FINANCIAL STATEMENTS **2014**

HUMANIA ASSURANCE INC.

A subsidiary of **LS Mutual Management**

Humania Assurance Inc.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
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To the Shareholder of
Humania Assurance Inc.

We have audited the accompanying consolidated financial statements of Humania Assurance Inc., which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Humania Assurance Inc. as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with IFRS.

Raymond Chabot Grant Thornton LLP[1]

Québec
February 26, 2015

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Earnings
Year ended December 31, 2014 (in thousands of Canadian dollars)

	2014	2013
	$	$
INCOME		
Premiums		
Gross premiums	**120,366**	108,063
Premiums ceded to reinsurers	**(25,773)**	(23,563)
Net premiums	**94,593**	84,500
Investments		
Investment income (Note 3)	**15,693**	10,849
Change in fair value of financial assets designated at fair value through profit or loss (Note 3)	**31,695**	(20,222)
Net investment income	**47,388**	(9,373)
	141,981	75,127
EXPENSES		
Gross benefits	**64,317**	53,914
Benefits ceded to reinsurers	**(13,047)**	(8,465)
Change in policy reserves	**56,832**	(18,006)
Change in reinsurance assets	**(21,166)**	(961)
Gross commissions	**23,009**	20,113
Commissions ceded to reinsurers	**(7,157)**	(6,739)
Gross premium taxes	**2,424**	2,113
Taxes on premiums ceded to reinsurers	**(497)**	(446)
Experience refunds and participations (Note 4)	**2,469**	2,141
General expenses	**28,000**	26,158
	135,184	69,822
EARNINGS BEFORE INCOME TAXES	**6,797**	5,305
Income taxes (Note 21)	**1,916**	1,344
NET INCOME	**4,881**	3,961
Attributable to the shareholder	**4,912**	3,984
Attributable to the non-controlling interest	**(31)**	(23)
	4,881	3,961

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Comprehensive Income
Year ended December 31, 2014 (in thousands of Canadian dollars)

	2014	2013
	$	$
NET INCOME	**4,881**	3,961
Other comprehensive income		
Items that may be reclassified subsequently as net income		
Unrealized gains and losses on available for sale financial assets [net of income taxes of $416 ($721 in 2013)]	**1,132**	1,961
Unrealized gains and losses on cash flow hedges [net of income taxes of $176 ($37 in 2013)]	**477**	100
Reclassification as net income of realized gains and losses on available for sale financial assets [net of income taxes of $962 ($44 in 2013)]	**(2,615)**	(119)
Reclassification as net income of realized gains and losses on cash flow hedges [net of income taxes of $73 ($21 in 2013)]	**(199)**	53
	(1,205)	1,995
Items that will not be reclassified subsequently as net income		
Remeasurement of net defined benefit liability [net of income taxes of $961 ($634 in 2013)	**(2,607)**	1,721
	(3,812)	3,716
COMPREHENSIVE INCOME	**1,069**	7,677
Attributable to the shareholder	**1,100**	7,700
Attributable to the non-controlling interest	**(31)**	(23)
	1,069	7,677

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Changes in Equity
Year ended December 31, 2014 (in thousands of Canadian dollars)

2014	**Share capital**	**Contributed surplus**	**Retained earnings**	**Non controlling interest**	**Accumulated other comprehensive income**	**Total equity**
	$	**$**	**$**	**$**	**$**	**$**
Balance, beginning of year	**35,000**	**12,257**	**6,146**	**(13)**	**(1,950)**	**51,440**
Net income	**-**	**-**	**4,912**	**(31)**	**-**	**4,881**
Change in non-controlling interest	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Other comprehensive income	**-**	**-**	**-**	**-**	**(3,812)**	**(3,812)**
Balance, end of year	**35,000**	**12,257**	**11,058**	**(46)**	**(5,762)**	**52,507**

2013	Share capital	Contributed surplus	Retained earnings	Non controlling interest	Accumulated other comprehensive income	Total equity
	$	$	$	$	$	$
Balance, beginning of year	35,000	12,257	2,162	7	(5,666)	43,760
Net income	-	-	3,984	(23)	-	3,961
Change in non-controlling interest	-	-	-	3	-	3
Other comprehensive income	-	-	-	-	3,716	3,716
Balance, end of year	35,000	12,257	6,146	(13)	(1,950)	51,440

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Financial Position
December 31, 2014 (in thousands of Canadian dollars)

	2014	2013
	$	$
ASSETS		
Investments (Note 3)		
Money market	**4,937**	3,892
Bonds	**258,047**	225,719
Shares	**32,540**	31,496
Policy loans	**1,640**	1,603
	297,164	262,710
Other asset components		
Cash and cash equivalents	**11,389**	9,394
Investment income receivable	**1,119**	1,049
Premiums receivable	**1,969**	2,058
Prepaid commissions	**8,583**	7,807
Other assets (Note 7)	**9,266**	5,248
Reinsurance assets (Note 8)	**133,914**	110,628
Deferred tax assets (Note 21)	**157**	64
Investments in associates (Note 9)	**1,512**	1,138
Property and equipment (Note 11)	**7,360**	6,222
Intangible assets (Note 12)	**4,798**	4,127
	180,067	147,735
	477,231	410,445

HUMANIA ASSURANCE INC.
Consolidated Statement of Financial Position
December 31, 2014 (in thousands of Canadian dollars)

	2014	2013
	$	$
LIABILITIES		
Policy liabilities		
Policy reserves (Note 15)	**371,897**	315,065
Investment contract liabilities	**1,407**	1,630
Deposits	**6,880**	6,354
Benefits payable	**15,700**	10,368
Provisions (Note 16)	**1,660**	1,382
Participations and experience refunds payable	**1,174**	849
	398,718	335,648
Other liability components		
Other liabilities (Note 17)	**14,881**	10,254
Income taxes payable	**690**	1,681
Deferred tax liabilities (Note 21)	**594**	1,594
Debenture (Note 19)	**9,841**	9,828
	26,006	23,357
	424,724	359,005
EQUITY		
Share capital (Note 22)	**35,000**	35,000
Contributed surplus	**12,257**	12,257
Retained earnings	**11,058**	6,146
Non-controlling interest	**(46)**	(13)
Accumulated other comprehensive income	**(5,762)**	(1,950)
	52,507	51,440
	477,231	410,445

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

On behalf of the Board,

R Jagon — Jacques Martineau

Director Director

HUMANIA ASSURANCE INC.
Consolidated Statement of Cash Flows
Year ended December 31, 2014 (in thousands of Canadian dollars)

	2014	2013
	$	$
Operating activities		
Net income	**4,881**	3,961
Non-cash items		
Change in policy reserves	**56,832**	(18,006)
Change in reinsurance assets	**(21,166)**	(961)
Depreciation and loss on disposal of property and equipment	**719**	695
Amortization of intangible assets	**465**	403
Amortization of premiums and discounts on bonds	**(4,514)**	(4,001)
Unrealized gains and losses on financial assets designated at fair value through profit or loss	**(31,695)**	20,222
Realized gains and losses on financial assets designated at fair value through profit or loss and as available for sale	**(3,888)**	561
Share of change in investments in associates	**(54)**	(23)
Change in employee benefits	**25**	(501)
Amortization of transaction costs	**13**	11
Deferred income taxes	**311**	(938)
	1,929	1,423
Change in working capital items	**(236)**	1,352
	1,693	2,775
Financing activities		
Debenture issue proceeds	**-**	10,000
Investing activities		
Net disposal (acquisition) of money market	**(1,045)**	1,197
Net disposal of bonds	**4,795**	6,842
Acquisition of shares	**(98)**	(18,817)
Net increase in policy loans	**(37)**	(2)
Loans and advances to associates	**(365)**	(59)
Dividends received from associates	**45**	45
Proceeds of disposal of property and equipment	**1**	4
Acquisition of property and equipment	**(1,858)**	(811)
Acquisition of intangible assets	**(1,136)**	(419)
	302	(12,020)
Increase in cash and cash equivalents	**1,995**	755
Cash and cash equivalents, beginning of year	**9,394**	8,639
Cash and cash equivalents, end of year	**11,389**	9,394

Supplementary cash flow information (Note 24)

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

1. GENERAL INFORMATION

Humania Assurance Inc. (hereinafter “Humania Assurance” or the “Company”) operates in the field of life and health insurance in Canada. The Company is governed by the *Act respecting Insurance*.

Humania Assurance is incorporated under the laws of Quebec and it is headquartered at 1555 Girouard Street West, Post Office Box 10000, Saint-Hyacinthe, Quebec, Canada, J2S 7C8.

The Board of Directors approved the consolidated financial statements of Humania Assurance, the Group’s parent company, on February 26, 2015.

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) published by the International Accounting Standards Board (hereinafter “IASB”). These standards are consistent with the requirements of the Autorité des marchés financiers (hereinafter “AMF”).

b) Significant estimates

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

The most significant estimates relate to the determination of policy reserves, reinsurance assets, investment contract liabilities, the fair value of financial instruments, the calculation of employee benefits and other expenses and the provision for asset impairment.

The underlying estimates and assumptions are reviewed periodically. Accounting estimate revisions are recognized in the revision period and in subsequent periods affected by the revisions. While such estimates may vary, in the opinion of management, the recognized amounts are appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

c) Principles of consolidation

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

Inter-company transactions and balances have been eliminated.

The consolidated financial statements include the accounts of the Company and its subsidiaries: LS-Travel Insurance Company, which provides travel insurance, Les Services Financiers Surtech Inc., a financial services firm, and 9098-0061 Quebec Inc., a company providing information technology services to the Company.

d) Statement of financial position presentation

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

Because of the nature of the Company's operations, it has not used a current, non-current basis of presentation.

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

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

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

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

e) Business combinations

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investments

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

Money market

Money market investments are financial assets classified either at fair value through profit or loss or as available for sale. Money market purchases and sales are recognized or derecognized on the trade date, that is the date on which the Company commits to purchase or sell the security.

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

At fair value through profit or loss

Money market investments at fair value through profit or loss are recognized in the statement of financial position at fair value and changes in fair value are recognized immediately in the statement of earnings. Interest is recognized in investment income. Transaction costs on the purchase of money market at fair value through profit or loss are charged to income and deducted from investment income.

Available for sale

Available-for-sale money market investments are recognized in the statement of financial position at fair value, and changes in fair value are recognized in unrealized gains and losses in other comprehensive income with items that may be reclassified subsequently as net income. Interest is recognized in investment income. Transaction costs are added to the value of available for sale money market investments at the time of acquisition.

Bonds

Bonds are financial assets classified either as designated at fair value through profit or loss, or as available for sale. The fair value of bonds is determined by the current bid price. Purchases and sales of bonds are recognized or derecognized on the trade date, that is the date on which the Company commits to purchase or sell the bond.

Bonds supporting the Company's liabilities are classified and designated at fair value through profit or loss and those that do not support liabilities, as available for sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investments (continued)

Bonds (continued)

Designated at fair value through profit or loss

Bonds designated at fair value through profit or loss are recognized in the statement of financial position at fair value and changes in fair value are recognized immediately in income. Income from bonds designated at fair value through profit or loss is recognized in investment income. Transaction costs related to the purchase of bonds designated at fair value through profit or loss are charged to income and deducted from investment income.

Available for sale

Available-for-sale bonds are recognized in the statement of financial position at fair value and changes in fair value are recognized in unrealized gains and losses in other comprehensive income with items that may be reclassified subsequently as net income. Gains and losses realized on the sale of bonds classified as available for sale, which are recognized in accumulated other comprehensive income, are reclassified and recognized as income in the statement of earnings. Interest and amortization of premiums and discounts are recognized in investment income. Transaction costs are added to the value of available for sale bonds at the time of acquisition.

Shares

Shares are financial assets that are either designated at fair value through profit or loss or as available for sale. The fair value of shares is determined by the current bid price. Purchases and sales of shares are recognized and derecognized on the trade date, that is the date on which the Company commits to purchase or sell the shares.

Shares that support the Company’s liabilities are designated at fair value through profit or loss and those that do not support liabilities are designated as available for sale.

Designated at fair value through profit or loss

Shares designated at fair value through profit or loss are recognized in the statement of financial position at fair value and changes in fair value are recognized immediately in the statement of earnings. Dividends are recognized in investment income. Transaction costs on purchases of shares designated at fair value through profit or loss are charged to earnings and deducted from investment income.

Available for sale

Available-for-sale shares are recognized in the statement of financial position at fair value, and changes in fair value are recognized in unrealized gains and losses in other comprehensive income with items that may be reclassified subsequently as net income. Gains and losses realized on the sale of shares classified as available for sale, which are recognized in accumulated other comprehensive income, are reclassified and recognized in investment income in the statement of earnings. Dividends are recognized in investment income. Transaction costs are added to the value of available for sale shares at the time of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investments (continued)

Policy loans

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

g) Cash and cash equivalents

Cash and cash equivalents consist of cash classified at fair value through profit or loss and measured at fair value.

The investments are held on a long-term basis to cover the Company's liabilities to policyholders and, as such, are not cash and cash equivalents.

h) Derivative financial instruments

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

Exchange contracts are classified as cash flow hedges. The effective portion of changes in fair value of the hedging instrument is recognized in the same manner as the hedged item, either in "Gross benefits" or in "Other comprehensive income" with items that may be reclassified subsequently as net income, whereas the ineffective portion is recognized immediately in "Gross benefits". Gains and losses accumulated in "Other comprehensive income" are recognized in the period in which the hedged items affect net income.

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

i) Foreign currency translation

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

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

j) Reinsurance assets

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

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Investments in associates

Investments in associates subject to significant influence are recognized using the equity method. Generally, there is a significant influence when an investor has an interest of more than 20% without controlling the entity.

l) Other financial assets

Financial assets other than investments and investments in associates are measured at fair value when they are classified at fair value through profit or loss and at amortized cost using the effective interest method when they are classified as loans and receivables.

m) Property and equipment

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

The depreciation methods and estimated useful lives are as follows:

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

n) Intangible assets

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

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

o) Impairment of non-financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Employee benefits

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

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

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

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

The past service cost arising from changes to employee benefits is recognized directly in profit or loss if the benefit entitlement has already vested at the time of the change. If the benefit entitlement has not vested, the past service cost is deferred and distributed on a straight-line basis until the corresponding entitlement vests.

q) Contract classification

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Policy reserves

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

Policy reserves are established using the Canadian Asset Liability Method (CALM) in accordance with generally accepted actuarial practices established by the Canadian Institute of Actuaries.

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

s) Investment contract liabilities

Investment contract liabilities are measured at amortized cost.

t) Financial liabilities

Financial liabilities other than policy reserves, investment contract liabilities and the debenture are measured at fair value when they are classified at fair value through profit or loss and measured at amortized cost using the effective interest method in other cases.

u) Transaction costs

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

v) Debenture

The debenture is classified as a financial liability other than those classified at fair value through profit or loss and is initially recognized at fair value less transaction costs. Subsequently, the debenture is measured at amortized cost using the effective interest method.

w) Revenue recognition

Insurance policy premiums are recognized as income when due under existing contracts.

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Income taxes

Income taxes are recognized using the tax liability method, under which the tax expense includes current and deferred taxes.

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

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

3. INVESTMENTS

a) Investment value

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

2014	**At fair value through profit or loss**	**Designated at fair value through profit or loss**	**Available for sale**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Money market	**1,363**	**-**	**3,574**	**-**	**4,937**
Bonds	**-**	**248,178**	**9,869**	**-**	**258,047**
Shares	**-**	**13,779**	**18,761**	**-**	**32,540**
Policy loans	**-**	**-**	**-**	**1,640**	**1,640**
	1,363	**261,957**	**32,204**	**1,640**	**297,164**

2013	At fair value through profit or loss	Designated at fair value through profit or loss	Available for sale	Other	Total
	$	$	$	$	$
Money market	1,024	-	2,868	-	3,892
Bonds	-	210,852	14,867	-	225,719
Shares	-	10,156	21,340	-	31,496
Policy loans	-	-	-	1,603	1,603
	1,024	221,008	39,075	1,603	262,710

Year ended December 31, 2014 (in thousands of Canadian dollars)

3. INVESTMENTS (CONTINUED)

b) Investment income

	2014	2013
	$	$
Money market		
At fair value through profit or loss – Interest	10	7
Available for sale – Interest	17	47
Bonds		
Designated at fair value through profit or loss		
Interest	10,352	10,373
Realized gains and losses	324	(722)
Available for sale		
Interest	363	379
Realized gains and losses	541	(202)
Shares		
Designated at fair value through profit or loss		
Dividends	481	173
Realized gains and losses	(13)	-
Available for sale		
Dividends	801	676
Realized gains and losses	3,036	363
Policy loans	139	135
Share of change in investments in associates	54	23
Other	321	212
	16,426	11,464
Expenses	(733)	(615)
	15,693	10,849

c) Change in fair value

The change in the fair value of assets designated at fair value through profit or loss of $31,695 (decrease of $20,222 in 2013) presented in the statement of earnings relates to investments supporting the Company’s liabilities.

4. EXPERIENCE REFUNDS AND PARTICIPATIONS

	2014	2013
	$	$
Experience refunds on group contracts	**2,385**	2,057
Policyholders' participations	**84**	84
	2,469	2,141

5. FAIR VALUE MEASUREMENT

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

The fair value hierarchy comprises the following three levels:

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

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

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

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

5. FAIR VALUE MEASUREMENT (CONTINUED)

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

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Asset				
Money market	**4,937**	**-**	**-**	**4,937**
Bonds	**-**	**258,047**	**-**	**258,047**
Shares	**32,540**	**-**	**-**	**32,540**
Cash and cash equivalents	**11,389**	**-**	**-**	**11,389**
Derivative financial instruments	**492**	**-**	**-**	**492**
	49,358	**258,047**	**-**	**307,405**

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

2013	Level 1	Level 2	Level 3	Total
	$	$	$	$
Asset				
Money market	3,892	-	-	3,892
Bonds	-	225,719	-	225,719
Shares	31,496	-	-	31,496
Cash and cash equivalents	9,394	-	-	9,394
Derivative financial instruments	111	-	-	111
	44,893	225,719	-	270,612

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT

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

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

In the normal course of its activities, the Company issued a financial liability by way of a debenture which results in minimum future payment commitments that have an impact on short- and long-term cash flows. Details of the debenture are presented in Note 19.

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

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

a) Credit risk

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

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT

a) Credit risk (continued)

Maximum credit risk

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

	2014	2013
	$	$
Money market	**4,937**	3,892
Bonds	**258,047**	225,719
Policy loans	**1,640**	1,603
Cash and cash equivalents	**11,389**	9,394
Other financial assets	**8,724**	6,234
	284,737	246,842

Credit risk concentration

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

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

	2014	**2014**	2013	2013
	$	**%**	$	%
Government issued or guaranteed bonds:				
Federal government	**121**	**-**	7,629	3
Provincial governments	**164,888**	**64**	130,254	58
Municipalities and school boards	**4,779**	**2**	2,084	1
Foreign governments	**229**	**-**	283	-
	170,017	**66**	140,250	62
Canadian corporate bonds by industry:				
Energy	**13,124**	**5**	12,902	6
Industrial products	**3,727**	**1**	3,417	1
Financial services	**46,449**	**18**	49,370	22
Telecommunications	**1,229**	**1**	1,161	1
Public services	**23,501**	**9**	18,619	8
	88,030	**34**	85,469	38
	258,047	**100**	225,719	100

Year ended December 31, 2014 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Bond portfolio quality

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

	2014	2013
	$	$
AAA	**1,151**	8,734
AA	**25,943**	19,163
A	**205,479**	172,497
BBB	**25,474**	25,325
	258,047	225,719

b) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in raising the funds it needs to fulfill its obligations. Policy reserves represent 88% (88% in 2013) of the Company's liabilities. The amounts relating to these policy reserves are disbursed according to the terms and conditions in the insurance contracts. The Company knows these terms and conditions and maintains the necessary liquidities to fulfil its obligations through the management of operating liquidities by matching cash flows generated by assets and liabilities.

c) Market risk

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

Interest rate risk

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

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Interest rate risk (continued)

The terms of the bond portfolio are as follows:

	2014	2013
	$	$
Less than 1 year	**382**	1,051
Between 1 and 5 years	**18,498**	27,550
Between 6 and 10 years	**29,829**	23,836
Between 11 and 15 years	**47,999**	41,783
Between 16 and 20 years	**38,754**	32,459
More than 20 years	**122,585**	99,040
	258,074	225,719

The effective rate of return on bonds varies between 1.19% and 6.59% (between 0.29% and 9.01% in 2013).

Stock market risk

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

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

Equity investments total $32,540 ($31,496 in 2013) or 11% (12% in 2013) of the Company's investments. Consequently, a 10% stock market fluctuation would lead to the recognition in the Company's equity of a gain or loss (net of income taxes) of $2,379 ($2,303 in 2013).

Year ended December 31, 2014 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Exchange risk

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

As at December 31, cash denominated in U.S. dollars is $222 ($717 in 2013). In addition, the Company has foreign exchange contracts to purchase U.S. dollars. (Note 20).

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

7. OTHER ASSETS

	2014	2013
	$	$
Receivables from reinsurers	**2,261**	1,193
Receivables from agents	**275**	136
Prepaid expenses	**1,249**	1,334
Income taxes receivable	**1,596**	-
Derivative financial instruments (Note 20)	**492**	111
Other receivables	**3,393**	2,474
	9,266	5,248

8. REINSURANCE ASSETS

	2014	2012
	$	$
Policy reserves	**129,117**	107,951
Provision for benefits	**4,797**	2,677
	133,914	110,628

Note 15 presents explanations regarding the actuarial assumptions.

Year ended December 31, 2014 (in thousands of Canadian dollars)

9. INVESTMENTS IN ASSOCIATES

The Company owns 45% of the participating shares and 50% of the voting shares of Pro Vie assurances inc., a Quebec-based financial services firm.

The Company owns indirect interests in Pro Vie assurances collectives inc., a Quebec-based financial services firm which is wholly owned by Pro Vie assurances inc. and in 9290-3152 Quebec Inc., a Quebec-based financial services firm, which is owned at 50% by Pro Vie assurances inc.

	2014	2013
	$	$
Shares	**934**	925
Loans	**578**	213
	1,512	1,138

Loans to associates bear interest at a rate of 4% (4% in 2013) and have an indefinite term.

On January 1, 2015, the Company increased its interests in Pro Vie assurances inc. to 80% of the participating shares and 100% of the voting shares. For this transaction, a deposit was made in 2014.

The following table summarizes the associates' financial information:

	2014	2013
	$	$
Assets	**1,995**	1,674
Liabilities	**1,368**	718
Income	**5,735**	4,537
Net income	**33**	71
Dividends received	**45**	45

Year ended December 31, 2014 (in thousands of Canadian dollars)

10. OTHER FINANCIAL ASSETS

Investment income receivable, premiums receivable, receivables from reinsurers, receivables from agents and other receivables represent the Company's financial assets other than investments, investments in associates and derivative financial instruments.

These financial assets are classified as loans and receivables. Due to their short-term maturity, the fair value of these financial assets corresponds to their cost.

11. PROPERTY AND EQUIPMENT

2014	Land	Buildings	Furniture and equipment	Computer equipment	Total
	$	$	$	$	$
Gross carrying amount					
Balance, beginning of year	640	6,050	1,931	755	9,376
Additions	-	1,590	74	194	1,858
Disposals	-	-	(93)	(57)	(150)
Balance, end of year	640	7,640	1,912	892	11,084
Accumulated depreciation					
Balance, beginning of year	-	1,508	1,193	453	3,154
Depreciation	-	436	157	124	717
Disposals	-	-	(90)	(57)	(147)
Balance, end of year	-	1,944	1,260	520	3,724
Net carrying amount	640	5,696	652	372	7,360

The depreciation expense for the year is $717 ($692 in 2013) and is presented under "General expenses" in the statement of earnings.

Year ended December 31, 2014 (in thousands of Canadian dollars)

11. PROPERTY AND EQUIPMENT (CONTINUED)

2013	Land	Buildings	Furniture and equipment	Computer equipment	Total
	$	$	$	$	$
Gross carrying amount					
Balance, beginning of year	640	5,560	1,853	680	8,733
Additions	-	490	152	169	811
Disposals	-	-	(74)	(94)	(168)
Balance, end of year	640	6,050	1,931	755	9,376
Accumulated depreciation					
Balance, beginning of year	-	1,095	1,093	435	2,623
Depreciation	-	413	168	111	692
Disposals	-	-	(68)	(93)	(161)
Balance, end of year	-	1,508	1,193	453	3,154
Net carrying amount	640	4,542	738	302	6,222

Year ended December 31, 2014 (in thousands of Canadian dollars)

12. INTANGIBLE ASSETS

2014	Operating systems acquired	Internally developed operating systems	Application software acquired	Total
	$	$	$	$
Gross carrying amount				
Balance, beginning of year	859	5,015	731	6,605
Acquired additions	-	-	97	97
Internally developed additions	-	1,039	-	1,039
Disposals	-	-	(51)	(51)
Balance, end of year	859	6,054	777	7,690
Accumulated amortization				
Balance, beginning of year	856	1,135	487	2,478
Amortization	1	353	111	465
Disposals	-	-	(51)	(51)
Balance, end of year	857	1,488	547	2,892
Net carrying amount	2	4,566	230	4,798

The amortization expense for the year is $465 ($403 in 2013) and is presented under “General expenses” in the statement of earnings.

Year ended December 31, 2014 (in thousands of Canadian dollars)

12. INTANGIBLE ASSETS (CONTINUED)

2013	Operating systems acquired	Internally developed operating systems	Application software acquired	Total
	$	$	$	$
Gross carrying amount				
Balance, beginning of year	859	4,735	603	6,197
Acquired additions	-	-	139	139
Internally developed additions	-	280	-	280
Disposals	-	-	(11)	(11)
Balance, end of year	859	5,015	731	6,605
Accumulated amortization				
Balance, beginning of year	855	819	412	2,086
Amortization	1	316	86	403
Disposals	-	-	(11)	(11)
Balance, end of year	856	1,135	487	2,478
Net carrying amount	3	3,880	244	4,127

13. EMPLOYEE BENEFITS

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

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

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

The Company offers a contributory defined benefit plan to its full-time employees after one year of service. Employee contributions range from 5.25% to 7.20% of salaries, up to a maximum amount. The Company makes the necessary contributions to the plan for current services and to offset the deficit. Employee annuities are a percentage of salary for each year of participation. Normal retirement date is age 65. However, participants 60 years of age with a total of age and credited years of service of 90 may retire without benefit penalties.

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

Post-retirement benefits are offered to key management to offset the benefit reduction if the employee's participation ends before its normal retirement date.

For accounting purposes, the Company measures its accrued benefit liability and the asset fair value on December 31 of each year. The latest full actuarial valuation for funding purposes was performed as at December 31, 2013.

Minimum funding requirements are $886 ($1,464 in 2013).

Cash payments for employee benefits, composed of the Company's contributions to the pension plan and premiums paid for group insurance, amount to $934 ($1,513 in 2013).

Year ended December 31, 2014 (in thousands of Canadian dollars)

13. EMPLOYEE BENEFITS (CONTINUED)

a) Net defined benefit liability

2014	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Fair value of plan assets	**22,750**	**-**	**-**	**22,750**
Defined benefit obligation	**28,261**	**800**	**643**	**29,704**
Deficit	**(5,511)**	**(800)**	**(643)**	**(6,954)**
Amounts on the statement of financial position are:				
Other liabilities (Note 17)	**5,511**	**800**	**643**	**6,954**

2013	Pension plan	Other benefits	Group insurance	Total
	$	$	$	$
Fair value of plan assets	20,581	-	-	20,581
Defined benefit obligation	22,792	546	649	23,987
Deficit	(2,211)	(546)	(649)	(3,406)
Amounts on the statement of financial position are:				
Other liabilities (Note 17)	2,211	546	649	3,406

Year ended December 31, 2014 (in thousands of Canadian dollars)

13. EMPLOYEE BENEFITS (CONTINUED)

b) Fair value of plan assets

2014	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Balance, beginning of year	**20,581**	**-**	**-**	**20,581**
Interest income	**1,002**	**-**	**-**	**1,002**
Return in excess of interest income	**940**	**-**	**-**	**940**
Administration fees	**(81)**	**-**		**(81)**
Employer's contributions	**886**	**23**	**-**	**909**
Employees' contributions	**387**	**-**	**-**	**387**
Other contributions and employees' transfers	**54**	**-**	**-**	**54**
Benefits paid	**(1,019)**	**(23)**	**-**	**(1,042)**
Balance, end of year	**22,750**	**-**	**-**	**22,750**

2013	Pension plan	Other benefits	Group insurance	Total
	$	$	$	$
Balance, beginning of year	16,957	-	-	16,957
Interest income	782	-	-	782
Return in excess of interest income	2,000	-	-	2,000
Administration fees	(71)	-	-	(71)
Employer's contributions	1,464	23	-	1,487
Employees' contributions	391	-	-	391
Other contributions and employees' transfers	54	-	-	54
Benefits paid	(996)	(23)	-	(1,019)
Balance, end of year	20,581	-	-	20,581

Year ended December 31, 2014 (in thousands of Canadian dollars)

13. EMPLOYEE BENEFITS (CONTINUED)

c) Defined benefit obligation

2014	Pension plan	Other benefits	Group insurance	Total
	$	$	$	$
Balance, beginning of year	**22,792**	**546**	**649**	**23,987**
Service cost	**640**	**42**	**-**	**682**
Past service cost	**-**	**45**	**-**	**45**
Financial cost	**1,107**	**27**	**19**	**1,153**
Employees' contributions	**387**	**-**	**-**	**387**
Other contributions and employee's transfers	**54**	**-**	**-**	**54**
Actuarial gains or losses due to demographic assumptions	**1,087**	**94**	**-**	**1,181**
Actuarial gains or losses due to economic assumptions	**3,213**	**69**	**-**	**3,282**
Benefits paid	**(1,019)**	**(23)**	**(25)**	**(1,067)**
Balance, end of year	**28,261**	**800**	**643**	**29,704**

2013	Pension plan	Other benefits	Group insurance	Total
	$	$	$	$
Balance, beginning of year	21,996	521	702	23,219
Service cost	656	33	-	689
Financial cost	992	23	19	1,034
Employees' contributions	391	-	-	391
Other contributions and employees' transfers	54	-	-	54
Actuarial gains or losses due to demographic assumptions	899	12	-	911
Actuarial gains or losses due to economic assumptions	(1,200)	(20)	(46)	(1,266)
Benefits paid	(996)	(23)	(26)	(1,045)
Balance, end of year	22,792	546	649	23,987

Year ended December 31, 2014 (in thousands of Canadian dollars)

13. EMPLOYEE BENEFITS (CONTINUED)

d) Expense

2014	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Service cost	**640**	**42**	**-**	**682**
Past service cost	**-**	**45**	**-**	**45**
Net interest	**105**	**27**	**19**	**151**
Administration fees	**81**	**-**	**-**	**81**
	826	**114**	**19**	**959**

The expense for the year is $959 ($1,012 in 2013) and is presented under “General expenses” in the statement of earnings.

2013	Pension plan	Other benefits	Group insurance	Total
	$	$	$	$
Service cost	656	33	-	689
Net interest	210	23	19	252
Administration fees	71	-	-	71
	937	56	19	1,012

e) Asset composition

The pension plan’s assets consist of:

	2014	2013
	%	%
Funds – Money market	**4**	5
Funds – Bonds	**38**	38
Funds – Shares	**58**	57
	100	100

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

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

13. EMPLOYEE BENEFITS (CONTINUED)

f) Actuarial assumptions

2014	**Pension plan**	**Other benefits**	**Group insurance**
	%	**%**	**%**
Defined benefit obligation			
Discount rate	**4.05**	**4.05**	**2.30**
Rate of salary increase	**2.50**	**2.50**	**-**
Expense			
Discount rate	**4.85**	**4.85**	**2.90**
Rate of salary increase	**2.50**	**2.50**	**-**

The duration of the pension plan's obligation is 18 years (17 years in 2013).

2013	Pension plan	Other benefits	Group insurance
	%	%	%
Defined benefit obligation			
Discount rate	4.85	4.85	2.90
Rate of salary increase	2.50	2.50	-
Expense			
Discount rate	4.50	4.50	2.70
Rate of salary increase	2.50	2.50	-

Year ended December 31, 2014 (in thousands of Canadian dollars)

13. EMPLOYEE BENEFITS (CONTINUED)

g) History and experience adjustments

	2014	2013	2012	2011	2010
	$	$	$	$	$
Pension plan					
Fair value of plan assets	**22,750**	20,581	16,957	14,938	14,951
Defined benefit obligation	**28,261**	22,792	21,996	19,848	17,590
Deficit	**(5,511)**	(2,211)	(5,039)	(4,910)	(2,639)
Other benefits					
Defined benefit obligation	**800**	546	521	488	421
Group insurance					
Defined benefit obligation	**643**	649	702	723	684
Experience-related asset adjustments					
Pension plan – Gain (loss)	**940**	2,000	689	(1,217)	173
Experience-related liability adjustments					
Pension plan – Gain (loss)	**(80)**	301	7	(175)	(299)
Other benefits – Gain (loss)	**(66)**	8	(5)	(13)	6
Group insurance – Gain (loss)	**-**	46	17	(42)	(30)

h) Employer’s future contributions

The Company expects to make pension plan contributions amounting to $892 ($1,432 in 2013) during the next year. This information is based on the latest actuarial valuation filed.

i) Sensitivity analysis

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

The impact of a 0.25% decrease in the discount rate would result in a $1,212 ($900 in 2013) increase in the defined benefit obligation.

The impact of using 90% of the probabilities of mortality table CPM 2014, Scale B, projected in a generational way, with a scale of future mortality improvement, would result in a $617 ($545 in 2013 as per the table UP94) increase in the defined benefit obligation.

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

14. CREDIT FACILITIES

The Company has an unused line of credit of $1,500 ($1,000 in 2013) bearing interest at the prime rate of 3% (3% in 2013) and renewable in October 2015.

15. POLICY RESERVES

a) Composition of policy reserves

	2014	2013
	$	$
Individual life insurance	**185,231**	157,864
Group life insurance	**55,448**	46,321
Individual and group annuities	**8,582**	9,453
Individual accident and health insurance	**101,131**	79,684
Group accident and health insurance	**21,505**	21,743
	371,897	315,065

b) Composition of assets backing net policy reserves

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

2014	**Life insurance**	**Annuities**	**Accident and health insurance**	**Total**
	$	**$**	**$**	**$**
Policy reserves	**240,679**	**8,582**	**122,636**	**371,897**
Reinsurance assets	**(43,923)**	**-**	**(85,194)**	**(129,117)**
	196,756	**8,582**	**37,442**	**242,780**

2014	**Life insurance**	**Annuities**	**Accident and health insurance**	**Total**
	$	**$**	**$**	**$**
Bonds	**192,471**	**5,677**	**27,117**	**225,265**
Money market	**150**	**-**	**1,193**	**1,343**
Preferred shares	**3,463**	**2,874**	**4,879**	**11,216**
Other	**672**	**31**	**4,253**	**4,956**
	196,756	**8,582**	**37,442**	**242,780**

Year ended December 31, 2014 (in thousands of Canadian dollars)

15. POLICY RESERVES

b) Composition of assets backing net policy reserves

2013	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Policy reserves	204,185	9,453	101,427	315,065
Reinsurance assets	(34,622)	-	(73,329)	(107,951)
	169,563	9,453	28,098	207,114

2013	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Bonds	168,186	7,264	19,049	194,499
Money market	168	84	1,131	1,383
Preferred shares	616	2,064	3,882	6,562
Other	593	41	4,036	4,670
	169,563	9,453	28,098	207,114

The impact of an immediate and permanent 1% increase in interest rates of investments backing net policy reserves would be an increase of about $2,300 ($1,300 in 2013) of net income.

The impact of an immediate and permanent 1% decrease in interest rates of investments backing net policy reserves would be a decrease of about $3,100 ($1,800 in 2013) of net income.

15. POLICY RESERVES (CONTINUED)

c) Assumptions

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

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

Mortality

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

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

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

Morbidity

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

Interest rate

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

Fees

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

Policy lapse rate

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

Margin for adverse deviations

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

15. POLICY RESERVES (CONTINUED)

d) Change in policy reserves

Change in policy reserves is as follows:

	2014	2013
	$	$
Balance, beginning of year	**315,065**	297,139
Impact of a portfolio transfer	**-**	35,932
Normal change	**60,649**	(19,892)
Basis change	**(3,817)**	1,886
Balance, end of year	**371,897**	315,065

e) Insurance risk

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

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

The following table provides an estimate of the impact of changes in the actuarial assumptions used on the Company's net income.

		2014		2013
	Unfavorable variance	**Impact on net income**	Unfavorable variance	Impact on net income
	%	**$**	%	$
Mortality	**2**	**686**	2	634
Morbidity	**5**	**3,175**	5	2,795
Expenses	**5**	**2,616**	5	2,625
Policy lapse rate	**10**	**5,434**	10	4,134

f) Reinsurance risk

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

Year ended December 31, 2014 (in thousands of Canadian dollars)

16. PROVISIONS

In the normal course of its operations, the Company is named as defendant in connection with legal proceeding relating to insurance contracts. Each claim is analyzed and the Company determines the relevance and amount of any provision required.

The Québec Drug Insurance Pooling Corporation (hereinafter the “Pooling Corporation”) is a private body under the authority of the life insurance industry. It was established following the adoption of the *Act Respecting Prescription Drug Insurance* and the creation of the basic drug insurance plan. The Pooling Corporation’s role is to oversee the proper functioning of the system the industry created in order to share the risks arising from the basic plan among insurers and administrators of employee benefit plans. This pooling system is the only mechanism recognized for this purpose by the Quebec government. The Pooling Corporation determines the pooling terms and contribution for each insurer. At the end of each fiscal year, the Company recognizes a risk pooling provision.

2014	**Litigation**	**Risk pooling**	**Total**
	$	**$**	**$**
Balance, beginning of year	**408**	**974**	**1,382**
Increase	**553**	**771**	**1,324**
Utilizations or payments	**(396)**	**(650)**	**(1,046)**
Reversal of excess provisions	**-**	**-**	**-**
Balance, end of year	**565**	**1,095**	**1,660**

2013	Litigation	Risk pooling	Total
	$	$	$
Balance, beginning of year	300	718	1,018
Increase	348	647	995
Utilizations or payments	(150)	(171)	(321)
Reversal of excess provisions	(90)	(220)	(310)
Balance, end of year	408	974	1,382

Year ended December 31, 2014 (in thousands of Canadian dollars)

17. OTHER LIABILITIES

	2014	2013
	$	$
Trade and other payables	**7,927**	6,848
Employee benefits (Note 13)	**6,954**	3,406
	14,881	10,254

18. FINANCIAL LIABILITIES

The Company's financial liabilities consist of benefits payable, deposits, participations and experience refunds payable, trade and other payables, the loan and the debenture.

These financial liabilities are classified in financial liabilities other than those at fair value through profit or loss (other financial liabilities). Due to their short-term maturity, the fair value of these financial liabilities corresponds to their cost.

19. DEBENTURE

	2014	2013
	$	$
Debenture	**9,841**	9,828

The debenture, issued to an institutional investor, is not guaranteed. It bears interest at 7,00% until February 7, 2018 and, thereafter, at the rate of return of Canadian government five-year bonds plus 5.64%.

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

The carrying amount of the debenture includes transaction costs. The fair value of the debenture does not differ significantly from the carrying amount.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has foreign exchange contracts to purchase a nominal amount of seven million five hundred thousand U.S. dollars to pay travel insurance benefits. These contracts mature in less than one year. As at December 31, the fair value of this derivative financial instrument is $492 (asset of $111 in 2013).

Year ended December 31, 2014 (in thousands of Canadian dollars)

21. INCOME TAXES

a) Effective tax expense

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

	2014	2013
	$	$
Earnings before income taxes	**6,797**	5,305
Tax on investment income	**(141)**	(124)
	6,656	5,181
Income tax expense according to statutory rates	**1,790**	1,394
Change arising from the following items:		
Non-taxable income	**(275)**	(186)
Non-deductible items	**71**	106
Other differences	**189**	(94)
	1,775	1,220
Tax on investment income	**141**	124
	1,916	1,344

The tax rate used is 26.9% (26.9% in 2013) and is applicable to the Company's taxable income in Canada under the current tax legislation.

b) Tax expense

The income tax expense for the year consists of:

	2014	2013
	$	$
Current income taxes	**1,605**	2,282
Deferred income taxes	**311**	(938)
	1,916	1,344

Year ended December 31, 2014 (in thousands of Canadian dollars)

21. INCOME TAXES (CONTINUED)

c) Deferred tax assets

The deferred tax assets presented in the statement of financial position include the following timing differences:

	2014	2013
	$	$
Employee benefits	**204**	61
Other	**377**	170
	581	231

Changes in the deferred tax assets, by nature, are as follows:

2014	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Balance, end of year**
	$	**$**	**$**	**$**
Employee benefits	**17**	**-**	**39**	**56**
Other	**47**	**167**	**(113)**	**101**
	64	**167**	**(74)**	**157**

2013	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Balance, end of year
	$	$	$	$
Employee benefits	35	(7)	(11)	17
Other	11	(1)	37	47
	46	(8)	26	64

Year ended December 31, 2014 (in thousands of Canadian dollars)

21. INCOME TAXES (CONTINUED)

d) Deferred tax liabilities

The deferred tax liabilities presented in the statement of financial position include the following timing differences:

	2014	2013
	$	$
Bonds	**192**	215
Policy loans	**1,640**	1,603
Property and equipment and intangible assets	**5,751**	5,632
Policy reserves	**2,709**	2,774
Employee benefits	**(6,750)**	(3,345)
Other	**(800)**	(613)
	2,742	6,266

Changes in the deferred tax liabilities, by nature, are as follows:

2014	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Balance, end of year**
	$	**$**	**$**	**$**
Bonds	**58**	**(76)**	**70**	**52**
Policy loans	**431**	**10**	**-**	**441**
Property and equipment	**1,424**	**(20)**	**-**	**1,404**
Policy reserves	**746**	**(17)**	**-**	**729**
Employee benefits	**(900)**	**45**	**(961)**	**(1,816)**
Other	**(165)**	**536**	**(587)**	**(216)**
	1,594	**478**	**(1,478)**	**594**

2013	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Balance, end of year
	$	$	$	$
Bonds	62	99	(103)	58
Policy loans	419	12	-	431
Property and equipment	1,606	(182)	-	1,424
Policy reserves	795	(49)	-	746
Employee benefits	(1,663)	140	623	(900)
Other	(74)	(966)	875	(165)
	1,145	(946)	1,395	1,594

22. SHARE CAPITAL

Authorized

Unlimited number of shares without par value

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

Issued and outstanding

	2014	2013
	$	$
35 000 class “A” common shares	**35,000**	35,000

In October 2014, the authorized share capital of the Company was modified as follows:

- Redesignation of issued and outstanding common shares in class “A” common shares;
- Creation of class “B” common shares.

23. CAPITAL MANAGEMENT

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

i) Provide additional financial protection to its policyholders above policy reserves recognized, while maintaining sufficient capital to ensure its financial stability;

ii) Provide the necessary capital for its growth and development.

Year ended December 31, 2014 (in thousands of Canadian dollars)

23. CAPITAL MANAGEMENT (CONTINUED)

Current internal capital management policies include, among others:

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

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

The current solvency ratio is 190% (224% in 2013) and it is above the target ratio set by the Company.

24. SUPPLEMENTARY CASH FLOW INFORMATION

	2014	2013
	$	$
Interest received	**6,512**	6,376
Dividends received	**1,282**	849
Interest paid relating to operating activities	**46**	57
Interest paid relating to financing activities	**716**	625
Income taxes paid (recovered)	**3,789**	(101)

Year ended December 31, 2014 (in thousands of Canadian dollars)

25. CONTRACTUAL COMMITMENTS

The Company's contractual commitments relate to various service agreements and operating leases on equipment. Minimum payments under the agreements are as follows:

	2014	2013
	$	$
Less than 1 year	**808**	788
Between 1 year and 5 years	**2,525**	2,681
More than 5 years	**180**	323
	3,513	3,792

26. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions between the Company and its subsidiaries that are related parties have been eliminated and are not presented in this note. Details of the transactions between the Company and other related parties are presented below.

a) Business transactions

Related party business transactions are concluded in the normal course of operations and measured at the exchange amount established and accepted by the parties:

	2014	2013
	$	$
Associates		
Investment income	**10**	8
Commissions	**823**	859
Administrative expenses	**(29)**	(29)
Other receivables	**1**	-
Trade and other payables	**51**	52

b) Key management personnel remuneration

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

	2014	2013
	$	$
Short-term benefits	**2,199**	2,057
Other long-term benefits	**843**	252
	3,042	2,309

27. FUTURE ACCOUNTING CHANGES

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

a) IFRS 4 – Insurance Contracts

In June 2013, the IASB published an amended exposure draft proposing amendments to the accounting standard on insurance contracts. The amended exposure draft proposes methods to measure insurance contracts that differ considerably from the current Canadian method. This change could result in a significant change in the Company's earnings. The exposure draft also proposes changes to the presentation and disclosure requirements for financial statements.

Until a new IFRS on the measurement of insurance contracts is published, the Company will continue to measure insurance contract liabilities in accordance with the Canadian Asset Liability Method. The effective date of a definitive standard is unknown. The Company continues to monitor developments in this matter.

b) IFRS 9 – Financial instruments

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

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

The standard is effective January 1, 2018. The Company is currently evaluating the impact this standard will have on its financial statements.

c) IFRS 15 – Revenue from Contracts with Customers

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

The standard is effective January 1, 2017. The Company is currently evaluating the impact of the adoption of this standard.

27. FUTURE ACCOUNTING CHANGES (CONTINUED)

d) IAS 17 – Leases

In August 2013, the IASB published an amended exposure draft proposing a new accounting method for leases under which the lessor and the lessee will be required to recognize assets and liabilities in the statement of financial position at the discounted value of lease payments from all leases. The new classification would be based on a “right-of-use” approach that would replace the operating lease and financing-type lease basis currently in use.

The Company will conduct an in-depth assessment of the impact of the proposed changes once the final version of the standard for leases has been published.

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