

2016 ANNUAL REPORT

TOGETHER

WE MAKE THE DIFFERENCE



A subsidiary of LS Mutual Management





HUMANIA ASSURANCE

A LEADER IN HEALTH INSU- RANCE PRODUCTS

Humania Assurance is one of the longest-standing insurance companies in Canada. It provides insurance to over 200,000 insured lives and delivers exceptional customer service to meet the needs of all clients.

MISSION

Designing and providing health insurance products that rely on innovation to meet the changing needs of Canadians.

VISION

To become the inevitable choice for health insurance products.

VALUES



INNOVATION

the only path to a promising future.



EMPATHY

an integral part of our mutual company culture.



TEAM SPIRIT

our ability to trust our colleagues and foster solidarity.



COMPETENCE

giving it our best.



INTEGRITY

key to developing a client relationship built on trust.

TABLE OF CONTENTS

A History of Innovations	6
2016 Overview	8
Message from the Chairman of the Board	10
Message from the President and Chief Executive Officer	14
Board of Directors	20
Senior Management	22
LS Mutual Management	24
Summary Consolidated Financial Statements	
Reports and Committees	31
Declaration of Governance, Compliance and Integrated Risk Management	38
Code of Ethics of the CLHIA and Statement of Equitable Treatment of Consumers	39
Social Responsibility	40

OUR NEW EMPLOYEES

OUR PASSION

The ambition of our new employees feeds our culture of change and in turn, showcases their talent.

OUR LONG-TERM EMPLOYEES

OUR ROOTS

The ability of our long-term employees to adapt to ever changing market conditions is a key contributor to the company's success.

CHANGES IN THE COMPANY

A HISTORY OF INNOVATIONS

OUR PAST ACHIEVEMENTS

Prodige

2003



2004

ASSURE-DEBT

2006

- Critical illness insurance offering greater flexibility to clients;
- Premium guaranteed to age 100, with the option of limited payment (20 years);
- First product on the market that is payable upon critical illness or death, whichever is first;
- Expansion of what was still a fledgling market by investing in training and educating the distribution network.

- Disability insurance that offers top-quality products at an affordable rate, targeting the middle class;
- Broadened definition of disability and partial disability;
- Optional premium refund in 15 years or at age 65.

- Disability insurance to cover all debt payment under a single contract in the event of a disability;
- Coverage tied to the insured and not the loan: “Change lenders without changing insurance”;
- Personalized insurance that is more affordable than traditional banking products.



- Full insurance coverage (life, critical illness and disability insurance) for people who are difficult to ensure due to major health issues;
- First web-based product with immediate issuance.



- A specific product to protect children with critical illnesses;
- Addition of specific conditions (Autism, Multiple Sclerosis, Cystic Fibrosis, etc.);
- Option: Compassionate leave benefit.

A GATEWAY TO THE FUTURE

HUGO

2016

HuGO has transformed the traditional underwriting process. What once used to take several weeks can now be accomplished in a matter of minutes. With HuGO, the insured can purchase coverage of up to \$1 million without being automatically required to provide a test or medical exam.

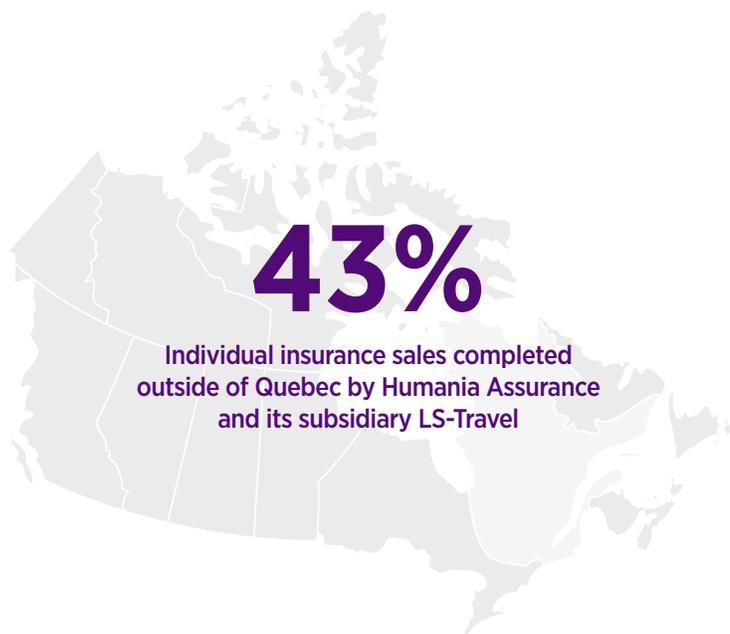
To develop this impressive online platform, the company leveraged modern technology to use artificial intelligence to customize questionnaires for each client according to their risk profile. The system makes automated decisions based on underwriting criteria. This makes for a less restrictive, simpler and more streamlined client experience. For the large majority of applications submitted, decisions are now made in under fifteen minutes.

This new automated process offers greater flexibility by allowing us to regularly update and optimize our processes while offering an outstanding client experience.

Stéphane Rochon
President and Chief Executive Officer

HIGHLIGHTS

2016 OVERVIEW



\$6.3M

Results before taxes

3.1%

Increase in gross revenue

6.7%

Return on equity

4.1%

Increase in assets

7%

Growth in equity

239%

Solvency ratio

A photograph of three business professionals in a meeting, overlaid with a blue tint. A man in a blue shirt is on the left, looking towards two women. The woman in the center is looking down at a document, and the woman on the right is looking towards the man. They are gathered around a round table with papers and a folder. Large windows in the background show a cityscape.

MESSAGES TO MUTUALISTS

MESSAGE FROM THE CHAIRMAN OF THE BOARD



CHANGES TO OUR TEAM AND DIRECTION

The insurance industry was marked by numerous developments in 2016. Yet even with extremely low interest rates, various legislative and financial changes, and an unfavourable environment overall, Humania Assurance successfully has come through with strong results.

Our dedicated team played an active role in helping us meet our objectives, once again. The entire Humania Assurance family—employees, management, business partners and the advisor network—did their utmost this year to contribute to the company's development and growth.<

“ Following the first phase of transformation, steadily implemented in recent years, a new phase has been set in motion. ”

Industry regulations and competition are constantly changing. In such conditions, all market players must take a fresh look at their role, client relationships and, of course, business model. Following the first phase of transformation, steadily implemented in recent years, a new phase has been set in motion. We must adapt swiftly and skilfully to the fast pace of an ever-changing world, through innovation, creative teams and products, our technology choices, digital breakthroughs and mobility, and we must do so with agility and foresight.

The insurance sector is undergoing major changes, making 2017 an important strategic year. The 2016 results are evidence of our successful transformation.

Strategic Execution

The Humania Assurance Board of Directors is charged with representing the interests of all its members by supervising the management team and seeing that the company's strategy is implemented in alignment with its mission *“to design and provide health insurance products that rely on innovation to meet the changing needs of Canadians.”*

“ Our HuGO product highlights the company's shift toward web-based services. ”

2016 was an excellent example of how Humania Assurance is executing its strategic plan with agility and precision. The recent launch of our HuGO product highlighted the company's shift toward web-based services. Our adoption of smart tools that leverage new technologies underscores our desire to incorporate artificial intelligence into our processes to enhance performance. The success of our innovative projects will largely depend on their alignment with our corporate strategy.

We owe this year's success to all our partners and subsidiaries, as well as our distribution network. Their tireless effort, determination and faith in our company have strengthened our resolve to become even more innovative.

Appointment of a President and Chief Executive Officer

This year, the company welcomed a new President and Chief Executive Officer, Stéphane Rochon. After a thorough vetting process based on the current and future needs of Humania Assurance, the Board of Directors selected Mr. Rochon and, in December, appointed him President and Chief Executive Officer, a position previously held by Richard Gagnon.

“ Recognized for his vast experience in the development and marketing of insurance products. ”

Mr. Rochon steps into this role with an impressive background. He has held several major positions in the Canadian finance sector, where he acquired extensive experience in developing and marketing insurance products and an in-depth understanding of national financial product distribution strategies.

Mr. Rochon was formerly Vice-president, sales and marketing for Humania Assurance, a position he held for some thirteen years. He has played a key role in making the company the success it is today.

Governance and Compliance

The Board of Directors fully supports the company's governance, strategic orientations and subsequent action plans. The Board also places great importance on identifying and managing the risks to which the company is exposed.

This year, the directors worked with the management team to review and update a number of company policies to promote integrated risk management of personal insurance sectors.

In keeping with the integrated risk management policy that guides the company's operations, the Board identified, weighted and implemented risk controls to mitigate potential risks regarding its business model.

A Well-balanced Team of Experienced Directors

The Board of Directors is composed of nine directors. Competent, upstanding and committed to the success of Humania Assurance, they form a well-balanced and experienced team. Each year, the Board reviews the independence of its members, other than the President and Chief Executive Officer, who is employed by the company. All members are aware of this procedure and renew their commitment to advising, supporting and overseeing the management team in the coming year. In addition, the activity reports drawn up by the Board's various committees, which may be found at the end of the annual report, demonstrate each committee's hard work.

I thank my colleagues on the Board of Directors, as well as the company's employees and our management team for their ongoing dedication.

In 2017, we will push the boundaries of our industry with even more resolve by offering members from coast to coast the solutions of tomorrow. Our ability to innovate is the key to the future.

Tribute to Richard Gagnon

The Board of Directors extends its sincere thanks to Richard Gagnon for his loyal service as President and Chief Executive Officer of Humania Assurance since December 2003. Under his leadership, the company enjoyed constant growth that strengthened its financial position and ensured the maintenance of a high level of governance.

The past thirteen years held great changes and successes for the company:

- Legal restructuring;
- A solid new financial partner;
- A new name and a revamped corporate image;
- A forward-thinking shift to digital with the introduction of Insurance Without Medical Exam (IWME) in 2013, and HuGO in 2016.

In 2016, Mr. Gagnon informed me of his wish to retire. Retirement is always a momentous time in a person's life, not only for himself, but for his family and colleagues. Although saddened by his departure, the Board of Directors understands his decision. On behalf of myself and all the Board members, we thank him for all his years of loyal, invaluable service and for his unwavering commitment to the company.



Jacques Martineau

Chairman of the Board of Directors



13 YEARS OF COMMITMENT AND SUCCESS

AS THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

RICHARD GAGNON'S CAREER WITH HUMANIA ASSURANCE

Board Member from 1992 to 2016

Board Chairman from 1995 to 2003

President and CEO from 2003 to 2016

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER



DEEP ROOTS AND A PASSION FOR INNOVATION

This year was marked by numerous business developments and technological innovation accomplishments.

“ Humania Assurance continued to challenge conventional approaches with a successful shift toward web-based services. ”

With its innovative strategic plan for 2016, Humania Assurance once again stood out as an industry pioneer. True to its mission and values, the company continued to shake up the status quo with a successful shift toward web-based services. Several years ago, the company launched its Insurance Without Medical Exam (IWME), tapping into a market segment all too often ignored and giving people the option to purchase a life, disability or critical illness insurance policy online and with the help of a financial security advisor. Committed to continuously innovating and improving its offering, this year, Humania Assurance launched HuGO, which transformed traditional means of policy underwriting. What once used to take several weeks can now be accomplished in a matter of minutes.

“ The company demonstrates its commitment to the advisor network. ”

With the launch of the Aurrea Signature firm in fall 2016, the company made a clear statement about its commitment to, support for and confidence in the independent advisor network. Aurrea Signature works alongside partner firms to help them continue to grow while maintaining their independence.

BUSINESS DEVELOPMENT

Individual Insurance

The individual insurance sector continued to grow this year along with the number of online transactions. More than 88% of life applications received in 2016 were submitted via our online platforms. Overall, 40% of our sales are currently made online with the help of independent financial security advisors.

The company continues to make advancements outside of Quebec. More than 480 new financial security advisors in these regions signed distribution contracts with us this year. More than 43% of the company's individual insurance sales were made outside of Quebec.

Of notes are, the company's commitment and contribution to its business community. In 2016, more than 230 training sessions were offered to the distribution network across Canada, both online and in the classroom.

Online products such as HuGO and IWME showed strong growth, particularly outside of Quebec.

Group Insurance

In 2016, group insurance sector results were generally satisfactory, despite a highly competitive environment and the goals set to remain profitable. We decided to focus on groups with higher return potential in the coming years. Consequently, the portfolio renewal rate was lower than projected.

Humania Assurance's current goal is to continue making progress while maintaining portfolio profitability rather than counting on aggressive sales growth. In 2016, in force life, long-term disability and critical illness insurance premiums made up 48% of the portfolio. These plans tend to yield higher profit margins and provide greater stability than the more traditional health, drug and dental plans.

Our presence outside of Quebec will definitely be a contributing factor to our promising future. We have signed a number of distribution agreements across Canada to significantly increase our sales and distribution activities outside of Quebec.

“ **Over 50% of travel insurance sales throughout the country are made outside of Quebec market.** ”

Travel Insurance

Travel insurance sales in 2016 were stable compared to last year. More than 50% of sales throughout Canada were made outside of Quebec market. This is evidence that our partner Tour+Med was successful in its efforts in 2016 to secure its position as a leading travel insurance provider in Canada. A hallmark of our 2016 activities was our concentration on client experience for financial security advisors and insureds alike. Similarly, we focused on developing our products and the underwriting process. These factors come with strong added value and give us an edge with our clients.

Administration

The company constantly strives to optimize its processes, increase efficiency and cut costs. To do this, we have stayed the course in our efforts to enhance our reinsurance management and automation processes.

Additionally, this year we became members of Canadian Life Insurance EDI Standards (CLIEDIS), thereby standardizing our electronic communication channels for some of our products with various business partners.

Human Resources

Our employees are the key to our success and their well-being remains of utmost importance to the company. The results of our employees satisfaction survey this year were, once again, very positive. The survey revealed that our employees' level of engagement remains high and is a gauge of their sustained involvement and will to contribute to the company's growth.

FINANCIAL ANALYSIS

Results

In 2016, the company's gross revenues grew to \$157.2 million, up 3% from 2015. This includes premium, distribution and investment revenues, but not revenues generated by the change in fair value of certain investments.

“ **Earnings before taxes grew 25% over the last year.** ”

The company posted earnings before taxes of \$6.3 million this year, up 25% from 2015. After taxes, the company posted net earnings of \$4.6 million.

In 2016, the company saw a 6.7% return on equity. With current interest rates at an historical low and our current strategy to invest in technological innovation and our Canada-wide distribution network, we are satisfied with these results.

Revenue

Gross revenues for premiums have been steadily climbing for the past 10 years, reaching \$133.6 million in 2016, a 2% increase over 2015. This year's modest growth can largely be attributed to the company's decision not to renew group insurance agreements with certain groups who were not meeting its profitability standards. Net revenues rose to \$128.3 million in 2016, up 3% from 2015.

With the economic environment pushing long-term bond rates to historical lows, our preferred share, infrastructure and real estate diversification strategy put into place in recent years served us well in 2016. This enabled us to grow returns and improve our matching, all in a bond market unfavourable to long-term investments.

GROWTH IN GROSS REVENUE

(excluding the market value change of investments tied to actuarial liabilities)



VARIATION IN ASSETS

Million \$



INVESTMENT DISTRIBUTION

- 74.2% Bonds
- 43.2% Governments
- 31.0% Companies
- 14.0% Assets and Funds
- 11.8% Other



Expenses

The company's expenses totalled \$121.9 million this year. Benefits paid amounted to \$64 million, down 3% from 2015. This decrease can be primarily attributed to a lower-than-expected claims ratio for individual insurance.

The company's general expenses this year totalled \$35.1 million, an increase over 2015 primarily due to factors related to the consolidation of our subsidiaries. By excluding this factor, the increase in our general expenses matches our initial forecast.

A significant portion of the company's investments in 2016 was for developing an innovative platform on which to market our HuGO product. These major investments in technological innovation are part of the company's strategic vision to generate growth in the coming years.

Balance Sheet

The company's assets as at December 31, 2016, totalled \$535 million, up \$21 million from last year. Our liabilities totalled \$460 million, 88% of which were derived from actuarial liabilities.

The company's equity increased by 7% and totalled \$74.5 millions as at December 31, 2016.

FORECAST

HuGO

To preserve our technological advantage, we will focus on making a series of improvements to HuGO in the coming years. This plan involves remaining receptive to all constructive feedback we receive from our distribution network. While the artificial intelligence that powers our web-based platform is highly effective, we will continue analyzing and improving it to further streamline and accelerate the underwriting process.

We will seize the opportunities offered by debt insurance growth, such as in the mortgage market, by adding optional disability coverage to our IWME product. This addition will round out our offering geared toward the distribution network while facilitating access to the mortgage insurance market, which generates little interest among current insurers.

Pan-Canadian Market

Without losing sight of our position in Quebec, a Canada-wide vision of the market remains at the core of our growth strategy. We are building on our recent accomplishments to expand our offering to all Canadian provinces. In the coming years, we aim to maximize our strategy through targeted marketing initiatives and optimized product marketing. These measures will expand our distribution network and presence and raise our profile throughout the country.

We now enjoy greater access than ever to the outside of Quebec market, thanks to the key assets we have leveraged in recent years: our human capital, technological development and ability to adapt. These three factors provide a framework for our expansion outside of Quebec.

Capital Adequacy Requirements for Insurance of Persons

Starting January 2018, all health and life insurance providers must be compliant with the new Capital Adequacy Requirements for Life and Health Insurance (CARLI). We have been analyzing these new requirements for the past few months to determine what impact they will have. In 2017, the company will work diligently to prepare for new challenges and adapt to the new regulatory framework. These changes have substantial implications for us and we will make every effort to be ready when they come into force.

I am incredibly proud to be a part of this great team that creates change through innovation. This is a team that wants to challenge the industry's status quo by placing the needs of our members and all Canadians at the forefront of our insurance strategies.

I would also like to mention the commitment and contribution Mr. Richard Gagnon has made to Humania Assurance's prosperity. His remarkable work as President and CEO deserves recognition.

Lastly, I would like to thank the Board of Directors and the management team for their support and extraordinary commitment.

We make a great team. Let us be the agents of our success.

Stéphane Rochon

President and Chief Executive Officer

“ **A high level of employee engagement.** ”

THANKS

During my first few months in this position, I had the honour of meeting all of Humania Assurance's employees. I would especially like to thank them for their support and open-mindedness. It is exciting for me and for the entire management team to see just how committed our employees are. We could not successfully carry out our mission without their dedication and participation. Innovation, teamwork, empathy, skill and integrity are all common values upheld by our employees every day.



A FORWARD- THINKING TEAM

BOARD OF DIRECTORS

JACQUES MARTINEAU

M. Sc., Adm.A., FCMC

CHAIRMAN

Corporate Director



GAËTAN COUTURE

Ph. D.

VICE-CHAIRMAN

Corporate Director



STÉPHANE ROCHON

MBA, ASC, Adm.A.

PRESIDENT AND CHIEF EXECUTIVE OFFICER



JOHANNE CASSIS

F CPA, FCA

Vice-President, Finance
Administration and Human Resources
Groupe Ultima Inc.



MICHEL CÔTÉ

MBA, F.Adm.A., FCMC

Corporate Director





RENÉ DELSANNE
M. Sc., FCIA, FSA, CFA

President
Delsanne conseil inc.



LOUISE PELLERIN-LACASSE
FCIA, FSA, CERA

Corporate Director



CLAUDE ROBITAILLE
CPA, CA, ASC

Corporate Director



JOANNE VÉZINA
MBA, ASC

Corporate Director

RICHARD GAGNON
F. Adm.A.

PRESIDENT AND CHIEF EXECUTIVE OFFICER
(until December 2016)

M^E RENÉ R. POITRAS
LL. L.

SECRETARY

PRESIDENT AND VICE-PRESIDENTS

STÉPHANE ROCHON

MBA, ASC, Adm.A.

President and Chief Executive Officer



LUC BERGERON

FCIA, FSA

Vice-President | Actuarial and Risk Management



TONY DI STAVOLO

FLMI, FALU, ACS

Vice-President | Insurance Operations



ÉRIC LEVAC

B. Sc., MBA, PMP

Vice-President | Digital Technology and Strategies



KIM OLIPHANT

B.A.A.

Vice-President | Sales and Marketing



MARC PELIEL

CPA, CMA

Vice-President | Finance



MANAGEMENT AND SALES TEAMS

MANAGEMENT

Nicole Beaulieu
Director of Operations | Sales and Marketing

Lynda Brunet, B. Sc. Management, FLMI
Director | Operations, Group Insurance

Jocelyne Desloges, CPA, CA, MBA, FLMI, ACS, AIAA, ARA
Assistant Vice-President | Finance

Jean-Patrice Dozois, B.A., LL. B.
Chief Compliance Officer

Alina Dudau, A.S.A.
Director | Actuarial Services

Sylvie Fontaine, CPA, CMA, FLMI/M, ACS
Director | Management Accounting

Daniel F. Gravel, CHS
Assistant Vice-President | Sales and Marketing

Danielle Lacombe, B.A.A., CRHA
Director | Human Resources

Valérie Le Roux, ACS
Director | Administration, Individual Insurance

Alain Lussier, B. Sc.
Director | Auxiliary Services

Kim Rochette
Director, Customer Experience | Insurance Operations

Nathalia Wosik, B. Sc.
Director | Claims Services

SALES TEAMS

INDIVIDUAL INSURANCE

Jason Broadfoot, B.A.
Regional Sales Manager, British Columbia

Amélie Jodoin
Sales Manager, Quebec

Élisabeth Landry, B.A.A.
Sales Manager, Quebec

Roberta Lust, B. Mgmt, CHS
Regional Sales Manager, Alberta

Michael J. Suska, B. Sc., CFP, CHS
National Sales Director, Outside Quebec

Charles Tremblay, B. Sc.
Sales Manager, Quebec

GROUP INSURANCE

Philippe Berbari, B. Sc. Act.
Sales Representative, Quebec

Mélina Gauthier, C.A.A.S.
Sales Representative, Quebec

Brian M. Paivo
Sales Representative, Ontario

A photograph of a man and a woman in an office setting. The man, on the right, is wearing glasses and a dark shirt, smiling as he looks at a tablet. The woman, on the left, has long dark hair and is also smiling, looking towards the man. The background shows office cubicles. The entire image has a purple overlay.

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

FOR LS MUTUAL MANAGEMENT

LS MUTUAL MANAGEMENT

SUMMARY 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	14,539	15,682
Change in fair value of financial assets designated at fair value through profit or loss	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	1,704	550
NET INCOME	4,628	4,521
Attributable to the policyholders	3,856	4,381
Attributable to the non-controlling interests	772	140
	4,628	4,521

LS MUTUAL MANAGEMENT

SUMMARY 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)]	478	(656)
	357	(1,368)
COMPREHENSIVE INCOME	4,985	3,153
Attributable to the policyholders	4,159	3,013
Attributable to the non-controlling interests	826	140
	4,985	3,153

LS MUTUAL MANAGEMENT

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016 (in thousands of Canadian dollars)

	2016 \$	2015 \$
ASSETS		
Investment		
Cash	14,195	13,524
Money market	23,959	3,667
Bonds	250,320	255,832
Shares	26,670	40,399
Infrastructure funds	10,222	10,133
Real estate funds	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	8,503	10,261
Reinsurance assets	150,725	141,500
Deferred tax assets	365	400
Property and equipment	10,440	10,156
Intangible assets	15,823	14,941
	197,713	188,862
	534,906	514,047

LS MUTUAL MANAGEMENT

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016 (in thousands of Canadian dollars)

	2016 \$	2015 \$
LIABILITIES		
Policy liabilities		
Policy reserves	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	18,116	19,549
Deferred tax liabilities	2,165	2,548
Debenture	4,937	4,928
	25,218	27,025
	460,450	444,465
EQUITY		
Members' equity	66,552	62,696
Non-controlling interests	14,731	14,016
Accumulated other comprehensive income	(6,827)	(7,130)
	74,456	69,582
	534,906	514,047

On behalf of the Board



Stéphane Rochon, Director



Jacques Martineau, Director

LS MUTUAL MANAGEMENT

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

2016	Members' equity \$	Non- controlling interests \$	Accumulated other comprehensive income \$	Total equity \$
Balance, beginning of year	62,696	14,016	(7,130)	69,582
Net income	3,856	772	-	4,628
Other comprehensive income	-	54	303	357
	3,856	826	303	4,985
Change in non controlling interests	-	(111)	-	(111)
Balance, end of year	66,552	14,731	(6,827)	74,456

2015	Members' equity \$	Non- controlling interests \$	Accumulated other comprehensive income \$	Total equity \$
Balance, beginning of year	58,315	(46)	(5,762)	52,507
Net income	4,381	140	-	4,521
Other comprehensive income	-	-	(1,368)	(1,368)
	4,381	140	(1,368)	3,153
Change in non controlling interests	-	13,922	-	13,922
Balance, end of year	62,696	14,016	(7,130)	69,582

LS MUTUAL MANAGEMENT**NOTES TO SUMMARY CONSOLIDATED FINANCIAL STATEMENTS**

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

1. CRITERIA FOR THE PREPARATION OF SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

LS Mutual Management (hereinafter the “Company”) prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were approved and authorized for issue by the Board of Directors on February 24, 2017. The independent auditor expressed an unmodified opinion on these consolidated financial statements in the independent auditor’s report dated February 24, 2017.

The Company elected to prepare summary consolidated financial statements using the following criteria:

- a) Presentation of one set of consolidated financial statements, except for the consolidated statement of cash flows and the notes to the consolidated financial statements;
- b) Use of the same format in the summary consolidated financial statements that was used for the consolidated financial statements, except for the references to the notes;
- c) Exclusion of the notes to consolidated financial statements, unless their omission prevents users from obtaining a structured view of the Company’s economic resources and obligations at a given time or of any changes during a period.

2. AVAILABILITY OF THE CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements are available on Humania Assurance Inc.’s website (www.humania.ca) after they have been presented at the general meeting.

Additionally, a paper copy of the consolidated financial statements may be obtained by contacting Humania Assurance Inc.

A photograph of a modern conference room. In the background, a large screen displays the logo for Humania Assurance Inc., which consists of a stylized building icon followed by the text "HUMANIA ASSURANCE INC.". The room features a long, dark conference table with several black leather chairs arranged around it. On the table, there are several clear water bottles. A potted plant is visible near a window on the right side of the room. The entire image has a blue color overlay.

HUMANIA
ASSURANCE INC.

REPORTS AND COMMITTEES

INDEPENDENT AUDITOR'S REPORT

To Policyholders of LS Mutual Management,

The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2016, and the summary consolidated statements of earnings, comprehensive income and changes in equity for the year then ended, and the related notes to summary consolidated financial statements, are derived from the audited consolidated financial statements of LS Mutual Management for the year ended December 31, 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 24, 2017.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS). Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of LS Mutual Management.

Management's responsibility for the summary consolidated financial statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with the criteria described in Note 1.

Auditor's responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of LS Mutual Management for the year ended December 31, 2016, are a fair summary of those consolidated financial statements, in accordance with the criteria described in Note 1.

*Raymond Chabot Grant Thornton S.E. N.C. R. L.*¹

Raymond Chabot Grant Thornton

Québec, February 24, 2017

¹ CPA auditor, CA public accountancy permit No. A125181



MANAGEMENT'S REPORT

The summary consolidated financial statements of LS Mutual Management contained in this annual report are the responsibility of management and have been approved by the Board of Directors. They have been derived from the consolidated financial statements of LS Mutual Management and should be interpreted together with them, including the additional notes.

To assist the Board in its duties, the company maintains an internal auditing system to provide reasonable assurance that assets are safeguarded, that only valid and authorized transactions are carried out, and that the financial information is accurate, complete and provided in a timely manner.

The Board of Directors fulfils its responsibilities with regard to financial reporting primarily through its Audit Committee that is composed entirely of independent directors and meets periodically with management and the appointed independent auditor. The independent auditor may, at its discretion, meet with the Audit Committee, in the presence or absence of management, to discuss matters pertaining to auditing and financial reporting.

On behalf of management,



Stéphane Rochon
President and Chief Executive Officer



Marc Pellet
Vice-President, Finance

Saint-Hyacinthe, February 24, 2017

APPOINTED ACTUARY'S REPORT

To the policyholders of LS Mutual Management,

I have assessed the policy liabilities and reinsurance recoverables of LS Mutual Management for its consolidated balance sheet as at December 31, 2016, and any changes posted to the consolidated statement of income for the year then ended, in accordance with the accepted actuarial practices in Canada. This included selecting the appropriate valuation assumptions and methods.

In my opinion, the policy liabilities net of reinsurance recoverables constitute adequate provision for all policyholder obligations under the policies. In addition, the company's results are accurately presented in the consolidated financial statements.

The report is compliant with the Quebec Act Respecting Insurance and its regulations.



Marie-Andrée Boucher, FCIA, FSA
Appointed Actuary

Montreal, February 24, 2017

ETHICS AND GOVERNANCE COMMITTEE

COMPOSITION

The Committee is composed of independent directors. It must comprise at least three members, the majority of whom do not sit on another statutory Committee of the Board of Directors.

MEMBERS

Joanne Vézina, Chair
Michel Côté
Jacques Martineau

Mandate

The Ethics and Governance Committee is primarily responsible for establishing the rules of ethics and professional conduct applicable within the Company and ensuring that they are communicated to the intended persons. The committee must be informed of any breach of those rules and take the appropriate action under the circumstances.

With regard to governance, the committee is responsible for proposing governance rules that promote the Company's sound management to the Board of Directors, in addition to ensuring that such rules are enforced and updated.

Ethics Activity Report

In performing its annual review of the rules of ethics and professional conduct, the committee made certain changes aimed at introducing new provisions regarding sound commercial practices for Humania Assurance and a clear reference to the company's values.

In terms of enforcement, the committee received a report from management indicating that the rules of ethics and professional conduct had been adequately communicated across the Company and its subsidiaries and that no breach of ethics had been documented during the year. The committee further studied the directors' statements of interest and determined that no outside director was tied to the Company or in a potential conflict of interest. Only the President and CEO is a director tied to the Company within the meaning of the law.

Governance and Compliance Activity Report

The committee received a compliance report regarding the overhaul of the governance guideline by the Autorité des marchés financiers (AMF) and discussed the possible implications of the proposed changes.

The committee considered a review of the privacy policy and updates to the financial crime policy.

Furthermore, the committee received and reviewed the compliance reports and monitored the progress of the 2016 compliance action plan.

As per their mandate, the committee members conferred with the Chair of the Board of Directors on issues related to the appointment of new directors and the competency profiles to be emphasized on the Board of Directors. The committee also ensured adherence to the policy governing integrity and competency criteria of Board members and officers of Humania Assurance Inc. companies.

In addition, the committee recommended to the Board of Directors various measures to streamline governance for the company and its subsidiary, LS-Travel. Upon recommendation by the committee, the Board of Directors decided that the same directors would sit on the boards of both corporations while still maintaining an independent board for each.

In conclusion, as requested by the Board, the committee considered an update of the Company's mission, vision and values.

Joanne Vézina
Chair

AUDIT COMMITTEE

Mandate

The Audit Committee is responsible for overseeing the financial reporting process and ensuring that the financial statements are reported in accordance with the International Financial Reporting Standards (IFRS). Furthermore, the committee ensures that a suitable internal control system is in place, monitors risk management processes, recommends the company's risk profile and corresponding action plan to the Board of Directors. The Committee also supervises the audit process as well as procedures implemented by the company to ensure compliance with accounting and finance legislation and regulations.

Activity Report

Further to the replacement of Daniel McMahon and René Delsanne, the Board of Directors named two new members in 2016, Louise Pellerin-Lacasse and Claude Robitaille.

With respect to financial information, the Committee primarily reviewed the independent auditor's report for the financial year ending December 31, 2015, and received the Dynamic Capital Adequacy Testing (DCAT) report from the appointed actuary as well as her assessment of actuarial liabilities.

The Committee recommended to the Board of Directors that the audited financial statements be approved and that the proposed 2016 audit plan be adopted. The Committee received statements from management concerning the company's compliance with statutory requirements and policies relating to investment management and IT security.

Committee members also examined existing internal control procedures and studied the submitted reports which dealt with the internal audit activities carried out by the finance team and audits conducted by the company's external partners, such as reinsurers and specialized firms. In addition, Committee members continue to work with management to monitor the progress and impact of certain changes to IFRS standards and capital adequacy requirements for life and health insurance companies slated for June 2018.

In accordance with the mandate conferred by the Board of Directors, the Committee studied the process leading to the preparation and monitoring of the company's risk profile, including related action plans, and recommended its adoption to the Board of Directors. The Committee also studied the crisis simulation report prepared by the actuarial team, and proposed a target ratio and the level of risk appetite for the company to the Board of Directors. Similarly, the Committee reviewed the actuarial assessment of the company's supplemental pension plan and submitted appropriate recommendations to the Board of Directors, with consideration for the impacts of the entry into force of Bill 29 regarding pension plan funding.

With regard to computer security, the Committee reviewed the company's audits and action plans to ensure the security of its systems and the protection of its data.

Lastly, it recommended to the Board of Directors that certain policies be updated and adopted.

To fulfil its mandate, the Committee worked closely with management and held private meetings with the independent auditor and the appointed actuary.

COMPOSITION

The Committee is composed of independent directors. It must comprise at least three members, the majority of whom do not sit on another Committee of the Board of Directors. Each Committee member must have appropriate proficiency of financial principles and concepts and at least one must have accounting or financial management expertise.

MEMBERS

Johanne Cassis, Chair
 Louise Pellerin-Lacasse
 Claude Robitaille

Johanne Cassis
 Chair

HUMAN RESOURCES COMMITTEE

COMPOSITION

The Human Resources Committee is composed of at least three directors, including the Chair of the Board of Directors, who also chairs the Committee.

MEMBERS

Jacques Martineau, Chair
 Michel Côté
 Gaëtan Couture

Mandate

The Human Resources Committee is responsible for conducting an annual evaluation of the President and CEO's performance and recommending his compensation to the Board of Directors.

In addition, the Committee receives, reviews and approves the President and CEO's recommendations on the total compensation for vice-presidents.

It updates the company's management succession plan and reviews the major issues of the company's human resources.

Activity Report

In accordance with its mandate, the Committee conducted an evaluation of the outgoing President and CEO Richard Gagnon and submitted its report to the Board of Directors. It further recommended to the Board the President's compensation for 2016 and the related targets.

The Committee also adopted recommendations made by the President and CEO on the vice-presidents' compensation for 2016 and the related targets. It also assessed the company's results and evaluated to what extent 2016 objectives were reached. Moreover, the Committee reviewed pension benefit values for members of management.

It also adopted a transition and communication plan for the change in presidencies.

Lastly, the Committee conducted an annual review of the company's management succession plan and discussed it with the Board of Directors.

Jacques Martineau
 Chair

INVESTMENT COMMITTEE

Mandate

The Investment Committee is responsible for recommending the company's investment policy and its ongoing adjustments to the Board of Directors. The Committee implements investment and matching strategies and ensures compliance with the policy. Moreover, the Committee analyzes results and ensures that the company's assets match its financial commitments to an extent that is consistent with the policy's objectives.

The Committee recommends the choice of investment managers to the Board of Directors, ensures their compliance with the company's investment policy and evaluates their performance based on established objectives.

Humania Assurance's Investment Committee assumes the same responsibilities for LS-Travel.

Activity Report

Throughout the year, the Committee assessed managers' performance with respect to the investment portfolios of the company and its subsidiary, LS-Travel.

It conducted quarterly reviews of the investment policy compliance reports presented by the managers and reported back to the Board of Directors.

The Committee tracked the Asset-Liability matching of the company's obligations. Quarterly ALM reports were submitted to the Board of Directors.

In 2016, long-term bond rates reached yet another historic low, with a slight upturn near the year's end. This made bond matching very costly. Our diversification strategy put in place in recent years using preferred shares, infrastructure and real estate served us well in 2016. We were able to increase returns and improve our asset-liability matching, all in a bond market unfavourable to long-term investments.

In 2017, the arrival of a new solvency framework for insurance companies will be a major theme in Investment Committee discussions. The new framework will hike capital requirements for Non-Fixed Income securities. In turn, the Investment Committee will have to determine how to adjust the investment policy to optimize the company's returns under these new constraints.

Stéphane Rochon
Chairman

COMPOSITION

The Committee is composed of six members and comprised of directors, officers and external experts appointed by the Board of Directors. The President and Chief Executive Officer chairs the Committee.

MEMBERS

Stéphane Rochon, Chairman
Luc Bergeron, Vice-President, Actuarial and Risk Management
Marc Peliel, Vice-President, Finance
René Delsanne, Director
Clément Albert, External expert
Jean-Louis Gauvin, External expert

DECLARATION OF GOVERNANCE, COMPLIANCE AND INTEGRATED RISK MANAGEMENT

Governance

Governance is the body of rules and principles to which the company, its directors and its officers must adhere in the performance of their functions to ensure the organization's sound management and financial profitability. It defines the role and responsibilities of the Boards of Directors, directors and senior management, as well as the competencies needed to be a director.

Humania Assurance applies governance rules that recognize the essential contribution of the Board of Directors to the organization's success. Those rules define, among other things, the mandate and operational standards of its Board of Directors, the responsibilities of its directors and the mandates of statutory committees, and ensure that officers meet the highest ethical standards. They divide tasks among the Board of Directors, the Board Chairman and the President and Chief Executive Officer, and they establish a variety of mechanisms to ensure integrated risk management, adequate internal controls and independent supervision of certain activities.

Compliance Policy

As an insurance company, Humania Assurance operates in a constantly evolving legislative, regulatory and normative environment. Management places the utmost importance on legislative and regulatory compliance and on prudent, sound management practices.

Humania Assurance has developed a compliance management policy towards establishing a management framework that includes measures to oversee and mitigate the risk of non-compliance with the regulatory environment. It enables members of the Board of Directors to obtain reasonable assurance that Humania Assurance's operations are carried out in accordance with the regulatory environment to which the company is subject.

The compliance management policy serves to:

- outline the principles and components of the compliance management framework;
- define the roles and responsibilities in the area of compliance;
- meet the requirements established by regulatory authorities while adapting them to the reality of Humania Assurance.
- build a common culture and shared vision of compliance.

Integrated Risk Management Policy

Humania Assurance operates in an environment where risk management is essential and intrinsic to conducting business. The existence of formal, integrated practices enables it to manage its risks in a uniform, progressive and dynamic approach.

Integrated risk management at Humania Assurance serves to:

- identify, assess, manage and monitor, uniformly and consistently year-to-year, the risks that may hinder achievement of the company's strategic and operational objectives;
- provide the necessary feedback to promote collaboration and horizontal risk management and facilitate the sharing of information on risk across the entire organization;
- create a risk management culture that uniformly and explicitly facilitates resource allocation and decision-making based on the Company's risk appetite as determined by the Board.

The integrated risk management policy provides a management framework that includes risk identification, assessment, oversight and mitigation measures, for the purpose of good governance.

CODE OF ETHICS OF THE CANADIAN LIFE AND HEALTH INSURANCE ASSOCIATION (CLHIA)

Humania Assurance is a member of Canadian Life and Health Insurance Association and adheres to its code of ethics for members:

1. To engage in keen, fair competition so that the public can obtain the products and services it needs at reasonable prices.
2. To advertise products and services clearly and straightforwardly, and to avoid practices that might mislead or deceive.
3. To ensure that illustrations of prices, values and benefits are clear and fair, and contain appropriate disclosure of amounts that are not guaranteed.
4. To write all contracts in clear, direct language without unreasonable restrictions.
5. To use underwriting techniques that are sound and fair.
6. To pay all valid claims fairly and promptly and without unreasonable requirements.
7. To ensure competent and courteous sales and service.
8. To respect the privacy of individuals by using personal information only for the purposes authorized and not revealing it to any unauthorized person.

STATEMENT OF EQUITABLE TREATMENT OF CONSUMERS

The principles of sound commercial practices and equitable treatment of consumers govern all of Humania Assurance's commercial practices, and should guide the decision-making and day-to-day actions of all its employees. For Humania Assurance, having sound commercial practices means acting in a fair and responsible manner.

To this effect, the following statement of equitable treatment clearly establishes Humania Assurance's position.

Statement of Equitable Treatment

Humania Assurance adheres to the highest standards with regard to the equitable treatment of consumers. We are committed to providing our clients with clear, comprehensive information, fair and equitable treatment, diligent processing of claims and strict protection of their personal information.

Every client can expect to receive clear information on his or her insurance policy, the coverage it provides and the claims settlement process. Clients seeking complementary information are invited to refer to their insurance policy as well as their financial security advisor or our website.

Consumers are also welcome to bring forward any questions they might have regarding their insurance policy in order to better understand the guarantees it provides and the obligations it creates.

Any client wishing to submit a complaint concerning the service he or she has received is invited to do so through Humania Assurance's complaint resolution process.

OUR COMMITMENT TO CONCRETE ACTION

SOCIAL RESPONSIBILITY

Social responsibility has become commonplace over the years, and yet, it is often still seen as a gateway to a clean conscience rather than a commitment.

At Humania Assurance, we are committed to serving all our partners and the people we insure, and to making a contribution to the social, economic and environmental progress of our communities. Our company is always ready to make a contribution, monetary or otherwise, to concrete actions.

COMMUNITY INVOLVEMENT

Every year employees and Humania Assurance come together to contribute to the annual Centraide Richelieu-Yamaska campaign. The generosity of our employees, their participation in the activities and the company's contribution to the 2016 campaign made it a resounding success yet again!

In 2014, Humania Assurance agreed to forge a partnership with the city of Saint-Hyacinthe to provide fifteen years of support for a cultural centre that brings the region's sociocultural organizations together under one roof. The Company pledged a total of \$300,000 toward this municipal building, which is called Centre culturel Humania Assurance.

For sixteen years, the company has also supported Cégep de Saint-Hyacinthe's week of activities promoting professional behaviour for students in various programs. The Company has also been contributing to the 2011-2016 fundraising campaign for the Fondation du Cégep de Saint-Hyacinthe, which provides financial aid to students.

Humania Assurance is proud to be involved in a range of causes related to health, youth and community organizations. The company supports the efforts of l'Hôtel-Dieu's Fondation Aline-Letendre in Saint-Hyacinthe to improve the lives of its long-term residents. It is also a major sponsor of the Défi Vélo Santé (cycling fundraiser) organized during the summer.

SOCODEVI

The Société de coopération pour le développement international (SOCODEVI) is a Canadian network of cooperatives and mutuals that share their technical expertise and know-how with their partners in developing countries. The goal: to create, protect and distribute wealth among the poorest populations.

In November 2016, Danielle Lacombe, Director of Human Resources at Humania Assurance travelled to Colombia to take part in a six-year project, called PROCOMPITE, launched in March 2014 aimed at strengthening the competitiveness of rural associative enterprises. The project works to bolster the production and entrepreneurial capacities of more than 6,000 farmers (3,000 families) in various departments of Colombia. The mission's primary objective was to provide to local managers, in their efforts to develop and implement customized human resource, strategies and tools for PROCOMPITE.

In September 2016, three members of the SOCODEVI network, including Sandrine Lahure of Humania Assurance, took part in a mission to raise awareness about international cooperation in Bolivia and the challenges of the cooperative movement.



In 2016, Humania Assurance offered us the chance to take part in a contest organized by SOCODEVI to win a trip to Bolivia. I was one of the three lucky winners. The purpose of the trip was to raise awareness about international cooperation issues and to learn about the country's incredibly rich culture.

Throughout our stay, we were warmly received in the chocolate, quinoa and oregano cooperatives that SOCODEVI supports.

I was witness to the meaningful work that SOCODEVI does to help the cooperatives develop sustainably, to help the local population take charge of their project, and to promote gender equality.

This trip was, without a doubt, one of the most rewarding experiences I have ever been afforded.



SANDRINE LAHURE, HUMANIA ASSURANCE



THANKS TO OUR PHOTO MODELS

A TEAM THAT MAKES US PROUD

We sincerely thank all our employees who helped produce the 2016 annual report.

Page 2

Katie Deslandes, Lead, Sales and Marketing, Group Insurance (one year of service)
Kim Oliphant, Vice-President, Sales and Marketing (less than one year of service)
Nicole Beaulieu, Director of operations, Sales and Marketing (35 years of service)
Mélina Gauthier, Sales Representative, Group Insurance, Quebec City (11 years of service)

Page 3

Charles Tremblay, Director of Sales, Individual Insurance, Quebec City (13 years of service)
Daniel F. Gravel, Assistant Vice-President, Sales and Marketing (17 years of service)

Page 4

Philippe Berbari, Sales Representative, Group Insurance, Quebec City (less than one year of service)
Katie Deslandes, Lead, Sales and Marketing, Group Insurance (one year of service)

Page 5

Manon Girard, Accounting Clerk (36 years of service)

Page 9

Sasha Caron, Underwriter, Individual Insurance (two years of service)
Katie Deslandes, Lead, Sales and Marketing, Group Insurance (one year of service)
Stéphanie Laporte-Desmarais, Sales Assistant, Customer Service (6 years of service)

Page 19

Jérémie Gagnon, Communications Advisor, Digital Platform (one year of service)
Natacha Blouin, Administrative Assistant, Auxiliary Services (five years of service)
Véronique Hébert-Lussier, Communications Coordinator (one year of service)
Annie Pinard, Graphic Design Technician (less than one year of service)

Page 24

Carole Giasson, Accounting Clerk (27 years of service)
Jean-François L'Heureux, Programmer Analyst (18 years of service)

Page 32

Amélie Jodoin, Director of Sales, Individual Insurance, Quebec City (six years of service)

Page 41

Sandrine Lahure, Underwriter, Group Insurance (six years of service)

HUMANIA ASSURANCE

1555, Girouard Street West, Saint-Hyacinthe, Quebec J2S 2Z6
Telephone: 1-877-554-7181 | www.humania.ca

READ THE ONLINE VERSION: RA.HUMANIA.CA

READ THE ONLINE VERSION: RA.HUMANIA.CA