OTHER LIABILITIES

	2016	2015
	$	$
Trade and other payables	**9,911**	11,610
Derivative financial instruments (Note 12)	**235**	-
Employee benefits (Note 14)	**7,256**	7,851
Income taxes payable	**714**	88
	18,116	19,549

14. EMPLOYEE BENEFITS

The Company offers a contributory defined benefit plan to its employees and post-retirement benefits to eligible employees, and maintains group coverage (life and health insurance) for certain employees who retired before March 1, 1999.

The contributory defined benefit plan is registered under the *Supplemental Pension Plans Act* and the *Income Tax Act of Canada*.

The contributory defined benefit plan is funded, while the other employee benefits are not funded.

The Company offers a contributory defined benefit plan to its full-time employees after one year of service. Employee contributions range from 5.80% to 8.90% of salaries, up to a maximum amount. The Company makes the necessary contributions to the plan for current services and to offset the deficit. Employee annuities are a percentage of salary for each year of participation. Normal retirement date is age 65. However, participants 60 years of age with a total of age and credited years of service of 90 may retire without benefit penalties.

The Company is subject to certain employee benefit related risks, including investment returns, the discount rate used in measuring the defined benefit obligation, the life expectancy of employees and future inflation. The pension committee is responsible for determining the investment policy and analyzing regulatory changes, benefits, funding and the contributory defined benefit plan's financial situation. The pension committee has retained an independent investment manager to manage the plan assets. These assets are held by a custodian in a separate fund of the plan's sponsor.

For accounting purposes, the Company measures its accrued benefit liability and the asset fair value on December 31 of each year. The latest full actuarial valuation for funding purposes was performed as at December 31, 2015.

Minimum funding requirements are $292 ($228 in 2015).

Cash payments for employee benefits, composed of the Company's contributions to the pension plan and premiums paid for group insurance, amount to $1,297 ($1,301 in 2015).

Year ended December 31, 2016 (in thousands of Canadian dollars)

14. EMPLOYEE BENEFITS (CONTINUED)

a) Net defined benefit liability

2016	**Pension plan**	**Group insurance**	**Total**
	$	**$**	**$**
Fair value of plan assets	**26,030**	**-**	**26,030**
Defined benefit obligation	**32,785**	**501**	**33,286**
Deficit	**(6,755)**	**(501)**	**(7,256)**
The deficit is allocated as follows:			
Funded plan	**(5,700)**	**-**	**(5,700)**
Unfunded plans	**(1,055)**	**(501)**	**(1,556)**
Deficit (Note 13)	**(6,755)**	**(501)**	**(7,256)**

2015	Pension plan	Group insurance	Total
	$	$	$
Fair value of plan assets	24,230	-	24,230
Defined benefit obligation	31,523	558	32,081
Deficit	(7,293)	(558)	(7,851)
The deficit is allocated as follows:			
Funded plan	(6,385)	-	(6,385)
Unfunded plans	(908)	(558)	(1,466)
Deficit (Note 13)	(7,293)	(558)	(7,851)

Year ended December 31, 2016 (in thousands of Canadian dollars)

14. EMPLOYEE BENEFITS (CONTINUED)

b) Fair value of plan assets

2016	**Pension plan**	**Group insurance**	**Total**
	$	**$**	**$**
Balance, beginning of year	**24,230**	**-**	**24,230**
Interest income	**953**	**-**	**953**
Return in excess of interest income	**1,049**	**-**	**1,049**
Administration fees	**(78)**	**-**	**(78)**
Employer's contributions	**1,276**	**-**	**1,276**
Employees' contributions	**498**	**-**	**498**
Other contributions and employees' transfer	**60**	**-**	**60**
Benefits paid	**(1,958)**	**-**	**(1,958)**
Balance, end of year	**26,030**	**-**	**26,030**

2015	Pension plan	Group insurance	Total
	$	$	$
Balance, beginning of year	22,750	-	22,750
Interest income	931	-	931
Return in excess of interest income	(33)	-	(33)
Administration fees	(77)	-	(77)
Employer's contributions	1,278	-	1,278
Employees' contributions	391	-	391
Other contributions andemployees' transfer	74	-	74
Benefits paid	(1,084)	-	(1,084)
Balance, end of year	24,230	-	24,230

Year ended December 31, 2016 (in thousands of Canadian dollars)

14. EMPLOYEE BENEFITS (CONTINUED)

c) Defined benefit obligation

2016	**Pension plan**	**Group insurance**	**Total**
	$	**$**	**$**
Balance, beginning of year	**31,523**	**558**	**32,081**
Service cost	**1,001**	**-**	**1,001**
Financial cost	**1,218**	**12**	**1,230**
Employees' contributions	**498**	**-**	**498**
Other contributions and employees' transfers	**60**	**-**	**60**
Actuarial gains or losses resulting from plan experience	**176**	**-**	**176**
Actuarial gains or losses resulting from economic assumptions	**267**	**(48)**	**219**
Benefits paid	**(1,958)**	**(21)**	**(1,979)**
Balance, end of year	**32,785**	**501**	**33,286**

2015	Pension plan	Group insurance	Total
	$	$	$
Balance, beginning of year	29,061	643	29,704
Service cost	961	-	961
Financial cost	1,181	15	1,196
Employees' contributions	391	-	391
Other contributions and employees' transfers	74	-	74
Actuarial gains or losses resulting from plan experience	432	-	432
Actuarial gains or losses resulting from economic assumptions	509	(77)	432
Benefits paid	(1,086)	(23)	(1,109)
Balance, end of year	31,523	558	32,081

Year ended December 31, 2016 (in thousands of Canadian dollars)

14. EMPLOYEE BENEFITS (CONTINUED)

d) Expense

2016	**Pension plan**	**Group insurance**	**Total**
	$	**$**	**$**
Service cost	**1,001**	**-**	**1,001**
Net interest	**264**	**12**	**276**
Administration fees	**78**	**-**	**78**
	1,343	**12**	**1,355**

The expense for the year is 1,355 $ (1,304 $ in 2015) and is presented under "General expenses" in the consolidated statement of earnings.

2015	Pension plan	Group insurance	Total
	$	$	$
Service cost	961	-	961
Net interest	251	15	266
Administration fees	77	-	77
	1,289	15	1,304

Year ended December 31, 2016 (in thousands of Canadian dollars)

14. EMPLOYEE BENEFITS (CONTINUED)

e) Remeasurements of net defined benefit liability recognized in other comprehensive income

2016	**Pension plan**	**Group insurance**	**Total**
	$	**$**	**$**
Actuarial gains and losses resulting from			
Plan experience	**(176)**	**-**	**(176)**
Economic assumptions	**(267)**	**48**	**(219)**
Return of assets	**1,049**	**-**	**1,049**
	606	**48**	**654**
Income taxes	**(163)**	**(13)**	**(176)**
	443	**35**	**478**

2015	Pension plan	Group insurance	Total
	$	$	$
Actuarial gains and losses resulting from			
Plan experience	(432)	-	(432)
Economic assumptions	(509)	77	(432)
Return of assets	(33)	-	(33)
	(974)	77	(897)
Income taxes	262	(21)	241
	(712)	56	(656)

Year ended December 31, 2016 (in thousands of Canadian dollars)

14. EMPLOYEE BENEFITS (CONTINUED)

f) Asset composition

The pension plan's asset consist of

	2016	2015
	%	%
Funds – money market	**2**	-
Funds – bonds	**38**	39
Funds – shares	**60**	61
	100	100

The plan assets are recognized at fair value according to a hierarchy based on the significance of the input used in making the measurements. The fair value hierarchy comprises three levels, including level 1 that uses quoted prices (unadjusted) in active markets for identical financial assets to which the pension plan has access. The plan assets are level 1.

The pension plan does not own any Company-issued shares.

g) Actuarial assumptions

2016	**Pension plans**	**Group insurance**
	%	**%**
Defined benefit obligation		
Discount rate	**3.90**	**2.39**
Rate of salary increase	**2.50**	**-**

The duration of the pension's plan obligation is 19 years (19 years in 2015).

2015	Pension plan	Group insurance
	%	**%**
Defined benefit obligation		
Discount rate	3.95	2.12
Rate of salary increase	2.50	-

14. EMPLOYEE BENEFITS (CONTINUED)

h) Employer's future contributions

The Company expects to make contributions amounting to $1,280 ($1,212 in 2015) to the contributory pension plan during the next year. This information is based on the latest actuarial valuation filed.

i) Sensitivity analysis

Actuarial assumptions can have a significant impact on employee benefit amounts.

The impact of a 0.25% decrease in the discount rate would result in a $1,531 ($1,475 in 2015) increase in the defined benefit liability.

The impact of using 90% of the probabilities of mortality table CPM 2014, Scale B, projected in a generational way, with a scale of future mortality improvement, would result in a $728 ($802 in 2015) increase in the defined benefit liability.

The impact of a 1% increase in the change in salaries for the pension plan would be negligible.

The impact of a 1% variation in medical costs of group insurance would be negligible.

15. CREDIT FACILITIES

The Company has an unused line of credit of $1,500 bearing interest at the prime rate of 2.70% (2.70% in 2015) and renewable annually.

Year ended December 31, 2016 (in thousands of Canadian dollars)

16. DEBENTURE

	2016	2015
	$	$
Debenture	**4,937**	4,928

In October 2015, the Company converted 50% of the debenture in exchange for the issuance of $5,000 in share capital.

All other conditions for the debenture remain unchanged.

The debenture, issued in February 2013 to an institutional investor, is not guaranteed. It bears interest at 7.00% until February 7, 2018 and, thereafter, at the rate of return of Canadian government five-year bonds plus 5.64%.

The debenture is due on February 7, 2028 and is redeemable as of its 10th anniversary. Additionally, no capital payments are due before February 7, 2028.

The carrying amount of the debenture includes transaction costs. The fair value of the debenture does not differ significantly from the carrying amount. The fair value is estimated using discounted cash flows based on observable market rates. The debenture is classified in level 2 of the fair value hierarchy (level 2 in 2015).

Year ended December 31, 2016 (in thousands of Canadian dollars)

17. INCOME TAXES

a) Effective tax expense

The effective income tax expense differs from the expense that would be established using federal and provincial statutory rates for the following reasons:

	2016	2015
	$	$
Earnings before income taxes	**6,332**	5,071
Tax on investment income	**(104)**	(130)
	6,228	4,941
Income tax expense according to statutory rates	**1,675**	1,329
Change arising from the following items:		
Non-taxable income	**(335)**	(995)
Non-deductible items	**121**	114
Other differences	**139**	(28)
	1,600	420
Tax on investment income	**104**	130
	1,704	550

The tax rate used is 26.9% (26.9% in 2015) and is applicable to the Company's taxable income in Canada under the current tax legislation.

b) Tax expense

The income tax expense for the year consists of:

	2016	2015
	$	$
Current income taxes	**2,183**	(1,569)
Deferred income taxes	**(479)**	2,119
	1,704	550

Year ended December 31, 2016 (in thousands of Canadian dollars)

17. INCOME TAXES (CONTINUED)

c) Deferred tax assets

The change in the deferred tax assets by nature is as follows:

2016	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Balance, end of year**
	$	**$**	**$**	**$**
Employee benefits	**65**	**(21)**	**-**	**44**
Foreign exchange contracts	**87**	**(274)**	**283**	**96**
Property and equipment and intangible assets	**63**	**(36)**	**-**	**27**
Other	**185**	**13**	**-**	**198**
	400	**(318)**	**283**	**365**

2015	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Balance, end of year
	$	$	$	$
Employee benefits	56	18	(9)	65
Foreign exchange contracts	-	174	(87)	87
Property and equipment and intangible assets	-	63	-	63
Other	101	84	-	185
	157	339	(96)	400

Year ended December 31, 2016 (in thousands of Canadian dollars)

17. INCOME TAXES (CONTINUED)

d) Deferred tax liabilities

The change in the deferred tax liabilities by nature is as follows:

2016	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Balance, end of year**
	$	**$**	**$**	**$**
Bonds	**49**	**29**	**(36)**	**42**
Policy loans	**438**	**(14)**	**-**	**424**
Property and equipment and intangible assets	**3,665**	**(241)**	**-**	**3,424**
Policy reserves	**588**	**(315)**	**-**	**273**
Employee benefits	**(2,048)**	**(36)**	**176**	**(1,908)**
Other	**(144)**	**(220)**	**274**	**(90)**
	2,548	**(797)**	**414**	**2,165**

2015	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Balance, end of year
	$	$	$	$
Bonds	52	(30)	27	49
Policy loans	441	(3)	-	438
Property and equipment and intangible assets	1,404	(244)	-	1,160
Policy reserves	729	(141)	-	588
Employee benefits	(1,816)	9	(241)	(2,048)
Business combinations	-	2,505	-	2,505
Other	(216)	362	(290)	(144)
	594	2,458	(504)	2,548

Year ended December 31, 2016 (in thousands of Canadian dollars)

18. SHARE CAPITAL

Authorized

Unlimited number of shares without par value

Class “A” common shares, voting and participating
Class “B” common shares, voting and participating
Participating shares, non-voting
Preferred shares, non-voting, issuable in series

Issued and outstanding

	2016	2015
	$	$
35,000 class “A” common shares	**35,000**	35,000
6,250 class “B” common shares	**14,883**	14,883
	49,883	49,833

In October 2015, the Company issued 6,250 class “B” common shares in exchange for $10,000 in cash and the partial conversion of the debenture for $5,000. Issue expenses of $117, net of taxes of $43, were applied against the common shares.

19. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income (net of income taxes) includes the following items:

	2016	2015
	$	$
Unrealized gains and losses on		
Available for sale financial assets	**23**	(624)
Cash flow hedges	**(172)**	596
Remeasurements of the net defined benefit liability	**(6,624)**	(7,102)
	(6,773)	(7,130)

Year ended December 31, 2016 (in thousands of Canadian dollars)

20. CAPITAL MANAGEMENT

The Company's capital consists of the share capital, the contributed surplus, retained earnings and other comprehensive income and is presented in the consolidated statement of financial position under "Equity". The Company manages capital to:

- Provide additional financial protection to its policyholders above policy reserves recognized, while maintaining sufficient capital to ensure its financial stability;
- Provide the necessary capital for its growth and development.

Current internal capital management policies include, among others:

- The annual filing of short- and long-term financial forecasts indicating capital requirements, for both financial and regulatory purposes, with the Board of Directors;
- An annual analysis of the payment policy with respect to policyholders' participations;
- An investment policy providing for, in particular:
  - Managing the maturity of liabilities and assets to limit mismatching risks and thus manage the regulatory capital required,
  - Qualitative elements limiting the risks related to credit, market concentration and liquidity shortage;
- Appropriate product pricing to reflect the capital used.

The Company is subject to capital ratio requirements determined by the Autorité des marchés financiers (hereinafter "AMF"), the organization controlling financial institutions incorporated under Quebec laws. Based on the valuation rules prescribed, a life and health insurance company must maintain a minimum ratio of 100% between available capital and required capital. The AMF also expects life and health insurance companies to set capital ratio objectives that exceed established minimal requirements in order to carefully manage the funds available and allow the insurer to face risks that are not covered by the minimum ratio and to protect itself against volatile market and economic conditions.

The current solvency ratio is 239% (209% in 2015) and it is above the target ratio set by the Company.

21. SUPPLEMENTARY CASH FLOW INFORMATION

	2016	2015
	$	$
Interest received	**7,276**	7,014
Dividends received	**1,559**	1,471
Interest paid relating to operating activities	**23**	58
Interest paid relating to financing activities	**373**	725
Income taxes paid	**(97)**	1,884

Year ended December 31, 2016 (in thousands of Canadian dollars)

22. CONTRACTUAL COMMITMENTS AND CONTINGENCIES

a) Contractual commitments

The Company's contractual commitments relate to various service agreements and operating leases on equipment. Future minimum lease payments under these contracts are as follows:

	2016	2015
	$	$
Less than 1 year	**1,260**	1,142
Between 1 year and 5 years	**3,239**	2,592
More than 5 years	**371**	160
	4,870	3,894

b) Contingencies

In the normal course of its business, the Company is named as defendant in law suits relating to insurance contracts. The Company analyses each law suit filed and determines the amount and relevance recording a liability. In the management's opinion, the Company has established sufficient liabilities to cover any contingent losses on these law suits.

23. RELATED PARTY TRANSACTIONS

Amounts and transactions between the Company and subsidiaries that are related parties have been eliminated. Commercial related party transactions are concluded in the normal course of business and measured at the exchange amount established and accepted by the parties.

Key management personnel remuneration

The Company's key management personnel include directors and members of the Management Committee. Key management personnel remuneration, as determined by the Human Resources Committee and the Board of Directors, is presented in the following table:

	2016	2015
	$	$
Short-term benefits	**2,535**	2,845
Long-term benefits	**726**	801
	3,261	3,646

A subsidiary of

LS MUTUAL
MANAGEMENT

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