FINANCIAL STATEMENTS **2015**

HUMANIA ASSURANCE MD®

A subsidiary of LS Mutual Management

Humania Assurance Inc.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Raymond Chabot Grant Thornton

Independent Auditor's Report

Raymond Chabot Grant Thornton
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To the Shareholders of
Humania Assurance Inc.

We have audited the accompanying consolidated financial statements of Humania Assurance Inc., which comprise the consolidated statement of financial position as at December 31, 2015 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, 2015 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Raymond Chabot Grant Thornton LLP[1]

Québec City
February 25, 2016

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Earnings
Year ended December 31, 2015 (in thousands of Canadian dollars)

	2015	2014
	$	$
INCOME		
Premiums		
Gross premiums	**130,889**	120,366
Premiums ceded to reinsurers	**(27,715)**	(25,773)
Net premiums	**103,174**	94,593
Investments		
Investment income (Note 3)	**15,682**	15,693
Change in fair value of financial assets designated at fair value through profit or loss (Note 3)	**(3,972)**	31,695
Net investment income	**11,710**	47,388
Distribution revenues	**5,945**	-
	120,829	141,981
EXPENSES		
Gross benefits	**66,189**	64,317
Benefits ceded to reinsurers	**(13,709)**	(13,047)
Change in policy reserves	**14,104**	56,832
Change in reinsurance assets	**(6,965)**	(21,166)
Gross commissions	**25,174**	23,009
Commissions ceded to reinsurers	**(7,528)**	(7,157)
Gross premium taxes	**3,693**	2,424
Taxes on premiums ceded to reinsurers	**(757)**	(497)
Experience refunds and participations (Note 4)	**2,200**	2,469
General expenses	**33,357**	28,000
	115,758	135,184
EARNINGS BEFORE INCOME TAXES	**5,071**	6,797
Income taxes (Note 19)	**550**	1,916
NET INCOME	**4,521**	4,881
Attributable to the shareholder	**4,502**	4,912
Attributable to the non-controlling interests	**19**	(31)
	4,521	4,881

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

Year ended December 31, 2015 (in thousands of Canadian dollars)

	2015	2014
	$	$
NET INCOME	**4,521**	4,881
Other comprehensive income		
Items that will be reclassified subsequently as net income		
Unrealized gains and losses on available for sale financial assets [net of income taxes of $367 ($416 in 2013)]	**(996)**	1,132
Unrealized gains and losses on cash flow hedges [net of income taxes of $363 ($176 in 2014)]	**987**	477
Reclassification as net income of realized gains and losses on available for sale financial assets [net of income taxes of $17 ($962 in 2014)]	**47**	(2,615)
Reclassification as net income of realized gains and losses on cash flow hedges [net of income taxes of $276 ($73 in 2014)]	**(750)**	(199)
	(712)	(1,205)
Items that will not be reclassified subsequently as net income		
Remeasurement of net defined benefit liability [net of income taxes of $241 ($961 in 2014) (Note 12)	**(656)**	(2,607)
	(1,368)	(3,812)
COMPREHENSIVE INCOME	**3,153**	1,069
Attributable to the shareholder	**3,134**	1,100
Attributable to the non-controlling interests	**19**	(31)
	3,153	1,069

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, 2015 (in thousands of Canadian dollars)

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

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
Other comprehensive income	-	-	-	-	(3,812)	(3,812)
	-	-	4,912	(31)	(3,812)	1,069
Change in non-controlling interests	-	-	-	(2)	-	(2)
Balance, end of year	35,000	12,257	11,058	(46)	(5,762)	52,507

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

HUMANIA ASSURANCE INC.
Consolidated Statement of Financial Position
December 31, 2015 (in thousands of Canadian dollars)

	2015	2014
	$	$
ASSETS		
Investments (Note 3)		
Money market	**3,667**	4,937
Bonds	**255,832**	258,047
Shares	**40,399**	32,540
Infrastructure funds	**10,133**	-
Policy loans	**1,630**	1,640
	311,661	297,164
Other asset components		
Cash	**13,524**	11,389
Investment income receivable	**1,587**	1,119
Premiums receivable	**2,132**	1,969
Prepaid commissions	**7,885**	8,583
Other assets (Note 7)	**10,107**	9,266
Reinsurance assets (Note 8)	**141,500**	133,914
Deferred tax assets (Note 19)	**400**	157
Investments in associates (Note 9)	**154**	1,512
Property and equipment (Note 10)	**10,156**	7,360
Intangible assets (Note 11)	**14,941**	4,798
	202,386	180,067
	514,047	477,231

HUMANIA ASSURANCE INC.
Consolidated Statement of Financial Position
December 31, 2015 (in thousands of Canadian dollars)

	2015	2014
	$	$
LIABILITIES		
Policy liabilities		
Policy reserves (Note 14)	**386,001**	371,897
Investment contract liabilities	**1,408**	1,407
Deposits	**8,272**	6,880
Benefits payable	**19,034**	15,700
Provisions (Note 15)	**1,690**	1,660
Participations and experience refunds payable	**1,035**	1,174
	417,440	398,718
Other liability components		
Other liabilities (Note 16)	**19,461**	14,881
Income taxes payable	**88**	690
Deferred tax liabilities (Note 19)	**2,548**	594
Debenture (Note 17)	**4,928**	9,841
	27,025	26,006
	444,465	424,724
EQUITY		
Share capital (Note 20)	**49,883**	35,000
Contributed surplus	**12,257**	12,257
Retained earnings	**15,560**	11,058
Non-controlling interests	**(988)**	(46)
Accumulated other comprehensive income (Note 21)	**(7,130)**	(5,762)
	69,582	52,507
	514,047	477,231

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

On behalf of the Board,

R. Jagou — Director

Jacques Martineau Director

HUMANIA ASSURANCE INC.
Consolidated Statement of Cash Flows
Year ended December 31, 2015 (in thousands of Canadian dollars)

	2015	2014
	$	$
Operating activities		
Net income	**4,521**	4,881
Non-cash items		
Change in policy reserves	**14,104**	56,832
Change in reinsurance assets	**(6,965)**	(21,166)
Depreciation and loss on disposal of property and equipment	**1,093**	719
Amortization of intangible assets	**590**	465
Amortization of premiums and discounts on bonds	**(3,802)**	(4,514)
Unrealized gains and losses on financial assets designated at fair value through profit or loss	**3,972**	(31,695)
Realized gains and losses on financial assets designated at fair value through profit or loss and as available for sale	**(1,148)**	(3,888)
Gain from business combinations achieved in stages	**(2,451)**	-
Share of income from investments in associates	**(11)**	(54)
Change in employee benefits	**3**	25
Amortization of transaction costs	**87**	13
Deferred income taxes	**1,129**	311
	11,122	1,929
Change in working capital items	**6,546**	(236)
	17,668	1,693
Financing activities		
Issuance of common shares	**9,883**	-
Investing activities		
Net disposal (acquisition) of money market	**1,270**	(1,045)
Net disposal of bonds	**6,200**	4,795
Acquisition of shares	**(12,165)**	(98)
Net acquisition of infrastructure funds units	**(10,133)**	-
Net increase in policy loans	**10**	(37)
Subsidiary acquisitions	**(5,368)**	-
Loans and advances to associates	**(143)**	(365)
Dividends received from associates	**-**	45
Proceeds of disposal of property and equipment	**203**	1
Acquisition of property and equipment	**(3,869)**	(1,858)
Acquisition of intangible assets	**(1,421)**	(1,136)
	(25,416)	302
Increase in cash	**2,135**	1,995
Cash, beginning of year	**11,389**	9,394
Cash, end of year	**13,524**	11,389

Supplementary cash flow information (Note 23)

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 is headquartered at 1555 Girouard Street West, P.O. Box 10000, Saint-Hyacinthe, Quebec, Canada, J2S 7C8.

On February 26, 2015, the Board of Directors approved and authorized for issue the consolidated financial statements of Humania Assurance, the Group’s parent company.

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

b) Significant estimates

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

The most significant estimates relate to the determination of policy reserves (Note 14), reinsurance assets (Note 8), investment contract liabilities, the fair value of financial instruments (Note 5), the calculation of employee benefits and other expenses (Note 12) and on the determination of the fair value of intangible assets acquired in a business combination (Note 11).

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.

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., Pro Vie assurances inc., Pro Vie assurances collectives inc., 9290-3152 Québec Inc. and Le Groupe Y. Pilon Inc., financial services firms, 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 operations. Assets present investments separately from other asset components. Liabilities include two categories: policy liabilities and other liability components.

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

Investment income receivable, premiums receivable, prepaid commissions, receivables 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 the 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 changes in policy reserves and reinsurance assets are 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 will 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 will 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 will 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)

Infrastructure funds

The infrastructure funds is a financial asset supporting the Company's liability and is designated at fair value through profit or loss. The fair value of the infrastructure funds is determined using the value published by the fund. The sale and purchase of infrastructure funds units are recognized and derecognized at the trade date, that is, the date on which the Company agrees to purchase or sell units.

The infrastructure funds designated at fair value though profit or loss is recognized on the statement of financial position at fair value and changes in the fair value are immediately recognized in the statement of earnings. Distribution income is recorded in investment income. Administrative expenses are recorded in earnings and applied against investment income.

Policy loans

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

g) Derivative financial instruments

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

Exchange contracts are classified as cash flow hedges which are deemed efficient. Changes in the fair value of the hedging instrument are recognized in "Other comprehensive income" with items that will be reclassified subsequently as net income. 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".

h) Foreign currency translation

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

Monetary items on the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Reinsurance assets

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

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

j) 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.

k) Other financial assets

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

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

l) 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) 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
Distribution networks	Straight-line	20 years

n) 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.

o) 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) 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.

q) 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.

r) Financial liabilities

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

Deposits, participations and experience refunds payable, trade and other payable as well as the debenture represent the Company's financial liabilities.

The fair value of these liabilities, except for the debenture, corresponds to their cost given that they will mature shortly.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) 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.

t) Revenue recognition

Insurance policy premiums are recognized on a straight-line basis over the contract term.

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

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

u) 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.

Year ended December 31, 2015 (in thousands of Canadian dollars)

3. INVESTMENTS

a) Investment value

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

2015	**At fair value through profit or loss**	**Designated at fair value through profit or loss**	**Available for sale**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**
Money market	**2,073**	**-**	**1,594**	**-**	**3,667**
Bonds	**-**	**241,656**	**14,176**	**-**	**255,832**
Shares	**-**	**18,830**	**21,569**	**-**	**40,399**
Infrastructure funds	**-**	**10,133**	**-**	**-**	**10,133**
Policy loans	**-**	**-**	**-**	**1,630**	**1,630**
	2,073	**270,619**	**37,339**	**1,630**	**311,661**

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

Year ended December 31, 2015 (in thousands of Canadian dollars)

3. INVESTMENTS (CONTINUED)

b) Investment income

	2015	2014
	$	$
Money market		
At fair value through profit or loss – Interest	**9**	10
Available for sale – Interest	**13**	17
Bonds		
Designated at fair value through profit or loss		
Interest	**10,185**	10,352
Realized gains and losses	**1,212**	324
Available for sale		
Interest	**231**	363
Realized gains and losses	**124**	541
Shares		
Designated at fair value through profit or loss		
Dividends	**669**	481
Realized gains and losses	**-**	(13)
Available for sale		
Dividends	**802**	801
Realized gains and losses	**(188)**	3,036
Infrastructure funds		
Designated at fair value through profit or loss		
Income distribution	**653**	-
Policy loans	**141**	139
Gain from business acquisitions achieved in stages	**2,451**	-
Share of income from investments in associates	**11**	54
Other	**123**	321
	16,436	16,426
Expenses	**(754)**	(733)
	15,682	15,693

c) Change in fair value

The change in the fair value of assets designated at fair value through profit or loss of ($3,972) (increase of $31,695 in 2014) presented in the statement of earnings relates to investments supporting the Company’s liabilities.

4. EXPERIENCE REFUNDS AND PARTICIPATIONS

	2015	2014
	$	$
Experience refunds on group contracts	**2,115**	2,385
Policyholders' participations	**85**	84
	2,200	2,469

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.

The fair value of the infrastructure funds is the one issued by the Fund. The Fund mainly uses discounted future cash flows to determine the fair value of its investments.

Year ended December 31, 2015 (in thousands of Canadian dollars)

5. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

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

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	-	11,389	-	11,389
Derivative financial instruments	-	492	-	492
	32,540	274,865	-	307,405

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 17.

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, 2015 (in thousands of Canadian dollars)

6. FINANCIAL INSTRUMENTS' RISK MANAGEMENT (CONTINUED)

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:

	2015	2014
	$	$
Money market	**3,667**	4,937
Bonds	**255,832**	258,047
Policy loans	**1,630**	1,640
Cash	**13,524**	11,389
Investment income receivable	**1,587**	1,119
Other financial assets	**3,139**	4,160
	279,379	281,292

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:

	2015	2015	2014	2014
	$	%	$	%
Government issued or guaranteed bonds:				
Federal government	**121**	**-**	121	-
Provincial governments	**145,808**	**57**	164,888	64
Municipalities and school boards	**3,052**	**1**	4,779	2
Foreign governments	**86**	**-**	229	-
	149,067	**58**	170,017	66
Canadian corporate bonds by industry:				
Energy	**22,567**	**9**	13,124	5
Industrial products	**4,161**	**2**	3,727	1
Financial services	**48,708**	**19**	46,449	18
Telecommunications	**2,178**	**1**	1,229	1
Public services	**29,151**	**11**	23,501	9
	106,765	**42**	88,030	34
	255,832	**100**	258,047	100

Year ended December 31, 2015 (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:

	2015	2014
	$	$
AAA	**1,115**	1,151
AA	**35,200**	25,943
A	**193,124**	205,479
BBB	**26,393**	25,474
	255,832	258,047

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 87% (88% in 2014) 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.

The financial liabilities, except for the debenture, are usually settled in less than 12 months after the year end date.

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, 2015 (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:

	2015	2014
	$	$
Less than 1 year	**1,213**	382
Between 1 and 5 years	**9,923**	18,498
Between 6 and 10 years	**14,286**	29,829
Between 11 and 15 years	**31,306**	47,999
Between 16 and 20 years	**50,373**	38,754
More than 20 years	**148,731**	122,585
	255,832	258,047

The effective rate of return on bonds varies between 0.77% and 6.99% (between 1.19% and 6.59% in 2014).

The sensitivity analysis relating to a fluctuation in the interest rates of bonds supporting the policy reserves is presented in Note 14 b).

Stock market risk

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

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

Equity and infrastructure funds investments total $50,532 ($32,540 in 2014) or 16.2% (11.0% in 2014) 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 $3,694 ($2,379 in 2014).

Year ended December 31, 2015 (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 $1,372 ($222 in 2014). In addition, the Company has foreign exchange contracts to purchase U.S. dollars. (Note 18).

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

7. OTHER ASSETS

	2015	2014
	$	$
Receivables from reinsurers	**2,981**	2,261
Prepaid expenses	**1,640**	1,249
Income taxes receivable	**1,754**	1,596
Derivative financial instruments (Note 18)	**816**	492
Receivables from agents	**295**	275
Accounts receivable	**2,028**	3,393
Other	**593**	-
	10,107	9,266

8. REINSURANCE ASSETS

	2015	2014
	$	$
Policy reserves (Note 14)	**136,082**	129,117
Provision for benefits	**5,418**	4,797
	141,500	133,914

Note 14 presents explanations regarding the actuarial assumptions.

Year ended December 31, 2015 (in thousands of Canadian dollars)

9. INVESTMENTS IN ASSOCIATES

	2015	2014
	$	$
Shares	**11**	934
Loans	**-**	578
Advances	**143**	-
	154	1,512

Loans to associates bear interest at a rate of 3.70% (4,00% in 2014) and have an indefinite term. Advances to associates do not bear interest and have an indefinite term.

The share of income from investments in associates is $11 ($54 in 2014).

10. PROPERTY AND EQUIPMENT

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

The depreciation expense for the year is $928 ($717 in 2014) and is presented under “General expenses” in the statement of earnings.

Year ended December 31, 2015 (in thousands of Canadian dollars)

10. PROPERTY AND EQUIPMENT (CONTINUED)

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

Year ended December 31, 2015 (in thousands of Canadian dollars)

11. INTANGIBLE ASSETS

2015	Operating software acquired	Application software acquired	Internally developed software	Distribution networks	Total
	$	$	$	$	$
Gross carrying amount					
Balance, beginning of year	859	777	6,054	-	7,690
Business combinations	-	-	-	9,312	9,312
Acquired additions	-	472	-	-	472
Internally developed additions	-	-	949	-	949
Disposals	-	(1)	-	-	(1)
Balance, end of year	859	1,248	7,003	9,312	18,422
Accumulated amortization					
Balance, beginning of year	857	547	1,488	-	2,892
Amortization	1	108	481	-	590
Disposals	-	(1)	-	-	(1)
Balance, end of year	885	654	1,969	-	3,481
Net carrying amount	1	594	5,034	9,312	14,941

The amortization expense for the year is $590 ($465 in 2014) and is presented under “General expenses” in the statement of earnings.

Year ended December 31, 2015 (in thousands of Canadian dollars)

11. INTANGIBLE ASSETS (CONTINUED)

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

12. 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, 2014.

Minimum funding requirements are $228 ($886 in 2014).

Cash payments for employee benefits, composed of the Company's contributions to the pension plan and premiums paid for group insurance, amount to $1,301 ($934 in 2014).

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

a) Net defined benefit liability

2015	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Fair value of plan assets	**24,230**	**-**	**-**	**24,230**
Defined benefit obligation	**30,615**	**908**	**558**	**32,081**
Deficit	**(6,385)**	**(908)**	**(558)**	**(7,851)**
Amounts on the statement of financial position are:				
Other liabilities (Note 16)	**6,385**	**908**	**558**	**7,851**

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 16)	5,511	800	643	6,954

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

b) Fair value of plan assets

2015	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Balance, beginning of year	**22,750**	**-**	**-**	**22,750**
Interest income	**931**	**-**	**-**	**931**
Return in excess of interest income	**(33)**	**-**	**-**	**(33)**
Administration fees	**(77)**	**-**	**-**	**(77)**
Employer's contributions	**1,255**	**23**	**-**	**1,278**
Employees' contributions	**391**	**-**	**-**	**391**
Other contributions and employees' transfers	**74**	**- -**	**- -**	**74**
Benefits paid	**(1,061)**	**(23)**	**-**	**(1,084)**
Balance, end of year	**24,230**	**-**	**-**	**24,230**

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

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

c) Defined benefit obligation

2015	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Balance, beginning of year	**28,261**	**800**	**643**	**29,704**
Service cost	**910**	**51**	**-**	**961**
Financial cost	**1,149**	**32**	**15**	**1,196**
Employees' contributions	**391**	**-**	**-**	**391**
Other contributions and employees' transfers	**74**	**-**	**-**	**74**
Actuarial gains or losses due to demographic assumptions	**395**	**37**	**-**	**432**
Actuarial gains or losses due to economic assumptions	**498**	**11**	**(77)**	**432**
Benefits paid	**(1,063)**	**(23)**	**(23)**	**(1,109)**
Balance, end of year	**30,615**	**908**	**558**	**32,081**

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 employees' 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

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

d) Expense

2015	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Service cost	**910**	**51**	**-**	**961**
Net interest	**219**	**32**	**15**	**266**
Administration fees	**77**	**-**	**-**	**77**
	1,206	**83**	**15**	**1,304**

The expense for the year is $1,304 ($959 in 2014) and is presented under "General expenses" in the statement of earnings.

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

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

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

2015	**Pension plan**	**Other benefits**	**Group insurance**	**Total**
	$	**$**	**$**	**$**
Actuarial gains and losses resulting from changes in assumptions				
Demographic	**(395)**	**(37)**	**-**	**(432)**
Economic	**(498)**	**(11)**	**77**	**(432)**
Return on assets	**(33)**	**-**	**-**	**(33)**
	(926)	**(48)**	**77**	**(897)**
Income taxes	**249**	**13**	**(21)**	**241**
	(677)	**(35)**	**56**	**(656)**

2014	Pension plan	Other benefits	Group insurance	Total
	$	$	$	$
Actuarial gains and losses resulting from changes in assumptions				
Demographic	(1,087)	(94)	-	(1,181)
Economic	(3,213)	(69)	-	(3,282)
Return on assets	940	-	-	940
Other	-	(45)	-	(45)
	(3,360)	(208)	-	(3,568)
Income taxes	905	56	-	961
	(2,455)	(152)	-	(2,607)

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

f) Asset composition

The pension plan's assets consist of:

	2015	2014
	%	%
Funds – Money market	**-**	4
Funds – Bonds	**39**	38
Funds – Shares	**61**	58
	100	100

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

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

g) Actuarial assumptions

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

The duration of the pension plan's obligation is 19 years (18 years in 2014).

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	-

Year ended December 31, 2015 (in thousands of Canadian dollars)

12. EMPLOYEE BENEFITS (CONTINUED)

h) Employer's future contributions

The Company expects to make pension plan contributions amounting to $1,212 ($892 in 2014) 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 $1,446 ($1,212 in 2014) increase in the defined benefit liability.

The impact of using 90% of the probabilities of mortality table CPM 2014, Scale B, projected in a generational way, with a scale of future mortality improvement, would result in a $780 ($617 in 2014) increase in the defined benefit liability.

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

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

13. CREDIT FACILITIES

The Company has an unused line of credit of $1,500 bearing interest at the prime rate of 2.70% (3.00% in 2014) and renewable in April 2016.

14. POLICY RESERVES

a) Composition of policy reserves

	2015	2014
	$	$
Individual life insurance	**180,970**	185,231
Group life insurance	**55,603**	55,448
Individual and group annuities	**7,217**	8,582
Individual accident and health insurance	**119,017**	101,131
Group accident and health insurance	**23,194**	21,505
	386,001	371,897

Year ended December 31, 2015 (in thousands of Canadian dollars)

14. POLICY RESERVES (CONTINUED)

b) Composition of assets backing net policy reserves

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

2015	Life insurance	Annuities	Accident and health insurance	Total
	$	$	$	$
Policy reserves	236,573	7,217	142,211	386,001
Reinsurance assets	(44,879)	-	(91,189)	(136,082)
	191,680	7,217	51,022	249,919

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

The impact of an immediate and permanent 1% increase in interest rates of investments backing net policy reserves would be an increase of about $6,800 ($5,300 in 2014) 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 $8,700 ($7,100 in 2014) of net income.

Year ended December 31, 2015 (in thousands of Canadian dollars)

14. POLICY RESERVES (CONTINUED)

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

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
Others	672	31	4,253	4,956
	196,756	8,582	37,442	242,780

14. 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, 2015 (in thousands of Canadian dollars)

14. POLICY RESERVES (CONTINUED)

d) Change in policy reserves

Change in policy reserves is as follows:

2015	**Gross**	**Reinsurance ceded**	**Net**
	$	**$**	**$**
Balance, beginning of year	**371 897**	**129 117**	**242 780**
Normal change	**16,978**	**8,570**	**8,408**
Basis change	**(2,874)**	**(1,605)**	**(1,269)**
Balance, end of year	**386,001**	**136,082**	**249,919**

2014	Gross	Reinsurance ceded	Net
	$	$	$
Balance, beginning of year	315,065	107,951	207,114
Normal change	60,649	22,960	37,689
Basis change	(3,817)	(1,794)	(2,023)
Balance, end of year	371,897	129,117	242,780

Year ended December 31, 2015 (in thousands of Canadian dollars)

14. POLICY RESERVES (CONTINUED)

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.

		2015		2014
	Unfavorable variance	**Impact on net income**	Unfavorable variance	Impact on net income
	%	**$**	%	$
Mortality	**2**	**704**	2	686
Morbidity	**5**	**3,691**	5	3,175
Expenses	**5**	**2,639**	5	2,616
Policy lapse rate	**10**	**5,738**	10	5,434

f) Reinsurance risks

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

Year ended December 31, 2015 (in thousands of Canadian dollars)

15. 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.

2015	**Litigation**	**Risk pooling**	**Total**
	$	**$**	**$**
Balance, beginning of year	**565**	**1,095**	**1,660**
Increase	**623**	**847**	**1,470**
Utilizations or payments	**(763)**	**(677)**	**(1,440)**
Balance, end of year	**425**	**1,265**	**1,690**

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)
Balance, end of year	565	1,095	1,660

Year ended December 31, 2015 (in thousands of Canadian dollars)

16. OTHER LIABILITIES

	2015	2014
	$	$
Trade and other payables	**11,610**	7,927
Employee benefits (Note 12)	**7,851**	6,954
	19,461	14,881

17. DEBENTURE

	2015	2014
	$	$
Debenture	**4,928**	9,841

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

All other conditions for the debenture remain unchanged.

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

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

The carrying amount of the debenture includes transaction costs. The fair value of the debenture does not differ significantly from the carrying amount. The fair value is estimated using discounted cash flows based on observable market rates. The debenture is classified in Level 2 of the fair value hierarchy (Level 2 in 2014).

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has foreign exchange contracts to purchase a nominal amount of five 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 $816 (asset of $492 in 2014).

Year ended December 31, 2015 (in thousands of Canadian dollars)

19. 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:

	2015	2014
	$	$
Earnings before income taxes	**5,071**	6,797
Tax on investment income	**(130)**	(141)
	4,941	6,656
Income tax expense according to statutory rates	**1,329**	1,790
Change arising from the following items:		
Non-taxable income	**(995)**	(275)
Non-deductible items	**114**	71
Other differences	**(28)**	189
	420	1,775
Tax on investment income	**130**	141
	550	1,916

The tax rate used is 26.9% (26.9% in 2014) 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:

	2015	2014
	$	$
Current income taxes	**(579)**	1,605
Deferred income taxes	**1,129**	311
	550	1,916

Year ended December 31, 2015 (in thousands of Canadian dollars)

19. INCOME TAXES (CONTINUED)

c) Deferred tax assets

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

2015	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Balance, end of year**
	$	**$**	**$**	**$**
Employee benefits	**56**	**-**	**9**	**65**
Foreign exchange contracts	**(113)**	**-**	**(87)**	**(200)**
Property and equipment and intangible assets	**-**	**63**	**-**	**63**
Other	**214**	**258**	**-**	**472**
	157	**321**	**(78)**	**400**

2014	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Balance, end of year
	$	$	$	$
Employee benefits	17	-	39	56
Foreign exchange contracts	-	-	(113)	(113)
Other	47	167	-	214
	64	167	(74)	157

Year ended December 31, 2015 (in thousands of Canadian dollars)

19. INCOME TAXES (CONTINUED)

d) Deferred tax liabilities

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

2015	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Balance, end of year**
	$	**$**	**$**	**$**
Bonds	**52**	**24**	**(27)**	**49**
Policy loans	**441**	**(3)**	**-**	**438**
Property and equipment and intangible assets	**1,404**	**(244)**	**-**	**1,160**
Policy reserves	**729**	**(141)**	**-**	**588**
Employee benefits	**(1,816)**	**(473)**	**241**	**(2,048)**
Business combinations	**-**	**2,505**	**-**	**2,505**
Other	**(216)**	**(218)**	**290**	**(144)**
	594	**1,450**	**504**	**2,548**

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 and intangible assets	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

Year ended December 31, 2015 (in thousands of Canadian dollars)

20. 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

	2015	2014
	$	$
35,000 Class “A” common shares	**35,000**	35,000
6,250 Class “B” common shares	**14,883**	-
	49,833	35,000

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

21. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2015	2014
	$	$
Unrealized gains and losses on		
Available for sale financial assets	**(624)**	325
Cash flow hedges	**596**	359
Remeasurements of the net defined benefit liability	**(7,102)**	(6,446)
	(7,130)	(5,762)

22. 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, 2015 (in thousands of Canadian dollars)

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

The current solvency ratio is 209% (190% in 2014) and it is above the target ratio set by the Company.

23. SUPPLEMENTARY CASH FLOW INFORMATION

	2015	2014
	$	$
Interest received	**7,014**	6,512
Dividends received	**1,471**	1,282
Interest paid relating to operating activities	**58**	46
Interest paid relating to financing activities	**725**	716
Income taxes paid	**1,884**	3,789

Year ended December 31, 2015 (in thousands of Canadian dollars)

24. 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:

	2015	2014
	$	$
Less than 1 year	**1,142**	808
Between 1 year and 5 years	**2,592**	2,525
More than 5 years	**160**	180
	3,894	3,513

25. 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:

	2015	2014
	$	$
Associates		
Investment income	**-**	10
Commissions	**-**	823
Administrative expenses	**-**	(29)
Other receivables	**-**	1
Trade and other payables	**-**	51

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:

	2015	2014
	$	$
Short-term benefits	**2,845**	2,199
Other long-term benefits	**801**	843
	3,646	3,042

26. FUTURE ACCOUNTING CHANGES

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

a) IFRS 9 – Financial instruments

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

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

The standard is effective January 1, 2018. However, in September 2015, the IASB announced its intention to issue an exposure draft proposing to amend the current version of IFRS 4, *Insurance Contracts*, in order to enable companies, whose business model is mainly the issuance of insurance contracts, to defer the coming into effect of IFRS 9 until 2021. Insurance providers adopting IFRS 9 will also have the possibility of withdrawing from earnings any disparities in accounting treatment and temporary volatility that could occur before the new standard on insurance contracts has gone into effect.

b) IFRS 15 – Revenue from Contracts with Customers

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

The standard is effective January 1, 2018. The Company is currently evaluating the impact of the adoption of this standard.

c) IFRS 16 – Leases

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

A subsidiary of

LS MUTUAL
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