Assumption Life

2016 ANNUAL REPORT

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

OUR MISSION is still the same today, with one difference – we now protect families from across Canada.

Board of Directors

In order from left to right:

First Row:
Yvon Fontaine
B.Soc.Sc, LL.B, LL.M.

Andrée Savoie, ICD.D
President & CEO
Adelin Properties

Marcel Godbout, CPA, CA
Tax Partner
Bishop & Company Chartered Accountants Inc.

Monique Tremblay, FCIA, FSA, MBA

Allister Surette
President and Vice Chancellor, Université Sainte-Anne

Last Row:
Lise Casgrain, MBA, ICD.D
Company Director

Ivan Toner, ICD.D
President, MelamTech Consulting

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

André Vincent
President and CEO,
Assumption Life

Yves Arseneau, CPA, CA
Vice President of the Board

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

Absent from the picture:
Patrick Gillespie, LL.B.
President
Ashford Investments Inc.

Board Member Attendance

Board of Directors 2016	Attendance Board Meetings	Attendance Committee Meetings	Attendance Subsidiaries Meetings
Yves Arseneau	6/6	14/14	3/3
Yvon Fontaine	6/6	9/9	6/6
André Vincent	6/6	19/19	6/6
Andrée Savoie	5/6	7/7	1/1
Lise Casgrain	5/6	4/6	-
Allister Surette	6/6	9/9	-
Jacques Valotaire	6/6	22/22	9/9
Monique Tremblay	6/6	7/7	3/3
Ivan Toner	5/6	8/8	2/2
Patrick Gillespie	4/6	6/8	1/1
Marcel Godbout	6/6	8/8	3/3

Board Committees

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

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

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

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

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

Message From the Chairman of the Board of Directors

Assumption Life posted good results in 2016, particularly with respect to profitability, achieving the third-highest profit level in its history! This performance is worth noting because of the significant challenges that the company has had to address in an increasingly competitive insurance market.

We attribute this success to our management team's efforts, well-established relationships with our business partners and the unwavering support of our employees.

In this respect, I would like to point out that once again Assumption Life achieved a platinum ranking on Aon's list of Best Small & Medium Employers in Canada. This is a tangible indication of satisfaction from Assumption Life employees, and success and recognition that we can be proud of.

INSTITUTIONAL VIGILANCE

In 2016, we closely followed the implementation of the strategic plan, during its first year of roll-out. This plan aims at doubling our revenue. The Board of Directors feels that this strategy is very important to Assumption Life's continued growth and competitiveness.

We have also paid particular attention to the results of the internal reorganization of the management team that took place in 2015, and the reorganization of the marketing and communications departments in 2016. This included the appointment of Mr. Denis Tremblay as Vice President of Sales and Marketing.

CORPORATE GOVERNANCE

We were advised during the course of the year by two members of the Board of Directors, namely Patrick Gillespie and Marcel Godbout, that they would not be seeking new mandates in 2017, after having held office for two years. These decisions were made for personal reasons. I would like to thank them for their support and assistance. We have therefore begun a selection process to fill these two positions on the Board of Directors.

The Board of Directors continued to ensure the good governance of the company with respect to internal control and risk management. Our fiduciary duty requires that we comply with our obligations to our policyholders and carry out our mandate faultlessly.

Finally, the Board of Directors has given particular attention to updating the preparation of the new strategic plan for our Louisbourg Investments subsidiary, which is one of the very few investment management firms established in the Atlantic provinces. The goal of the Louisbourg Investments strategic plan is to double its profitability by 2021. We believe that this firm has untapped potential for financial growth, for the benefit of Assumption Life.

TRAINING FOR MEMBERS OF THE BOARD OF DIRECTORS

Nowadays, boards must deal with increased regulatory scrutiny, increased competition in the marketplace and experienced business partners. As a result, the roles and responsibilities of board members have evolved and become more complex. The Board therefore places great importance on training its members and adopted a training policy this year in this respect.

The Board is therefore encouraging its members to register for the Directors Education Program delivered by the Institute of Corporate Directors. Five members have already been granted the ICD.D. professional designation.

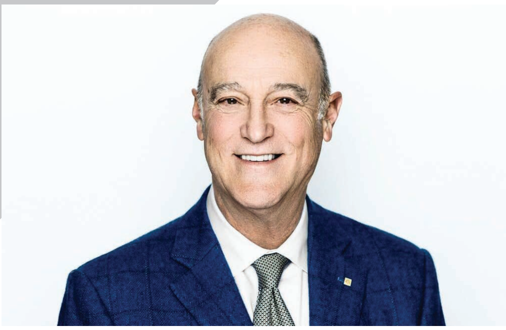
ACKNOWLEDGEMENTS

I have now completed my first year as Chairman of Assumption Life's Board of Directors and I am very honoured to serve in this capacity.

I would like to take this opportunity to thank my colleagues on the Board of Directors, the management team, our employees, our sales network and our clients, and the staff at Assumption Place and at our subsidiary Louisbourg Investments for their support, their attentiveness and their dedication.

Chairman of the Board of Directors,

JACQUES VALOTAIRE



Message From the President and CEO

Deeply rooted in Acadia's historical narrative, in 2016 Assumption Life embarked upon a significant transformation process to ensure long-term growth. Driven by a new strategic plan, we strengthened our foundations and showed that we had the ability to adapt by fine-tuning our products and services, the way we do things, and our client experience. This was an ambitious challenge, but we tackled it in order to better position our business. Our transformation is not yet complete, but now we have more agility than ever to capture more market share and to challenge ourselves.

In 2016, we saw satisfactory growth in our business lines. Assets under management reached $1.6 billion. Profits attributable to policyholders reached $7.3 million, which is a slight decrease compared to last year, but exceeds the results that we had expected. Premium income increased to $185 million. At the end of the fiscal year, policyholders' equity totalled $121 million, an increase of 3.5% compared to 2015.

ENHANCING CUSTOMER EXPERIENCE IN A CONNECTED WORLD

Innovation has continued to be a component of our overall strategy and we will continue to offer new products such as the new line of individual no medical insurance products that we launched.

We understand that our clients' preferences can change, and so we have adopted digital technologies and alternative distribution channels to respond to our clients when they want and in the format they want. To do this, we optimized convenience and proximity factors by setting up new access points to reach our clients.

We also analyzed ways to achieve the maximum possible improvement in client experience. In 2017, client experience quality will be one of our key priorities. We will focus our efforts on skills, trust, and long-term relationships. Even with the advent of social media, digital technologies and alternative channels, we will insist on remaining a company with a human face, customizing our products and services to meet customer needs.

A SELECT COMPANY ASSOCIATED WITH SELECT PARTNERS

Although we focussed on change in 2016, we held onto our sound values by banking on our existing distributors. Using this approach, we have relied on the great diversity of our manufacturing expertise to provide our distributors with even better tools, products and technologies. Their undisputed success will have even more impact.

Another highlight of 2016 was the fact that we also established our first three strategic partnerships. We plan to build on the synergies presented by this development to grow and move towards the future.

OUR EMPLOYEES: THE KEY TO OUR SUCCESS

Throughout the process of change that we started in 2016, our employees demonstrated that they were committed to getting things right and to encourage a healthy performance culture. We would like to thank them for their talent and passion.

These attributes had an impact on many areas. Our employees are the reason that Assumption Life has made a difference in the communities where it operates. And they are the reason why clients have placed their trust in us. Their team spirit and effectiveness have made a difference during this process of repositioning and performance enhancement.

LOOKING AHEAD TO 2017

Since it is not possible to achieve a positive transformation without flawless execution, we intend to make the right choices in 2017. We plan to strengthen our strategic partnerships, increase our speed of execution in the market and promote our new customer experience vision.

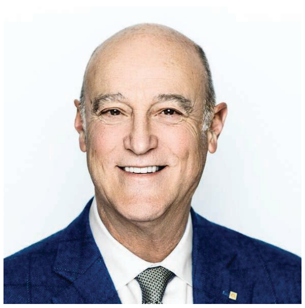
We will also provide our clients with a wider range of choices so they can better communicate and work with us, and assert our presence in a business line that we are planning to expand, namely group retirement savings.

We are optimistic about the future, which is truly in our hands and holds the promise of considerable growth opportunities.

André Vincent

ANDRÉ VINCENT
President and CEO

Senior Management



André Vincent
President and CEO

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

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

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

Rachelle Gagnon
MBA, CA
Vice President
Administration and Client Experience

Derrick Smith, B.C.Sc.
Vice President
Chief Information Officer

Denis Tremblay, MBA
Vice President
Sales and Marketing

Assumption Life salutes employees who have contributed to its success!

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

During its Annual General Meeting, the company took the opportunity to highlight the hard work and determination of the following employees, by presenting various 2016 recognition awards to them.

President's award for excellence

Odette Breau
Agent, Customer Service and Calls

Management award for excellence

Jolène Cormier
Manager, Group Underwriting

Recruit of the year award

Jed Cormier
Technical Support Agent - Brokerage

Volunteer award

Nicole Belliveau
Manager, Human Resources

Excellence award

Gabriel Bisson
Actuarial Analyst

Excellence award

Andréa Bureaux
Senior Underwriter

Excellence award

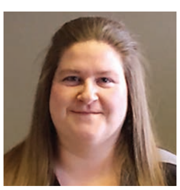
John Coughlan
Business Development Manager – Atlantic

Excellence award

Christa Guitard
Customer Service Agent

Excellence award

Adam Thibodeau
Human Resources Agent



Excellence award

Isabelle Vautour
Risk Assessment and Policy Issue Coordinator

Assumption Life is proud to strengthen community spirit!

A year after the launch of our *Social Responsibility Program*, the involvement of our company and its employees is still palpable.

"We take our status as a mutual life insurance company very seriously, and we are convinced of the importance of giving back to the Acadian community, which is where our deepest roots lie. "
– André Vincent, President and CEO

#KindActChallenge: a wave of generosity that keeps spreading

With hearts filled with kindness and a smile on their faces, teams of Assumption Group employees spent a half-day volunteering at an organization in the region. Testifying to the success of this initiative, Assumption Group intends to increase its employees' volunteering time by allocating an additional half-day in 2017.

In 2016, 6% of the Assumption Group's net profits were distributed to various organizations and community groups working in various sectors.

"This deep desire to see our community grow, flourish and take root is shared by all of our employees and senior management. Naturally we are delighted to be able to support and assist organizations in our community with their projects."

– Réjean Boudreau, Vice President, Chief of Organizational Development

At the time of its establishment in 1903, La Société l'Assomption provided vital support for the education of Acadians in the United States and Canada, and the Assumption Foundation stands by this commitment.

Assumption FOUNDATION

Jeunes reporters Acadie's winner, François Poirier.

This year, a significant change was made to the structure of the Assumption Foundation in order to increase our contribution even more. As of this year, 1% of the company's profits will be paid out in the form of donations and sponsorships for projects that promote learning and education.

Sistema New Brunswick's young musicians in action.

To learn more about our many philanthropic activities, please read our 2016 Social Responsibility Report.

Assumption Life's Financial Health in 2016

$1.6 BILLION — Assets under management

$185 MILLION — Premium income

$7.3 MILLIONS — Profit attributable to policyholders

$121 MILLIONS — Policyholders' equity

245% Solvency ratio at December 31, 2016

A – For a 17th consecutive year

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

ASSUMPTION MUTUAL LIFE INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT
TO THE POLICYHOLDERS

We have audited the attached consolidated financial statements of **Assumption Mutual Life Insurance Company,** which include the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Assumption Mutual Life Insurance Company** as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Dieppe, Canada
February 23, 2017

VALUATION
ACTUARY'S REPORT

To the policyholders of Assumption Mutual Life Insurance Company,

I have valued the policy liabilities of **Assumption Mutual Life Insurance Company** for its consolidated statement of financial position as at December 31, 2016, and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Moncton, New Brunswick
February 16, 2017

Luc Farmer
Fellow, Canadian Institute of Actuaries

CONSOLIDATED STATEMENT **OF FINANCIAL POSITION**

(in thousands) As at December 31

		2016	2015
ASSETS	Notes	$	$
Invested assets	4		
Cash and cash equivalents		4,288	8,818
Debt securities		496,317	485,253
Equity securities		66,606	66,081
Mortgages		116,238	116,334
Other invested assets		2,117	1,867
Policy loans		9,384	8,714
Investment properties		30,781	30,869
		725,731	717,936
Other assets	7	18,924	23,101
Reinsurance assets	11	181,623	168,883
Deferred tax assets	17	2,510	2,241
Property and equipment	8	5,062	4,756
Intangible assets	9	4,413	4,689
Goodwill		467	467
Segregated fund net assets	10	706,782	657,596
		1,645,512	1,579,669
LIABILITIES			
Insurance contract liabilities	11	753,259	735,237
Investment contract liabilities	12	21,383	22,138
Other liabilities	14	22,099	24,289
Employee benefit liability	15	11,240	13,022
Deferred tax liabilities	17	4,694	4,261
Borrowings	16	4,247	5,492
Segregated fund net liabilities	10	706,782	657,596
		1,523,704	1,462,035
EQUITY			
Policyholders' equity			
Accumulated Surplus		116,891	110,512
Accumulated other comprehensive income		4,130	6,418
		121,021	116,930
Non-controlling interests		787	704
		121,808	117,634
		1,645,512	1,579,669
Contingencies and Commitment	19, 20		

SIGNED ON BEHALF OF THE BOARD,

Chairman

President and Chief Executive Officer

CONSOLIDATED STATEMENT **OF INCOME**

(in thousands) Year ended December 31

REVENUE	Notes	2016 $	2015 $
Gross premiums		184,497	182,170
Premiums ceded to reinsurers		(31,519)	(29,493)
Net premiums	21	152,978	152,677
Fees and commission income	23	20,124	18,970
Investment income	24	15,885	16,825
Realized gains from available-for-sale financial assets	26	1,893	1,804
Fair value gains and losses	27	11,692	9,263
Other operating revenue		506	503
Other revenue		50,100	47,365
Total revenue		203,078	200,042
EXPENSES			
Gross benefits and claims paid	22	137,661	156,147
Claims ceded to reinsurers	22	(20,387)	(21,747)
Gross change in contract liabilities		18,337	(2,772)
Change in contract liabilities ceded to reinsurers		(12,731)	(10,064)
Net benefits and claims		122,880	121,564
Borrowing costs	28	106	146
Fees and commission expenses	29	31,208	28,819
Administrative expenses	29	32,244	31,012
Other operating expenses		5,023	5,404
Other expenses		68,581	65,381
Total expenses		191,461	186,945
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		11,617	13,097
Policyholder dividends		1,172	1,097
PROFIT BEFORE INCOME TAXES		10,445	12,000
Income taxes	17	2,665	2,688
PROFIT FOR THE YEAR		7,780	9,312
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		508	410
Policyholders		7,272	8,902
		7,780	9,312

CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

(in thousands) Year ended December 31

	2016	2015
	$	$
PROFIT FOR THE YEAR	7,780	9,312
Other comprehensive income:		
Items that will be reclassified subsequently to net income		
Available-for-sale financial assets:		
Change in unrealized gains (losses), net of income taxes of ($348) ($88 in 2015)	(856)	207
Reclassification of realized gains included in other revenue, net of income taxes of ($486) (($506) in 2015)	(1,407)	(1,298)
Total of items that will be reclassified subsequently to net income	(2,263)	(1,091)
Items that will not be reclassified subsequently to net income		
Remeasurement of defined benefit pension plans, net of income taxes of ($440) (($275) in 2015)	(893)	(735)
Total of other comprehensive income	(3,156)	(1,826)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,624	7,486
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	533	394
Policyholders	4,091	7,092
	4,624	7,486

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

(in thousands) Year ended December 31

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

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

(in thousands) Year ended December 31

	2015				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	102,345	7,493	109,838	880	110,718
Profit for the year	8,902	-	8,902	410	9,312
Items that will be reclassified subsequently to net income	-	(1,075)	(1,075)	(16)	(1,091)
Remeasurement of defined benefit pension plans	(735)	-	(735)	-	(735)
Total comprehensive income	8,167	(1,075)	7,092	394	7,486
Dividends	-	-	-	(570)	(570)
Balance, end of year	110,512	6,418	116,930	704	117,634

The accumulated other comprehensive income is comprised solely of unrealized gains (losses) on available-for-sale financial assets, net of related income taxes.

CONSOLIDATED STATEMENT **OF CASH FLOWS**

(in thousands) Year ended December 31

	2016	2015
	$	$
OPERATING ACTIVITIES		
Profit for the year	7,780	9,312
Items not affecting cash:		
Deferred income taxes	605	356
Change in reinsurance assets	(12,740)	(10,220)
Change in insurance and investment contract liabilities	18,360	(1,428)
Amortization of property and equipment and intangible assets	2,394	2,434
Fair value gains and losses (note 27)	(11,692)	(9,263)
Realized gains on disposal of available-for-sale financial assets (note 26)	(1,893)	(1,804)
Employee benefit plan expense	2,057	2,225
Other	(3,922)	(3,703)
	949	(12,091)
Change in non-cash working capital items related to operations	(3,441)	(15,850)
Cash flows from operating activities	(2,492)	(27,941)
INVESTING ACTIVITIES		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	81,648	111,933
Purchases and loans	(79,098)	(101,818)
Acquisition of property and equipment and intangible assets	(2,424)	(1,420)
Others	(919)	(41)
Cash flows from investing activities	(793)	8,654
FINANCING ACTIVITIES		
Change in borrowings	(1,245)	(688)
Cash flows from financing activities	(1,245)	(688)
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(4,530)	(19,975)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	8,818	28,793
CASH AND CASH EQUIVALENTS – END OF YEAR	4,288	8,818

SEE NOTE 18 FOR ADDITIONAL INFORMATION

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

1. CORPORATE INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Declaration of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and published by CPA Canada Handbook- Accounting.

These consolidated financial statements, including all notes, were approved by the Board of Directors on February 23, 2017.

Basis of preparation

The Group presents its consolidated statement of financial position primarily in order of liquidity. Assets are considered current when the Group expects to realize them in its normal operation cycle within twelve months after the reporting date. Liabilities are considered current when the Group expects to settle them in its normal operation cycle within twelve months after the reporting date. All other assets and liabilities are considered non-current. The Group's statement of financial position is not presented according to current and non-current order.

The consolidated financial statements have been prepared on a historic cost basis except for investment properties and those financial assets and financial liabilities that have been measured at fair value.

The consolidated financial statements values are presented in Canadian dollars ($) rounded to the nearest thousand ($000), unless otherwise indicated.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

- **Assumption Place Limited (100%)**
- **Atlantic Holdings (1987) Limited (100%),** the parent company of **Louisbourg Investments Inc. (70%)**

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

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

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

Financial Instruments

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

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

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

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

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

Invested Assets

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

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

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2016

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

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

Equity Securities

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

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

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

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

Mortgages

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

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

Other Invested Assets

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

Policy Loans

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

Investment Properties

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

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

Other Assets

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

Reinsurance Assets

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

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

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Property and Equipment

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

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Goodwill

Goodwill represents the positive difference between the cost and the fair value of identifiable assets, liabilities and contingent liabilities on business acquisitions. It is presumed to have an indefinite life and is not subject to amortization.

Goodwill is tested for impairment annually, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than its carrying amount, an impairment loss of the goodwill is recognized in income.

Segregated Fund Net Assets

Funds from group and individual annuities issued by the Group may be invested in segregated portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Group and the segregated fund policyholders have no direct access to the specific assets, the policyholders bear the risks and rewards of the fund's investment performance. The Group derives fee income from the management of its segregated funds. These revenues are accounted in fees and commission revenues.

The segregated funds are recorded at market value. Realized and unrealized gains and losses are immediately included in the change in net assets of the segregated funds.

Insurance Contract Liabilities

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

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

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

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

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

a) Mortality

For individual life, the Group uses a recently published industry mortality table, adjusted to take into account the actual experience of the Group. Future mortality improvements are not taken into account in the valuation.

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

b) Disability

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

c) Investment Returns

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

d) Expenses

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

e) Lapses

Each year, an internal study of the Group's policy lapse rates is conducted. The valuation assumptions are chosen by considering both this internal study and the published industry experience.

f) Policyholder Dividends

Actuarial liabilities include the present value of expected future policy dividends reflecting current dividend scales.

g) Margins for Adverse Deviation

The basic assumptions made in establishing actuarial liabilities represent best estimates for a range of possible outcomes. To recognize the uncertainty in establishing best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include a margin for each assumption. A range of allowable margins is defined by the Canadian Institute of Actuaries and the actuary must choose the margins, within this range, with consideration for each company's specific situation.

In general, the margins are higher for fully guaranteed products while they are lower for adjustable products or participating policies where the dividends can be modified to reflect the Group's experience.

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

Investment Contract Liabilities

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

Other Liabilities

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

Employee Benefit Plans

The Group offers defined benefit and defined contribution pension plans and post-employment benefits to its employees The cost of pension benefits under defined benefit plans and of other post-employment benefits earned by employees is determined according to actuarial calculations using the projected unit credit method and management's most likely assumptions of the expected rate of return on the plan's asset, salary escalation, the retirement age of employees, expected health care costs and mortality rates. Plan obligations are discounted based on current market interest rates, and plan assets are recorded at fair value.

The benefit costs are recorded in administrative expenses in the consolidated statement of income.

Net actuarial gains or losses are accounted for in the year in which they occur through other comprehensive income.

For defined contribution plans, the Group pays specified contributions into a separate entity and has no legal or constructive obligation to pay further amounts. As a result, no liability appears on the Group's consolidated financial statements, except for the expense recognized for contributions due but not yet paid at the end of the reporting period. Contributions payable to defined contribution plans are charged to income.

Taxes

The Group provides for income taxes using the liability method of tax allocation. The income tax provision is comprised of current and deferred income taxes based on tax rate and tax regulations effective or practically effective at the consolidated balance sheet date. Current income taxes are based on taxable income. Deferred income taxes reflect the net tax effect of temporary differences between assets and liabilities reported for financial statement purposes and those reported for income tax purposes. A deferred income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not. In addition to income taxes, the charge to the consolidated statement of income includes the tax on capital imposed on financial institutions and the large corporations tax recorded in other operating expenses.

Borrowings

The Group has chosen to classify its borrowings as financial liabilities at amortized cost. The borrowings are initially recognized at fair value, net of related transaction costs. They are subsequently measured at amortized cost using the effective interest rate method.

The interest calculated according to the effective interest rate method is recognized in the consolidated statement of income and presented as borrowing costs.

Segregated Funds Net Liabilities

The liabilities of insurance contracts whose financial risk is supported by policyholders are accounted for as a separate line item in the consolidated statement of financial position and are recorded at fair value. The assets backing these liabilities are also recorded as a specific item under assets in the consolidated statement of financial position.

Foreign Currency Translation

Monetary assets and liabilities in foreign currencies are converted at the rate of exchange in effect at the consolidated balance sheet date. Non-monetary assets and liabilities, as well as revenue and expenses, are converted at the historical rate.

Translation gains and losses are included in other operating revenue.

Provisions

The Group recognizes a provision when there is an obligation towards a third party resulting from a past event and it is probable that an outflow of economic resources will be necessary to settle the obligation and the amount can be estimated reliably.

The amount of provision equals the best estimate of the counterpart needed to extinguish the current obligation, given the risks and uncertainties related to the obligation. The Group does not measure the provision at the current value since these provisions do not have a specified period. No amount of provision is recognized for future operating losses.

Contingent liabilities are disclosed if the future obligation is probable, but the amount cannot be reasonably estimated.

Premiums

Gross insurance and annuity premiums are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, a provision for future policy benefits is calculated, with the result that benefits and expenses is matched with such revenue.

Fees and Commission Income

Fees and commission income primarily represent fees earned from the management of the Group's segregated fund and pooled fund assets, administrative services only (ASO) income and reinsurance commission income. Fees and commission income are recorded on an accrual basis when services are rendered.

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Investment Income

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

Realized gains and losses

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

Recognition of Expenses

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

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

Changes in accounting policies

As of January 1, 2016, the group adopted the following standards:

IAS 16 – Property and equipment and IAS 38 – Intangible assets

In May 2014, the IASB issued an amendment to IAS 16 "Property, plant and equipment" and to IAS 38 "Intangible assets". The amendment titled "Acceptable Methods of Depreciation and Amortization" clarifies that a revenue-based method of amortization can no longer be used. The amortization basis should reflect the asset's consumption rather than its future economic benefit. The adoption of this amendment had no impact on the Group's consolidated financial statements.

IFRS 11 - Joint arrangements

In May 2014, the IASB issued an amendment to IFRS 11 "Joint Arrangements". This amendment specify that the acquisition of interest in a common business which constitute a business, need to be recognized and presented as a business combination according to IFRS 3 "Business Combination". The adoption of this amendment had no impact on the Group's consolidated financial statements.

IAS 1 - Presentation of financial statements

In December 2014, the IASB issued an amendment to IAS 1 "Presentation of financial statements". This amendment brings precision to the informations to disclose and on the use of judgment pertaining to the disclosed informations. The adoption of this amendment had no impact on the Group's consolidated financial statements.

Annual improvements (2012-2014)

In September 2014, the IASB published the annual improvement on IFRS cycle 2012-2014, which applied to four standards. The adoption of those improvements had no impact on the Group's consolidated financial statements.

Future accounting policy changes

The standards issued by the IASB that were not applicable as at the date of issue of the Group's consolidated financial statements are described below.

The Group intends to adopt these as required once they become applicable.

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments". The standard introduces new requirements for the classification and measurement, impairment, and hedge accounting of Financial Instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. However, insurers have the option to delay adoption of this new standards to follow phase II of IFRS 17, up to January 1, 2021. The Group is currently evaluating the impact of the new standard on its consolidated financial statements.

IFRS 16 - Lease accounting

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

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 "Revenue from contracts with customers". This standard establishes a new five-step model that will apply to revenue arising from contracts with customers, excluding insurance contracts, lease contracts and financial instruments. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for tranferring goods or services to a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Group is currently evaluating the impact of the new standard on its consolidated financial statements.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Classification of insurance and investment contracts

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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

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

Classification of properties

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

Estimates and assumptions

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

Fair value of financial instruments

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid for assets/ask for liabilities) prices. If there is no active market, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs. These methods take into account current data observable on the market for financial instruments that have a similar risk profile and comparable terms. The significant data used in these models include, but is not limited to, rate curves, credit risk, issuer risk, volatility and liquidity valuation and other references published by the market. Management uses its best estimates when such data are not available.

Fair value of investment properties

The Group relies on fair value measurements prepared by a qualified independent appraiser to establish fair value of investment properties. He uses valuation techniques based on recognized standards and techniques of evaluation.

The main assumptions used in determining the fair value of investment properties are described in note 6.

Fair value of investment contract liabilities

Because of their short-term nature, the fair value of investment contract liabilities are equal to their book value.

Employee future benefits

The defined benefit obligation and expense is calculated using several demographic and financial actuarial assumptions. The main assumptions include the discount rate and the rate of increase in future compensation. These assumptions are described in note 15.

Life and health insurance contract liabilities

The establishment of actuarial liabilities depends on various actuarial assumptions including mortality, disability, investment return (stock markets, interest rates and defaults of payment), operating expense levels, lapse rates, inflation, policyholder dividends and taxes. Further information on these assumptions is provided in notes 2 and 13.

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2016

4. INVESTED ASSETS

Carrying Value and Fair Value

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

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FINANCIAL STATEMENTS

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Carrying Value and Fair Value

	2015					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	8,818	-	-	-	8,818	8,818
Debt securities						
Government	374,193	99,382	-	-	473,575	473,575
Municipal	1,653	-	-	-	1,653	1,653
Corporations & other	6,082	3,943	-	-	10,025	10,025
	381,928	103,325	-	-	485,253	485,253
Equity securities						
Common stocks	-	160	-	-	160	160
Preferred stocks	40,777	-	-	-	40,777	40,777
Investment fund units	20,674	4,470	-	-	25,144	25,144
	61,451	4,630	-	-	66,081	66,081
Mortgages						
Insured residential	-	-	8,483	-	8,483	8,854
Other residential	-	-	24,232	-	24,232	24,388
Commercial	-	-	83,619	-	83,619	84,017
	-	-	116,334	-	116,334	117,259
Other invested assets	-	-	1,867	-	1,867	1,864
Policy loans	-	-	8,714	-	8,714	8,714
Investment properties	-	-	-	30,869	30,869	30,869
	452,197	107,955	126,915	30,869	717,936	718,858

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Investment Properties

The following table details the transactions on investment properties.

	2016	2015
	$	$
Balance, beginning of year Disposition	30,869	30,797
Disposition	-	-
Change in fair value	(88)	72
Balance, end of year	30,781	30,869
Rental income and service charge income	6,367	6,947
Operating expenses that generate rental income	(4,204)	(4,343)
Operating expenses that do not generate rental income	(558)	(574)

5. RISK MANAGEMENT RELATING TO FINANCIAL INSTRUMENTS

The principal risks relating to financial instruments that the Group must manage are credit risk, liquidity risk and market risk (interest rate and stock market). The measures adopted by the Group to control each of these risks are outlined below.

Credit Risk

Credit risk is the risk that the Group will incur a financial loss if some of its debtors fail to fulfill their obligation to make payments when due. The Group, in the normal course of its activities, is exposed to that risk through credit granted to its clients, reinsurers and brokers, through credit in the form of mortgages and exposure through its various investment portfolios. The risk of credit concentration may also occur when there is a concentration of investments in entities with similar activities in the same geographic region or in the same sector of activity or when a significant investment is made with a sole entity.

Credit-risk management is conducted through the Group's investment policy and is applied to various means of investment and credit. Investments in debt securities must be selected after an analysis that considers geographic diversification, the type of issuer, average credit rating and maturity of securities. Limits are established for each of these factors.

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The Group also has a specific credit policy for mortgages according to which a study must be conducted in order to determine a credit rating for the loan. To manage the risk of concentration, industry limits are established, some sectors are avoided and the loan amounts granted to one person or to one group are limited. Furthermore, loans must be guaranteed by residential or commercial buildings or by land held for subdividing purposes. The type of guarantee is based on the assessment of the degree of counterparty credit risk.

The conclusion of guarantee agreements is also a credit risk mitigation measure. The required amount and type of guarantee are based on the assessment of the counterparty credit risk. Guidelines have been established for the types of acceptable guarantees and related assessment parameters. Management examines the value of guarantees and requires additional guarantees, if needed.

Maximum Credit Risk

The table below summarizes the Group's maximum financial instrument credit risk. The maximum credit risk corresponds to the book value of assets, net of any provision for losses.

	2016	2015
	$	$
Cash and cash equivalents	4,288	8,818
Debt securities	496,317	485,253
Mortgages	116,238	116,334
Other invested assets	2,117	1,867
Policy loans	9,384	8,714
Reinsurance assets	181,623	168,883
Other receivables (note 7)	15,047	19,099
	825,014	808,968

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FINANCIAL STATEMENTS

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Quality of the Debt Securities Portfolio

	2016	2015
	$	$
AAA	562	586
AA	209,872	221,582
A	285,883	263,085
	496,317	485,253

Quality of the Preferred Equity Securites Portfolio

	2016	2015
	$	$
PF-1	-	-
PF-2	37,220	38,239
PF-3	6,666	2,538
	43,886	40,777

Loans in Arrears and Provisions for Losses

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

Provisions for losses

	2016	2015
	$	$
Mortgage loans:		
Beginning of year	-	353
Decrease in provisions for losses	-	(353)
End of year	-	-

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Liquidity Risk

Liquidity risk is the risk that the Group cannot respond to all of its cash flow commitments as they reach maturity.

This risk is managed through matching of asset and liability cash flows and active management of funds. However, a certain level of liquidity is required to provide for contingencies such as asset repurchases or defaults.

Additional liquidities are available through credit lines, if needed.

The Group has commitments to customers for undisbursed approved mortgages. The following is the payment schedule for those loans:

	1-6 months	7-12 months	Over 1 year
	$	$	$
Undisbursed approved mortgages	1,353	-	-

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

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

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	2015						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	8,818	-	-	-	-	8,818	8,818
Debt securities							
Government	-	10	18,725	45,285	409,555	473,575	473,575
Municipal	-	526	1,127	-	-	1,653	1,653
Corporations & other	-	3,943	1,050	-	5,032	10,025	10,025
	-	4,479	20,902	45,285	414,587	485,253	485,253
Equity securities							
Common stocks	160	-	-	-	-	160	160
Preferred stocks	40,777	-	-	-	-	40,777	40,777
Investment fund units	25,144	-	-	-	-	25,144	25,144
	66,081	-	-	-	-	66,081	66,081
Mortgages							
Insured residential	-	2,637	2,933	-	2,913	8,483	8,854
Other residential	-	9,447	9,199	5,586	-	24,232	24,388
Commercial	-	25,900	28,767	26,463	2,489	83,619	84,017
	-	37,984	40,899	32,049	5,402	116,334	117,259
Other invested assets	-	312	1,537	18	-	1,867	1,864
Policy loans	8,714	-	-	-	-	8,714	8,714
Other receivables	19,099	-	-	-	-	19,099	19,099

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Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to variations in market factors. It consists of the following: interest rate risk and stock market risk.

Interest Rate Risk

Interest rate risk is present when there is not a perfect match between asset and liability cash flows and when interest rates fluctuate, which leads to a variation in the disparity between assets and liabilities. Due to the nature of an insurance company's activities, which is investing clients' premiums with the ultimate goal of paying benefits, the payment of which may be uncertain and far off, namely with regard to death benefits and annuity payments, interest rate risk must be managed properly.

The Group has matched its assets with its liabilities in order to minimize profit margin volatility caused by fluctuations between realized profits and profits credited to existing contracts. To manage matching requirements, financial assets and liabilities are distributed over business lines in order to match one business line's assets with its liabilities. This matching is regularly analyzed and modified. The exchange of information among the actuarial department, finance department and investment managers along with the regular publication of credited rates are part of the process.

To further manage risk, matching is based on the characteristics of the products sold. For products that must provide fixed and highly predictable benefits, liabilities and assets with similar characteristics are matched, such as investments in fixed-income instruments. This results in some protection against fluctuating interest rates because any variation in the fair value of assets is compensated by a similar variation in the fair value of liabilities. Considering the investments available on the market, it is more difficult to perform this matching for liabilities with maturities of more than 30 years.

Furthermore, the Group's policy is to achieve fairly complete matching. Thus differences in the durations of assets and liabilities must not exceed certain established parameters. That policy is intended to manage interest rate risk for liabilities with maturities later than those of the matched assets.

Projected asset and liability cash flows are used in the Canadian Asset Liability Method (CALM) to establish technical provisions. Asset cash flows are reduced to take into account possible losses due to insufficient return on assets. Reinvestment risk is assessed based on multiple interest rate scenarios (to take into account possible increases or decreases in rates).

Stock Market Risk

Stock market risk is the uncertainty associated with the valuation of assets arising from market fluctuations. The Group is exposed to that risk in various ways: through management fees calculated on the value of the assets being managed, by the expense resulting from the capital guarantee provided for some products and by the return on assets matched to equity and to actuarial liabilities. In order to mitigate this risk, the Group's investment policy provides for cautious investments in accordance with clearly defined limits.

6. FAIR VALUE MEASUREMENT

Fair Value Hierarchy

A hierarchy of valuation techniques is used for assets and liabilities measured at fair value in the consolidated statement of financial position or for which fair value is disclosed in notes. The hierarchies include the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable to the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

(in thousands) Year ended December 31, 2016

	2015			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value	$	$	$	$
Cash and cash equivalents	8,818	-	-	8,818
Financial assets designated at fair value through profit or loss				
Debt securities	-	381,928	-	381,928
Equity securities	61,451	-	-	61,451
Financial assets available-for-sale				
Debt securities	-	103,325	-	103,325
Equity securities	4,630	-	-	4,630
Investment properties	-	-	30,869	30,869
Assets disclosed at fair value				
Mortgages	-	117,259	-	117,259
Other invested assets	-	1,864	-	1,864
Policy loans	-	8,714	-	8,714
	74,899	613,090	30,869	718,858
Liabilities measured at fair value				
Investment contract liabilities	-	22,138	-	22,138
Liabilities disclosed at fair value				
Borrowings	-	5,373	-	5,373
	-	27,511	-	27,511

There has been no transfer between level 1 and level 2 during the period.

Refer to Note 4 for details of changes in fair value of investment properties

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

The fair value of investment properties is determined by various recognized methods and standards of assessment in the real estate sector. These methods are based on expected capitalization rates and models which update the expected future cash flows at prevailing interest rates on the market based on the characteristics, location and market of each property. The expected future cash flows include contractual and projected cash flows and projected operating expenses and reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect, estimates of future cash inflows, including revenues projected from leases in force and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, type and quality of the building and current market data and projections as of the date of the appraisal. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness.

The fair value of investment properties is established by the qualified independent appraiser in relation to highest and best uses. He uses three approaches: cost approach, income approach and direct comparison approach. The main assumptions used are as follows:

	2016	2015
	%	%
Overall discount rate	9 to 10	9 to 10
Growth rate		
Rent	0 to 2	0 to 2
Operating expenses	2	2
Vacancy rate	5	5

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2016

7. OTHER ASSETS

	2016	2015
	%	%
Financial assets		
Insurance receivables:		
Policyholders	3,606	4,183
Reinsurers	5,433	9,069
Agents, brokers and intermediates	574	1,292
Accrued investment income	1,226	1,212
Accounts receivable	4,208	3,343
	15,047	19,099
Non financial assets		
Commissions and prepaid expenses	2,677	2,654
Income tax receivable	1,171	1,313
Other	29	35
	3,877	4,002
	18,924	23,101

8. PROPERTY AND EQUIPMENT

Cost	
At December 31, 2015	8,733
Additions	1,251
Other movements	(760)
At December 31, 2016	9,224
Accumulated amortization	
At December 31, 2015	3,977
Amortization	945
Other movements	(760)
At December 31, 2016	4,162
Carrying amount	
At December 31, 2015	4,756
At December 31, 2016	5,062

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

9. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Client list	Total
Cost					
At December 31, 2015	1,187	12,919	101	898	15,105
Cost capitalized	65	-	1,108	-	1,173
Completed projects	-	253	(253)	-	-
Other movements	(161)	-	-	-	(161)
At December 31, 2016	1,091	13,172	956	898	16,117
Accumulated amortization					
At December 31, 2015	798	9,618	-	-	10,416
Amortization	230	1,219	-	-	1,449
Other movements	(161)	-	-	-	(161)
At December 31, 2016	867	10,837	-	-	11,704
Carrying amount					
At December 31, 2015	389	3,301	101	898	4,689
At December 31, 2016	224	2,335	956	898	4,413

(in thousands) Year ended December 31, 2016

10. SEGREGATED FUNDS NET ASSETS

	2016	2015
NET ASSETS	$	$
Investments:		
Debt securities	21,217	18,356
Equity securities	9,033	7,568
Pooled funds	675,109	629,362
Cash and term deposits	648	1,435
Accrued investment income	86	85
Other	1,765	2,197
	707,858	659,003
Liabilities	1,076	1,407
NET ASSETS	706,782	657,596

	2016	2015
CHANGE IN NET ASSETS	$	$
NET ASSETS – BEGINNING OF YEAR	657,596	612,037
Net contributions:		
Contributions	126,295	113,545
Withdrawals	(121,762)	(77,702)
	4,533	35,843
Investment income:		
Change in value of investments	32,317	(17,168)
Interest and dividends	24,876	38,394
Management and administrative fees	57,193	21,226
NET ASSETS – END OF YEAR	(12,540)	(11,510)
	706,782	657,596

NOTES TO CONSOLIDATED
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(in thousands) Year ended December 31, 2016

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

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

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

	2015		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	459,205	(132,690)	326,515
Group insurance	53,164	(34,228)	18,936
Annuities and pensions	219,777	(809)	218,968
Other insurance contract liabilities	3,091	(1,156)	1,935
	735,237	(168,883)	566,354

NOTES TO CONSOLIDATED
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Change in insurance contract liabilities and reinsurance assets

The change for the year is explained as follows:

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

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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	2015		
	Insurance contract	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	735,365	(158,008)	577,357
Change in balances on in-force policies	(35,852)	(4,437)	(40,289)
Balances arising from new policies	38,135	(6,882)	31,253
Method and assumption changes	(5,502)	1,600	(3,902)
Decrease in insurance contract liabilities and reinsurance assets	(3,219)	(9,719)	(12,938)
Balance before the following:	732,146	(167,727)	564,419
Other insurance contract liabilities	3,091	(1,156)	1,935
Total insurance contract liabilities and reinsurance assets	735,237	(168,883)	566,354

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

	2016	2015
	$	$
Mortality	(1,319)	(1,074)
Interest	(295)	(1,801)
Lapses	2,522	(142)
Segregated funds	-	(31)
Expense	(2,204)	(858)
Other (dividends, data)	319	4
Total	(977)	(3,902)

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

12. INVESTMENT CONTRACT LIABILITIES

	2016	2015
	$	$
Balance, beginning of period	22,138	23,358
Deposits	2,362	2,145
Interest	338	352
Withdrawals	(3,455)	(3,717)
Decrease in investment contract liabilities	(755)	(1,220)
Total investment contract liabilities	21,383	22,138

13. INSURANCE RISK

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The concentration of risk is managed by using reinsurance to limit the Group's risk in regard to each of its insured and in order to stabilize its results. Maximum amounts of benefits varying by activity sector are established for life and health insurance. The Group also possesses reinsurance treaties that cover financial losses related to multiple settlement requests that could occur following catastrophic events that would include multiple insureds.

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

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Insurance Contracts

Life insurance contracts offered by the Group include: individual whole life insurance, individual and group term insurance and individual and group annuities.

Life insurance contracts are contracts for which the insurer receives premiums in exchange for benefits that will be paid at the death of the policyholder or lapse of the policy.

Annuity contracts are expressed in the form of an annuity payable at a specified age in exchange for premiums. If death occurs before retirement, contracts generally return the value of the fund accumulated for deferred annuities. Most contracts give the policyholder the option at retirement to take a cash sum amount or a guaranteed conversion rate allowing the policyholders the option of taking a payable annuity.

Single premiums annuities are products that pay a specified payment to a policyholder. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period, or are transferable to a spouse at a specified percentage, at the time of death.

Deferred annuities are contracts that bear a guaranteed interest rate usually for a period equal or less than five years. These contracts waive market value adjustment until death of the policyholder.

Cash outflows related to insurance contract liabilities net of reinsurance are illustrated as follows:

	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	$	$	$	$	$
Individual insurance	(13,242)	(11,176)	38,124	322,606	336,312
Group insurance	8,091	6,656	4,021	3,442	22,210
Annuities and pensions	58,764	93,184	25,510	35,656	213,114

(in thousands) Year ended December 31, 2016

The main risks that the Group is exposed to are as follows:

- Mortality risk - risk of loss due to policyholder death experience being different than expected
- Morbidity risk - risk of loss due to policyholder health experience being different than expected
- Longevity risk - risk of loss due to the annuitant living longer than expected
- Investment return risk - risk of loss due to actual returns being different than expected
- Expense risk - risk of loss due to expense experience being higher than expected
- Policyholder decision risk - risk of loss due to policyholder decision (lapses and surrenders) being different than expected

Sensitivities

The analysis that follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on profit after tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, these had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

		After-tax income impact	
Assumption	**Change**	**2016**	**2015**
	$	$	$
Mortality - life insurance products	+ 2%	(2,207)	(2,186)
Mortality - annuity products	- 2%	(385)	(355)
Morbidity	5% adverse	(1,709)	(1,651)
Expenses (contracts maintenance)	+ 5%	(1,658)	(1,671)
Policy termination rates	10% adverse	(6,232)	(5,366)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	(1,155)	(1,042)
	- 100 bps	784	943
Investment properties			
Immediate change in market value	+ 10%	2,229	2,250
	- 10%	(2,229)	(2,250)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	435	774
	- 10%	(1,762)	(1,491)

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14. OTHER LIABILITIES

	2016	2015
	$	$
Financial liabilities		
Insurance payable:		
Policyholders	9,263	8,858
Reinsurers	3,301	5,963
Agents, brokers and intermediates	2,193	1,304
Suppliers and other charges	6,060	6,929
Other	1,068	1,091
	21,885	24,145
Non financial liabilities		
Income tax	214	144
	22,099	24,289

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15. EMPLOYEE BENEFIT PLANS

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

	2016	2015
	$	$
Changes in accrued benefit obligation of defined benefits:		
Balance at beginning of year	58,260	56,081
Current service cost	1,566	1,641
Employees' contributions	746	767
Interest cost	2,433	2,331
Benefits paid	(2,323)	(3,161)
Actuarial losses resulting from experience adjustments	151	686
Actuarial gains resulting from changes of demographic assumptions	-	(85)
Actuarial losses resulting from changes of financial assumptions	2,415	-
Balance at end of year	63,248	58,260
Changes in plan assets:		
Fair value at beginning of year	45,803	41,901
Employer's contributions	5,173	4,937
Employees' contributions	746	767
Return on plan assets	3,182	1,359
Benefits paid	(2,323)	(3,161)
Fair value at end of year	52,581	45,803

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

	2016	2015
	$	$
Present value of the defined benefit obligation	63,248	58,260
Fair value of plan assets	(52,581)	(45,803)
Pension plan liability	10,667	12,457

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

	2016	2015
	$	$
Current service cost	1,566	1,641
Net interest on the net defined benefit liability	484	564
	2,050	2,205

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

	2016	2015
	$	$
Group insurance benefits liability	573	565
Pension plan liability	10,667	12,457
	11,240	13,022

(in thousands) Year ended December 31, 2016

Plan members contribute 7.5% (7.5% in 2015) to their retirement plan. The Group makes the necessary residual contributions to the plans. The Group finances the plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits was established by the latest actuarial valuation, dated December 31, 2015 for the Assumption Mutual Life Insurance Company Agent and Employee Pension Plan ("AML") and December 31, 2015 for the Assumption Place Employee Pension Plan ("Place"). The average remaining service periods of the active employees covered by the AML pension plan is 20 years (20 years in 2015) and 9 years (9 years in 2015) for the Place pension plan. The average remaining service periods of the active employees covered by the other retirement benefit plans are the same as the pension plans.

The Group's best estimate of expected payments for the pension plans for the year ending December 31, 2017, is $4,664.

The pension fund monies are invested in the following assets:

	2016	2015
	$	$
Assumption Life and Assumption Place Pension Plan Fund	52,239	45,617
Cash	342	186
	52,581	45,803

Assumption Life and Assumption Place Pension Plan Fund

The Assumption Life and Assumption Place Pension Plan Fund (the "Pension Plan Fund") is a segregated fund established by Assumption Life. The overall objective of the Pension Plan Fund is a net rate of return, after management fees, that is more than the annual increase in the Consumer Price Index, discounted at the average yearly compound rate over a period of four years.

The Pension Plan Fund portfolio consists of a mix of cash (1.4%), Canadian bonds (40.8%) and equities (28.7%), foreign equities (24.5%) and hedge funds (4.6%). The Pension Plan Fund is eligible as a registered retirement savings plan under the Income Tax Act of Canada .

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

	2016	2015
	%	%
Discount rate	3.8 to 3.9	4.0 to 4.1
Rate of compensation increase	3.25 to 3.75	3.25 to 3.75
Mortality rate	CPM-B2D2014	CPM-B2D2014

Sensitivity analysis

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

	2016	
	+ 1%	- 1%
Discount rate	(10,844)	14,372
Rate of compensation increase	2,258	(2,118)
Mortality rate	(96)	96

Defined contribution plan

As of July 1st, 2014, the Group stopped offering the defined benefit plan to new employees and is now offering a defined contribution plan providing pension benefits. The Group's contributions to the defined contribution plan are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Group's defined contribution plan is $172 for the year ended December 31, 2016 ($144 in 2015).

(in thousands) Year ended December 31, 2016

16. BORROWINGS

The Group has authorized credit lines totaling $500 bearing interest at the bank's base rate.

These bank loans are renewable annually, are not guaranteed and are not used as at December 31, 2016.

	2016	2015
	$	$
Mortgage Loans		
Mortgage loan at a rate of 2.25%, repayable in monthly installments of $33, including interest, maturing in April 2017 and pledging investment property	2,072	2,421
Mortgage loan at a rate of 2.25%, repayable in monthly installments of $33, including interest, maturing in April 2017 and pledging investment property	1,265	1,626
Bank Loans and Other		
Loans at prime rate minus 1% without fixed repayment conditions	297	297
Promissory note without interest, repayable in annual installments of $166, maturing in September 2020	613	-
Promissory note at a rate of 4%, repaid in full in 2016	-	500
Contingent consideration repaid in full in 2016	-	648
	4,247	5,492
Fair value	4,144	5,373

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

Years ending December 31,	2017	$	888
	2018	$	907
	2019	$	929
	2020	$	650
	2021	$	390

These estimated payments are based on the assumption that the loans maturing in 2017 will be renewed.

The balance of mortgage loans to be renewed within one year is $2,615.

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17. TAXES

Income tax expense consists of the following:

	2016	2015
	$	$
Current income taxes	2,073	2,338
Adjustments from prior year	(13)	(6)
Deferred income taxes	605	356
	2,665	2,688

The effective income tax rate in the consolidated statement of income differs from the Group's statutory tax rate, mainly as a result of the following:

	2016		2015	
	$	%	$	%
Income tax at statutory rate	2,883	27.6	3,252	27.1
Increase (decrease) in the tax rate resulting from:				
Non taxable investment income	(651)	(6.2)	(644)	(5.4)
Change in deferred tax rate	338	3.2	-	-
Differences in tax rates in other provincial jurisdictions	63	0.6	59	0.5
Adjustments from prior year	(13)	(0.1)	(6)	-
Other	45	0.4	27	0.2
	2,665	25.5	2,688	22.4

(in thousands) Year ended December 31, 2016

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

	2016	2015
	$	$
Investment properties, property and equipment and intangible assets	5,429	5,336
Insurance contract	(36)	(46)
Debt securities	202	249
Employee benefit plans	(3,125)	(3,547)
Other	(286)	28
	2,184	2,020
Deferred tax assets	(2,510)	(2,241)
Deferred tax liabilities	4,694	4,261
	2,184	2,020

18. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2016	2015
	$	$
Interest received	7,919	8,639
Income taxes paid	1,481	7,975
Dividends paid	475	594
Dividends received	2,326	2,455
Cash flows related to financing activities include the following:		
Interest paid on financing	103	147

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

19. CONTINGENCIES

In its normal course of business, the Group is occasionally named as a defendant in legal proceedings. While it is not possible to anticipate the outcome of such proceedings, the Group does not expect that it will incur significant losses or need to commit significant amounts to such actions.

20. COMMITMENT

As a member of Assuris, the Group incurs, and will likely incur in the future, certain costs in connection with the operations of Assuris. Assuris is responsible for compensating policyholders in the event that a life insurer's operations must be liquidated.

Assuris annually assesses life insurers on the basis of a five-year average of annual premiums and the assessments are charged to income in the year they are incurred. The Group has agreed to provide Assuris with a credit facility which can be drawn upon, at Assuris' option, should the need arise.

21. NET PREMIUMS

	2016			2015
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	$	$	$	$
Individual insurance	61,078	(14,252)	46,826	42,538
Group insurance	66,282	(17,267)	49,015	50,272
Annuities and pensions	57,137	-	57,137	59,867
	184,497	(31,519)	152,978	152,677

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

22. NET BENEFITS AND CLAIMS PAID

	2016			2015
	Gross benefits and claims paid	Claims ceded to reinsurers	Net benefits and claims paid	Net benefits and claims paid
	$	$	$	$
Individual insurance	26,382	(7,664)	18,718	20,688
Group insurance	47,461	(12,677)	34,784	37,932
Annuities and pensions	63,818	(46)	63,772	75,780
	137,661	(20,387)	117,274	134,400

23. FEES AND COMMISSION INCOME

	2016	2015
	$	$
Policyholder administration and investment management services	16,504	15,271
Surrender charges and other contract fees	888	1,246
Reinsurance commission income	2,732	2,453
	20,124	18,970

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

24. INVESTMENT INCOME

	2016	2015
	$	$
Interest on cash and cash equivalents	96	306
Interest on debt securities designated at fair value through profit or loss	1,781	1,827
Interest on debt securities available-for-sale	3,546	3,496
Dividends on equity securities designated at fair value through profit or loss	2,302	2,200
Dividends on equity securities available-for-sale	81	211
Interest on mortgage loans and other invested assets	5,461	5,746
Interest on policy loans	455	435
Rental income from investment properties	3,045	3,332
Service charge income from investment properties	3,322	3,615
Service charge expense from investment properties	(4,204)	(4,343)
	15,885	16,825

25. RENTAL INCOME

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

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

	2016	2015
	$	$
Not later than one year	4,617	5,439
Later than one year and not later than five years	9,037	11,485
Later than five years	424	1,052
	14,078	17,976

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(in thousands) Year ended December 31, 2016

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

	2016	2015
	$	$
Realized gains		
Equity securities	485	3
Debt securities	1,438	1,804
Realized losses		
Equity securities	(30)	(3)
	1,893	1,804

27. FAIR VALUE GAINS AND LOSSES

	2016	2015
	$	$
Financial assets at fair value through profit or loss	11,780	9,191
Investment properties	(88)	72
	11,692	9,263

28. FEES AND COMMISSION EXPENSES

	2016	2015
	$	$
Fees expenses	1,408	1,378
Commission expenses	29,800	27,441
	31,208	28,819

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2016

29. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2016	2015
	$	$
Administrative expenses		
Salaries and employee benefits expense	20,670	19,421
Amortization on property and equipment (note 8)	945	772
Amortization of intangible assets (note 9)	1,449	1,662
Professional and consultant fees	3,393	3,470
Investment property related expenses (note 4)	558	574
Other	5,229	5,113
	32,244	31,012
Other operating expenses		
Allowance for credit losses	-	584
Other	5,023	4,820
	5,023	5,404

30. CAPITAL MANAGEMENT

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

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

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

(in thousands) Year ended December 31, 2016

Regulatory requirements and solvency ratio

The regulatory authorities require life insurance companies in Canada to maintain a minimum capitalization ratio in order to carry on business activities. In reference to the guideline imposed by OSFI, the Group maintains a ratio above the minimum requirement of 150%. As of December 31, 2016, the Group's ratio is 245% (242% in 2015).

A ratio of 245% means that the Group has sufficient capitalization to face unexpected negative results of approximately $45.3 million ($42.0 million in 2015) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory capital

	2016	2015
Available capital according to requirements	$116,978	$110,028
Required capital	$47,808	$45,379
Solvency ratio	245%	242%

31. RELATED PARTY TRANSACTIONS

Related parties include directors, executives and their affiliates.

Directors and their affiliates

In 2009, the Group granted to 647439 NB Inc., whose shareholders are directors of Louisbourg Investments Inc., a loan of 1.3 million, as well as an additional $467 in 2012, without interest, refundable before October 30, 2024. The balance of this loan has been reimbursed in full in 2016. The balance as of December 31, 2015 was $485.

Compensation of key management personnel

Key management personnel of the Group includes all directors, executive and non executive, and senior management. The summary of compensation of key management personnel for the year is as follows:

	2016	2015
	$	$
Salaries and other short-term employment benefits	3,558	3,586
Fees	236	257
Post employment pension benefits	261	276
	4,055	4,119

Organizational Chart

Assumption Mutual Life Insurance Company

Atlantic Holdings (1987) Ltd.
100% Assumption Mutual Life Insurance Company
$1,837

Assumption Place Ltd.
100% Assumption Mutual Life Insurance Company
$23,352

Louisbourg Investments Inc.
70% Atlantic Holdings (1987) Ltd.

Louisbourg Financial Services Inc.
100% Louisbourg Investments Inc.

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

2016 ANNUAL REPORT

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