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2016 ANNUAL REPORT

La Capitale
Civil Service Mutual

Our mission

Guided by the values of mutualism on which it was founded, La Capitale works with people by providing access to personalized products and services in order to build, protect and value what they feel counts for their individual and collective financial security.

Our vision

By bringing together all of its components through its values, its organizational culture, its management philosophy and its strategic orientations, La Capitale will be recognized as a responsible, client-oriented corporate citizen. To this end, La Capitale will provide a unique client experience and hold a competitive position among those having influence in the Canadian market, maintaining superior market growth and maintaining a profitability rate to ensure its longevity.

Our values

PEOPLE FIRST

Taking care first and foremost of the well-being of our people (Mutual members, clients and employees) by demonstrating respect and empathy and by embracing practices based on our fundamental principles of equality, fairness and democracy.

CORPORATE LONGEVITY

Ensuring profitable growth of the organization through the dynamic and prudent use of its financial capacities to foster business continuity and provide an enriched legacy for future generations.

INTEGRITY AND TRANSPARENCY

Being committed to providing Mutual members, clients and employees with a company that demonstrates sound governance and management by applying strict standards of integrity and ethics at all levels and by exhibiting transparency in our management approach.

ENGAGEMENT AND SOCIAL RESPONSIBILITY

Integrating and promoting the values of mutual aid and solidarity on which mutualism is based, supporting community or humanitarian activity and promoting sustainable development.

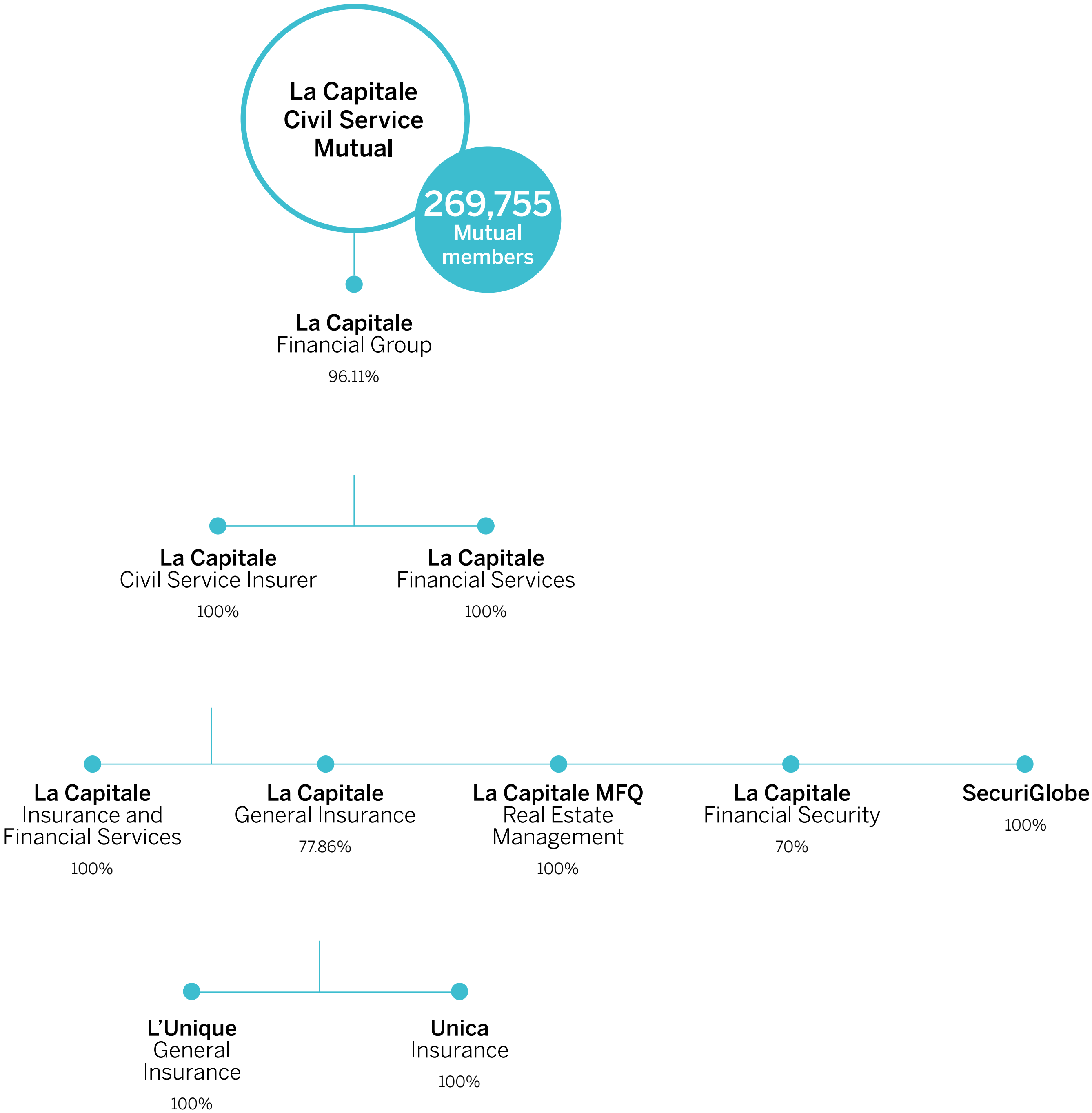
CUSTOMER-CENTRIC MINDSET

Offering attentive service at all times, characterized by a commitment to the client, an ongoing desire to provide appropriate information and advice, and financial solutions tailored to what clients feel is essential to their financial security.

VALUING THE ROLE OF QUEBEC PUBLIC SERVICE EMPLOYEES

Highlighting the value and contributions of public service employees, who play an active role in the social, cultural and economic development of Quebec.

Organizational Chart



2016 Key Facts and Figures

Consolidated information

Assets	**$6.4B**
Total consolidated revenue	**$2.2B**
Equity	**$960.3M**
Net income	**$45.2M**
Return on equity	**5.0%**
Participating policyholder dividends	**$12.1M**

Number of Mutual members	**269,755**
Donations to the community from the Foundation	**$1.2M**
Contracts and certificates in force	**1,922,758**
Number of employees	**2,685**

LIFE AND HEALTH AND FINANCIAL SERVICES SECTOR

Consolidated revenue from premiums	**$1,163.4M** up 9%
Sales (individual premiums and deposits)	**$425.2M** up 15.2%
Savings and investments portfolio	**$1.8B** up 21.8%
Group insurance premiums in force	**$650.5M**

- 534 financial information sessions attended by 7,693 public service employees
- A record RRSP campaign with $96M in sales

PROPERTY AND CASUALTY INSURANCE SECTOR

Consolidated gross written premiums	**$919.4M** up 4.4%
Consolidated net income	**$42.9M**
Gross written premium volume for La Capitale General Insurance	**$594.3M** up 3.9%
Gross written premium volume for L'Unique General Insurance	**$205.3M**
Gross written premium volume for Unica Insurance	**$119.8M**

- 11.8% growth in consolidated gross written premiums for Commercial Lines insurance

Board of Directors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1. Jean St-Gelais[3] | Chairman
2. Dominique Dubuc[1*, 2*] | Vice-Chairman
3. Alain Brière[1]
4. Danielle Chevrette[3]
5. Jacques Cotton
6. Richard Fiset
7. Josée Germain[1]
8. François Latreille[2]
9. Marie-Josée Linteau[2, 3*]
10. René Rouleau
11. Nathalie Tremblay


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1. Human Resources and Corporate Management Committee (led by La Capitale Financial Group Inc.)
2. Enterprise Risk Management Committee
3. Mutualism, Governance and Ethics Committee

* Committee Chair

Governance

La Capitale's governance management framework, which comprises its governance policies, guidelines and rules, has been reviewed recently. The governance policy and the Code of Ethics are key elements of the management framework. The governance policy confirms the roles of the board of directors and its committees and defines their respective responsibilities. The Code of Ethics dictates the personal and professional standards of conduct that apply at La Capitale.

Board of Directors

The diverse range of competencies held by the members of the Board of Directors, who come from various sectors of the public administration and services, allows us to better understand the challenges in the industry and how La Capitale can move forward. The principal role of the Board of Directors is to establish the mission and strategic orientations of La Capitale and appoint the Chief Executive Officer. It supervises management of the Mutual and monitors the implementation and upholding of the governance policy. It directs management of commercial and socio-economic activities as well as internal affairs in the best interests of La Capitale and its mutual members in the short, medium and long terms. To this end, it ensures that senior management manages La Capitale's activities in accordance with the orientations it adopts. Finally, the Board of Directors encourages La Capitale and its employees to continue their tremendous social involvement based on mutualist values, particularly through its Foundation.

Members of the Board of Directors

The Board of Directors defines specific mandates for its committees. These committees are made up exclusively of directors, save for the Nominations Committee which is composed of mutualists who are not on the Board of Directors. The committees make periodic reports to the Board of Directors on the status of their mandates.

Human Resources and Corporate Management Committee

The Human Resources and Corporate Management Committee supervises and enforces La Capitale's human resources and corporate management polices. It ensures that all governance rules applying to management and employees are in compliance with best practices.

Mutualism, Governance and Ethics Committee

This committee was formed to assist the Mutual's Board of Directors in carrying out its mutual, governance and ethics responsibilities. It is also responsible for supervising the process for evaluating boards of directors and their members, applying the governance management framework and seeing that board of director members demonstrate probity and competency.

Enterprise Risk Management Committee

The goal of the Enterprise Risk Management Committee is to allow the Board of Directors of La Capitale Civil Service Mutual to have an overall view of the types of risk with a crosscutting impact on all subsidiaries of La Capitale.

Audit Committees

In accordance with the pertinent legislation, audit committees exist within each La Capitale insurance company. The Audit Committee's mandate is to allow the Board of Directors to carry out its responsibility on behalf of mutual members and shareholders to monitor the process of disclosing financial results, internal quality control systems, company risk evaluation, technological systems security and compliance with the laws and regulations of the insurance industry. The Audit Committee is also responsible for the internal and external audits of La Capitale.

Professional Ethics or Review Committee

In accordance with the pertinent legislation, a professional ethics or review committee is formed within each La Capitale insurance company. The mandate of this committee is to ensure that directors, officers and staff are in compliance with the Code of Ethics and that transactions between related persons are conducted in accordance with it, as well as applicable legislation and regulations.

Nomination Committee

The Nomination Committee verifies that the nomination procedure has been followed and that candidates nominated as a director of La Capitale Civil Service Mutual are eligible. It confirms or rejects nominations and submits a report to the general assembly. It is also responsible for ruling in the event eligibility is contested by candidates or their representatives.

In conclusion

The entire governance structure implemented by La Capitale demonstrates a willingness to define and apply high-level governance, while pursuing a continuous performance improvement goal. This structure is in harmony with La Capitale's mutualist values while meeting regulatory requirements. Thanks to its governance management framework, La Capitale guarantees its longevity and arms itself with the necessary measures to ensure its directors, officers and staff conduct themselves according to the best interests of its mutual members and other clients.

La Capitale's governance structure meets the highest standards with regard to integrity, equity and transparency. The regular updating of the management framework ensures that La Capitale's governance is always in accordance with best practices.

JEAN ST-GELAIS
Chairman of the Board and
Chief Executive Officer

Message to Mutual Members

Despite last year's somewhat inclement financial environment, our Mutual was able to hold its own during the tough times and post positive results. The Property and Casualty Insurance sector's outstanding performance compensated for the difficulties encountered by the Life and Health Insurance and Financial Services sector, which again proves that the diversification of La Capitale's activities, the strength of our distribution networks, our presence in numerous markets and the quality of our employees are invaluable advantages.

Market volatility was again a factor in 2016, along with long-term interest rates at record lows in Canada. The persistence of low interest rates was compounded by the steady increase in prescription drug costs, which added significant pressure on the Group Health and Disability results. Yet, even in this time of turbulence, La Capitale posted consolidated net income of $45.2 million, which represents a 5.0% return on equity. Total equity was $960.3 million, and total consolidated income, which is derived from premiums, investment income and other items, hit $2.2 billion, up 10% from last year. The consolidated investment income from the Life and Health Insurance and Financial Services and Property and Casualty Insurance sectors reached $241.3 million, which constitutes a significant contribution to La Capitale's total income and profitability. We will continue to have a prudent, systematic and rigorous management approach in order to be able to offer attractive and competitive financial products to our Mutual members. Lastly, consolidated assets rose to $6.4 billion, up 9.2%.

A year of consolidation

During my first year at the helm of La Capitale, I have come to realize that our Mutual's greatest strength, what enables us to hold strong and weather storms, is its people. Regardless of the strategies and orientations put forward by management, their success relies on the engagement and talent of the employee teams that implement them. In this regard, I am delighted to say that La Capitale is in very good hands. This augurs well for the future of our organization.

In 2016, we devoted a great deal of effort to consolidating La Capitale's strengths and to positioning the organization to achieve its goals for the coming years.

In spite of its sustained growth, especially in savings and investments, the Life and Health Insurance and Financial Services sector faced some tough challenges in 2016, particularly with regard to group insurance. This division experienced difficulties due to big increases in disability benefits and health care costs. All our teams were called on to help develop a plan to meet these challenges. In fact, many of our initiatives have already produced results.

This past year, all sectors also participated in operational risk assessment exercises, which led to an update of the Integrated Risk Management Framework and drafting of the Capital Management Framework, in response to regulatory guidelines. We also prioritized information asset security.

Similarly, La Capitale continuously scrutinizes its processes to improve the effectiveness and efficiency of its technology operations. Doing so enabled us to generate considerable savings during the past year, without jeopardizing the high quality level of our communications and infrastructure networks. In this regard, I wish to highlight the completion of the processing repatriation activities of La Capitale Financial Security to our head office processing centre, which put an end to our contract with an external supplier.

The digital culture in which we currently operate, and the rapid development of financial technology, place considerable pressure on our technological infrastructure. Fortunately, La Capitale has a solid foundation in this regard, and we will spare no efforts to continue to enhance it.

All these improvements will help us achieve our growth objectives for the coming years without ever losing sight of our core mission: serving our clients.

Application of values in daily life

This first year at La Capitale also gave me a deeper appreciation of the degree to which our mutualist values are applied as we go about our daily activities. People-first attitude, social commitment and responsibility, a customer-centric mindset, integrity and transparency, valuing the role of Quebec public service employees and corporate longevity: All our actions are based on these values.

If serving our clients is La Capitale's core mission, improving the quality of our service delivery is an ongoing concern. We provided more than 52,000 hours of training to our employees over the past year. In terms of professional development, the Key and Essor programs have been implemented for the organization's managers and coordinators, in addition to the training and onboarding programs for new employees. As well, following up on a Property and Casualty insurance sector initiative, the "In our clients' shoes" campaign was launched throughout our organization. Based on five standard profiles, this campaign gives us insights into the daily lives of public service employees. By gaining a good understanding of their concerns and expectations, we are able to offer them the best possible service.

In 2016, we continued to carry out activities highlighting the role of our founding clients, Quebec public service employees. A number of recognition activities were held at the Jewish General and Sacré-Cœur hospitals in Montreal, as well as in the Marie-Guyart building in Quebec City. In addition, the La Capitale Recognition Awards program presented the very first Public Service Personality awards to individuals who distinguished themselves for their contributions to improving the quality of life of their fellow citizens or colleagues.

It is customary for our organization, as a Mutual, to enable the community to benefit from its values of mutual aid and solidarity by encouraging the involvement of the organization and its employees. In 2016, nearly 50% of La Capitale's 2,685 employees did volunteer work with a multitude of humanitarian and social causes.

We also contributed to the growth of the community through the La Capitale Financial Group Foundation, which invested approximately $1.2 million back into the community. The initiatives supported by the Foundation share our values and make a difference in the community. The various causes seek to improve the quality of life of individuals, in particular those with an autism spectrum disorder or an intellectual disability and vulnerable seniors.

La Capitale also acts as a responsible corporate citizen through its choice of investments. Therefore, the two main external portfolio managers that we use are PRI (Principles for Responsible Investment) subscribers who meet ESG (Environmental, Social and Governance) criteria. Regarding La Capitale's Canadian equity portfolio, voting rights are exercised in accordance with the same ESG criteria. Direct investments are guided by our mutualist and responsible corporate citizen values. La Capitale's total green, sustainable or equitable investments add up to $1.4 billion.

Board of Directors

This past year, two new members joined our board of directors: Nathalie Tremblay and Jacques Cotton. I extend a warm welcome to them. I have no doubt that we will benefit greatly from their skills and experience. I wish to thank our exiting board members, José Garceau and Nikolas Ducharme, who ended their respective terms on the board. I wish to take advantage of this opportunity to highlight our directors' contribution to La Capitale's development and governance.

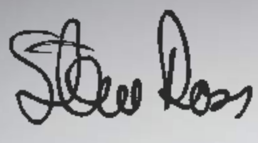
Acknowledgements

I would like to reiterate my appreciation of La Capitale's staff for their dedication, involvement, know-how and enthusiasm. In spite of the challenges La Capitale faced during the past year, its employees were able to stay the course, so we can look to the future with optimism.

I would also like to warmly thank my predecessor, René Rouleau, who was La Capitale's leader from January 2009 to April 2016.

In closing, I would like to thank our 269,755 mutual members for their trust and loyalty. They are La Capitale's *raison d'être*, and it is for them that we devote so much effort to ensuring our Mutual's success and longevity.

THE YEAR IN REVIEW



STEVEN ROSS
President and Chief Operating Officer,
Life and Health Insurance
and Financial Services

Life and Health Insurance and Financial Services Sector

The Life and Health Insurance and Financial Services sector maintained its momentum of recent years with strong growth of premium income again in 2016. It now ranks ninth in market share among life and health insurers in Canada and third for individual annuities.

In spite of this progress, two elements substantially reduced our profitability: a marked increase in group insurance prescription drug and disability benefits and a significant reinforcement of our actuarial reserves. Due to these factors, our sector ended the year with a $2.3 million consolidated net income. We have already implemented a plan to turn this situation around. This plan includes investments in technological infrastructure and concrete measures for improving our processes and containing our costs.

Individual Insurance and Financial Services

In the Individual Insurance and Financial Services division, new sales of insurance premiums and deposits reached $425.2 million, a 15.2% increase over 2015. This amount can be broken down into $406.8 million in savings products and $18.4 million in insurance.

Sales and the savings and investments portfolio experienced another growth spurt in 2016. The total portfolio value is $1.77 billion, an increase of 21.8% in relation to 2015. The last RRSP campaign reached record sales of $96 million, up 28% over 2015, which greatly contributed to these strong results. I would also like to mention the Carte Capitale and Stow & Grow account merger and the 10,000th La Capitale Stow & Grow client registration during the past year.

Our product offering was strengthened in 2016 with the addition of five new investment accounts, including a global infrastructure fund, which our clients can use to further diversify their investment portfolio. Our ongoing desire to make the best products available to our clients is backed by the efficiency of our distribution channels, which contributes greatly to our successes.

Implementation of the Quartz Program, one of the most ambitious IT projects that La Capitale has ever embarked upon, has allowed us to replace all the old individual insurance processing systems of our Ontario subsidiary. This vast project, accomplished on time and on budget, was a huge success. The new system will serve as a stepping stone for modernizing all of our operations in individual insurance.

Mortgage loans

The inforce mortgage loan volume continued to grow in 2016, posting a 4.78% increase.

Group insurance

During 2016, La Capitale experienced tremendous growth in group insurance sales, reaching $111.2 million, a 30.2% increase. Traditional group insurance sales figures doubled, going from $35 million in 2015 to $74.4 million in 2016. The year was marked by new business with the *Groupement des chefs d'entreprise du Québec* (GCE), which represents the largest private group sale and implementation in La Capitale's group insurance history. In addition, the *Fédération nationale des enseignantes et enseignants du Québec* (FNEEQ) and the *Association des retraitées et des retraités de la FNEEQ* (AREF) renewed their agreement with La Capitale, thereby building on a relationship that goes back 42 years.

We also delivered the final functions required for migration of our largest group insurance clients to a new, more efficient administration system. I would lastly like to mention the growing use of our online services: 50% of claims for reimbursement of medical expenses are submitted through our mobile app or website.

Public service

For more than 75 years, La Capitale has watched over the financial security of Quebec public service employees, its original client base. Exclusive tools (including a retirement income simulator, which is available on the *Retraite Québec* website) have been developed to take into account the situation of these clients. With La Capitale, Quebec public service employees enjoy extensive benefits, such as preferred rates, special interest rates and exclusive financial information programs. During 2016, 7,693 Quebec public service employees attended some 534 financial education sessions. These sessions led to 3,536 requests for a meeting with one of La Capitale's financial security advisors, in the workplace or at home, for fine tuning of their financial planning.

In addition, following the adoption of legislation amending the Act respecting the Government and Public Employees Retirement Plan (RREGOP), we updated our income projection tools and provided training to our advisors. A special financial education session was also developed to explain the essential changes.

Outlook for 2017

Ever since La Capitale's inception in 1940, the Mutual's mission has been to build and protect the financial security of its clients. Whether they want to plan for retirement, save money for their children's education, ensure an acceptable standard of living for their family in the event of their death or disability, pay for prescription drugs, enable an injured worker to have an income in the event of sickness or accident, buy a house or travel with full peace of mind, our clients know they can rely on La Capitale.

Although we will likely have as many challenges to face in 2017 as in previous years, our Life and Health Insurance and Financial Services sector can look to the future with confidence. A number of initiatives have already been implemented to enable us to achieve our goals and to strengthen our market position. Among other things, major projects are under way to support group insurance profitability and enhance our customer service.

We will continue to strive to maintain and improve the relationship of trust that we have with our clients and business partners. We will move forward with digital service development in 2017 in order to be able to provide service that is tailored to our clients' situation and meets their expectations.

In 2017, La Capitale will be an influential player in the Canadian market more than ever before, thanks to ongoing product enhancements and personalized customer service.

Acknowledgements

In closing, I would like to remark on how fortunate La Capitale is to be able to rely on employees and managers who are so competent, dedicated and motivated to surpass themselves daily in providing service to our clients. I would also like to thank all our business partners, who play an essential role in our successes, and our clients and Mutual members for the trust they place in us year after year. Their support is the cornerstone of our success.

THE YEAR IN REVIEW

CONSTANCE LEMIEUX
President and Chief Operating Officer
Property and Casualty Insurance

Property and Casualty Insurance Sector

The Property and Casualty Insurance sector, which consists of La Capitale General Insurance, L'Unique General Insurance and Unica Insurance, had another banner year with a net income of $42.9 million, which represents a 12.3% return on equity. These excellent results are a direct reflection of strong performance by the three companies. Unica Insurance achieved the highest profit level in its history by, in particular, maintaining its disciplined underwriting policy and continuing to focus on targeted growth in commercial insurance.

Growth

All of our member companies ended 2016 with a consolidated gross written premium volume of $919.4 million, a $38.5 million increase over the previous year.

La Capitale General Insurance achieved 3.9% growth, of which 5.3% was in personal home insurance, and posted a total gross written premium volume of $594.3 million.

An independent study confirmed that the experience we take pride in offering our clients is among the best in the industry. It goes without saying that our clients are our top priority and that their reality always guides our actions and decisions. For this reason, our claims teams travelled quickly to the Saguenay region, following the hailstorm they had there in July, to support our clients and facilitate claims. We also put in place a number of claims, service and renewal improvements aimed at giving our clients the best possible customer experience. We will continue with these initiatives in 2017.

We are also continuously making adjustments to our offer in order to keep pace with new market realities while trying to stand out from our competitors. Among other things, we introduced a claim forgiveness endorsement that is unlike anything else on the market, and we have just launched a distinctive replacement value endorsement. We have adjusted our coverages based on the sharing economy and enhanced our agreement with Communauto, one of our longstanding partners. At the end of the year, we released an initial version of the fast and easy car insurance quote, which will be further developed over time.

We are committed to providing good service to Quebec public service employees, the founding clients of La Capitale Civil Service Mutual, our parent company. We have reinforced our presence with this client base by opening a first boutique branch in the McGill University Health Centre, by being on site in a number of establishments and by holding various events to highlight their dedication and the contribution they make to the betterment of our society.

We experienced premium growth in commercial insurance, despite the withdrawal of a dealership insurance program. We are working to achieve the planned strategic initiatives. To better serve our target clienteles, we have, among other things, made adjustments to our processes and launched products tailored to meet their specific needs.

L'Unique General Insurance achieved 12.1% growth, ending the year with a gross written premium volume of $205.3 million. All sectors contributed to these results; however, the commercial insurance sector merits particular recognition for having achieved 14.3% growth. L'Unique passed the $200 million mark in premiums in December, which it achieved in less than eight years. That is quite an accomplishment, considering the company had been in business for 31 years before recording its first $100 million.

As part of its ongoing endeavours to stand apart from its competitors by the quality of the support provided to its business partners and their clients, L'Unique has put in place a number of improvements such as the release of an automated underwriting tool for new business and the launch of an auto claim forgiveness endorsement. It has also updated the visual appearance of its insurance contracts, increased its social media presence and deployed an "A+ Certified" training program aimed at improving service delivery to broker partners. Moreover, in responding to two surveys, brokers doing personal lines and surety bonds business with L'Unique indicated a high level of satisfaction in terms of their experience with L'Unique.

Unica Insurance continued to link growth and profitability, which led to a 4.8% reduction in premiums, with a gross written premium volume of $119.8 million. This result is primarily attributable to the withdrawal of certain personal line markets.

Unica moved forward with its targeted growth in commercial insurance, posting a 3.5% premium increase in this market; that business line now represents 34.6% of the company's total volume.

Acting on its desire to enhance its offering in order to adequately meet the needs of its brokers and their clients, Unica introduced a number of new products including WATERtight protection for water damage losses. It also launched its Unica U program, aimed at accelerating access to its elite brokers in the medium-scale risk market. In addition, a Unica client survey confirmed that this company continues to distinguish itself by the quality of its claims process.

Profitability

The Property and Casualty Insurance sector's $42.9 million consolidated net income includes a record amount of $9.6 million for Unica. L'Unique General Insurance also had an excellent year with net income of $10 million. I would like to mention that the remedial actions taken over the past few years for surety bonds have been successful, and they have enabled that sector to reach its profitability targets.

The favourable variances with regard to written premiums, investment income and operating expenses offset the increase in incurred claims. These claims are primarily associated with the hailstorm in the Saguenay region this past July, the heavy rainfall in August and October, and the more difficult months of November and December.

The commercial insurance results were particularly good for all three companies. In fact, they are the best that La Capitale General Insurance has experienced since 2007. Unica Insurance also had a banner year for this line of business.

Our other products also made a positive contribution to the results. One exception would be auto insurance, which continues to struggle to achieve profitability because of competitive premium rates in the Quebec market, coupled with increased average claim cost and the exposure weight for bodily injury in Ontario loss experience.

In other respects, the year-end rise in interest rates allowed us to obtain a higher than anticipated return on investment income.

Lastly, operating expenses were controlled and proved to be lower than the budgeted amount.

Outlook for 2017

Our clients will remain at the forefront of our priorities in 2017. We want their experience with us to exceed their expectations in situations important to them. We will therefore continue to expand our knowledge of the different clienteles, improve our measurement of satisfaction and feedback process, and implement the improvements required.

With regard to our offering: Following the sale of the administrator of our replacement insurance policies, we will continue to honour our commitments, but we will no longer make this product available to new clients. Moreover, to better meet the specific needs of our clienteles and distinguish ourselves from our competitors in a significant manner, we will further develop our offering by focusing on the customization of our products and on our business approaches, among other things. Also, to ensure that it is always easier for our clients to do business with us, we will further develop our digital platforms, making them more user friendly and enhancing access to our services.

We will maintain our close relationship with Quebec public service employees, and we are moving forward with our efforts to develop an offering that is customized to meet the needs of these clients.

We will also work closely with our distribution channels, striving to distinguish ourselves by the quality of our relationship with our business partners.

Lastly, we will continue to reinforce our agility, the engagement of our employees and our own effectiveness and efficiency by deploying, in all three of our companies, our Agile methodology migration program for the development of IT applications.

My sincere thanks to our clients, partners and teams, who enable us to move forward from year to year and who are at the heart of our success.

2016

Consolidated financial statements

La Capitale
Civil Service Mutual

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of **La Capitale Civil Service Mutual** (the "Mutual") have been approved by the Board of Directors of the Mutual and have been prepared by management in accordance with International Financial Reporting Standards. These consolidated financial statements contain certain amounts based on management's best estimates and judgment within reasonable limits of materiality. In management's opinion, the significant accounting policies are appropriate and present fairly, in all material respects, the Mutual's financial position and the results of its operations.

In discharging its responsibilities with regard to the financial statements, management maintains internal control systems that provide reasonable assurance that transactions are authorized, proper financial records are maintained and assets are safeguarded. These control systems are strengthened by the work of the internal auditors who conduct a periodic review of all of the key lines of business of the Mutual.

The Appointed Actuary, designated by the Board of Directors of every insurance company under the Insurance Companies Act (Canada) or the Loi sur les assurances (Québec), is responsible for ensuring that the assumptions made and the methods used for the valuation of policy liabilities net of reinsurance recoverables are in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations and directives. The Appointed Actuary must issue an opinion on the appropriateness of the policy liabilities net of reinsurance recoverables to meet all policyholder obligations of the Mutual at the balance sheet date.

The independent auditors, Ernst & Young LLP, appointed by the members, are responsible for carrying out an independent audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards and reporting on the fairness of the presentation of the consolidated financial statements of the Mutual.

On behalf of management,

Jean St-Gelais
Jean St-Gelais
Chairman of the Board and Chief Executive Officer

Quebec City, February 27, 2017

INDEPENDENT AUDITORS' REPORT

To the Members of
La Capitale Civil Service Mutual

We have audited the accompanying consolidated financial statements of **La Capitale Civil Service Mutual** (the "Mutual"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of income, comprehensive income, changes in equity and the table of cash flows for the year ended December 31, 2016, 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, the consolidated financial statements present fairly, in all material respects, the financial position of **La Capitale Civil Service Mutual** as at December 31, 2016, and of its financial performance and its cash flows for the year ended December 31, 2016 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Quebec City, Canada
February 27, 2017

1. CPA auditor, CA, Public Accountancy Permit No. A109180

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31 [in thousands of Canadian dollars]

	2016	2015
	$	$
ASSETS		
Investments *[note 4]*		
Cash and cash equivalents	**51,873**	88,364
Bonds	**1,905,889**	1,721,148
Stocks	**554,772**	538,151
Mutual funds	**1,317,767**	1,096,178
Mortgage loans	**568,933**	568,104
Policy loans	**39,720**	35,723
Investment properties	**170,278**	159,460
Other investments	**300,520**	237,254
	4,909,752	4,444,382
Premiums receivable	**595,494**	555,969
Reinsurance assets *[note 7]*	**251,112**	246,133
Income taxes receivable	**6,090**	16,355
Other financial assets *[note 8]*	**90,095**	75,503
Other assets *[note 8]*	**68,760**	68,336
Deferred tax assets *[note 9]*	**42,475**	42,811
Property and equipment *[note 10]*	**143,143**	144,822
Intangible assets *[note 11]*	**165,937**	142,961
Goodwill *[note 11]*	**102,572**	102,572
TOTAL ASSETS	**6,375,430**	5,839,844

On behalf of the Board of Directors,

Jean St-Gelais

Jean St-Gelais, Chairman of the Board

Dominique Dubuc

Dominique Dubuc, Vice-Chairman of the Board

CONSOLIDATED STATEMENT OF FINANCIAL POSITION [Cont'd]

AS AT DECEMBER 31 [in thousands of Canadian dollars]

	2016	2015
	$	$
LIABILITIES		
Life and health insurance contract liabilities *[note 13]*	**3,902,321**	3,500,096
Property and casualty insurance contract liabilities *[note 13]*	**1,052,715**	1,007,034
	4,955,036	4,507,130
Other financial liabilities *[note 14]*	**302,615**	289,585
Other liabilities *[note 14]*	**12,393**	10,109
Income taxes payable	**10,210**	2,041
Deferred tax liabilities *[note 9]*	**11,287**	19,822
Employee future benefits *[note 15]*	**108,564**	93,651
Long-term debt *[note 16]*	**15,021**	22,479
	5,415,126	4,944,817
EQUITY		
Retained earnings attributable to members	**784,806**	748,436
Accumulated other comprehensive income attributable to members	**9,477**	(13,544)
	794,283	734,892
Participating policyholders' account	**830**	6,037
Non-controlling interests	**165,191**	154,098
	960,304	895,027
TOTAL LIABILITIES AND EQUITY	**6,375,430**	5,839,844

Commitments, garantees and contingencies *[note 20]*

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	2016	2015
	$	$
Revenues		
Premiums *[note 13]*	**2,066,158**	1,940,119
Premiums ceded to reinsurers	**(90,832)**	(86,530)
Net premiums	**1,975,326**	1,853,589
Investment income *[note 4]*		
Interest and other investment income	**205,305**	195,259
Change in fair value of financial assets designated at fair value through profit or loss	**35,972**	(38,528)
	241,277	156,731
Fees and other revenues	**21,439**	18,226
Total revenues	**2,238,042**	2,028,546
Policy benefits, claims and expenses		
Gross benefits and claims	**1,238,231**	1,180,338
Benefits and claims ceded to reinsurers *[note 7]*	**(34,263)**	(35,060)
	1,203,968	1,145,278
Participating policyholder dividends	**12,117**	12,648
Experience rating refund	**20,217**	3,259
Changes in actuarial liabilities	**378,190**	234,939
Changes in reinsurance assets	**(9,880)**	(11,803)
Net benefits and claims	**1,604,612**	1,384,321
General expenses *[note 19]*	**313,942**	306,312
Commissions	**177,661**	190,149
Premium taxes	**55,350**	51,243
Investment management costs	**34,778**	31,507
Finance costs	**2,692**	3,391
Total policy benefits, claims and expenses	**2,189,035**	1,966,923
Income before income taxes	**49,007**	61,623
Income taxes *[note 9]*	**3,837**	6,245
NET INCOME	**45,170**	55,378
Attributable to members of the Mutual	**32,198**	31,126
Attributable to participating policyholders	**(151)**	9,663
Attributable to non-controlling interests	**13,123**	14,589
	45,170	55,378

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	2016	2015
	$	$
Net income	**45,170**	55,378
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net income		
Unrealized net gains (losses) for the year on available-for-sale financial assets	**40,605**	(54,079)
Income taxes	**(10,915)**	14,530
	29,690	(39,549)
Reclassification of realized net (gains) losses to net income	**(1,835)**	4,022
Income taxes	**494**	(1,078)
	(1,341)	2,944
	28,349	(36,605)
Items that will not be reclassified subsequently to net income		
Remeasurement of the net defined benefit liability	**(649)**	11,121
Income taxes	**(159)**	(2,988)
	(808)	8,133
Total other comprehensive income (loss)	**27,541**	(28,472)
COMPREHENSIVE INCOME	**72,711**	26,906
Attributable to members of the Mutual	**54,588**	9,028
Attributable to participating policyholders	**(207)**	9,749
Attributable to non-controlling interests	**18,330**	8,129
	72,711	26,906

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	Retained earnings attributable to members $	Accumulated other comprehensive income (loss) attributable to members[1] $	Total retained earnings and accumulated other comprehensive income (loss) attributable to members $	Retained earnings attributable to participating policyholders $	Accumulated other comprehensive income (loss) attributable to participating policyholders[1] $	Total participating policyholders' account $	Non-controlling interests $	Total equity $
Balance as at January 1, 2015	706,378	13,376	719,754	2,569	119	2,688	152,146	874,588
Net income	31,126	—	31,126	9,663	—	9,663	14,589	55,378
Other comprehensive loss, net of income taxes[2]	—	(28,655)	(28,655)	—	(244)	(244)	(7,706)	(36,605)
Remeasurement of the net defined benefit liability	6,557	—	6,557	330	—	330	1,246	8,133
Total comprehensive income (loss)	37,683	(28,655)	9,028	9,993	(244)	9,749	8,129	26,906
Dividends paid to non-controlling interests	—	—	—	—	—	—	(2,118)	(2,118)
Transfer from participating policyholders to members	6,229	(119)	6,110	(6,525)	125	(6,400)	290	—
Changes in non-controlling interests	—	—	—	—	—	—	(4,349)	(4,349)
Other	(1,854)	1,854	—	—	—	—	—	—
	4,375	1,735	6,110	(6,525)	125	(6,400)	(6,177)	(6,467)
Balance as at December 31, 2015	748,436	(13,544)	734,892	6,037	—	6,037	154,098	895,027
Balance as at January 1, 2016	**748,436**	**(13,544)**	**734,892**	**6,037**	**—**	**6,037**	**154,098**	**895,027**
Net income	**32,198**	**—**	**32,198**	**(151)**	**—**	**(151)**	**13,123**	**45,170**
Other comprehensive income, net of income taxes[2]	**—**	**22,990**	**22,990**	**—**	**53**	**53**	**5,306**	**28,349**
Remeasurement of the net defined benefit liability	**(600)**	**—**	**(600)**	**(109)**	**—**	**(109)**	**(99)**	**(808)**
Total comprehensive income (loss)	**31,598**	**22,990**	**54,588**	**(260)**	**53**	**(207)**	**18,330**	**72,711**
Dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(5,885)**	**(5,885)**
Transfer from participating policyholders to members	**4,772**	**31**	**4,803**	**(4,968)**	**(32)**	**(5,000)**	**197**	**—**
Changes in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(1,549)**	**(1,549)**
	4,772	**31**	**4,803**	**(4,968)**	**(32)**	**(5,000)**	**(7,237)**	**(7,434)**
Balance as at December 31, 2016	**784,806**	**9,477**	**794,283**	**809**	**21**	**830**	**165,191**	**960,304**

1. Accumulated other comprehensive income (loss) comprises unrealized net gains (losses) on available-for-sale financial assets.
2. These amounts exclude the amount of the remeasurement of the net defined benefit liability recycled through retained earnings.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	2016	2015
	$	$
OPERATING ACTIVITIES		
Net income	**45,170**	55,378
Items not affecting cash and cash equivalents:		
Changes in actuarial liabilities	**378,190**	234,939
Changes in gross unearned premiums	**20,485**	26,567
Changes in reinsurance assets	**(4,979)**	(10,826)
Changes in net discounts on investments	**(36,551)**	(38,386)
(Gains) losses on investments	**(42,220)**	43,983
Deferred taxes (recovery)	**(9,578)**	(14,530)
Amortization of deferred premium acquisition costs	**98,114**	94,115
Net employee future benefit expense	**29,929**	29,732
Amortization of property and equipment and intangible assets	**17,363**	16,829
Loss on the write-off of an intangible asset	**2,053**	—
Other items included in net income	**2,550**	1,478
	500,526	439,279
Net change in other items related to operating activities	**(114,400)**	(85,056)
Cash flows related to operating activities	**386,126**	354,223
INVESTING ACTIVITIES		
Acquisitions, issuances and advances related to investments	**(1,769,439)**	(1,434,504)
Disposals and repayments related to investments	**1,382,582**	1,113,962
Net additions to property and equipment and intangible assets	**(40,748)**	(42,849)
Cash flows related to investing activities	**(427,605)**	(363,391)
FINANCING ACTIVITIES		
Changes in a short-term borrowing	**15,164**	—
Repayment of long-term debt	**(1,258)**	(507)
Changes in non-controlling interests	**(7,749)**	(4,349)
Dividends paid to non-controlling interests	**(5,885)**	(2,118)
Interest paid	**(906)**	(1,171)
Cash flows related to financing activities	**(634)**	(8,145)
Net decrease in cash and cash equivalents	**(42,113)**	(17,313)
Cash and cash equivalents, beginning of year	**84,048**	101,361
Cash and cash equivalents, end of year[1]	**41,935**	84,048
1. Consisting of:		
Cash	**41,754**	58,838
Cash equivalents	**10,119**	29,526
Bank overdraft *[note 14]*	**(9,938)**	(4,316)
	41,935	84,048
Supplementary information on cash flows		
Interest received	**52,072**	52,429
Dividends received and distributions received	**84,421**	83,812
Taxes paid	**(3,708)**	(13,713)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

[in thousands of Canadian dollars]

1. INCORPORATING STATUTE AND NATURE OF OPERATIONS

La Capitale Civil Service Mutual ("the Mutual"), incorporated under the Act respecting the Québec Civil Servants Mutual Life, is a mutual management corporation.

It operates through its subsidiaries mainly in Canada as a designer, marketer and distributor of products including individual life and health insurance, savings and loans, mortgage loans, group insurance, automobile and home insurance, commercial insurance and surety lines and travel insurance.

The Mutual is headquartered at 625 Jacques-Parizeau St, Québec City, Québec, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Mutual have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and set out in the CPA Canada Handbook – Accounting.

These consolidated financial statements were approved for issue by the Board of Directors of the Mutual on February 27, 2017.

The Mutual presents its consolidated statement of financial position in order of liquidity with each item comprising both current and non-current balances, if applicable.

The significant accounting policies used to prepare the consolidated financial statements are summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Mutual and those of its subsidiaries as at December 31, 2016. The subsidiaries are entities controlled by the Mutual. The Mutual controls a subsidiary only and only if it has:

- Power over the subsidiary (i.e., has existing rights that give it the current ability to direct the activities);
- Exposure, or rights, to variable returns from its involvement with the subsidiary;
- The ability to use its power over the subsidiary to affect the amount of its returns.

Consolidation of the financial statements of a subsidiary begins from the date the Mutual obtains control of the subsidiary and ceases when the Mutual loses control of the subsidiary.

The Mutual's consolidated financial statements have been prepared using consistent accounting policies for similar transactions and events occuring in similar circumstances. Intragroup balances and revenues and expenses arising from intragroup transactions are eliminated in the preparation of the consolidated financial statements.

The acquisition of a subsidiary is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the acquirer, liabilities incurred by the acquirer from the business's former owners and the equity instruments issued by the acquirer. Acquisition-related costs are recognized in net income and presented under general expenses.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Basis of consolidation [Cont'd]

These financial statements include the financial statements of La Capitale Civil Service Mutual and the subsidiaries listed below. The direct parent company's percentage of ownership of voting shares for each subsidiary is detailed under "% interest."

	% interest			
	2016	2015	Location of principal place of business	Description
Subsidiary				
La Capitale Financial Group Inc.	**96.1**	95.4	Québec City, Canada	Holding company
La Capitale Financial Services Inc.	**100.0**	100.0	Québec City, Canada	Distribution firm
La Capitale Civil Service Insurer Inc.	**100.0**	100.0	Québec City, Canada	Life and health insurance company
La Capitale Insurance and Financial Services Inc.	**100.0**	100.0	Québec City, Canada	Life and health insurance company
La Capitale MFQ Real Estate Management Inc.	**100.0**	100.0	Québec City, Canada	Real estate management company
Développement informatique CSF inc.	**100.0**	—	Québec City, Canada	IT development and system improvement services
3602214 Canada Inc.	**70.0**	70.0	Mississauga, Canada	Holding company
La Capitale Financial Security Insurance Company	**100.0**	100.0	Mississauga, Canada	Life and health insurance company
La Capitale Participations inc.	**77.9**	77.2	Québec City, Canada	Holding company
La Capitale General Insurance Inc.	**100.0**	100.0	Québec City, Canada	Property and casualty insurance company
L'Unique General Insurance Inc.	**100.0**	100.0	Québec City, Canada	Property and casualty insurance company
Unica Insurance Inc.	**100.0**	100.0	Mississauga, Canada	Property and casualty insurance company
Développement informatique Unicap inc.	**100.0**	100.0	Québec City, Canada	IT development and system improvement services
SécuriGlobe inc.	**100.0**	100.0	Brossard, Canada	Travel insurance product distributor
Immo-Beauport S.E.C.	**70.0**	70.0	Québec City, Canada	Real estate management company

Non-controlling interests represent the share in the subsidiaries' equity not held by the Mutual and are presented separately from equity attributable to members and participating policyholders' account in total equity. The shares of net and comprehensive income attributable to holders of non-controlling interests are included in total net income and total comprehensive income, respectively.

Investments

Investments considered as financial instruments are classified as follows according to their characteristics and the purpose for which they were acquired by the Mutual:

- Assets held-for-trading and assets designated at fair value through profit or loss with changes in fair value recognized in income;
- Assets available-for-sale recognized at fair value with changes in fair value recognized in accumulated other comprehensive income;
- Loans and receivables recognized at amortized cost using the effective interest rate method.

Financial instruments are recorded at fair value when initially recognized. Subsequent remeasurements will depend on the category in which financial instruments were initially classified.

The Mutual uses settlement date accounting for regular-way purchases and sales of financial assets. Under this method, any gains or losses between the transaction and settlement dates are recognized in income for assets designated at fair value through profit or loss and in other comprehensive income for available-for-sale assets.

Transaction costs of assets classified as held-for-trading and designated at fair value through profit or loss are recognized in income. Transaction costs of assets classified as available-for-sale are capitalized to the cost of the financial instruments. Transaction costs of assets classified as loans and receivables are capitalized and amortized using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents classified as held-for-trading consist of cash, short-term deposits and bankers' acceptances, and are accounted for at fair value. Short-term deposits and bankers' acceptances are classified as cash equivalents when the period between the acquisition date and maturity is less than three months.

Bonds, stocks and mutual funds

The Mutual has elected to designate bonds, stocks and mutual funds backing life and health insurance contract liabilities at fair value through profit or loss. These bonds, stocks and mutual funds are recorded at fair value. Life and health insurance contract liabilities are determined using the Canadian Asset Liability Method, and the changes in fair value of assets backing the life and health insurance contract liabilities are included directly in life and health insurance contract liabilities. Changes in fair value of assets designated at fair value through profit or loss backing the liabilities and changes in life and health insurance contract liabilities are charged directly to income, thereby avoiding an accounting mismatch. Realized and unrealized gains and losses are recognized through income under "Interest and other investment income" and "Changes in fair value of financial assets designated as at fair value through profit or loss," respectively. Interest, dividend and distribution income is recognized under "Interest and other investment income."

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

Bonds, stocks and mutual funds [Cont'd]

Bonds, stocks and mutual funds that are not used to cover life and health insurance contract liabilities are classified as available-for-sale.

Bonds, stocks and mutual funds classified as available-for-sale are recorded at fair value. Unrealized gains and losses are recognized in other comprehensive income except when there is objective evidence of impairment, in which case the impairment loss is recognized in income. Gains and losses realized on disposal are reclassified to income under "Interest and other investment income." Interest, dividend and distribution income are recognized under "Interest and other investment income".

At each reporting date, financial instruments classified as available-for-sale are tested for impairment and, when there is evidence of impairment, generally a decline in value considered significant or prolonged, any loss recognized in accumulated other comprehensive income is reclassified to income. An impairment loss recorded in the statement of income may be reversed through profit or loss, in the case of a debt instrument, if its fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Impairment losses related to equity instruments may not be reversed through the statement of income. Financial instruments continue to be recognized at fair value even if an impairment loss has been recorded. Any subsequent declines in value for impaired financial instruments are recognized in income.

Fair values for bonds and stocks are determined with reference to bid prices observed in active market where available. Where bid prices cannot be obtained, fair value is determined using valuation techniques that factor in the interest rate particular to each security and discounted cash flows, and are based on indirectly observable market data. Fair values of mutual funds are determined according to values published by the fund.

Mortgage loans

Mortgage loans are classified as loans and receivables and reported at amortized cost using the effective interest rate method, less any allowance for losses. Commissions paid and other mortgage acquisition costs incurred are recognized and presented under mortgage loans. Amortized cost is the amount at which the mortgage loan is initially recognized less any principal repayments, plus or minus accumulated amortization determined using the effective interest rate method. Realized gains and losses on disposal of these securities and interest income are recognized through income under "Interest and other investment income".

The fair value of mortgage loans is determined primarily by discounting future cash flows using market interest rates for loans with similar terms and conditions to new mortgage loans.

Mortgage loan securitization

The Mutual periodically securitizes pools of insured mortgage loans that meet the criteria of the National Housing Act ("NHA") program of the Canada Mortgage and Housing Corporation ("CMHC"), through a trust set up for this purpose. As part of these securitization transactions and as required by the NHA's Mortgage-Backed Securities Program ("NHA MBS"), the Mutual transfers substantially all the risks and rewards related to the mortgage loans ceded to a third party and complies with the criteria of derecognizing ceded mortgage loans.

In securitization transactions, the Mutual retains a portion of the future interest that will be paid by the borrower whose mortgage loan was sold, accounting for this future revenue, net of servicing expenses, as retained interests.

The fair value of retained interests is calculated using the discounted value of expected future cash flows based on assumptions concerning prepayments, servicing expenses and discount rates. Retained interests are classified as held-for-trading and reported at fair value.

Gains and losses arising from securitization are recorded to the extent of the excess or shortfall of the consideration received over the carrying amount allocated to the assets sold. These gains and losses are recognized through income and included in investment income.

Policy loans

Policy loans classified under loans and receivables are recorded at amortized cost and are fully secured by the cash surrender value of the insurance policies on which the respective loans are granted. The fair value of policy loans approximates their carrying amount due to their short-term maturity.

Investment properties

Investment properties are real estate assets that are held for rental income and for capital appreciation.

Investment properties are accounted for at the transaction price on acquisition and subsequently recognized at fair value. The fair values of investment properties are determined by valuations prepared by chartered appraisers or by Mutual personnel and are revised annually. Rental income and realized and unrealized gains and losses on investment properties are recognized through income under "Interest and other investment income."

Other investments

Other investments include personal loans, other loans, properties held for resale, investments in joint ventures and associates, investments in limited partnerships and derivative financial instruments.

Personal loans and other loans are classified as loans and receivables and recognized at amortized cost using the effective interest rate method. The fair value of these personal and other loans is determined by discounting future cash flows using market interest rates for loans with similar terms and conditions.

Properties held for resale are measured at the lower of fair value less costs to sell and the carrying value of underlying mortgage loans at foreclosure date. When the fair value of a property held for resale is less than the carrying value of underlying mortgage loans, less costs to sell, at the foreclosure date, losses are immediately recognized through income. Realized gains and losses on the disposal of such real estate are recognized through income for the year.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

Other investments [Cont'd]

The investment in 50%-owned joint venture Société Bon Pasteur (s.e.n.c.) is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates are investment in entities over which the Mutual exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not as having control or joint control of those policies.

The criteria forming the basis for the principles used to determine significant influence or joint control are similar to those used to determine control over subsidiaries.

The investments in a joint venture and in associates are accounted for using the equity method.

Investments in limited partnerships are accounted for at fair value. Fair value is determined using valuation techniques that factor in the discount rate particular to this type of investment and discounted cash flows, and are based on indirectly observable market data.

Derivative financial instruments

The Mutual uses derivative financial instruments to manage interest rate risk in connection with asset-liability matching and to hedge against interest rate risk related to mortgage loans that are being securitized and certain insurance products. The Mutual also uses derivative financial instruments to manage foreign currency exposure.

Derivative financial instruments are classified as held-for-trading and recognized at fair value, and changes in fair value are recognized in income. Derivative financial instruments with a positive fair value are included in other investments, whereas derivative financial instruments with a negative fair value are included in other financial liabilities.

Loan impairment provisions

At each reporting date, the Mutual performs impairment tests on mortgage loans, personal loans and other loans. Evidence of impairment arises when there is reasonable doubt as to the timely collection of the principal or interest on a loan or if a payment is over 90 days past due under the agreement. Impairment of a loan is determined based on the net recoverable amount of the loan. An allowance is created for the difference between this amount and the carrying amount. The Mutual determines the net recoverable amount of the loan by discounting cash flows at the effective interest rate inherent in the loan. This allowance is charged immediately to income. Furthermore, interest on impaired assets is no longer accrued.

Reinsurance

Reinsurance ceded

In the normal course of business, the Mutual enters into reinsurance agreements with other insurers and reinsurers to limit its exposure to risk. Ceding insurance to a reinsurer does not relieve the Mutual of its obligations to its insureds. It remains accountable to its insureds for the amount reinsured in the event that a reinsurer would default on its reinsurance cession obligations under the reinsurance treaties.

Reinsurance assets represent balances due from insurance companies with respect to liabilities relating to ceded insurance contracts. Amounts recoverable are estimated based on actuarial liabilities and provisions for claims related to the underlying insurance contracts in accordance with reinsurance agreements.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently if an indication of impairment arises during the reporting year. An impairment loss is recognized when there is objective evidence that the Mutual may not receive all outstanding amounts due under the terms of the agreement and that the unrecoverable amount can be estimated reliably.

Ceded premiums and ceded benefits and claims are reported in the consolidated statement of income. Reinsurance assets are presented as a separate item in the consolidated statement of financial position.

Reinsurance assumed

Assumed reinsurance contracts are entered into by the Mutual to acquire a portion of the risk and pay compensation as a percentage of losses on contracts written by other insurers. The Mutual assumes the reinsurance risk in the normal course of business relating to life and health and property and casualty insurance contracts. The premiums and benefits or claims under assumed reinsurance contracts are recognized as revenues or expenses as if they were direct business, taking into account the nature of the reinsurance business. Premiums and benefits or claims are reported on a gross basis for reinsurance assumed. Liabilities under assumed reinsurance contracts are included in insurance contract liabilities. Reinsurance liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Income taxes

The Mutual uses the asset and liability method of accounting for income taxes. Income tax expense (recovery) comprises current tax expense (recovery) and deferred tax expense (recovery). Income taxes are recognized through profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities are based on income before income taxes in the current year, adjusted for items that are not taxable or not deductible. Current income tax assets and liabilities are calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes [Cont'd]

Deferred tax assets and liabilities are recorded based on all temporary differences between the financial statement carrying amount and the corresponding tax basis. These deferred income tax assets and liabilities are calculated using enacted or substantively enacted tax rates at the reporting date that are expected to be in effect when the assets are realized or the liabilities settled in future years. Deferred tax assets are recognized only if management deems it probable that deferred tax assets will be realized.

Other financial assets and other assets

Other financial assets consist of assets held-for-trading and loans and receivables. Assets held-for-trading consist of retained interests in securitized loans and cash in trust which are reported at fair value. Loans and receivables consist of investment income receivable, due from reinsurers in the life and health insurance and property and casualty insurance segments, subrogations, other receivables and balance of sale receivable, which are recorded at amortized cost using the effective interest rate method.

Other assets consist of deferred premium acquisition costs of property and casualty insurance segment, prepaid expenses and tax credits receivable. Deferred premium acquisition costs include commissions and taxes on premiums and are recorded at amortized cost over the term of the relevant insurance contract provided that they are recoverable. They are considered recoverable to the extent that unearned premiums and investment income, net of projected losses, loss adjustment expenses and administrative costs, exceed deferred charges. Prepaid expenses are recognized at cost.

Property and equipment

Property and equipment comprise land, own-use properties, furniture and other, computer hardware and leasehold improvements. Property and equipment are recorded at cost, net of accumulated amortization and impairment losses, and are amortized on a straight-line basis over their estimated useful life.

Realized gains and losses on disposal of property and equipment are recognized through income for the year.

Property and equipment are amortized on the following basis:

Class	Method	Useful life
Own-use properties	Straight-line	20 to 100 years
Furniture and other	Straight-line	10 years
Computer hardware	Straight-line	3 years and 5 years
Leasehold improvements	Straight-line	Lease term

Amortization methods used, useful lives and the residual value of property and equipment are reviewed annually. Any changes are recognized prospectively.

Amortization is recognized under general expenses in the consolidated statement of income.

Intangible assets

Intangible assets consist of indefinite-life intangible assets, namely trademarks, and finite-life intangible assets, namely the client base, distribution networks and software, and software under development. Intangible assets are accounted for at cost at the acquisition date. Internally developed software and software under development are recorded at the lower of incurred development costs and future economic benefits. Software is amortized when implemented.

Indefinite-life intangible assets are not amortized.

Finite-life intangible assets are amortized on a straight-line basis as follows:

	Useful life
Client base and distribution networks	30 months to 18 years
Software	3 years to 30 years

Amortization methods used, useful lives and the residual value of intangible assets are reviewed annually. Any changes are recognized prospectively.

Amortization is recognized under general expenses in the consolidated statement of income.

Impairment of property, equipment and intangible assets

Where significant circumstances or events indicate a possible impairment, the management of the Mutual remeasures the carrying amount of property and equipment and intangible assets through impairment tests. Intangible assets with indefinite useful lives and development software are tested for impairment annually. An impairment loss is recorded once the asset's carrying amount exceeds the recoverable amount. The recoverable amount of an asset represents the higher of its fair value less costs to sell and its value in use, which corresponds to the value of total discounted cash flows generated by the asset.

Government assistance

The Mutual receives government assistance in the form of tax credits for scientific research and experimental development. These amounts are recognized when there is reasonable assurance that the Mutual will comply with the conditions attached to these credits and the amounts will be received. The Mutual uses the cost reduction method to account for these amounts, under which credits are recorded as a reduction to general expenses or the eligible assets to which they apply. These credits are amortized according to the same method and rates as the eligible assets to which they apply.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the estimated fair value of their net identifiable assets. Goodwill is initially measured and subsequently at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least once a year for each cash-generating unit ("CGU") or group of CGUs or when events or changes in circumstances indicate that its carrying amount may not be recoverable. A CGU is the smallest group of assets that generates largely independent cash inflows and corresponds either to an operating segment or to a lower level. Any impairment of goodwill is measured by comparing the recoverable amounts of a CGU or a group of CGUs with its carrying amount and is recognized in income. Impairment losses may not be reversed subsequently.

The recoverable amount of a CGU is defined as the higher of its estimated fair value less costs of disposal and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Insurance contract liabilities

Classification of contracts

The contracts issued by the Mutual are classified as insurance contracts, investment contracts or service contracts. Contracts under which the Mutual accepts significant insurance risk from policyholders are classified as insurance contracts. A contract is considered as transferring significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario. Contracts under which the Mutual does not accept significant insurance risk are classified as investment contracts or service contracts.

Investment contracts are contracts that transfer financial risk but not significant insurance risk. Service contracts are contracts under which the Mutual offers administrative services. Financial risk is the risk of a possible future change in one or more of the following elements: specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided 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.

Almost all contracts issued by the Mutual are classified as insurance contracts. Other service contracts are recorded as fees and other income in the consolidated statement of income.

Certain insurance contracts contain discretionary participation features under which policyholders are entitled to receive additional benefits.

Under the Insurance Act (Québec), in the normal course of its business, a life and health insurance company set up as a joint stock corporation may allocate a portion of overall earnings attributable to participating policyholders as retained earnings attributable to members. This annual transfer is presented in the consolidated statement of changes in equity.

The unpaid balance of experience rating refunds is included in life and health insurance contract liabilities.

Life and health insurance contract liabilities

Life and health insurance contract liabilities comprise gross actuarial liabilities, provisions for benefits incurred, provisions for experience rating refunds, and policyholder amounts on deposit.

Gross insurance contract liabilities represent the amount that secures current policy commitments. These liabilities are determined using the Canadian Asset Liability Method ("CALM"), which is the actuarial practice prescribed by the Canadian Institute of Actuaries ("CIA").

CALM involves projecting asset and liability cash flows for each business segment. 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. Reinvestment strategies are based on investment policies for each segment and the reinvestment returns are from the interest rates scenarios. The insurance contract liabilities are at least as great as the liabilities determined under the worst of the interest rates scenarios tested.

This method meets the minimum requirements of the liability adequacy test, i.e. it uses current estimates of all contractual cash flows, related cash flows, and the total inadequacy is recognized in the statement of income.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and the provision for claims and loss adjustment expenses.

Unearned premiums are calculated on a pro rata basis, based on the unexpired portion of the premiums written. At the end of each reporting period, a liability adequacy test is performed to ensure the adequacy of unearned premiums. A premium deficiency results when unearned premiums are considered insufficient to cover the estimated future costs for the unexpired portion of the insurance contracts written. A premium deficiency is recognized immediately as a reduction of deferred premium acquisition costs to the extent that the aggregate amount of unearned premiums and the expected investment income is considered inadequate to cover all the deferred premium acquisition costs and related claims and insurance expenses. If the premium deficiency exceeds the unamortized deferred policy acquisition costs, a liability is recognized with regard to the excess deficiency.

The provision for claims and loss adjustment expenses is initially determined on a case-by-case basis for each claim reported and includes an additional amount based on the estimate of claims incurred but not reported. The provision is recorded on a discounted basis. Claims and loss adjustment expenses are charged to income as incurred until contract expiry, whether through settlement or termination.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Insurance contract liabilities [Cont'd]

Property and casualty insurance contract liabilities [Cont'd]

The provision for claims and loss adjustment expenses is estimated on a gross basis without taking into account recoveries from reinsurers as well as net of recoveries from reinsurers. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice. This estimate is based on the assumption that future changes in claims will be comparable to the historical experience. The analysis also includes assumptions regarding future claims, the average claim cost, inflation and other relevant factors. Provisions for internal and external loss adjustment expenses are estimated based on the historical relationship between these expenses and claims. If past experience is not applicable to current claims, either due to changes in practices or a new line of business, additional assumptions must be made to take into account three major variables or values: future claims, reinsurance recoveries and future investment income.

The provision for claims and loss adjustment expenses and the related reinsurers' share are estimates subject to variability during the year. These variations are due to events affecting the ultimate settlement of claims, but which have not yet occurred and may not occur for some time. These variations may also be caused by additional information regarding the claims, by changes in court interpretations of policies, or by significant differences in claim severity and frequency relative to historical trends. The estimates are based on the experience of the Mutual's subsidiaries.

According to management, the estimation methods used produce reasonable results based on the data currently available.

Groupement des assureurs automobiles and Facility Association

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the Groupement des assureurs automobiles ("GAA") in Quebec or the Facility Association ("FA") in other provinces and territories. In addition, insurers can choose to cede certain risks to the GAA or FA administered Risk Sharing Pool ("RSP"). The risks associated with GAA or FA insurance contracts and contracts ceded by insurance companies to the RSP are aggregated and shared by the Canadian property and casualty insurers in proportion to market share and volume of business ceded to the RSP. The Mutual applies the same accounting policies to RSP insurance it assumes as it does to insurance contracts issued by the Mutual directly to policyholders.

Other financial liabilities and other liabilities

Other financial liabilities include liabilities held-for-trading and other liabilities. Liabilities held-for-trading include bank overdraft, derivative financial instruments and deposits in trust which are recognized at fair value. Other liabilities include accrued liabilities, the short-term borrowing, other amounts on deposit, loyalty, stabilization and development funds, deposits for taxes, due to reinsurers in the life and health insurance and property and casualty insurance segments and other, which are recorded at amortized cost using the effective interest rate method.

Other liabilities include amounts payable under the stock appreciation rights plan recorded at fair value and deferred revenues recognized at cost. The Mutual offers a stock appreciation rights plan to certain officers. The stock appreciation rights plan is valued using the Black-Scholes model, which is based mainly on the risk-free interest rate, the expected return volatility on La Capitale Financial Group Inc. stock and the average expected life of stock appreciation rights.

Stock appreciation rights plan expense is charged to income for the year when the return on shares is earned under the plan of La Capitale Financial Group Inc. and is recognized under general expenses in the consolidated statement of income.

Employee future benefits

The Mutual offers defined benefit and defined contribution pension plans and post-employment benefits to its employees. The Mutual has set up a master trust for the purpose of managing investments of all the defined benefit pension plans of the La Capitale group. Participating units in the master trust are attributed periodically to the plans, based on contributions net of benefits and expenses net of other items reducing net assets. 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 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 difference between the defined benefit pension plan assets and the obligation in respect of defined benefit pension plans is recognized under "Employee future benefits" in the consolidated statement of financial position.

The cost of benefits is recognized under general expenses in the consolidated statement of income.

Remeasurement of the net defined benefit liability is accounted for in the year in which it occurs through other comprehensive income.

For defined contribution plans, the Mutual 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 Mutual'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.

Long-term debt

Long-term debt is classified as other liabilities and recorded at amortized cost using the effective interest rate method. Interest on long-term debt is recognized through income under "Finance costs".

The fair value of the long-term debt is estimated using a valuation model based on market prices for instruments with similar terms. This fair value may fluctuate depending on interest rates and credit risks associated with such financial instrument.

Revenue recognition

Revenues are recognized when it is likely that economic benefits will flow to the Mutual and these benefits can be measured reliably. Revenues are measured at the fair value of the consideration received or receivable.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Revenue recognition [Cont'd]

Premiums

Gross life and health insurance and annuity premiums are recorded as revenues when they fall due under existing policies. Net premiums include assumed premiums, net of premiums ceded to reinsurers. Upon the recognition of premiums, actuarial liabilities are calculated and recognized under "Life and health insurance contract liabilities" in the consolidated statement of financial position to match benefits and expenses with revenues.

Gross written premiums for property and casualty insurance are recorded as revenues over the term of each policy on a pro rata basis. The portion of unearned premiums as at the reporting date is reported under "Property and casualty insurance contract liabilities" in the consolidated statement of financial position. For certain products, unearned premiums are adjusted to take into account changes in the associated risks.

Premiums receivable are classified as loans and receivables and measured at amortized cost using the effective interest rate method.

Investment income

Dividend and distribution income is recognized when the right to receive payment is established. Interest income from bonds and loans are calculated using the effective interest rate method. Rental income from investment properties are recognized on a straight-line basis over the lease term.

Fees and other income

Fees and other income comprise mainly management fees, rental income from own-use properties and other income and recognized on an accrual basis as services are rendered.

Securities lending

The Mutual engages in the lending of securities, namely stocks and bonds from its investment portfolio. These transactions are collateralized by securities received from counterparties and guaranteed by the asset custodian. The loaned securities are not derecognized since the Mutual retains the risks and rewards related to these securities. Income generated from securities lending is reported under investment income in the statement of income.

Foreign currency translation

The Canadian dollar is the Mutual's functional currency. Transactions in foreign currencies carried out by the Mutual are translated at the exchange rate in effect on the transaction date. At each reporting date, monetary items are translated at the rates in effect at year-end while non-monetary items are translated at historical exchange rates. Translation gains and losses are included in income for the year.

Changes in accounting policies

The Mutual adopted the following standards as at January 1st, 2016:

IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets*

In May 2014, the IASB issued an amendment to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*. The amendment, *Clarification of acceptable methods of depreciation and amortization*, clarifies that revenue-based methods should not be used to calculate depreciation and amortization. The amortization of recognized assets must reflect a pattern of consumption of the assets rather than the economic benefits from the assets. The adoption of this amendment had no impact on the consolidated financial statements of the Mutual.

IFRS 11 – *Joint Arrangements*

In May 2014, the IASB issued an amendment to IFRS 11, *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment clarifies that an acquisition of an interest in a joint operation that is a business should be accounted for and disclosed as a business combination in accordance with IFRS 3, *Business Combinations*. The adoption of this amendment had no impact on the consolidated financial statements of the Mutual.

IAS 1 – *Presentation of Financial Statements*

In December 2014, the IASB issued an amendment to IAS 1, *Presentation of Financial Statements*, to provide clarifications on disclosure and the use of judgment in determining what information to disclose. The adoption of this amendment had no impact on the consolidated financial statements of the Mutual.

Annual Improvements to IFRSs 2012-2014 Cycle

In September 2014, the IASB issued *Annual Improvements to IFRSs 2012-2014 Cycle*, which affect four standards. The adoption of this amendment had no impact on the consolidated financial statements of the Mutual.

Changes in future accounting policies

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

The Mutual will apply these standards in future fiscal years.

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which constitutes a single standard for the recognition of revenue from all contracts with customers, except for insurance contracts, lease contracts, financial instruments and some non-monetary exchanges. This new standard sets out a single, five-step model for recognizing revenues. IFRS 15 will be effective for fiscal year beginning on or after January 1st, 2018. The Mutual is currently assessing the impact of this standard on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Changes in future accounting policies [Cont'd]

IFRS 9 – *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which makes the following changes to the recognition of financial instruments:

- The classification and measurement approach for financial assets reflects the business model with which they are managed and their cash flow characteristics.
- Impairment is based on the expected credit loss model.
- Hedge accounting takes into account the entity's risk management practices.

In September 2016, the IASB published *Applying IFRS 9*, *Financial instruments and IFRS 4*, *Insurance Contracts*. The purpose of the amendments contained in this publication is to align accounting treatments of IFRS 9 to those included in the current IFRS 4 standard for entities that issue insurance contracts. These changes offer the option to reclassify certain amounts of income and expenses related to designated financial instruments from net income to comprehensive income (the "deferral approach"). They also offer an optional temporary exemption allowing entities whose predominant activity is to issue insurance contracts to defer the application of IFRS 9 until the fiscal year beginning on January 1st, 2021 at the latest (the "deferral approach"). As of now, the Mutual expects to meet the qualification criteria for the deferral approach and to elect for this exemption.

The Mutual is currently assessing the impact of this standard, which is to be applied retrospectively, and the amendments on its consolidated financial statements.

IFRS 16 – *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard requires most leases to be accounted for on balance sheet using a single model. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 will be effective for fiscal years beginning on or after January 1st, 2019. The Mutual is currently assessing the impact of this standard on its consolidated financial statements.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these consolidated financial statements, management is required to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from management's best estimates.

Judgments

In the process of applying the accounting policies, management has made the following judgments that had the most significant effects on the amounts recognized in the consolidated financial statements:

Loan securitization

The Mutual securitizes pools of mortgage loans periodically by selling them to trusts. Judgment is required to determine whether these transfers meet the conditions for the derecognition of the financial assets in question. For instance, since the Mutual retains a portion of the future interest paid by the borrower whose mortgage loan has been sold, it must assess to what extent the contractual rights over the cash flows, the risks and rewards of ownership and control over the financial asset have been substantially transferred to a third party.

Impairment of financial instruments

Equity and fixed income securities available-for-sale are recognized at fair market value with changes in fair value recognized in accumulated other comprehensive income. Securities are reviewed on a regular basis and any fair value decrement is transferred out of accumulated other comprehensive income and recorded in income when it is probable that the Mutual will not be able to collect all amounts due according to the contractual terms of a fixed income security or when fair value of an equity security has declined significantly below cost or for a prolonged period of time. During the year, no unrealized losses on available-for-sale financial assets were reclassified from the statement of comprehensive income to the statement of income [2015: $0].

Provisions for impairment of mortgage loans and loans are recorded with losses reported in income when there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. No loans were impaired during the year.

The Mutual assesses whether impairment exists and determines fair values and recoverable amounts. The important issues considered include economic factors, new developments affecting companies and specific sectors, and particular aspects affecting certain borrowers and issuers.

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

For Level 3 financial instruments, the fair value of financial assets reported in the consolidated statement of financial position cannot be derived from markets considered active. The fair value of these financial instruments is determined using a variety of valuation techniques based on the use of discounted cash flow models. Since observable market data is not available, judgment is required to establish liquidity risk, credit risk and the degree of volatility. The main techniques for determining fair value are described in note 5.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS [Cont'd]

Estimates and assumptions [Cont'd]

Fair value of investment properties

The Mutual accounts for its investment properties at fair value and recognizes any changes in fair value through the consolidated statement of income. The Mutual relies on fair value measurements prepared by chartered appraisers or Mutual personnel as at the reporting date, i.e. December 31. They use valuation techniques based on discounted future cash flows from rental space, taking into account the lack of comparative market data for comparable properties.

The fair value of investment properties is very sensitive to the rate of return and to the overall discount rate. The main assumptions made to determine the fair value of investment properties are described in note 5.

Impairment of intangible assets and goodwill

Intangible assets with indefinite lives, software under development and goodwill are tested for impairment annually or when there are indications of potential impairment. Impairment tests consist in comparing the carrying amount of the asset or CGU in question with its recoverable amount. To determine the value in use of an asset or a CGU, several assumptions must be made, including the estimation of future cash flows that the Mutual expects to receive and the discount rate.

Future cash flows are determined by making financial projections over five-year periods, excluding any significant restructuring to the investment project that could influence the performance of the asset or the CGU being tested for impairment.

The determined recoverable amount is sensitive to the discount rate used for the discounted cash flow model and to the extrapolated growth rate.

The main assumptions used in impairment testing for goodwill and trademarks are described in note 11.

Income taxes

The computation of current and deferred tax expense (recovery) is based on several factors including the interpretation of tax regulations in the jurisdictions in question, assessments regarding the recovery of deferred tax assets and how the assets and liabilities are expected to be recovered. The recovery of deferred tax assets depends, among other factors, on projected future taxable income from the Mutual's operations and the tax planning strategies developed. The Mutual establishes a provision for income tax it considers reasonable and which is based on the weighted estimate of the possible results from the adopted tax positions. When establishing the provision, the Mutual takes into consideration previous adjustments made by tax authorities, interpretation bulletins and recent rulings rendered in the relevant jurisdictions.

Life and health insurance contract liabilities

The establishment of insurance contract liabilities and the related reinsurers' share, the provisions for benefits incurred and the provisions for experience rating refunds depends on various actuarial assumptions including the mortality rate, morbidity rate, investment return, contract management costs, deferred tax expense, policy lapses, participating policyholder dividends and the margins for adverse deviation. These assumptions are described in note 13.

Property and casualty insurance contract liabilities

The provision for claims and loss adjustment expenses and the related reinsurers' share are estimates subject to variability during the year. These variations are due to events affecting the ultimate settlement of claims, but which have not yet occurred and may not occur for some time. These variations may also be caused by additional information regarding the claims, by changes in court interpretations of policies, or by significant differences in claim severity and frequency relative to historical trends. The estimates are based on the experience of the Mutual's subsidiaries. These assumptions are described in note 13.

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, rate of increase in future compensation, growth rate of retiree health care costs and mortality rate. These assumptions are described in note 15.

4. INVESTMENTS AND INVESTMENT INCOME

Investments

The following tables provide information on the carrying amount and fair value of the Mutual's investments.

Carrying amount and fair value of investments

	2016						
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total carrying amount $	Total fair value $
Cash and cash equivalents	51,873	—	—	—	—	51,873	51,873
Bonds							
Government of Canada	—	1,995	46,307	—	—	48,302	48,302
Provincial governments	—	1,059,058	121,129	—	—	1,180,187	1,180,187
Municipalities, school boards and hospitals	—	27,542	70,427	—	—	97,969	97,969
Corporate	—	366,991	212,440	—	—	579,431	579,431
	—	1,455,586	450,303	—	—	1,905,889	1,905,889
Stocks							
Common shares	—	51,907	195,004	—	—	246,911	246,911
Preferred shares	—	173,430	134,431	—	—	307,861	307,861
	—	225,337	329,435	—	—	554,772	554,772
Mutual funds							
Bonds	—	43,075	151,629	—	—	194,704	194,704
Stocks	—	301,908	64,462	—	—	366,370	366,370
Loans	—	28,516	71,488	—	—	100,004	100,004
Diversified	—	629,196	—	—	—	629,196	629,196
Other	—	152	27,341	—	—	27,493	27,493
	—	1,002,847	314,920	—	—	1,317,767	1,317,767
Mortgage loans							
Insured	—	—	—	166,519	—	166,519	167,979
Conventional	—	—	—	402,414	—	402,414	405,961
	—	—	—	568,933	—	568,933	573,940
Policy loans	—	—	—	39,720	—	39,720	39,720
Investment properties							
Held for invesment	—	—	—	—	170,278	170,278	170,278
Other investments							
Personal loans	—	—	—	18,285	—	18,285	17,990
Other loans	—	—	—	82,307	—	82,307	82,903
Properties held for resale	—	—	—	—	1,573	1,573	1,573
Investments in a joint venture and associates	—	—	—	—	27,059	27,059	
Investments in limited partnerships	—	128,554	41,718	—	—	170,272	170,272
Derivative financial instruments	1,024	—	—	—	—	1,024	1,024
	1,024	128,554	41,718	100,592	28,632	300,520	
	52,897	2,812,324	1,136,376	709,245	198,910	4,909,752	

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investments [Cont'd]

Carrying amount and fair value of investments [Cont'd]

	2015						
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total carrying amount $	Total fair value $
Cash and cash equivalents	88,364	—	—	—	—	88,364	88,364
Bonds							
Government of Canada	—	—	20,410	—	—	20,410	20,410
Provincial governments	—	1,068,436	95,272	—	—	1,163,708	1,163,708
Municipalities, school boards and hospitals	—	6,715	21,329	—	—	28,044	28,044
Corporate	—	332,973	176,013	—	—	508,986	508,986
	—	1,408,124	313,024	—	—	1,721,148	1,721,148
Stocks							
Common shares	—	63,921	177,713	—	—	241,634	241,634
Preferred shares	—	171,331	125,186	—	—	296,517	296,517
	—	235,252	302,899	—	—	538,151	538,151
Mutual funds							
Bonds	—	30,263	236,395	—	—	266,658	266,658
Stocks	—	222,125	69,544	—	—	291,669	291,669
Loans	—	27,257	68,432	—	—	95,689	95,689
Diversified	—	409,894	—	—	—	409,894	409,894
Other	—	—	32,268	—	—	32,268	32,268
	—	689,539	406,639	—	—	1,096,178	1,096,178
Mortgage loans							
Insured	—	—	—	172,076	—	172,076	174,486
Conventional	—	—	—	396,028	—	396,028	400,938
	—	—	—	568,104	—	568,104	575,424
Policy loans	—	—	—	35,723	—	35,723	35,723
Investment properties							
Held for invesment	—	—	—	—	159,460	159,460	159,460
Other investments							
Personal loans	—	—	—	19,040	—	19,040	18,701
Other loans	—	—	—	77,476	—	77,476	78,644
Properties held for resale	—	—	—	—	296	296	296
Investments in a joint venture and associates	—	—	—	—	23,623	23,623	
Investments in limited partnerships	—	87,438	28,284	—	—	115,722	115,722
Derivative financial instruments	1,097	—	—	—	—	1,097	1,097
	1,097	87,438	28,284	96,516	23,919	237,254	
	89,461	2,420,353	1,050,846	700,343	183,379	4,444,382	

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investments [Cont'd]

Other investments

Investments in a joint venture and associates

The Mutual has a 50% interest in joint venture Société Bon Pasteur (s.e.n.c.) whose principal place of business is located in Québec City. The fiscal year of the joint venture ends on December 31. This joint venture manages two commercial and residential rental buildings. The joint venture acquired from a partner an emphyteutic lease right on the land of a real estate complex. This right expires on May 31, 2082. Annual lease payments amount to $160 [2015: $160] payable until May 31, 2022. Subsequently, annual lease payments will be adjusted based on the value of the land at that time and the average yield of Québec long-term savings bonds. The total commitment of the joint venture for the January 1st, 2017 to May 31, 2022 period amounts to $867 [2015: $1,027] as at December 31, 2016. Under the emphyteutic lease, the joint venture has an obligation to remit to the lessor the property and its improvements in good conditions at the end of that commitment.

Investments in associates consist of private placements in property and casualty insurance brokers.

The Mutual's net assets and share of net income in the joint venture and associates are disclosed below.

	2016	2015
	$	$
Allocation of net assets		
Joint venture	**21,395**	18,089
Associates	**5,664**	5,534
	27,059	23,623
Allocation of the share of		
Net income of the joint venture	**3,582**	1,420
Net income (loss) of the associates	**264**	(163)
	3,846	1,257

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investment income

	2016					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	342	—	—	—	—	342
Bonds						
Interest	—	58,008	7,659	—	—	65,667
Realized net gains	—	—	1,611	—	—	1,611
Change in fair value	—	(9,043)	—	—	—	(9,043)
Stocks						
Dividends	—	10,195	13,476	—	—	23,671
Realized net gains	—	—	1,386	—	—	1,386
Change in fair value	—	12,070	—	—	—	12,070
Mutual funds						
Distribution income	—	38,699	13,278	—	—	51,977
Realized net losses	—	—	(1,162)	—	—	(1,162)
Change in fair value	—	32,211	—	—	—	32,211
Mortgage loans						
Interest	—	—	—	18,358	—	18,358
Policy loans						
Interest	—	—	—	2,263	—	2,263
Investment properties						
Rental income	—	—	—	—	22,934	22,934
Change in fair value	—	—	—	—	650	650
Other investments						
Interest	145	(2)	—	2,982	278	3,403
Distribution income	—	7,801	2,641	—	—	10,442
Change in fair value	(83)	734	—	—	—	651
Share of income of the joint venture and associates	—	—	—	—	3,846	3,846
	404	150,673	38,889	23,603	27,708	241,277
SUMMARY						
Interest	487	58,006	7,659	23,603	278	90,033
Dividends	—	10,195	13,476	—	—	23,671
Distribution income	—	46,500	15,919	—	—	62,419
Rental income	—	—	—	—	22,934	22,934
Share of income of the joint venture and associates	—	—	—	—	3,846	3,846
Realized net gains	—	—	1,835	—	—	1,835
Change in fair value	(83)	—	—	—	650	567
Interest and other investment income	404	114,701	38,889	23,603	27,708	205,305
Changes in fair value of financial assets designated at fair value through profit or loss	—	35,972	—	—	—	35,972
	404	150,673	38,889	23,603	27,708	241,277

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investment income [Cont'd]

	2015					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	1,506	—	—	—	—	1,506
Bonds						
Interest	—	57,716	6,783	—	—	64,499
Realized net gains	—	—	4,099	—	—	4,099
Change in fair value	—	8,123	—	—	—	8,123
Stocks						
Dividends	—	11,307	14,823	—	—	26,130
Realized net losses	—	—	(8,909)	—	—	(8,909)
Change in fair value	—	(33,266)	—	—	—	(33,266)
Mutual funds						
Distribution income	—	38,249	16,539	—	—	54,788
Realized net gains	—	—	788	—	—	788
Change in fair value	—	(15,987)	—	—	—	(15,987)
Mortgage loans						
Interest	—	—	—	19,094	—	19,094
Policy loans						
Interest	—	—	—	2,112	—	2,112
Investment properties						
Rental income	—	—	—	—	23,252	23,252
Change in fair value	—	—	—	—	(3,757)	(3,757)
Other investments						
Interest	663	—	—	3,009	89	3,761
Distribution income	—	3,895	1,677	—	—	5,572
Change in fair value	1,025	2,602	—	—	—	3,627
Share of income of the joint venture and associates	—	—	—	—	1,257	1,257
Realized net gains	—	—	—	—	42	42
	3,194	72,639	35,800	24,215	20,883	156,731
SUMMARY						
Interest	2,169	57,716	6,783	24,215	89	90,972
Dividends	—	11,307	14,823	—	—	26,130
Distribution income	—	42,144	18,216	—	—	60,360
Rental income	—	—	—	—	23,252	23,252
Share of income of the joint venture and associates	—	—	—	—	1,257	1,257
Realized net (losses) gains	—	—	(4,022)	—	42	(3,980)
Change in fair value	1,025	—	—	—	(3,757)	(2,732)
Interest and other investment income	3,194	111,167	35,800	24,215	20,883	195,259
Changes in fair value of financial assets designated at fair value through profit or loss	—	(38,528)	—	—	—	(38,528)
	3,194	72,639	35,800	24,215	20,883	156,731

5. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES

Fair value hierarchy

The following tables classify fair value measurements of financial assets and financial liabilities using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: Quoted prices [unadjusted] in active markets for identical assets or liabilities.

Level 2: Inputs observable for 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.

For assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements, the Mutual determines whether the date of the transfer from one level to another is the date of the change in circumstances that triggered the transfer. No transfer occurred during fiscal year ended December 31, 2016 [2015: $0].

Assets and liabilities measured at fair value

	2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Cash and cash equivalents	41,754	10,119	—	51,873
Bonds				
Government of Canada	—	48,302	—	48,302
Provincial governments	—	1,180,187	—	1,180,187
Municipalities, school boards and hospitals	—	97,969	—	97,969
Corporate	—	579,431	—	579,431
	—	1,905,889	—	1,905,889
Stocks				
Common shares	246,911	—	—	246,911
Preferred shares	307,861	—	—	307,861
	554,772	—	—	554,772
Mutual funds				
Bonds	—	194,704	—	194,704
Stocks	366,370	—	—	366,370
Loans	—	100,004	—	100,004
Diversified	—	629,196	—	629,196
Other	—	27,493	—	27,493
	366,370	951,397	—	1,317,767
Investment properties	—	—	170,278	170,278
Other investments				
Investments in limited partnerships	—	—	170,272	170,272
Derivative financial instruments	—	1,024	—	1,024
	—	1,024	170,272	171,296
Other financial assets				
Retained interests – Securitization	—	—	5,085	5,085
LIABILITIES				
Other financial liabilities				
Bank overdraft	9,938	—	—	9,938
Derivative financial instruments	—	10	—	10
	9,938	10	—	9,948

5. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES [Cont'd]

Fair value hierarchy [Cont'd]

Assets and liabilities measured at fair value [Cont'd]

	2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Cash and cash equivalents	58,838	29,526	—	88,364
Bonds				
Government of Canada	—	20,410	—	20,410
Provincial governments	—	1,163,708	—	1,163,708
Municipalities, school boards and hospitals	—	28,044	—	28,044
Corporate	—	508,986	—	508,986
	—	1,721,148	—	1,721,148
Stocks				
Common shares	241,634	—	—	241,634
Preferred shares	296,517	—	—	296,517
	538,151	—	—	538,151
Mutual funds				
Bonds	—	266,658	—	266,658
Stocks	291,669	—	—	291,669
Loans	—	95,689	—	95,689
Diversified	—	409,894	—	409,894
Other	—	32,268	—	32,268
	291,669	804,509	—	1,096,178
Investment properties	—	—	159,460	159,460
Other investments				
Investments in limited partnerships	—	—	115,722	115,722
Derivative financial instruments	—	1,097	—	1,097
	—	1,097	115,722	116,819
Other financial assets				
Retained interests – Securitization	—	—	4,226	4,226
LIABILITIES				
Other financial liabilities				
Bank overdraft	4,316	—	—	4,316

Assets and liabilities whose fair value is disclosed in the notes to financial statements

	2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Mortgage loans	—	573,940	—	573,940
Policy loans	—	39,720	—	39,720
Other investments				
Personal loans	—	17,990	—	17,990
Other loans	—	82,903	—	82,903
Properties held for resale	—	1,573	—	1,573
	—	102,466	—	102,466
LIABILITIES				
Long-term debt	—	14,777	—	14,777

5. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES [Cont'd]

Fair value hierarchy [Cont'd]

Assets and liabilities whose fair value is disclosed in the notes to financial statements [Cont'd]

	2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Mortgage loans	—	575,424	—	575,424
Policy loans	—	35,723	—	35,723
Other investments				
Personal loans	—	18,701	—	18,701
Other loans	—	78,644	—	78,644
Properties held for resale	—	296	—	296
	—	97,641	—	97,641
LIABILITIES				
Long-term debt	—	22,621	—	22,621

Valuation techniques for Level 2 or 3 assets measured at fair value

The Vice-President, Investments determines the fair value measurement policies and procedures and analyses the changes that occur for the assets classified in Level 2 or 3 of the hierarchy. In addition, the Vice-President, Investments selects an appropriate valuation model, as well as the inputs for each of those investments.

Bonds

Bonds are valued using market prices based on the average of bid prices quoted by Canada's top twelve brokers. The bid price is then compared to another external pricing source. The external source uses the latest quoted market or closing price. Where there is a spread between the two sourced prices, a comparison is made with a further source specialized in market financial information to determine the price that is most representative of fair value. Where quoted prices are not available, fair value is estimated using a valuation method based on discounted future cash flows for securities with a similar risk profile and comparable terms and conditions. Significant inputs to this method consist of the discount rate, and credit and liquidity risks.

Bond mutual funds

The fair value of bond mutual funds is determined using the value published by the fund. If no value is available, the bond mutual funds' underlying bonds are measured using the bond valuation technique.

Loan mutual funds

The fair value of the loan mutual funds is determined using the value published by the fund. If no value is available, the loan mutual funds' underlying loans are measured using the fair value method based on discounted future cash flows. The method's significant inputs consist of the discount rate and credit, liquidity and prepayment risks.

Diversified mutual funds

The fair value of diversified mutual funds is determined using the value published by the fund. If no value is available, the diversified mutual funds' underlying shares are measured using closing market bid prices. Their underlying bonds are measured using the bond valuation technique.

Other mutual funds

The fair value of other mutual funds is determined using the value published by the fund. If no value is available, the other mutual funds' underlying securities are measured using the fair value method based on discounted future cash flows. Significant inputs to this method consist of the discount rate, and credit, liquidity and foreign currency risks.

Investment properties

Investment properties are measured using a valuation technique based primarily on discounted future cash flows from rental space. The main variables affecting fair value are the rate of return, the overall discount rate and the weighted average vacancy rate.

	2016	2015
Rate of return	**6.70%–9.50%**	7.00%–9.50%
Overall discount rate	**6.00%–10.50%**	6.00%–10.50%
Weighted average vacancy rate	**6.67%**	5.87%

Sensitivity analysis

A 0.25% increase in the rate of return and overall discount rate would result in a $5,912 [2015: $5,388] decline in the fair value of the investment properties. A 0.25% decline in the rate of return and overall discount rate would result in a $6,351 [2015: $5,788] increase in the fair value of the investment properties.

Rental income from investment properties in the amount of $22,934 [2015: $23,252] is reported under investment income. The direct operating costs of investment properties generating rental income amounted to $16,029 for the year [2015: $15,630] and are reported under investment management fees.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES [Cont'd]

Valuation techniques for Level 2 or 3 assets measured at fair value [Cont'd]

Other investments

Investments in limited partnerships

Investments in limited partnerships are allocated by line of business as follows:

	2016	2015
	$	$
Investments in limited partnerships by line of business		
Private debt (various sectors)	**44,273**	21,547
Infrastructure – equity	**70,953**	72,132
Real estate	**48,395**	16,040
Other	**6,651**	6,003
	170,272	115,722

Private debt (various sectors)

The investment in limited partnerships that invest in private debt is measured using the future discounted cash flow method, including the interest income and capital distributions from private debt. This measurement is based on an unobservable input, namely the discount rate. An increase (decrease) in the discount rate would result in a decrease (increase) in the fair value of this investment.

A 1% increase in the discount rate would result in a $2,824 [2015: $2,304] decrease in the fair value of the investment in the limited partnerships. A 1% decrease in the discount rate would result in a $2,824 [2015: $2,304] increase in the fair value of the investment in the limited partnerships.

Infrastructure – equity

The investment in the infrastructure line of business is measured using the discounted future cash flow method, including the estimate of the residual value of the infrastructure assets. This valuation method is based on unobservable inputs, namely the discount rate and the growth rate. An increase (decrease) in the discount rate would result in a decrease (increase) in the fair value of the investment. An increase (decrease) in the growth rate would result in an increase (decrease) in the fair value of the investment.

A 1% increase in the discount rate would result in a $6,159 [2015: $7,379] decrease in the fair value of the investment in limited partnership. A 1% decrease in the discount rate would result in a $6,663 [2015: $8,859] increase in the fair value of the investment in that limited partnership.

Real estate

The investment in the real estate line of business is measured using the discounted future cash flow method, including the estimation of the residual value of the investment properties. This measurement is based on unobservable inputs, such as the capitalization rate, growth rate and vacancy rate. Taken individually, an increase (decrease) in the capitalization rate and vacancy rate would result in a decrease (increase) in the fair value of the investment. An increase (decrease) in the growth rate would result in an increase (decrease) in the fair value of the investment.

A 1% increase in the capitalization rate would result in a $11,849 [2015: $5,300] decrease in the fair value of the investment in limited partnerships. A 1% decline in the capitalization rate would result in a $12,855 [2015: $5,002] increase in the fair value of the investment in limited partnerships.

Derivative financial instruments

The fair value of derivative financial instruments, such as interest rate contracts, is the difference between the price at maturity of the underlying instrument at the measurement date and the price at maturity at the position's inception, for a given notional amount. The closing prices used in calculating the value of the position are externally sourced.

The notional amount is the amount to which the rate or price is applied to determine the amounts to be exchanged periodically.

The fair value recognized in other investments is the estimated amount that the Mutual expects to receive at the end of the year to close out its positions.

The following table shows the notional amounts of these derivative financial instruments and their related fair values.

	2016	2015
	$	$
Notional amount by maturity:		
Under one year – interest rate contracts	**112,255**	102,200
Under one year – foreign exchange forward contracts	**894**	3,577
One year to three years – foreign exchange forward contracts	**1,878**	—
	115,027	105,777
Reported as an asset at fair value:		
Interest rate contracts	**1,014**	860
Foreign exchange forward contracts	**10**	237
	1,024	1,097
Reported as a liability at fair value:		
Foreign exchange forward contracts	**10**	—

5. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES [Cont'd]

Valuation techniques for Level 2 or 3 assets measured at fair value [Cont'd]

Other financial assets

Retained interests – Securitization

Retained interests are measured using the expected discounted cash flows of securitized mortgages. The model uses inputs such as the pool maturity date and balance, coupon rate, weighted average mortgage rate, average remaining amortization, average term to maturity and expected term at maturity and within the preceding five months.

The model factors in projections of total wind-ups, partial prepayment and anticipated defaults, as well as budget data such as management fees and acquisition costs based on the issuer's historical data.

The sensitivity analysis of retained interests is disclosed in note 12.

Changes in Level 3 assets measured at fair value

The table below reconciles opening and closing balances for Level 3 fair value measurements.

	Investment properties $	Investments in limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2016	**159,460**	**115,722**	**4,226**
Losses recognized in income	**—**	**—**	**(1,769)**
Issuances	**—**	**—**	**2,628**
Purchases or capital expenditure	**10,168**	**53,247**	**—**
Change in fair value through profit or loss	**650**	**734**	**—**
Unrealized gains recognized in other comprehensive income	**—**	**569**	**—**
Balance as at December 31, 2016	**170,278**	**170,272**	**5,085**

	Investment properties $	Investments in limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2015	161,996	74,919	3,909
Losses recognized in income	—	—	(2,043)
Issuances	—	—	2,360
Purchases or capital expenditure	1,221	38,400	—
Change in fair value through profit or loss	(3,757)	2,602	—
Unrealized losses recognized in other comprehensive income	—	(199)	—
Balance as at December 31, 2015	159,460	115,722	4,226

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS

Principles and responsibilities of risk management

The guiding principle of risk management is to identify, understand and report the Mutual's risk exposures to its various stakeholders. A variety of policies have been implemented and approved by the Board of Directors with various committees in place to monitor risk exposures. These policies are reviewed on an annual basis.

The Board of Directors is responsible for establishing the Mutual's level of risk tolerance and for implementing the policies required to ensure monitoring and understanding of the risk it assumes. The Board of Directors is also responsible for governance. The audit committees of the insurance companies are responsible for establishing the relationship between the Boards of Directors and the various committees. The Internal Audit function, which reports to the audit committees of the insurance companies, is responsible for assessing compliance with the policies.

The Enterprise Risk Management Committee reports directly to the Board of Directors. The Regulatory Compliance Committee and the Investment Committee report to senior management, which liaises with the Board of Directors and the Audit Committees of the insurance companies.

The risk management policy falls under the purview of the Enterprise Risk Management Committee. Coordinated by the Office of the Executive Vice-President, Financial Affairs, Real Estate and IT Infrastructure, this policy provides a framework for the Mutual's key risks.

The most significant risks related to financial instruments that the Mutual must manage are market risk, credit risk, concentration risk and liquidity risk.

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS [Cont'd]

Market risk

Market risk is defined as the risk that fluctuations in market prices of financial instruments arising from stock market, interest rate or foreign currency changes will result in a loss.

The Investment Committee is responsible for monitoring the investment policy, which is reviewed annually. The Board of Directors approves amendments, if any. Investment policy limits are set prudently to mitigate the Mutual's exposure to risk. Yield spread risk between assets and liabilities is limited, as the portfolios are managed according to the matching principle.

The use of derivative financial instruments for economic hedging purposes is permitted under the investment policy as part of a prudent management framework. No derivative products are used to create speculative market exposure. The Investment Committee plays a key role with respect to the understanding of derivative product strategies by senior management and the Board of Directors.

A stock market downturn reduces the management fees generated by the insurer from market-linked insurance policies. As these liabilities are fully matched, lower management fees could, in such situations, increase the insurer's cost to guarantee capital. Furthermore, a market downturn has a direct impact on the value of marketable securities invested in the Mutual's surplus.

A 10% stock market downturn as at December 31, 2016 would result in an $18,992 decrease [2015: $18,086] in the Mutual's after-tax comprehensive income. A 10% stock market upturn as at December 31, 2016 would have the opposite effect, resulting in an $18,992 increase [2015: $18,086] in the Mutual's after-tax comprehensive income.

Interest rate risk

An immediate rise in interest rates would have an unfavourable short-term impact on surplus portfolios invested in bonds. A decrease in interest rates would have the opposite effect.

A 1% rise in interest rates on surplus portfolios as at December 31, 2016 would result in a $19,543 decrease [2015: $19,309] in the Mutual's after-tax comprehensive income. A 1% decline in interest rates on those portfolios as at December 31, 2016 would result in a $20,668 increase [2015: $21,454] in the Mutual's after-tax comprehensive income.

The following tables indicate the maturity dates and overall average effective interest rate of the Mutual's investments.

		Fixed rate					2016	
	Variable rate $	Maturing in under 1 year $	Maturing in 1 to 5 years $	Maturing in 6 to 10 years $	Maturing in over 10 years $	No specific maturity $	Total carrying amount $	Overall average effective interest rate %
Bonds								
Government of Canada	—	2,767	37,170	5,649	2,716	—	48,302	0.9
Provincial governments	—	11,584	148,281	136,812	883,510	—	1,180,187	3.0
Municipalities, school boards and hospitals	—	10,717	62,959	10,089	14,204	—	97,969	2.3
Corporate	—	14,221	185,590	48,029	331,591	—	579,431	3.4
	—	39,289	434,000	200,579	1,232,021	—	1,905,889	3.1
Stocks								
Preferred shares	11,183	36,802	129,503	13,319	—	117,054	307,861	4.9
Mortgage loans								
Insured	209	53,932	109,295	1,370	1,713	—	166,519	3.1
Conventional	34,850	111,279	246,885	9,400	—	—	402,414	3.1
	35,059	165,211	356,180	10,770	1,713	—	568,933	3.1
Policy loans	—	—	—	—	—	39,720	39,720	6.4
Other investments								
Personal loans	12,845	1,196	1,980	2,264	—	—	18,285	4.6
Other loans	421	1	79,546	416	1,131	792	82,307	2.7
	13,266	1,197	81,526	2,680	1,131	792	100,592	3.1
	59,508	242,499	1,001,209	227,348	1,234,865	157,566	2,922,995	3.3

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS [Cont'd]

Market risk [Cont'd]

Interest rate risk [Cont'd]

		Fixed rate					2015	
	Variable rate $	Maturing in under 1 year $	Maturing in 1 to 5 years $	Maturing in 6 to 10 years $	Maturing in over 10 years $	No specific maturity $	Total carrying amount $	Overall average effective interest rate %
Bonds								
Government of Canada	—	12,919	6,198	—	1,293	—	20,410	0.7
Provincial governments	—	5,640	109,060	203,437	845,571	—	1,163,708	2.9
Municipalities, school boards and hospitals	—	3,438	15,534	2,357	6,715	—	28,044	2.3
Corporate	642	16,630	133,636	68,411	289,667	—	508,986	3.4
	642	38,627	264,428	274,205	1,143,246	—	1,721,148	3.0
Stocks								
Preferred shares	10,478	67,514	135,212	1,234	—	82,079	296,517	5.0
Mortgage loans								
Insured	214	53,536	113,711	2,766	1,849	—	172,076	3.3
Conventional	34,676	91,603	257,152	12,597	—	—	396,028	3.3
	34,890	145,139	370,863	15,363	1,849	—	568,104	3.3
Policy loans	—	—	—	—	—	35,723	35,723	6.0
Other investments								
Personal loans	13,936	794	2,128	2,182	—	—	19,040	4.5
Other loans	508	142	60,606	10,496	5,216	508	77,476	2.8
	14,444	936	62,734	12,678	5,216	508	96,516	3.1
	60,454	252,216	833,237	303,480	1,150,311	118,310	2,718,008	3.3

Foreign exchange risk

Foreign exchange risk is the unfavourable impact of a currency mismatch between assets and liabilities or the difference between foreign currency revenues and expenses.

Where the Mutual is exposed to foreign currency insurance contract liabilities, investments are made in these currencies for policy liability matching purposes. Other foreign currency investments are hedged in whole or in part with derivative products to convert exposure to foreign currencies into Canadian dollars.

Given the performance of foreign currency matching and since the Mutual's foreign currency revenues and expenses are insignificant, foreign currency fluctuations have little impact on the Mutual's bottom line.

Credit risk

Credit risk is the risk of financial loss, despite realization of principal or collateral security or property, resulting from the failure of a debtor to honour its obligations to the Mutual.

Credit risk management is the process of controlling the impact of credit risk-related events on the Mutual and consists in identifying, understanding and quantifying the risk of loss and taking appropriate measures.

Credit risk may also arise when there is a concentration of investments involving one or more entities with similar characteristics. The Mutual's investment policy aims to reduce this risk by ensuring sound diversification.

The Mutual is exposed to credit risk on mortgage, personal and commercial loans as well as on corporate bonds and term preferred shares held in its portfolios, to counterparty risk on derivative products and to risk related to its reinsurers. The Mutual considers counterparty default risk when measuring the fair value of derivative financial instruments. Strict monitoring of credit risk is performed with respect to mortgage, personal and commercial loans. Corporate bonds and preferred shares are managed to ensure a diversified, low-risk portfolio by maintaining minimum Dominion Bond Rating Service (DBRS) credit ratings of BBB on 100% of bonds and P2 on at least 90% of preferred shares to limit default concentration risk. Derivative product counterparties have minimum DBRS credit ratings of AA for reinsurance counterparties, and credit and credit quality ratings are verified annually or when warranted by market events.

To manage the risk of potential credit losses, the Mutual maintains specific allowances for impaired mortgage and personal loans and real estate held for resale. When credit risk exposure arises on a loan and the Mutual is uncertain of principal or interest recovery, the loan is deemed impaired. Specifically, a loan that is more than 90 days past due or in foreclosure proceedings is deemed impaired. The allowance reduces the value of the asset to reflect the amount the Mutual believes it can recover.

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS [Cont'd]

Credit risk [Cont'd]

Another allowance is established through actuarial liabilities to safeguard the Mutual against potential credit losses.

The Mutual's maximum credit risk exposure for its financial instruments is equal to the carrying amount of cash and cash equivalents, bonds, term preferred shares, mortgage loans, policy loans, some other investments, premiums receivable, reinsurance assets and other receivables included in other financial assets totalling $3,795,539 [2015: $3,602,995].

The following table provides information on the credit quality of bonds.

Bonds by credit quality

	Fair value			
	2016		2015	
Credit rating	$	%	$	%
AAA	**67,779**	**3.6**	40,288	2.3
AA	**465,737**	**24.4**	424,829	24.7
A	**1,225,662**	**64.3**	1,166,351	67.8
BBB	**146,711**	**7.7**	89,680	5.2
	1,905,889	**100.0**	1,721,148	100.0

The following table discloses information regarding the credit quality of preferred shares.

Preferred shares by credit quality

	Fair value			
	2016		2015	
Credit rating	$	%	$	%
P1	**—**	**—**	426	0.1
P2	**282,031**	**91.6**	276,216	93.2
P3	**25,830**	**8.4**	19,875	6.7
	307,861	**100.0**	296,517	100.0

The following table shows the carrying amount and fair value of mortgage loans by property class.

Mortgage loans by property class

	2016			2015		
	Carrying amount $	Fair value $	CMHC secured $	Carrying amount $	Fair value $	CMHC secured $
Residential	**529,001**	**533,621**	**152,541**	523,876	530,660	156,417
Other	**39,932**	**40,319**	**13,978**	44,228	44,764	15,659
	568,933	**573,940**	**166,519**	568,104	575,424	172,076

The carrying amount of mortgage loans secured by CMHC represented 29.3% [2015: 30.3%] of the total carrying amount of the mortgage loan portfolio as at December 31, 2016.

The Mutual limits its investment to $800 for a new borrower and $800 for a related group of borrowers for new loans.

Doubtful accounts

A loan is deemed impaired when the counterparty has failed to make a payment by the contractual due date. Doubtful accounts not impaired are detailed in the following tables.

	2016			
	30-59 days in arrears $	60-89 days in arrears $	90 days or more in arrears or in foreclosure $	Total $
Insured mortgage loans	**1,724**	**302**	**303**	**2,329**
Conventional mortgage loans	**311**	**17**	**—**	**328**
Personal loans	**149**	**10**	**—**	**159**
	2,184	**329**	**303**	**2,816**

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS [Cont'd]

Credit risk [Cont'd]

Doubtful accounts [Cont'd]

	2015			
	30-59 days in arrears $	60-89 days in arrears $	90 days or more in arrears or in foreclosure $	Total $
Insured mortgage loans	1,151	414	431	1,996
Conventional mortgage loans	807	189	470	1,466
Personal loans	399	—	31	430
	2,357	603	932	3,892

Except for loans for which there are non-provisioned amounts past due, there are no significant financial assets past due that have not been provisioned.

Concentration risk

The Mutual's management sets limits for each portfolio to ensure that the investment portfolios are diversified by asset class. Management monitors actual positions and market and credit risk exposures.

The life and health insurance companies mainly limit their investment in a company to 10% of all the corporate bonds, common shares and preferred shares. Mutual funds are not subject to this limit.

The property and casualty insurance companies limit their investments in the form of corporate bonds, preferred shares, common shares and mutual funds to $10,000 per issue, and a single issuer cannot represent more than 10% of all corporate bonds, preferred shares, common shares and mutual funds held.

Corporate bonds by sector

The life and health insurance companies limit their corporate bond investments to 35% of their bond portfolio with a maximum per sector or issuer, based on the specific features of the Canadian market.

The following tables show the breakdown of the corporate bond portfolio by sector.

	2016			
	Designated at fair value through profit or loss $	Available-for-sale $	Total $	% of total
Energy	**77,777**	**13,483**	**91,260**	**15.7**
Industrials	**33,256**	**3,188**	**36,444**	**6.3**
Consumer staples and discretionary	**10,506**	**5,259**	**15,765**	**2.7**
Health care	**3,539**	**3,830**	**7,369**	**1.3**
Financials	**80,864**	**150,879**	**231,743**	**40.0**
Technology	**6,622**	**—**	**6,622**	**1.2**
Communications	**32,117**	**17,147**	**49,264**	**8.5**
Utilities	**122,310**	**11,706**	**134,016**	**23.1**
Other	**—**	**6,948**	**6,948**	**1.2**
	366,991	**212,440**	**579,431**	**100.0**

	2015			
	Designated at fair value through profit or loss $	Available-for-sale $	Total $	% of total
Energy	32,833	5,052	37,885	7.5
Industrials	40,813	5,737	46,550	9.1
Consumer staples and discretionary	7,312	6,256	13,568	2.7
Health care	16,977	3,876	20,853	4.1
Financials	91,549	137,165	228,714	44.9
Technology	6,823	—	6,823	1.3
Communications	39,849	8,544	48,393	9.5
Utilities	96,817	2,836	99,653	19.6
Other	—	6,547	6,547	1.3
	332,973	176,013	508,986	100.0

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS [Cont'd]

Concentration risk [Cont'd]

The following table shows the breakdown of the stock portfolio by sector.

Stocks by sector

	2016			
	Common shares $	Preferred shares $	Total $	% of total
Energy	**19,190**	**37,890**	**57,080**	**10.3**
Materials	**5,416**	**—**	**5,416**	**1.0**
Industrials	**18,118**	**—**	**18,118**	**3.2**
Consumer staples and discretionary	**26,053**	**—**	**26,053**	**4.7**
Health care	**921**	**—**	**921**	**0.2**
Financials	**125,751**	**250,433**	**376,184**	**67.8**
Technology	**1,199**	**—**	**1,199**	**0.2**
Communications	**35,801**	**—**	**35,801**	**6.5**
Utilities	**14,462**	**19,538**	**34,000**	**6.1**
	246,911	**307,861**	**554,772**	**100.0**

	2015			
	Common shares $	Preferred shares $	Total $	% of total
Energy	39,618	32,190	71,808	13.3
Materials	10,014	—	10,014	1.9
Industrials	11,609	—	11,609	2.1
Consumer staples and discretionary	19,424	—	19,424	3.6
Health care	2,308	—	2,308	0.4
Financials	120,704	243,977	364,681	67.8
Technology	1,999	—	1,999	0.4
Communications	28,946	—	28,946	5.4
Utilities	7,012	20,350	27,362	5.1
	241,634	296,517	538,151	100.0

Liquidity risk

Liquidity risk is the risk that the Mutual will fail to honour its financial obligations, anticipated or otherwise, when due.

The Mutual relies on asset-liability matching to generate the funds required to honour its obligations when they fall due. Effective cash management minimizes the cost of raising funds and honouring financial obligations. Moreover, nearly 100% of the Mutual's bonds are readily marketable, further underpinning the Mutual's cash resources. Lastly, the Mutual can avail itself of credit facilities to meet unexpected cash requirements.

The Mutual's maximum liquidity risk exposure for its financial instruments and insurance contracts is detailed by contractual maturity as follows:

	Under 1 year $	1 year to 5 years $	6 years to 10 years $	Over 10 years $	No specific maturity $	Total $
Provision for claims and loss adjustment expenses	194,209	136,949	26,653	2,061	—	359,872
Other financial liabilities	261,239	—	—	—	41,376	302,615
Long-term debt	533	2,355	12,133	—	—	15,021
	455,981	139,304	38,786	2,061	41,376	677,508

7. REINSURANCE ASSETS

To reduce the risk related to insurance claims and benefits, the insurance companies have entered into reinsurance agreements for policies whose insured and coverage amounts exceed certain maximums as well as reinsurance agreements enabling them to share certain risks with reinsurers on a pro rata basis. The insurance and reinsurance companies share insurance risks among themselves.

Failure of reinsurers to honour their obligations could result in losses to these ceding companies. The companies have adopted a review process to verify the solvency of the companies to which they cede. The companies have no knowledge of any information leading them to believe that a reinsurer with which they currently do business is insolvent; consequently, no provision for bad debts has been recorded. Furthermore, business is spread across a number of reinsurers to reduce reinsurance concentration and coverage risk to an insignificant level.

	2016	2015
Reinsurance assets	$	$
Life and health insurance *[note 13]*	**240,112**	230,232
Property and casualty insurance *[note 13]*	**11,000**	15,901
	251,112	246,133

The following table shows the effect of external ceded reinsurance on the statement of income.

	Life and health insurance[1]		Property and casualty insurance		Total	
	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
Reduction in insurance and premiums acquired	**(62,726)**	(58,530)	**(27,955)**	(28,405)	**(90,681)**	(86,935)
Reduction (increase) in benefits and claims incurred	**35,879**	30,867	**(1,616)**	4,193	**34,263**	35,060
Change in actuarial liabilities	**9,880**	11,803	**—**	—	**9,880**	11,803
Reduction in commissions	**13,037**	11,885	**1,715**	1,815	**14,752**	13,700
Unfavourable effect before income taxes	**(3,930)**	(3,975)	**(27,856)**	(22,397)	**(31,786)**	(26,372)

1. This effect does not represent the aggregate impact of reinsurance on income, as it does not take into account movements in market value arising from the write-down of assets from reinsurance.

Property and casualty reinsurance

The companies carried out reinsurance transactions in respect of new policies issued and policies renewed in fiscal 2016 and 2015, as well as the related claims incurred.

The following table shows the companies' net retentions and coverage limits by nature of risk.

	2016	2015
	$	$
Single risk losses		
Net retentions:		
Property:		
– Personal insurance	**2,250**	2,000
– Commercial insurance	**2,250**	2,000
Civil liability	**2,250**	2,250
Multiple risk losses and catastrophes		
Net retentions	**7,500**	7,500
Coverage limits	**400,000**	375,000

8. OTHER FINANCIAL ASSETS AND OTHER ASSETS

	2016	2015
	$	$
Other financial assets		
Held-for-trading		
Retained interests – Securitization *[note 12]*	**5,085**	4,226
Cash in trust	**2,472**	2,865
	7,557	7,091
Loans and receivables		
Investment income receivable	**19,490**	16,413
Due from reinsurers – Life and health insurance segment	**11,302**	8,488
Due from reinsurers – Property and casualty insurance segment	**3,662**	3,253
Subrogations *[note 13]*	**21,807**	19,649
Other receivables	**24,132**	18,035
Balance of sale receivable	**2,145**	2,574
	82,538	68,412
	90,095	75,503
Other assets		
Deferred premium acquisition costs	**53,877**	53,757
Prepaid expenses	**12,920**	13,362
Tax credits receivable	**1,963**	1,217
	68,760	68,336

Deferred premium acquisition costs

	2016	2015
	$	$
Balance as at January 1	**53,757**	52,193
Addition	**98,234**	95,679
Amortization	**(98,114)**	(94,115)
Balance as at December 31	**53,877**	53,757

9. INCOME TAXES

	2016	2015
	$	$
Income tax expense as reported in the consolidated statement of income:		
Current taxes	**13,415**	20,775
Deferred taxes (recovery)	**(9,578)**	(14,530)
	3,837	6,245

	2016	2015
	$	$
Income tax expense reported in the consolidated statement of income attributable to:		
Members of the Mutual	**219**	(2,257)
Participating policyholders	**614**	4,823
Non-controlling interests	**3,004**	3,679
	3,837	6,245

	2016	2015
	$	$
Income tax (recovery) reported in other comprehensive income:		
Current taxes (recovery)	**9,201**	(12,536)
Deferred taxes	**1,379**	2,072
	10,580	(10,464)

9. INCOME TAXES [Cont'd]

	2016	2015
	$	$
Income tax (recovery) reported in other comprehensive income attributable to:		
Members of the Mutual	**8,964**	(8,276)
Participating policyholders	**(8)**	(202)
Non-controlling interests	**1,624**	(1,986)
	10,580	(10,464)

Income tax expense differs from the expense that would be determined under applicable legislation in Canada for the following reasons:

	2016		2015	
	$	%	$	%
Income before income taxes	**49,007**		61,623	
Income tax expense based on statutory rates	**13,183**	**26.9**	16,576	26.9
Increase (decrease) in income taxes resulting from:				
Non-taxable items	**(13,219)**	**(27.0)**	(11,617)	(18.8)
Prior year adjustment	**2,074**	**4.2**	(711)	(1.2)
Effect of substantively enacted income tax rate	**553**	**1.1**	—	—
Other	**40**	**0.1**	615	1.0
	2,631	**5.3**	4,863	7.9
Income taxes on investment income	**1,206**	**2.5**	1,382	2.2
Income taxes and effective rates	**3,837**	**7.8**	6,245	10.1

The tax consequences of the temporary differences that generate deferred income tax assets or liabilities are as follows:

	2016	2015
	$	$
Deferred tax assets		
Actuarial liabilities	**61,633**	39,841
Provision for claims and loss adjustment expenses	**4,383**	4,071
Other liabilities	**9,878**	9,301
Employee future benefits	**29,888**	25,924
Unused tax losses	**1,062**	1,549
Other	**5,750**	5,280
	112,594	85,966
Deferred tax liabilities		
Policy loans	**10,471**	9,576
Investment properties	**15,562**	14,358
Investment in a joint venture	**4,480**	3,711
Property and equipment	**11,681**	7,639
Intangible assets	**24,281**	14,618
Other investments	**6,748**	4,300
Deferred net tax gains	**5,483**	6,520
Other	**2,700**	2,255
	81,406	62,977
Net deferred tax assets	**31,188**	22,989
Reported as:		
Deferred tax assets	**42,475**	42,811
Deferred tax liabilities	**11,287**	19,822

The Mutual has accumulated tax losses from the operations of a subsidiary amounting to $17,821 that can be used to offset future taxes payable. The accumulated tax losses will expire between 2019 and 2035.

The deferred tax assets related to the recovery of tax losses have not been recognized by the Mutual as it is not probable that the subsidiary will have future taxable income against which the accumulated tax losses can be used.

10. PROPERTY AND EQUIPMENT

	Land $	Own-use properties $	Furniture and other $	Computer hardware $	Leasehold improvements $	Total $
Cost						
Balance as at January 1, 2015	11,378	127,272	23,062	48,632	6,266	216,610
Purchases	—	140	444	2,908	1,606	5,098
Disposals	—	—	(59)	(299)	(434)	(792)
Balance as at December 31, 2015	11,378	127,412	23,447	51,241	7,438	220,916
Purchases	**—**	**92**	**1,579**	**2,108**	**2,336**	**6,115**
Disposals	**—**	**—**	**(2)**	**(125)**	**(129)**	**(256)**
Balance as at December 31, 2016	**11,378**	**127,504**	**25,024**	**53,224**	**9,645**	**226,775**
Accumulated amortization						
Balance as at January 1, 2015		6,412	16,016	41,792	4,332	68,552
Amortization		2,456	1,131	4,108	639	8,334
Disposals		—	(59)	(299)	(434)	(792)
Balance as at December 31, 2015		8,868	17,088	45,601	4,537	76,094
Amortization		**2,478**	**1,287**	**3,422**	**572**	**7,759**
Disposals		**—**	**(2)**	**(125)**	**(94)**	**(221)**
Balance as at December 31, 2016		**11,346**	**18,373**	**48,898**	**5,015**	**83,632**
Net carrying amount						
December 31, 2016	**11,378**	**116,158**	**6,651**	**4,326**	**4,630**	**143,143**
December 31, 2015	11,378	118,544	6,359	5,640	2,901	144,822

11. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

Intangible assets are detailed as follows:

	Indefinite useful life	Finite useful life				
	Trademarks $	Clients and distribution networks $	Purchased software $	Internally developed software $	Software under development $	Total $
Cost						
Balance as at January 1, 2015	12,639	39,855	33,510	39,452	53,075	178,531
Purchases	—	—	2,287	60	25,704	28,051
Internally developed software	—	—	—	—	9,700	9,700
Disposals	—	(3,943)	—	—	—	(3,943)
Transfer from software under development to software	—	—	2,436	6,843	(9,279)	—
Tax credits and other changes	—	—	—	1,230	(321)	909
Balance as at December 31, 2015	12,639	35,912	38,233	47,585	78,879	213,248
Purchases	**4,548**	**—**	**6,277**	**763**	**19,143**	**30,731**
Internally developed software	**—**	**—**	**—**	**—**	**5,167**	**5,167**
Disposals	**—**	**—**	**(185)**	**(12)**	**—**	**(197)**
Write-off	**—**	**—**	**—**	**—**	**(2,053)**	**(2,053)**
Transfer from software under development to software	**—**	**—**	**72**	**91,170**	**(91,242)**	**—**
Tax credits and other changes	**—**	**—**	**(157)**	**(122)**	**(986)**	**(1,265)**
Balance as at December 31, 2016	**17,187**	**35,912**	**44,240**	**139,384**	**8,908**	**245,631**
Accumulated amortization						
Balance as at January 1, 2015		31,388	16,093	18,254	—	65,735
Amortization		2,100	3,513	2,480	—	8,093
Disposals		(3,943)	—	—	—	(3,943)
Tax credits and other changes		—	—	402	—	402
Balance as at December 31, 2015		29,545	19,606	21,136	—	70,287
Amortization		**1,519**	**4,459**	**3,715**	**—**	**9,693**
Disposals		**—**	**(185)**	**(12)**	**—**	**(197)**
Tax credits and other changes		**—**	**—**	**(89)**	**—**	**(89)**
Balance as at December 31, 2016		**31,064**	**23,880**	**24,750**	**—**	**79,694**
Net carrying amount						
December 31, 2016	**17,187**	**4,848**	**20,360**	**114,634**	**8,908**	**165,937**
December 31, 2015	12,639	6,367	18,627	26,449	78,879	142,961

Goodwill

	2016	2015
	$	$
Balance as at January 1 and as at December 31	**102,572**	102,572

11. INTANGIBLE ASSETS AND GOODWILL [Cont'd]

Impairment test

The Mutual tests goodwill and trademarks for impairment annually. Testing was performed on September 30, 2016.

The following table shows the goodwill and trademarks by group of CGUs and the significant asset valuation assumptions used in the group of CGUs.

	Goodwill $	Trademarks $	Assumptions: Pre-tax discount rate %	Assumptions: Terminal value growth rate %
Life and health insurance				
December 31, 2016	**57,315**	**10,739**	**12.1 and 17.9**	**2.0 and 4.0**
December 31, 2015	57,315	10,739	12.6 and 18.0	2.0 and 4.0
Property and casualty insurance				
December 31, 2016	**45,257**	**6,448**	**12.7 and 18.7**	**2.0 and 4.0**
December 31, 2015	45,257	1,900	12.6	4.0
Total				
December 31, 2016	**102,572**	**17,187**		
December 31, 2015	102,572	12,639		

The recoverable amount of each CGU is based on value in use. The Mutual has used an actuarial valuation method for impairment testing purposes. Under this method, the value is determined using results expected to be realized in the future. Future results are derived from the budgets and a financial plan approved by management covering a five-year period. Management has based its projects on an in-depth analysis of markets and projects under implementation in each CGU. Accordingly, this value reflects the economic value of the potential earnings of each CGU under certain assumptions. The main assumptions used are terminal value growth rate and the pre-tax discount rate. The model also relies on other assumptions such as the revenue growth rate, the inflation rate for expenses, new product marketing, operational synergies. As the impairment tests indicated that the recoverable amounts of the CGUs exceeded their carrying amounts, no impairment loss on goodwill or intangible assets was recognized for the year ended December 31, 2016.

12. SECURITIZATION

During the year, the Mutual securitized residential mortgage loans. The following table shows aggregate balances related to securitization.

	2016 $	2015 $
Retained interests reported within other financial assets		
NHA MBS	**5,085**	4,226
Securitized and derecognized mortgage loans		
NHA MBS	**362,536**	320,623
Derecognized mortgage bonds in trust		
NHA MBS	**368,650**	320,339
Mortgage loans over 90 days past due secured by CMHC		
NHA MBS	**303**	535

Securitization transactions

	2016 NHA MBS $	2015 NHA MBS $
Proceeds from new securitization transactions	**107,345**	102,664
Transaction costs	**(227)**	(153)
Net proceeds	**107,118**	102,511
Pre-tax losses	**(25)**	(282)
Cash flows from retained interests in securitization operations and related financial instruments	**1,079**	462
Net results from all securitization operations	**1,054**	180

12. SECURITIZATION [Cont'd]

Key assumptions

The key assumptions used to determine the value of the loans sold and retained interests at the securitization date are as follows:

	2016	2015
	%	%
Prepayment rate	**20.5**	21.7
Excess spread	**1.4**	1.3
Discount rate	**1.4**	1.5

As at December 31, 2016, the sensitivity of the current fair value of retained interests to 10% and 20% adverse changes in the key assumptions was as follows:

Sensitivity of key assumptions to adverse changes

	2016		2015	
	Assumption %	Impact on fair value $	Assumption %	Impact on fair value $
Prepayment rate				
Impact on fair value of 10% adverse change	**22.5**	**(178)**	23.9	(159)
Impact on fair value of 20% adverse change	**24.6**	**(351)**	26.1	(313)
Excess spread (net of credit losses)				
Impact on fair value of 10% adverse change	**1.2**	**(533)**	1.2	(449)
Impact on fair value of 20% adverse change	**1.1**	**(977)**	1.1	(823)
Discount rate				
Impact on fair value of 10% adverse change	**1.5**	**(13)**	1.7	(11)
Impact on fair value of 20% adverse change	**1.7**	**(26)**	1.8	(22)

These sensitivities are hypothetical and should be used with caution. As shown by the tabular figures, the effect on fair value of a 10% adverse change generally cannot be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, in this table, the impact of a change in a particular assumption on the fair value of retained interests is calculated without changing any other assumption. Generally, changes in one given factor could result in changes in another, which may magnify or counteract the sensitivities.

13. INSURANCE CONTRACT LIABILITIES

Life and health insurance

The Boards of Directors name the Appointed Actuary, who is responsible for the valuation of life and health insurance contract liabilities in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations and directives and for expressing an opinion regarding their appropriateness to meet all policyholder obligations at the statement of financial position date. In addition, the Appointed Actuary is required each year to prepare a report for the Boards of Directors on the capital adequacy of the life and health insurance companies.

The components of life and health insurance contract liabilities are detailed as follows:

	2016	2015
	$	$
Gross actuarial liabilities	**3,726,449**	3,348,259
Provisions for benefits incurred	**56,760**	46,128
Provisions for experience rating refunds	**27,799**	14,925
Policyholder amounts on deposit	**91,313**	90,784
	3,902,321	3,500,096

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

As at December 31, life and health insurance contract liabilities and the assets backing such liabilities are summarized as follows:

	2016				
Life and health insurance contract liabilities	Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	**796,685**	**722,928**	**1,519,613**	**118,906**	**1,400,707**
Annuities	**952**	**1,636,671**	**1,637,623**	**—**	**1,637,623**
Group					
Life and health insurance	**—**	**737,799**	**737,799**	**121,206**	**616,593**
Annuities	**—**	**7,286**	**7,286**	**—**	**7,286**
	797,637	**3,104,684**	**3,902,321**	**240,112**	**3,662,209**

	2015				
Life and health insurance contract liabilities	Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	780,594	703,108	1,483,702	118,293	1,365,409
Annuities	1,056	1,333,581	1,334,637	—	1,334,637
Group					
Life and health insurance	—	676,594	676,594	111,939	564,655
Annuities	—	5,163	5,163	—	5,163
	781,650	2,718,446	3,500,096	230,232	3,269,864

	2016				
	Individual		Group		
Assets backing life and health insurance contract liabilities	Life and health insurance $	Annuities $	Life and health insurance $	Annuities $	Total $
Participating					
Bonds	**586,356**	**637**	**—**	**—**	**586,993**
Policy loans	**35,223**	**51**	**—**	**—**	**35,274**
Investment properties	**70,614**	**102**	**—**	**—**	**70,716**
Own-use properties and land	**83,147**	**120**	**—**	**—**	**83,267**
Investments in limited partnerships	**27,988**	**41**	**—**	**—**	**28,029**
Other	**617**	**1**	**—**	**—**	**618**
	803,945	**952**	**—**	**—**	**804,897**
Non-participating					
Bonds	**440,969**	**144,838**	**246,636**	**2,915**	**835,358**
Stocks	**21,723**	**131,748**	**70,495**	**833**	**224,799**
Mutual funds	**2,312**	**971,967**	**28,140**	**333**	**1,002,752**
Mortgage loans	**910**	**302,301**	**131,380**	**1,553**	**436,144**
Policy loans	**4,282**	**—**	**—**	**—**	**4,282**
Investment properties	**35,724**	**14,305**	**9,066**	**107**	**59,202**
Own-use properties and land	**8,483**	**90**	**—**	**—**	**8,573**
Investments in limited partnerships	**70,061**	**9,674**	**20,117**	**238**	**100,090**
Other	**12,298**	**61,748**	**110,759**	**1,307**	**186,112**
	596,762	**1,636,671**	**616,593**	**7,286**	**2,857,312**
	1,400,707	**1,637,623**	**616,593**	**7,286**	**3,662,209**
Reinsurance ceded	**118,906**	**—**	**121,206**	**—**	**240,112**
Total before reinsurance ceded	**1,519,613**	**1,637,623**	**737,799**	**7,286**	**3,902,321**

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

	2015				
	Individual		Group		
Assets backing life and health insurance contract liabilities	Life and health insurance $	Annuities $	Life and health insurance $	Annuities $	Total $
Participating					
Bonds	583,292	759	—	—	584,051
Policy loans	32,455	47	—	—	32,502
Investment properties	69,745	101	—	—	69,846
Own-use properties and land	84,667	123	—	—	84,790
Investments in limited partnerships	17,846	26	—	—	17,872
	788,005	1,056	—	—	789,061
Non-participating					
Bonds	452,180	128,803	181,220	1,647	763,850
Stocks	22,169	144,669	67,798	616	235,252
Mutual funds	2,157	655,268	26,698	243	684,366
Mortgage loans	1,570	309,603	132,589	1,205	444,967
Policy loans	3,049	—	—	—	3,049
Investment properties	35,054	14,062	—	—	49,116
Own-use properties and land	8,558	88	—	—	8,646
Investments in limited partnerships	49,664	6,512	13,269	121	69,566
Other	3,003	74,576	143,081	1,331	221,991
	577,404	1,333,581	564,655	5,163	2,480,803
	1,365,409	1,334,637	564,655	5,163	3,269,864
Reinsurance ceded	118,293	—	111,939	—	230,232
Total before reinsurance ceded	1,483,702	1,334,637	676,594	5,163	3,500,096

The estimated fair value of the assets backing liabilities before reinsurance ceded is $3,666,643 [2015: $3,276,765].

Assumptions

In calculating life and health insurance contract liabilities, the assumptions were determined using the Appointed Actuary's best estimates at the time of valuation as to contract terms regarding numerous variables, such as mortality, morbidity, investment return, contract management expenses, deferred tax expense, policy lapses and participating policyholder dividends. Assumptions are periodically reviewed and reflect the most recent experience, as well as current life and health insurance company data. In certain cases, industry data are used. The Appointed Actuary then factors margins for adverse deviations into these best estimates that take into account the uncertainty in determining best estimates.

The following methods were used to determine the most significant assumptions:

Mortality

Mortality is the occurrence of death in a given population. It is a key assumption used in life insurance and certain types of annuities.

For life insurance mortality, the assumption stems from a combination of the most recent experience of the life and health insurance companies and recent industry experience published by the Canadian Institute of Actuaries. For individual life insurance, the assumption differs based on the risk of tobacco use, classification at selection, as well as the age of insureds.

For annuity mortality, the assumption is derived from the most recent industry data published by the Canadian Institute of Actuaries adjusted to reflect the business of the life and health insurance companies. Moreover, the assumption used incorporates an improvement with regard to the current mortality level.

A 2% increase in mortality for all insureds of the life and health insurance companies would result in an increase in life and health insurance contract liabilities and a decrease in net income of the life and health insurance companies amounting to $3,875 [2015: $4,121]. A 2% reduction in mortality for all insureds of the life and health insurance companies would result in a decrease in life and health insurance contract liabilities and an increase in net income of the life and health insurance companies amounting to $3,779 [2015: $3,856].

Morbidity

Morbidity refers to the occurrence of accidents or illnesses among the risks insured.

The morbidity assumption is based on industry tables, which are modified to reflect the recent experience of the life and health insurance companies. The assumptions are different based on the geographical region, the duration since the onset of disability, age and sex.

A 5% increase in the incidence of morbidity and a decrease in termination rates would result in an increase in life and health insurance contract liabilities and a decrease in net income for the life and health insurance companies amounting to $31,585 [2015: $33,656]. A 5% decrease in the incidence of morbidity and a 5% increase in termination rates would result in an decrease in life and health insurance contract liabilities and an increase in net income for the life and health insurance companies amounting to $28,176 [2015: $30,012].

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

Assumptions [Cont'd]

Return on investments

The life and health insurance companies hold assets backing the life and health insurance contract liabilities. The expected rates of return for these assets are estimated based on current economic prospects, the investment policy of the companies and anticipated cash flows by business line.

No assets backing life and health insurance contract liabilities are classified as available-for-sale: for accounting purposes, this matches investment income to changes in actuarial liabilities recognized in the statement of income. As for life and health insurance contract liabilities other than actuarial liabilities, the accounting mismatch is low.

To reflect interest rate risk, consisting of the financial loss that may arise from fluctuations in interest rates, the companies match each group of assets to the life and health insurance contract liabilities they back. This matching, which consists in managing spreads in maturities between assets and liabilities as well as expected net cash flows, minimizes potential losses related to interest rate risk.

Without taking into account this matching, an immediate 1% decline over the entire yield curve would result in a $22,225 [2015: $33,092] decrease in net income, while an immediate 1% rise over the entire yield curve would result in a $22,272 [2015: $32,642] increase in net income.

The companies manage credit risk through detailed credit and underwriting policies, and by placing aggregate limits on each issuer in their investment portfolios. An allowance for impaired loans was established and set off against the value of these loans. Moreover, actuarial liabilities include an amount to cover any potential payment defaults in respect of assets currently held by the companies. Potential payment defaults are factored in by reducing the expected rate of return of the asset. The reduction in rate of return is based on the risk of payment default for each asset class.

Contract maintenance expenses

Contract maintenance expenses are determined using internal cost allocation analysis of the individual life and health insurance companies, based on the actual or budgeted general expenses for the following fiscal year. These expenses are indexed for future years.

A 5% increase in contract management expenses would result in a $10,022 [2015: $9,836] decrease in net income.

Deferred taxes

Actuarial liabilities include amounts reflecting the interest generating nature of the assets backing the deferred tax liabilities recorded in the consolidated statement of financial position. Actuarial liabilities as at December 31, 2016 were reduced by $12,475 [2015: $7,522] as a result of the impact of this discounting, which is carried out only for deferred tax liabilities related to life and health insurance contract liabilities.

Policy lapses

Policyholders may allow their policies to lapse prior to the end of the contractual coverage period by not paying the premiums or by surrendering their policy for the cash surrender value, as the case may be.

Assumptions regarding policy lapses are based on an analysis of the recent experience of life and health insurance companies for each business line.

A 10% deterioration in policy lapse assumptions would result in a $27,548 [2015: $26,189] decrease in net income.

Participating policyholder dividends

Actuarial liabilities include amounts relating to future dividends to be paid to policyholders. The dividend scales are in keeping with policyholders' reasonable expectations and the assumptions used in measuring actuarial liabilities.

Margins for adverse deviations

The basic assumptions used to determine life and health insurance contract liabilities are the best estimates as to a range of possible results. Each assumption must include an additional margin for adverse deviations in order to recognize the uncertainty regarding the preparation of best estimates and to take into account potential policy liability deterioration. These margins provide better assurance that life and health insurance contract liabilities are adequate to cover future policy benefit payments.

The Canadian Institute of Actuaries prescribes minimum standards for determining the margin in the interest rate assumption. The margins in other assumptions must fall within a range prescribed by the Canadian Institute of Actuaries and are determined based on the risk profile of the insurance companies regarding each assumption.

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

Changes in net actuarial liabilities

	2016	2015
	$	$
Balance, beginning of year	**3,118,027**	2,894,891
Change due		
To the passing of time	**21,140**	(24,452)
To new business	**338,967**	269,662
To changes in assumptions and policies	**8,203**	(22,074)
	368,310	223,136
Balance, end of year	**3,486,337**	3,118,027
Gross actuarial provisions	**3,726,449**	3,348,259
Reinsurance assets *[note 7]*	**240,112**	230,232
Net actuarial liabilities	**3,486,337**	3,118,027

The key changes made to actuarial assumptions are detailed as follows:

	2016	2015
	$	$
Mortality	**(6,203)**	(29,046)
Return on investments	**6,347**	9,518
Methods and other	**8,059**	(2,546)
	8,203	(22,074)

In 2016, the main changes made to actuarial assumptions and methods concern economic assumptions, including the change in fair value of assets, mortality as well as the consideration of a reserve for insufficient premiums.

Life and health insurance risks

By selling insurance contracts to its insureds, the Mutual assumes insurance risks. Risk arises when an insured event materializes differently than anticipated. Such variances are minimized through selection, pricing and reinsurance.

The Mutual's life and health insurance risk is not concentrated in a single region or product. The catastrophe reinsurance treaty makes it possible to manage the risk concentration mostly related to group business. An analysis is conducted each year to review concentration levels and adjust the required catastrophe treaty coverage.

Measuring the actuarial liabilities associated with insurance contracts is complex and requires the use of several assumptions and valuation methods. The most sensitive assumptions for the Mutual pertain to mortality, morbidity and the economic environment. During the first annual DCAT, sensitivity tests were conducted to better identify the Mutual's exposure to volatility and provide a basis to establish mitigation techniques.

The Mutual is also exposed to credit and liquidity risks under risk transfers to its different reinsurers. To mitigate these risks, the Mutual carefully diversifies the reinsurers with which it does business. The Mutual also reviews the financial strength of its reinsurers annually or more often as necessary and does not do business with reinsurers rated lower than A– by Standard and Poor's or AM Best.

Scheduled cash outflows (inflows) related to life and health insurance contract liabilities net of reinsurance ceded are illustrated as follows:

	2017 $	2018 $	2019 $	2020 $	2021 $	2022 and thereafter $	Total $
Life and health – Individual	20,954	(5,615)	6,376	12,983	21,733	1,344,276	1,400,707
Annuities – Individual	171,254	114,117	116,374	123,313	133,121	979,444	1,637,623
Life and health – Group	211,914	55,534	46,661	39,287	33,973	229,224	616,593
Annuities – Group	322	374	405	451	485	5,249	7,286
	404,444	164,410	169,816	176,034	189,312	2,558,193	3,662,209

Property and casualty insurance

Actuarial liabilities are established to reflect estimated total insurance contract liabilities as at the consolidated statement of financial position date, including claims incurred but not reported. The ultimate cost of these liabilities will vary from the best estimate for a variety of reasons, including obtaining additional information with respect to the facts and circumstances of the claims incurred. There was no premium deficiency as at the consolidated statement of financial position date.

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

The assets backing property and casualty insurance policy liabilities are detailed as follows:

	2016	2015
	$	$
Unearned premiums	**692,843**	672,358
Provision for claims and loss adjustment expenses	**359,872**	334,676
	1,052,715	1,007,034

Unearned premiums

The following table details unearned premiums per business line.

	2016		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Personal insurance			
Automobile:			
Civil liability	**157,562**	**—**	**157,562**
Accident	**13,715**	**—**	**13,715**
Other	**229,420**	**—**	**229,420**
Property and civil liability	**203,618**	**—**	**203,618**
Other	**4,062**	**—**	**4,062**
	608,377	**—**	**608,377**
Commercial insurance			
Automobile:			
Civil liability	**9,624**	**—**	**9,624**
Accident	**1,669**	**—**	**1,669**
Other	**8,144**	**—**	**8,144**
Property and civil liability	**59,789**	**2,486**	**57,303**
Other	**5,240**	**1,199**	**4,041**
	84,466	**3,685**	**80,781**
Balance, end of year	**692,843**	**3,685**	**689,158**

	2015		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Personal insurance			
Automobile:			
Civil liability	151,532	—	151,532
Accident	15,725	—	15,725
Other	229,094	—	229,094
Property and civil liability	190,929	—	190,929
Other	3,981	—	3,981
	591,261	—	591,261
Commercial insurance			
Automobile:			
Civil liability	9,289	—	9,289
Accident	1,677	—	1,677
Other	7,667	—	7,667
Property and civil liability	57,445	2,205	55,240
Other	5,019	1,327	3,692
	81,097	3,532	77,565
Balance, end of year	672,358	3,532	668,826

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Changes in unearned premiums

The following table presents movements in the Mutual's unearned premiums during the year.

	2016		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	**672,358**	**3,532**	**668,826**
Premiums written during the year	**923,090**	**28,108**	**894,982**
Premiums earned during the year	**(902,605)**	**(27,955)**	**(874,650)**
Balance, end of year	**692,843**	**3,685**	**689,158**

	2015		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	645,791	3,937	641,854
Premiums written during the year	899,717	28,000	871,717
Premiums earned during the year	(873,150)	(28,405)	(844,745)
Balance, end of year	672,358	3,532	668,826

Provision for claims and loss adjustment expenses

The provision for claims and loss adjustment expenses is detailed as follows:

	2016	2015
Provision for claims and loss adjustment expenses	$	$
Gross provision for claims and loss adjustment expenses	**338,065**	315,027
Subrogations	**21,807**	19,649
	359,872	334,676

The following table details the gross provision for claims and loss adjustment expenses including assumed reinsurance and the net provision for claims and loss adjustment expenses (net of subrogations) by business line.

	2016		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Personal insurance			
Automobile:			
Civil liability	**91,654**	**793**	**90,861**
Accident	**42,812**	**1,028**	**41,784**
Other	**32,506**	**—**	**32,506**
Property and civil liability	**72,490**	**399**	**72,091**
Other	**1,503**	**—**	**1,503**
	240,965	**2,220**	**238,745**
Commercial insurance			
Automobile:			
Civil liability	**17,159**	**260**	**16,899**
Accident	**5,871**	**425**	**5,446**
Other	**1,459**	**28**	**1,431**
Property and civil liability	**66,164**	**195**	**65,969**
Other	**6,447**	**4,187**	**2,260**
	97,100	**5,095**	**92,005**
Balance, end of year	**338,065**	**7,315**	**330,750**

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Provision for claims and loss adjustment expenses [Cont'd]

	2015		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Personal insurance			
Automobile:			
Civil liability	85,412	735	84,677
Accident	41,828	2,617	39,211
Other	29,780	—	29,780
Property and civil liability	58,909	33	58,876
Other	1,567	—	1,567
	217,496	3,385	214,111
Commercial insurance			
Automobile:			
Civil liability	15,605	254	15,351
Accident	7,264	410	6,854
Other	906	30	876
Property and civil liability	63,226	1,693	61,533
Other	10,530	6,597	3,933
	97,531	8,984	88,547
Balance, end of year	315,027	12,369	302,658

Reinsurance assets are detailed as follows:

	2016	2015
Reinsurance ceded	$	$
Unearned premiums	**3,685**	3,532
Provision for claims and loss adjustment expenses	**7,315**	12,369
	11,000	15,901

Changes in provision for claims and loss adjustment expenses

The following table summarizes the changes in the provision for claims and loss adjustment expenses of the Mutual for the year.

	2016		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	**315,027**	**12,369**	**302,658**
Current year claims	**567,938**	**2,422**	**565,516**
Prior year favourable claims development	**(7,634)**	**(4,184)**	**(3,450)**
Increase due to changes in discount rate	**2,279**	**146**	**2,133**
Total claims incurred	**562,583**	**(1,616)**	**564,199**
Claims paid	**539,545**	**3,438**	**536,107**
Balance, end of year	**338,065**	**7,315**	**330,750**

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Changes in provision for claims and loss adjustment expenses [Cont'd]

	2015		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	291,600	12,941	278,659
Current year claims	536,165	4,658	531,507
Prior year favourable claims development	(5,539)	(375)	(5,164)
Increase (decrease) due to changes in discount rate	1,836	(90)	1,926
Total claims incurred	532,462	4,193	528,269
Claims paid	509,035	4,765	504,270
Balance, end of year	315,027	12,369	302,658

Effect of time value of money and provision for adverse deviation

The following table shows the effect of the time value of money and the provision for adverse deviation on the carrying amount of the net provision for claims and loss adjustment expenses.

	2016		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Undiscounted value	**324,661**	**7,320**	**317,341**
Effect of time value of money using a rate of 3.8%	**(16,530)**	**(763)**	**(15,767)**
Provision for adverse deviations	**29,934**	**758**	**29,176**
Carrying amount	**338,065**	**7,315**	**330,750**

	2015		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Undiscounted value	303,900	12,520	291,380
Effect of time value of money using a rate of 3.8%	(16,349)	(1,038)	(15,311)
Provision for adverse deviations	27,476	887	26,589
Carrying amount	315,027	12,369	302,658

Since the time value of money is considered when determining the provision for claims and loss adjustment expenses, an increase or decrease in the discount rate would result in a decrease or increase in the provision for claims and loss adjustment expenses, respectively. A 1% decrease in the discount rate would have a $4,629 [2015: $4,507] impact on the fair value of the provision for claims and loss adjustment expenses and on net income as at December 31, 2016.

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

The following table shows estimated cumulative gross claims and loss settlement expenses incurred in the past nine accident years and the subsequent changes during the years, as well as current cumulative payments. The estimates of the initial provision are assessed to determine whether there is an excess or deficiency.

Gross claims development

	Accident year									
	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	Total $
Estimated amount of undiscounted claims and loss adjustment expenses before external reinsurance, net of subrogation										
At end of accident year	477,996	365,529	407,719	401,862	398,892	467,411	473,685	494,773	**524,333**	
Revised estimates										
1 year later	498,322	373,300	395,484	399,260	402,347	458,654	465,558	486,499		
2 years later	505,753	377,671	398,419	401,496	404,542	457,677	464,504			
3 years later	512,732	377,504	398,215	400,860	403,557	457,261				
4 years later	514,065	378,256	400,315	399,895	405,787					
5 years later	515,822	379,597	401,127	400,179						
6 years later	515,766	380,193	400,918							
7 years later	516,193	379,218								
8 years later	515,002									
Current estimates	**515,002**	**379,218**	**400,918**	**400,179**	**405,787**	**457,261**	**464,504**	**486,499**	**524,333**	**4,033,701**
Claims paid during prior periods										
At end of accident year	269,616	263,633	267,904	287,935	289,669	331,715	345,093	354,759	**376,097**	
1 year later	381,338	335,066	348,650	357,135	372,029	418,536	414,960	430,643		
2 years later	420,852	351,431	360,306	367,731	380,490	427,678	427,485			
3 years later	452,368	359,332	371,719	376,567	389,956	435,687				
4 years later	473,464	366,448	381,802	383,360	394,519					
5 years later	487,779	371,885	387,596	388,881						
6 years later	499,795	374,075	394,852							
7 years later	505,585	375,595								
8 years later	508,211									
Current cumulative payments	**508,211**	**375,595**	**394,852**	**388,881**	**394,519**	**435,687**	**427,485**	**430,643**	**376,097**	**3,731,970**
Undiscounted provision for claims and loss adjustment expenses before external reinsurance	**6,791**	**3,623**	**6,066**	**11,298**	**11,268**	**21,574**	**37,019**	**55,856**	**148,236**	**301,731**
Provision for claims prior to 2008 accident year, provision for internal expenses and risk pooling arrangement										**22,930**
Effect of time value of money and provision for adverse deviations										**13,404**
Gross provision for claims and loss adjustment expenses										**338,065**

(Insufficiency) excess of initial provision relative to re-estimated final cost as at December 31, 2016

Amount	(37,006)	(13,689)	6,801	1,683	(6,895)	10,150	9,181	8,274
Percentage	(7.7)%	(3.7)%	1.7%	0.4%	(1.7)%	2.2%	1.9%	1.7%

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

The following table shows estimated cumulative net claims and loss settlement expenses incurred in the past nine accident years and the subsequent changes during the years, as well as current cumulative payments. The estimates of the initial provision are assessed to determine whether there is an excess or deficiency.

Net claims development

	Accident year									
	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	Total $
Estimated undiscounted amount of claims and loss adjustment expenses after external reinsurance										
At end of accident year	464,245	363,222	397,328	390,459	381,790	449,581	468,986	491,073	**522,531**	
Revised estimates										
1 year later	483,402	366,331	383,993	385,332	374,527	445,903	461,234	483,483		
2 years later	489,671	368,745	386,572	388,418	377,833	444,940	460,714			
3 years later	497,703	367,242	385,922	389,086	376,533	446,450				
4 years later	500,668	367,651	387,703	388,596	378,906					
5 years later	501,986	368,688	387,976	389,128						
6 years later	502,698	368,459	388,043							
7 years later	503,147	367,317								
8 years later	501,850									
Current estimates	**501,850**	**367,317**	**388,043**	**389,128**	**378,906**	**446,450**	**460,714**	**483,483**	**522,531**	**3,938,422**
Claims paid during prior periods										
At end of accident year	264,422	259,014	265,656	283,078	280,553	324,488	343,580	354,329	**375,467**	
1 year later	370,686	327,561	339,322	347,473	346,699	409,774	412,358	429,568		
2 years later	409,055	342,001	350,193	358,057	354,676	417,351	424,455			
3 years later	440,752	351,228	360,923	366,714	363,285	425,347				
4 years later	461,678	357,988	371,035	373,174	367,855					
5 years later	475,458	361,335	376,707	378,416						
6 years later	487,301	363,231	382,974							
7 years later	493,038	364,536								
8 years later	495,419									
Current cumulative payments	**495,419**	**364,536**	**382,974**	**378,416**	**367,855**	**425,347**	**424,455**	**429,568**	**375,467**	**3,644,037**
Discounted provision for claims and loss adjustment expenses after external reinsurance	**6,431**	**2,781**	**5,069**	**10,712**	**11,051**	**21,103**	**36,259**	**53,915**	**147,064**	**294,385**
Provision for claims prior to 2008 accident year, provision for internal expenses and risk pooling arrangement										**22,956**
Effect of time value of money and provision for adverse deviations										**13,409**
Net provision for claims and loss adjustment expenses										**330,750**
(Insufficiency) excess of initial provision relative to re-estimated final cost as at December 31, 2016										
Amount	(37,605)	(4,095)	9,285	1,331	2,884	3,131	8,272	7,590		
Percentage	(8.1)%	(1.1)%	2.3%	0.3%	0.8%	0.7%	1.8%	1.5%		

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Property and casualty insurance risks

The Mutual identified the following risks that may have a material effect on its bottom line, such as the risk of a significant rise in claim frequency and severity, the risk of multiple catastrophes combined with reinsurer payment defaults, the risk of a change in premium volume in a competitive market with significant premium reductions and the risk of adverse development of claims reserves for long-tail business classes.

Underwriting standards are set out and applied by the Mutual. These standards provide for diversified risk selection in line with the Mutual's objectives. Together, contract terms and conditions and rates appropriately reflect the inherent risks in the policies written.

The use of reinsurance plays a key role in managing the Mutual's risks and exposures. Various catastrophe excess of loss treaties per risk and per event are in place to limit the adverse income effect of major claims, on both a separate and cumulative basis, on occurrence of a catastrophic event.

Use of other types of reinsurance (optional or treaty for a given business line) is also possible to manage specifically identified risks.

A 10% increase in the net loss index would result in a decrease in net income and equity of $63,900 [2015: $61,800].

Risk concentration

The Mutual's risk concentration is mitigated by the use of reinsurance contracts, and the rigorous selection and implementation of underwriting strategies, which are adhered to mainly through sector diversification.

Insurance concentration risk by product is described below based on the allocation of premiums written.

	Premiums	
	2016	2015
	$	$
Individual insurance	**559,569**	487,782
Group insurance	**603,831**	579,592
Property and casualty insurance	**902,758**	872,745
	2,066,158	1,940,119

14. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES

	2016	2015
	$	$
Other financial liabilities		
Held-for-trading		
Bank overdraft	**9,938**	4,316
Line of credit	**10**	—
Deposits in trust	**2,472**	2,865
	12,420	7,181
Other liabilities		
Accrued liabilities	**129,381**	137,396
Short-term borrowing	**15,164**	—
Other amounts on deposit	**87,018**	91,870
Loyalty, stabilization and development fund	**41,376**	37,899
Deposits for taxes	**4,430**	4,261
Due to reinsurers – Life and health insurance segment	**10,658**	9,925
Due to reinsurers – Property and casualty insurance segment	**1,177**	990
Other	**991**	63
	290,195	282,404
	302,615	289,585
Other liabilities		
Stock appreciation rights plan payable	**11,130**	8,904
Deferred revenues	**1,263**	1,205
	12,393	10,109

The Mutual offers a stock appreciation rights plan to certain officers. Under this plan, participants are entitled to receive cash compensation based on the increase in value of the shares of La Capitale Financial Group Inc. relative to the initial value as defined under the plan. The rights must be exercised when participants leave the position, which renders them eligible for the plan. The accumulated amounts are payable under terms that vary according to the participant's departure type (transfer, retirement, permanent disability, death or voluntary termination) over a maximum term of four years following the year of departure or at the end of the quarter following departure.

14. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES [Cont'd]

The expense for the year amounted to $2,534 [2015: $644 recovery].

The fair value of stock appreciation rights is estimated at the grant dates using the Black-Scholes method. The model uses the following key assumptions:

	2016	2015
Risk-free interest rate	**1.4%**	1.2%
Expected volatility of dividend yield	**6.4%**	6.7%
Average expected life of rights	**6.2 years**	6.9 years

15. EMPLOYEE FUTURE BENEFITS

The Mutual has four defined benefit plans providing pension benefits to most of its employees as well as defined contribution plans.

The defined benefit plans are based on years of service and use final average earnings or annually indexed pension credits. Pension benefits are increased based on the consumer price index up to a maximum of 3% each year. Generally, employees contribute a set percentage of their annual salary to the pension plans. The employer contributes the balance required to fund pension plan obligations, as determined by actuarial valuations. These plans are funded. The Mutual has additional unfunded plans for senior management.

The defined contribution plans were set up in 2002 and 2011. Current-year expense for these plans totalled $1,224 [2015: $1,152].

Other future benefits include retirees' contributory health insurance plans for which employee contributions are adjusted annually, life insurance plans and celebration costs and retirements. These plans are unfunded.

Information related to the pension plans and other future benefits is as follows:

	Pension plans		Other future benefits	
	2016	2015	2016	2015
	$	$	$	$
Defined benefit obligation				
Balance, beginning of year	**561,916**	519,970	**23,158**	25,612
Employee contributions	**11,109**	10,861	**—**	—
Current service costs	**24,417**	23,689	**1,490**	2,013
Transfers	**112**	453	**—**	—
Financial cost	**22,893**	21,794	**981**	1,128
Actuarial (gains) losses arising from plan experience	**(6,032)**	4,433	**—**	(5,302)
Actuarial losses (gains) arising from changes in financial assumptions	**24,612**	(3,586)	**387**	414
Benefits paid	**(15,880)**	(15,698)	**(399)**	(707)
Changes made to assumptions	**44**	—	**—**	—
Balance, end of year	**623,191**	561,916	**25,617**	23,158

The defined benefit obligation is detailed as follows:

	Pension plans		Other future benefits	
	2016	2015	2016	2015
	$	$	$	$
Funded plans	**608,030**	549,166	**—**	—
Unfunded plans	**15,161**	12,750	**25,617**	23,158
	623,191	561,916	**25,617**	23,158

	Pension plans		Other future benefits	
	2016	2015	2016	2015
	$	$	$	$
Net assets				
Fair value, beginning of year	**491,591**	453,346	**—**	—
Actual return on plan assets	**38,045**	26,029	**—**	—
Employer contributions	**15,267**	16,600	**399**	707
Employee contributions	**11,109**	10,861	**—**	—
Transfers	**112**	453	**—**	—
Benefits paid	**(15,880)**	(15,698)	**(399)**	(707)
Fair value, end of year	**540,244**	491,591	**—**	—

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

	Pension plans		Other future benefits	
	2016	2015	2016	2015
	$	$	$	$
Funded status – deficit	**82,947**	70,325	**25,617**	23,158
Impact on asset ceiling	**—**	168	**—**	—
Net defined benefit liability	**82,947**	70,493	**25,617**	23,158

Pension plan assets were measured as at December 31, 2016 and accrued defined benefit obligations were measured as at December 31, 2015 and projected to December 31, 2016.

Pension plan assets do not include securities of the Mutual and its subsidiaries.

The following table shows the allocation of assets at fair value by main asset class:

	Pension plans	
	2016	2015
	%	%
Asset classes		
Stocks	**—**	2.5
Bonds	**31.5**	29.5
Mutual funds	**54.7**	57.4
Investments in private companies	**13.5**	10.4
Other	**0.3**	0.2
	100.0	100.0

Stocks are quoted in an active market and are classified as Level 1. Fair values of bonds are determined using market bid prices and are classified as Level 2. Equity mutual funds are quoted in an active market and are classified as Level 1, while bond, loan and other mutual funds are valued based on observable inputs and are classified as Level 2. Investments in private companies are valued using inputs that are not based on observable market inputs and are classified as Level 3.

The pension plan investment policy calls for a portfolio structure diversified by investment category and economic sector. The following table shows the allocation by economic sector for each asset class.

	2016				2015			
	Stocks %	Bonds %	Mutual funds %	Investments in private companies %	Stocks %	Bonds %	Mutual funds %	Investments in private companies %
Governments, municipalities, school boards and hospitals	**—**	**30.6**	**4.3**	**—**	—	33.8	4.2	—
Communications	**—**	**7.5**	**4.0**	**—**	7.2	3.9	4.3	—
Consumer discretionary	**—**	**—**	**9.9**	**—**	8.8	—	11.7	—
Consumer staples	**—**	**1.3**	**11.6**	**0.6**	8.1	3.3	9.5	—
Energy	**—**	**14.5**	**7.5**	**1.2**	8.5	4.9	7.5	—
Real estate	**—**	**2.4**	**7.0**	**50.3**	—	—	7.0	47.8
Infrastructure	**—**	**18.3**	**—**	**32.2**	—	—	—	42.2
Manufacturing	**—**	**5.9**	**11.5**	**6.2**	7.7	3.2	10.9	4.0
Materials	**—**	**—**	**5.7**	**—**	6.4	—	5.0	—
Financials	**—**	**8.7**	**17.9**	**0.4**	30.7	8.6	21.2	—
Utilities	**—**	**10.7**	**11.1**	**3.2**	7.1	42.3	11.5	2.8
Technology	**—**	**—**	**7.1**	**4.7**	15.4	—	6.6	3.2
Asset-backed securities	**—**	**—**	**0.1**	**—**	—	—	0.2	—
Mortgage-backed securities	**—**	**—**	**0.2**	**—**	—	—	0.3	—
Health	**—**	**—**	**—**	**1.2**	—	—	—	—
Other	**—**	**0.1**	**2.1**	**—**	0.1	—	0.1	—
	—	**100.0**	**100.0**	**100.0**	100.0	100.0	100.0	100.0

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

The following table summarizes the weighted average actuarial assumptions used to calculate defined benefit obligation and expense:

	Pension plans		Other future benefits	
	2016	2015	2016	2015
	%	%	%	%
To determine defined benefit obligation				
Discount rate	**3.9**	4.0	**3.9**	4.0
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3
To determine defined benefit expense				
Discount rate	**4.0**	4.1	**4.0**	4.1
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3

	2016		
	Other future benefits		
Assumed health care cost trend rates	Drugs %	Health %	Dental %
Initial health care cost trend rates	**6.5**	**5.0**	**3.5**
Cost trend rates tend towards	**3.5**	**3.5**	**3.5**

	2015		
	Other future benefits		
Assumed health care cost trend rates	Drugs %	Health %	Dental %
Initial health care cost trend rates	6.5	5.0	3.5
Cost trend rates tend towards	3.5	3.5	3.5

	Pension plans	
	2016	2015
Human life expectancy	Years	Years
Male	**86**	86
Female	**89**	89

Canadian mortality rates used are those published in 2014 by the Canadian Institute of Actuaries following its Canadian pensioner mortality study.

The Mutual's net expense in respect of employee pension plans and other employee future benefits is as follows:

	Pension plans		Other future benefits	
	2016	2015	2016	2015
	$	$	$	$
Current service costs	**24,417**	23,689	**1,490**	2,013
Net interest on net defined benefit obligation	**3,020**	2,891	**980**	1,128
Administrative costs	**22**	11	**—**	—
Net expense	**27,459**	26,591	**2,470**	3,141

Net employee future benefit expense is included under general expenses in the consolidated statement of income.

The dates of the most recent and the next required actuarial valuations for funding purposes are December 31, 2015 and December 31, 2018, respectively.

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Sensitivity analysis

The following tables summarize the sensitivity analysis for each of the significant actuarial assumptions used to calculate defined benefit obligation.

	2016			
Assumptions:	Discount rate		Rate of increase in future compensation	
Sensitivity level:	1% increase $	1% decrease $	1% increase $	1% decrease $
	(113,122)	**153,158**	**46,251**	**(40,563)**

	2016			
Assumptions:	Health care cost trend rate		Human life expectancy	
Sensitivity level:	1% increase $	1% decrease $	1 year increase $	1 year decrease $
	3,253	**(3,104)**	**14,888**	**(15,655)**

	2015			
Assumptions:	Discount rate		Rate of increase in future compensation	
Sensitivity level:	1% increase $	1% decrease $	1% increase $	1% decrease $
	(101,496)	137,011	42,068	(33,887)

	2015			
Assumptions:	Health care cost trend rate		Human life expectancy	
Sensitivity level:	1% increase $	1% decrease $	1 year increase $	1 year decrease $
	3,424	(2,687)	13,068	(12,806)

Sensitivity analysis were determined using a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in significant assumptions arising at the end of the reporting period.

The Mutual expects to contribute $14,741 to the defined benefit pension plans during the following fiscal year.

The weighted average duration of the defined benefit obligation is 22 years [2015: 22 years] for the pension plans and 14 years [2015: 15 years] for other future benefits.

16. LONG-TERM DEBT

	2016 $	2015 $
Borrowing secured by a $18,000 first mortgage primarily on an investment property valued at $22,519, bearing a fixed interest rate of 4.0% [2015: 5.4%], renewed in 2016 and maturing in 2026	**15,021**	15,479
Subordinated debentures paid in 2016	**—**	7,000
	15,021	22,479

Subordinated debentures were settled in exchange for shares of $6,200 in the subsidiaries' equity not held by the Mutual and $800 in cash.

The maturities for long-term debt are as follows:

	$
Current portion	**533**
Portion from 1 to 5 years	**2,355**
Portion from 6 to 10 years	**12,133**
	15,021

The interest on long-term debt amounted to $906 [2015: $1,171].

As at December 31, 2016 the fair value of the borrowing amounts to $14,777 [2015: $22,621].

17. NON-CONTROLLING INTERESTS

The following tables provide financial information on subsidiaries in which the non-controlling interests have significant holdings.

Percentage holdings of non-controlling interests

	Location of principal place of business	2016 %	2015 %
Subsidiary			
La Capitale Financial Group Inc.	Québec City, Canada	**3.9**	4.6
La Capitale Participations inc.	Québec City, Canada	**22.1**	22.8
3602214 Canada Inc.	Mississauga, Canada	**30.0**	30.0

Cumulative balances of significant non-controlling interests

	2016 $	2015 $
La Capitale Financial Group Inc.	**32,128**	35,295
La Capitale Participations inc.	**90,698**	77,751
3602214 Canada Inc.	**39,918**	38,696
	162,744	151,742

Net income attributable to significant non-controlling interests

	2016 $	2015 $
La Capitale Financial Group Inc.	**1,322**	1,475
La Capitale Participations inc.	**9,515**	9,293
3602214 Canada Inc.	**2,029**	3,586
	12,866	14,354

The following tables provide summarized financial information of these subsidiaries. This information is based on amounts before the elimination of intercompany accounts and transactions.

	2016		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Revenues	**34,552**	**917,183**	**116,340**
Net income	**33,510**	**42,897**	**6,762**
Other comprehensive income	**23,242**	**14,889**	**3,288**
Comprehensive income	**56,752**	**57,786**	**10,050**
Dividends paid to non-controlling interests	**208**	**3,884**	**1,793**

	2015		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Revenues	32,918	881,187	116,481
Net income	32,597	40,803	11,954
Other comprehensive loss	(23,304)	(20,110)	(2,748)
Comprehensive income	9,293	20,693	9,206
Dividends paid to non-controlling interests	238	—	1,880

	2016		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Total assets	**829,838**	**1,642,629**	**519,445**
Total liabilities	**4,642**	**1,228,793**	**386,384**
Equity	**825,196**	**413,836**	**133,061**
Attributable to members of the Mutual	**793,068**	**323,138**	**93,143**
Attributable to non-controlling interests	**32,128**	**90,698**	**39,918**

17. NON-CONTROLLING INTERESTS [Cont'd]

	2015		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Total assets	771,507	1,563,462	527,150
Total liabilities	3,903	1,220,925	398,162
Equity	767,604	342,537	128,988
Attributable to members of the Mutual	732,309	264,786	90,292
Attributable to non-controlling interests	35,295	77,751	38,696

	2016		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Cash flows			
Operating activities	**(334)**	**76,984**	**(6,176)**
Investing activities	**4,271**	**(80,639)**	**14,007**
Financing activities	**(4,160)**	**(43,912)**	**(5,977)**
Net (decrease) increase in cash and cash equivalents	**(223)**	**(47,567)**	**1,854**

	2015		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Cash flows			
Operating activities	312	86,864	(5,766)
Investing activities	3,091	(69,509)	9,976
Financing activities	(4,116)	(2,914)	(6,267)
Net (decrease) increase in cash and cash equivalents	(713)	14,441	(2,057)

18. CAPITAL MANAGEMENT

The Mutual's capital management objectives are to ensure capital preservation, development and growth, and to meet the requirements of the authorities that regulate the operations of its insurance subsidiaries.

To meet its objectives, the Mutual has implemented sound business and financial practices with respect to capital management. The policies and procedures described in these practices enable the Mutual and its subsidiaries to support strategic directions and performance goals while meeting the set capital adequacy target.

The Mutual and its subsidiaries regularly review capital using various tools including the dynamic capital adequacy testing and capital position monitoring reports. These documents are reviewed and approved each year by the Boards of Directors.

In Québec, life and health insurance companies must comply with the Autorité des marchés financiers (AMF) capital adequacy requirements (CAR) guideline to provide a guarantee of their solvency. The consolidated regulatory capital of the subsidiary La Capitale Civil Service Insurer Inc., determined in accordance with this guideline, constitutes its available capital funds and is different from the equity reported in the statement of financial position. It consists of two tiers of capital.

Tier 1 capital comprises more permanent components of capital than Tier 2, and consists primarily of equity attributable to members.

The following table provides a summary of total available capital:

	2016	2015
	$	$
Tier 1 capital	**501,577**	496,658
Tier 2 capital	**32,686**	23,148
Total available capital	**534,263**	519,806

Under regulatory authority guidelines, the insurance subsidiaries must set capital targets which exceed capital requirements. As at December 31, 2016, the insurance subsidiaries were in compliance with the applicable capital requirements of regulatory authorities.

In 2016, items resulting primarily in an increase in capital consisted of net income and changes in available-for-sale financial instruments.

19. GENERAL EXPENSES

General expenses by nature

	2016	2015
	$	$
Salaries and employee benefits	**244,878**	235,106
Amortization of property and equipment *[note 10]*	**7,759**	8,334
Amortization of intangible assets *[note 11]*	**9,604**	8,495
Fees, rent and other	**51,701**	54,377
	313,942	306,312

20. COMMITMENTS, GARANTEES AND CONTINGENCIES

Commitments

Leases

As lessee

As at December 31, 2016, the Mutual is committed under operating leases for the use of office premises and service contracts expiring at various dates through 2025.

The following table details future minimum payments under non-cancellable operating leases:

	2016	2015
	$	$
Under 1 year	**5,664**	5,609
1–5 years	**12,628**	12,222
Over 5 years	**3,146**	4,064
	21,438	21,895

These leases have terms ranging from one to nine years and may include a renewal option at expiry.

Rental costs expensed during the year totalled $6,971 [2015: $7,206].

As lessor

Operating leases pertain to the rental of investment properties held by the Mutual. These leases have terms ranging from one to 20 years and may include a renewal option at expiry. There is no purchase option available under current lease terms.

Future rent payments receivable under non-cancellable leases are as follows:

	2016	2015
	$	$
Under 1 year	**20,158**	19,991
1–5 years	**55,495**	60,436
Over 5 years	**52,035**	27,892
	127,688	108,319

Investment commitments

In the normal course of the Mutual's business, various outstanding contractual commitments related to residential and personal loan offers are not reflected in the consolidated financial statements and may not be fulfilled.

Expiring in	
45 days $	46–365 days $
10,115	**8,215**

As at December 31, 2016, the Mutual is committed to subscribe, on demand, an amount of $117,327 [2015: $101,201] for various investments.

20. COMMITMENTS, GARANTEES AND CONTINGENCIES [Cont'd]

Commitments [Cont'd]

Structured settlements

The Mutual has entered into annuity contracts with several Canadian life and health insurance companies to provide for fixed and periodic benefit payments to beneficiaries. Under these agreements, the Mutual has ceded its commitments to the beneficiaries of annuity contracts; however, it remains exposed to credit risk to the extent that the life and health insurance companies might not be able to meet their financial obligations to these beneficiaries. To reduce its exposure to this credit risk, the Mutual has purchased annuity contracts from insurance companies with a Standard and Poor's credit rating of at least A+. The residual credit risk assumed by the Mutual is the credit risk related to the Canadian life and health insurance companies with which it does business. This residual credit risk is mitigated by the protection provided by ASSURIS to life and health insurance policyholders.

As at December 31, 2016, none of the insurance companies from which the Mutual had acquired annuity contracts were in default and accordingly, no provision for credit risk was recorded in the financial statements. Exposure to credit risk is evaluated as total purchases of annuity contracts that are not provided for as a liability of the Mutual, which amounted to $27,320 [2015: $26,120] over a maximum period of 52 years [2015: 52 years]. The risk-adjusted balance is determined by applying the standard measures of counterparty risk defined by the regulatory authority to the credit equivalent amount.

The Mutual's management considers the risk of financial default by the insurance companies with which it does business to be very low.

Credit facilities

As at December 31, 2016, the Mutual had a $10,000 credit facility [2015: $10,000] bearing interest at the prime rate, as well as a $2,000 credit facility [2015: $2,000] for the issuance of letters of credit at a cost of 0.625% of the dollar amount.

As at December 31, 2016, the Mutual had issued a $500 standby letter of credit [2015: $500] to Liberty Mutual Insurance Company.

The Mutual also had a $40,000 commercial line of credit [2015: $40,000] to enable it to finance its mortgage loan operations, bearing interest at the prime rate. Only this commercial line of credit is drawn as at December 31, 2016 for an amount of $15,164 [2015: $0] presented as a short-term borrowing.

Other

As at December 31, 2016, the Mutual is committed under agreements with charities to pay a total amount of $1,715 [2015: $712]. The minimum payments for the next five fiscal years amount to $745 in 2017, $390 in 2018, $322 in 2019, $233 in 2020 and $25 in 2021.

Garantees

Pledged assets

In the normal course of business, certain subsidiaries of the Mutual have pledged assets in respect of obligations contracted, strictly to serve as collateral to the counterparty. In the event of default by the Mutual, the counterparty is entitled to apply the collateral to settle the debt. No defaults occurred during the fiscal year. Pledged assets comprise bond holdings in the amount of $90,000 [2015: $98,200].

Financial assets held as collateral – Securities lending

The Mutual engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. The asset custodian guarantees the replacement of loaned securities in the event of counterparty default. Moreover, collateral representing a minimum of 102% of the fair value of the loaned securities is pledged by the borrower and held in escrow by the asset custodian until the underlying securities have been returned to the Mutual. The fair value of loaned securities is monitored on a daily basis with additional collateral obtained or refunded as market values fluctuate. Accordingly, the Mutual benefits from two levels of protection in the event of default. As at December 31, 2016, the Mutual had loaned securities, which are included in investments, with a carrying amount of $248,038 [2015: $184,646].

Contingencies

The Mutual is involved in certain legal claims arising in the normal course of business. Management believes that the Mutual has set aside sufficient provisions to cover potential losses in relation to such lawsuits.

21. RELATED PARTY INFORMATION

Compensation of key management personnel

Compensation of key management personnel for the year was as follows:

	2016	2015
	$	$
Short-term employee benefits	**24,173**	22,666
Post-employment benefits	**8,063**	4,808
Termination benefits	**—**	28

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Our member companies

As at December 31, 2016

La Capitale
Civil Service Mutual

Life and Health Insurance and Financial Services

SECTOR COMPANIES

LA CAPITALE CIVIL SERVICE INSURER

La Capitale Civil Service Insurer provides financial products to ensure the economic well-being of Quebec's public administration and public service employees. Clients benefit from the unique expertise La Capitale Civil Service Insurer has developed in life and health insurance, savings and investments, and mortgage loans. Its teams of specialists design attractive, flexible financial solutions that are tailored to clients' needs. And, to simplify the payment of premiums, it also offers the exclusive Payroll Deduction Privilege to public service employees working in some 800 institutions across Quebec's public and parapublic sectors.

Products and services offered

- Life insurance
- Disability insurance
- Critical illness insurance
- Long-term care insurance
- Savings and investment products
- Mortgage loans
- Payroll Deduction Privilege

LA CAPITALE INSURANCE AND FINANCIAL SERVICES

Established in 1989, La Capitale Insurance and Financial Services is a subsidiary of La Capitale Civil Service Insurer. It provides group insurance products directly to the Quebec public service and serves groups in the Canadian private sector in partnership with selected financial services firms. La Capitale Insurance and Financial Services is renowned for its take-charge approach by providing human, preventative and innovative solutions, such as the VIVA workplace health and wellness program, to it clients. It began distributing individual travel insurance products across Canada in 2014, in partnership with third party administrators.

Products and services offered

- Life, health and disability insurance
- Critical illness, dental care and vision care insurance
- Travel and trip cancellation insurance
- Conversion insurance – Perspective
- Employee and manager assistance programs
- Home care and assistance services
- Health insurance claims profile
- Health spending account
- CAP Medical Assistance
- VIVA Workplace Health and Wellness Program
- Portals for insureds and plan administrators
- Mobile app

LA CAPITALE FINANCIAL SERVICES

La Capitale Financial Services is a financial services firm whose primary role is offering insurance and investment and savings products to individuals working in the Quebec public service. It is dedicated to providing them with the best financial security available, thanks to its unique financial planning tools. The firm is represented by 180 financial service advisors who serve Quebec government employees in their workplaces.

Products and services offered

- Term, permanent and universal life insurance
- Health, long-term care, critical illness and disability insurance
- Registered and non-registered investment products (e.g. GICs, investment accounts, retirement incomes, RRSPs, RESPs and TFSAs)
- Investment funds
- Referrals for car, home and legal access insurance and mortgage loans
- Financial situation evaluations
- Personalized financial planning
- Training and presentations on financial security topics (RRSP, RREGOP, PPMP, legal aspects, investments, etc.)

Life and Health Insurance and Financial Services

SECTOR COMPANIES [Cont'd]

LA CAPITALE FINANCIAL SECURITY

Based in Mississauga, Ontario, La Capitale Financial Security (formerly Penncorp Life Insurance Company) offers simplified, personal disability insurance products and financial solutions designed to fit the unique needs of small business owners, self-employed workers, skilled tradespeople and other individuals who do not have easy access to traditional insurance and financial products. La Capitale Financial Security has a network of 193 career agents with branch offices and field representatives across Canada, and also relies on an independent distribution channel.

Products and services offered

- Short- and long-term disability insurance
- Long-term care insurance
- Hospital care insurance
- Critical illness and cancer insurance
- Life insurance

LA CAPITALE MFQ REAL ESTATE MANAGEMENT

This subsidiary is responsible for implementing the Group's real estate strategy and managing its real estate holdings. The real estate portfolio it manages covers approximately 1.4 million sq. ft., including 201 residential units under management, spread out over 10 buildings in Quebec and Ontario, plus office space leased by the branch offices of La Capitale General Insurance and La Capitale Financial Services across Quebec, and the regional branch offices of La Capitale Financial Security outside Quebec. La Capitale MFQ Real Estate Management manages assets worth a total of $354 million, including commercial and residential buildings, office space and a seniors' residence located in Quebec.

Products and services offered

- Construction and interior design
- Property management and leasing
- Green buildings
- Quality fit-up services for rental units

SECURIGLOBE

SecuriGlobe, one of the largest travel insurance brokers in Canada, was acquired by La Capitale Civil Service Insurer in June 2014. SecuriGlobe, which was founded in 1999, relies on a network of more than 2,000 active partners across the country and distributes the products of over 14 different insurance carriers. SecuriGlobe has developed unique expertise by specializing in products that are suitable for all types of travellers, but for retirees in particular.

Products and services offered

- Emergency health care
- Multi-trip annual plans
- Trip cancellation or interruption insurance
- Baggage insurance
- Cruise insurance packages
- Extension of travel insurance
- Visitors to Canada coverage
- International student coverage
- Expatriates coverage
- Health and dental care insurance
- Special risks

Life and Health Insurance and Financial Services

OFFICERS

La Capitale Civil Service Insurer

La Capitale Insurance and Financial Services

Senior Management

Steven Ross, C. Adm.
President and Chief Operating Officer

Corporate Actuarial

Eric Marcoux, FSA, FICA
Vice-President and Appointed Actuary

Guy Harvey, ASA
Senior Director, Corporate Actuarial

Information Technology

Claude Gaboury
Vice-President

Lyne Groleau
Senior Director, IT Development Group Insurance

Francine Hampleman, FLMI
Senior Director, IT Development Individual Insurance and Financial Services

Maxime Morin, BSc A.
Senior Director, Project Management, Practices and Development Support Office

Group insurance

Jean Guay
Executive Vice-President

Eveline Keable, BSc Act.
Senior Director, Claims Management, Life and Disability Insurance

Sales and Marketing

Martin Bédard
Vice-President

Administration and Customer Relations

Dean Bergeron, BSc Act.
Vice-President

Actuarial and Underwriting

Richard Fecteau, FSA, FCIA
Vice-President

Anne Morency, FSA, FICA
Senior Director, Underwriting

Individual Insurance and Financial Services

Christian Dufour, FSA, FCIA
Executive Vice-President

Dany LeBœuf, FLMI, FLHC, ALHC, ACS, UND, AIAA
Senior Director, Savings and Financial Services

Diane Moreau, FLMI
Senior Director, Individual Life and Health Insurance

Product Development and Marketing

Michel Lafrance, FSA, FCIA
Vice-President

Sales – Exclusive Distribution Channels

Eli Pichelli, MBA, CLU
Vice-President

Ghassan Barakat
Provincial Director

Nathalie Desjardins, BBA, F. Pl.
Regional Director East Regional Financial Centre

Pierre Maltais, BBA, RLU
Regional Director Saguenay – Lac-Saint-Jean – North Shore Regional Financial Centre

Sales – Brokerage Channel

Patrick Couture, BSc Act.
Senior Director

La Capitale Financial Security

Steven Ross, C. Adm.
President and Chief Operating Officer

Jeff Kinch
Vice-President, Operations

Eli Pichelli, MBA, CLU
Vice-President, Sales – Exclusive Distribution Channels

Neil Brown
Assistant Vice-President, Finance

Chris Kitagawa, BA
Assistant Vice-President, Underwriting, Contract Management and Agency Services

Cristine Y. Chan, BA, CHRP
Assistant Vice-President, Human Resources and Shared Services

Mark Turkiewicz
Assistant Vice-President, Claims

Joseph Tari
Senior Director, Sales – Brokerage Channel Ontario and Western Canada

SecuriGlobe

Mathieu Laplante
President

Life and Health Insurance and Financial Services

POINTS OF SERVICE

La Capitale Civil Service Insurer

625 Jacques-Parizeau St
Quebec QC G1R 2G5
418 747-7600 or 1 800 463-5549

La Capitale Insurance and Financial Services

625 Jacques-Parizeau St, PO Box 1500
Quebec QC G1K 8X9
418 644-4200 or 1 800 463-4856

Points of Service

Montreal
425 de Maisonneuve Blvd W, Suite 820
Montreal QC H3A 3G5
514 873-2402 or 1 800 463-4856

Quebec City
625 Jacques-Parizeau St, PO Box 1500
Quebec QC G1K 8X9
418 644-4200 or 1 800 463-4856

La Capitale Financial Services

Sales – Advisor Network and CFS
7333 Place des Roseraies, Suite 200
Anjou QC H1M 2X6
514 687-2964 or 1 866 279-9394

East Regional Financial Centre
Delta 1 Building
2875 Laurier Blvd, Suite 650
Quebec QC G1V 2M2
418 644-0038 or 1 866 279-9396

Saguenay – Lac-Saint-Jean – North Shore Regional Financial Centre
874 de l'Université Blvd E, Suite 320
Chicoutimi QC G7H 6B9
418 615-0694 or 1 800 713-8271

South-West Regional Financial Centre
7055 Taschereau Blvd, Suite 300
Brossard QC J4Z 1A7
514 864-4189 or 1 866 279-7384

Sherbrooke Financial Centre
1802 King St W, Suite 104
Sherbrooke QC J1J 0A2
819 780-4697 or 1 800 713-8236

North-West Regional Financial Centre
1950 Maurice-Gauvin St, Suite 201
Laval QC H7S 1Z5
514 873-9364 or 1 866 279-0489

Trois-Rivières Financial Centre
Le Trifluvien Building
4450 des Forges Blvd, Suite 240
Trois-Rivières QC G8Y 1W5
819 374-3539 or 1 866 318-8016

La Capitale MFQ Real Estate Management

625 Jacques-Parizeau St
Quebec QC G1R 2G5
418 644-4267 or 1 800 463-5549

Life and Health Insurance and Financial Services

POINTS OF SERVICE [Cont'd]

La Capitale Financial Security

Head Office
7150 Derrycrest Drive
Mississauga ON L5W 0E5
905 795-2300 or 1 800 268-2835

Branches

ALBERTA

Calgary
12111 40th Street SE, Suite 137
Calgary AB T2Z 4E6
403 252-7757 or 1 800 267-0192

Edmonton
4466 97th Street
Edmonton AB T6E 5R9
780 438-2420 or 1 800 955-3250

BRITISH COLUMBIA

Surrey
13889 104th Ave, Suite 300
Surrey BC V3T 1W8
604 589-1381

MANITOBA

Winnipeg
2140 Pembina Highway, Suite B
Winnipeg MB R3T 6A7
204 985-1580 or 1 800 670-1911

MARITIMES

Bedford
1550 Bedford Highway, Suite 700
Bedford NS B4A 1E6
902 835-9203 or 1 800 835-9203

ONTARIO

Barrie
431 Huronia Road, Suite 2
Barrie ON L4N 9B3
705 728-5580

GTA
7045 Edwards Blvd, Suite 403
Mississauga ON L5S 1X2
905 565-9996

London
4026 Meadowbrook Drive, Suite 127
London ON N6L 1C7
519 652-0255 or 1 800 934-6128

Niagara/Halton
36 Hiscott St, Suite 105
St. Catharines ON L2R 1C8
905 685-4805

Ottawa
223 Colonnade Road, Suite 112
Ottawa ON K2E 7K3
613 224-0991

QUEBEC

Montérégie
7005 Taschereau Blvd, Suite 260
Brossard QC J4Z 1A7
450 443-8585 or 1 855 443-8585

Montreal
425 de Maisonneuve Blvd W, Suite 820
Montreal QC H3A 3G5
514 798-6511

Quebec City
2875 Laurier Blvd, Suite 250
Quebec QC G1V 2M2
418 687-2058 or 1 800 463-4632

Saguenay
3885 Harvey Blvd, Suite 402
Jonquière QC G7X 0A6
418 615-0727

SASKATCHEWAN

Saskatoon
2345 Avenue C North, Suite 5
Saskatoon SK S7L 5Z5
306 955-3000 or 1 800 955-3250

Property and Casualty Insurance

SECTOR COMPANIES

LA CAPITALE GENERAL INSURANCE

La Capitale General Insurance is one of the leading property and casualty insurance companies in Quebec. It distributes its products directly through a network of 20 branch offices and 183 affiliated agents based in all four corners of the province. La Capitale General Insurance stands out from its competitors by constantly providing attentive and personalized service, preventing claims and losses and looking out for its clients' safety. That's why its range of products includes many exclusive assistance services, offered at no cost to its clients.

Products and services offered

(DIRECT DISTRIBUTION)

- Automobile insurance
- Leisure vehicle insurance (motorcycles, snowmobiles, ATVs, boats, motorhomes, travel trailers and stationary trailers)
- Home insurance
- Legal Access Insurance
- Professional liability insurance
- Commercial insurance
- Airmedic coverage
- Roadside assistance
- Legal Access Assistance

L'UNIQUE GENERAL INSURANCE

L'Unique General Insurance was acquired by La Capitale General Insurance in October 2004. It continues to be independently managed and distributes its products through a network of close to 2,300 brokers in 345 brokerage firms operating from more than 483 outlets. L'Unique's Head Office is located in Quebec City and the company has branch offices in Montreal. In 2005, L'Unique acquired Orleans General Insurance Company, a company specializing in surety products in Canada. L'Unique offers its brokers a diverse line of products for individuals and businesses, along with a complete line of contractor and commercial bonding services. L'Unique is renowned for the quality of its service and the close links it maintains with its distribution network.

Products and services offered

(BROKER DISTRIBUTION)

- Automobile insurance (personal and fleet)
- Leisure vehicle insurance (motorcycles, snowmobiles, ATVs, trailers, motorhomes and watercraft)
- Home insurance
- Commercial insurance
- Legal Access Insurance
- Surety bonds for contractors
- Commercial bonding
- Roadside assistance

UNICA INSURANCE

Unica was acquired by La Capitale General Insurance in September 2008. Unica offers home and auto insurance to individuals, as well as a wide range of products created specifically for businesses. From its head office in Mississauga, it continues to operate independently through a network of 119 brokers in Ontario.

Products and services offered

(BROKER DISTRIBUTION)

- Commercial insurance
- Automobile insurance
- Home insurance
- Leisure vehicle insurance

Property and Casualty Insurance

OFFICERS

La Capitale General Insurance

Senior Management

Constance Lemieux
President and Chief Operating Officer

Sales and Client Retention

Marie-Claude Dulac, FCIP
Vice-President

Dominique Bergeron, CIP
Senior Director, Branch Office Network

Sylvie Chartrand, RLU, F. Pl.
Senior Director, Public Sector Development

Céline Daigle, LL B
Senior Director, Legal Access Insurance

Marc Roy, BSc
Senior Director, Sales and Client Retention Support

Hélène Tremblay, FCIP
Senior Director, Client Retention and Specialized Teams

Claims

Christian Fournier, FCIA, FCAS
Vice-President

Christian Charest, MBA, LL. B.
Senior Director, Appraisal and Commercial Partnerships

Isabelle Circé, MBA, FCIP
Senior Director, Claims, Client Contact Centres

Lynda Mercier, FCIP
Senior Director, Property and Liability Claims

Business Development

Sylvain Simard, BBA, CIP
Vice-President

Actuarial, Insurance and Business Intelligence

François Dumas, FCIA, FCAS
Vice-President

Isabelle Gingras, FCIA, FCAS
Senior Director, Ratemaking, Insurance and Products – Quebec

Isabelle Périgny, FCIA, FCAS
Senior Director, Corporate Actuarial and Business Intelligence

Marketing and E-Commerce

Frédérique Leclerc, BBA, MSc, FLMI
Vice-President

Yves Watier
Senior Director, Business Development and Marketing

Information Technology

Richard Gagné
Vice-President

Jean Boulé
Senior Director, General Insurance Systems Development – Direct Channel

Liette Labrie
Senior Director, Corporate Systems Development

Éric Marcoux
Senior Director, Architecture and Production Support

Sales and Commercial Insurance

Éric Champagne, Eng., MBA
Vice-President

Michel Talbot, FCIP
Senior Director, Commercial Insurance

Daniel Sauro, BBA
Senior Director, Affiliated Agents Network

L'Unique General Insurance

Senior Management

Mario Cusson, CPA, CA, MBA
President and Chief Operating Officer

Sales and Development

Yves Gagnon, BA, CIP
Vice-President

Martin Simard, MBA
Senior Director, Personal-Lines Insurance

Commercial Insurance and Surety Lines

Bruno Perrino, BA
Vice-President

Daniel Carrier, CIP, FPT
Senior Director, Commercial Insurance

Martin Sohier, CPA, CA
Senior Director, Surety Lines

Finance

André Boucher, CPA, CMA
Assistant Vice-President, Finance

Information Technology

Michel Lévesque
Senior Director, Systems Development – Brokers

Unica Insurance

Senior Management

Martin Delage, BA, CHRP
President and Chief Operating Officer

Operations

Dave Smiley, BSc, FCIP
Vice-President

Nancy Covel, CIP, ABC
Assistant Vice-President, Marketing and Communications

Jim Cutler, FCIP, CRM
Assistant Vice-President, Commercial Insurance

Steve Lewicki, BES, CIP
Assistant Vice-President, Claims

Jennifer Ronca, BA, CIP
Assistant Vice-President, Personal Insurance

Chris Weston, MBA
Assistant Vice-President, Business Development

Legal Services and Legal Counsel

Mark H. Fonseca, BA, LLB
Assistant Vice-President

Human Resources and Shared Services

Cristine Y. Chan, BA, CHRP
Assistant Vice-President

Property and Casualty Insurance

POINTS OF SERVICE

La Capitale General Insurance

Head Office
625 Jacques-Parizeau St, PO Box 17100
Quebec QC G1K 9E2
418 747-7600

Branches

Alma
310 du Pont Ave N, Suite 120
Alma QC G8B 5C9
418 668-0066

Anjou
7333 Place des Roseraies, Suite 200
Anjou QC H1M 2X6
514 906-1700

Baie-Comeau
337 Lasalle Blvd, Suite 203
Baie-Comeau QC G4Z 2Z1
418 294-6300

Brossard
7055 Taschereau Blvd, Suite 300
Brossard QC J4Z 1A7
514 906-1700

Chicoutimi
874 de l'Université Blvd E, Suite 320
Chicoutimi QC G7H 6B9
418 698-5900

CUSM
1001 Décarie Blvd, Room BRC010032
Montréal QC H4A 3J1
514 764-2876

Drummondville
350 Saint-Jean St, Suite 120
Drummondville QC J2B 5L4
819 475-1799

Gatineau
290 Saint-Joseph Blvd, Suite 201
Gatineau QC J8Y 3Y3
819 420-1700

Granby
400 Principale St, Suite 301
Granby QC J2G 2W6
450 777-1750

Laval
1950 Maurice-Gauvin St, Suite 201
Laval QC H7T 1Z5
514 906-1700

Mont-Laurier
530 Albiny-Paquette Blvd, Suite 3
Mont-Laurier QC J9L 3W8
1 800 391-7141

Montreal
425 de Maisonneuve Blvd W, Suite 500
Montreal QC H3A 3G5
514 906-1700

Pointe-Claire
755 Saint-Jean Blvd, Suite 140
Pointe-Claire QC H9R 5M9
514 906-1700

Quebec City
625 Jacques-Parizeau St, PO Box 17100
Quebec QC G1K 9E2
418 266-1700

Rimouski
287 Pierre-Saindon St, Suite 505
Rimouski QC G5L 9A7
418 724-0777

Rouyn-Noranda
176 Principale Ave
Rouyn-Noranda QC J9X 4P7
819 764-2700

Saint-Jérôme
373 Lamontagne St
Saint-Jérôme QC J7Y 0L7
450 710-2222

Sept-Îles
818 Laure Blvd, Suite 102
Sept-Îles QC G4R 1Y8
418 964-1902

Sherbrooke
1802 King St W, Suite 104
Sherbrooke QC J1J 0A2
819 822-0060

Trois-Rivières
Le Trifluvien Building
4450 des Forges Blvd, Suite 200
Trois-Rivières QC G8Y 1W5
819 374-3050

L'Unique General Insurance

Head Office
625 Jacques-Parizeau St, PO Box 17050
Quebec QC G1K 0E1
418 683-2711 or 1 800 463-4800

Montreal
425 de Maisonneuve Blvd W, Suite 750
Montreal QC H3A 3G5
514 787-0777 or 1 855 587-0777

Unica Insurance

Head Office
7150 Derrycrest Drive
Mississauga ON L5W 0E5
905 677-9777 or 1 800 676-0967

Shared Services

OFFICERS

These divisions serve both the Life and Health Insurance and Financial Services and the Property and Casualty Insurance sectors.

Senior Management

Jean St-Gelais
Chairman of the Board and Chief Executive Officer

Human Resources and Organizational Development

Shirley Brown, BA, CHRP
Vice-President

Geneviève Drouin, MSc, CHRP
Senior Director, Human Resources

Linda Gaboury, BA, CHRP
Senior Director, Administration and Total Compensation

Corporate Affairs

Marie-Josée Guérette
Executive Vice-President

Pierre Carpentier
Senior Director, Communications and Marketing

Marc Ouellet, CPA, CA
Senior Director of Oversight

Legal Affairs and Corporate Secretary

Pierre Marc Bellavance, LLM
Vice-President and Corporate Secretary

Finance, Real Estate and Technological Infrastructure

Marthe Lacroix, FCIA, FCAS
Executive Vice-President

Finance

Lucie Garneau, CPA, CA
Vice-President

Yann Bernier, CPA, CA
Senior Director of Fiscal and Taxation Services

René Duchesne, CPA, CA
Senior Director, Finance Systems, Analytical Accounting and General Expenses

Johanne Gauthier, CPA, CGA
Senior Director, Account Collection Services

Hélène Myrand, CPA, CA
Senior Director, Finance

Real Estate and Material Resources

Bruno Turcotte, BBA, C. App.
Vice-President

Sylvie L. Beaudoin
Senior Director, Material Resources

Technological Infrastructure

Jean-Pierre Boutet
Vice-President

Marc Thibault
Senior Director, Architecture and Project Management

André Paquet, MBA, FLMI
Senior Director, Infrastructure Operations

Danny Redmond
Senior Director, IT Help Desk

Investments

Michel Lévesque, FSA, FCIA, CFA
Vice-President

For information about La Capitale, please call 418 747-7600 or 1 800 463-5549, or visit our website at **lacapitale.com**.

La Capitale Civil Service Mutual
Head Office
625 Jacques-Parizeau St
Quebec QC G1R 2G5

La Capitale