Assumption Life

2015 ANNUAL REPORT

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Growing, together

"Reaching new heights will guarantee Assumption Life's future. With success comes the opportunity also to give back and to contribute to our community. And that's what the founders of this company always wanted, to ensure a bright future for their own."

– André Vincent
President and CEO of Assumption Life

Board of Directors

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

Our mission is still the same today, with one difference – we now protect families from coast to coast.

Yvon Fontaine, LL.B., LL.M.
Chairman of the Board
1, 2**, 3***, 4***, 5, 6***, 7, 8*, 10**
(41/44)

André Vincent
President and CEO
Assumption Life
1, 2***, 3***, 4, 5, 6, 7, 8, 9, 10***
(44/45)

Yves Arseneau, CPA, CA
Vice Chairman of the Board
(since March 2015)
Partner, Allen, Paquet
& Arseneau LLP
1, 2, 3, 5, 6, 7, 10 (34/35)

Denis Larocque, CPA, CA
Vice Chairman of the Board
(until February 2015)
President and CEO
Major Drilling Group
International Inc.
1, 2*, 3, 5*, 6, 8*, 10 (11/31)

Andrée Savoie
President and Managing Director
Acadian Construction (1991) Ltd.
Managing Director of
Acadian Properties Ltd.
2***, 3, 5, 6, 7, 10 (20/24)

Allister Surette
President and Vice-Chancellor
Université Sainte-Anne
1, 2***, 4, 7, 9 (26/29)

Jacques Valotaire
FCPA, FCA, ICD.D
Corporate Director
1*, 2, 3, 4*, 6, 7, 8, 10 (33/37)

Monique Tremblay
FCIA, FSA, MBA
2, 3, 4, 6, 7, 10 (20/21)

Ivan Toner
President, MelamTech Consulting
2*/***, 4, 7, 9 (17/18)

Patrick Gillespie, LL.B.
President, Ashford Investments Inc.
2*/***, 4*,5*, 7 (24/24)

Marcel Godbout, CPA, CA
Tax Partner, Bishop & Company
Chartered Accountants Inc.
2*, 4*/***, 5***, 7 (19/24)

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

Board Committees

1. Governance
2. Audit
3. Review
4. Human Resources
5. Investments
6. Assumption Place
7. Strategic Planning
8. Louisbourg Investments
9. Assumption Life Foundation
10. Atlantic Holdings

The numbers following the directors' names indicate Board committee memberships as of December 31, 2015. The numbers in parentheses indicate the number of meetings (Board and committees) attended and the total eligible to attend.

* The director was not a Board or committee member at the beginning of the year or ceased to be during the year.
** The Chairman of the Board is an ad hoc member of these committees.
*** Substitute member or observer.

Message From the Chairman of the Board

Results

Results for 2015 are once again excellent in terms of both profitability and sales growth. The strategies we implemented have produced the anticipated results. For a year in which the Company faced significant unexpected challenges, this positive performance is especially noteworthy.

This success can be credited to the inexhaustible efforts of the management team, solid relationships with our business partners, and the exemplary dedication of Assumption Life employees.

Leadership

The Company has made the following appointments to its management team: Réjean Boudreau, Vice President, Chief of Organizational Development; Sébastien Dupuis, Vice President, Chief Financial Officer and Chief Risk Officer; and Rachelle Gagnon, Vice President, Administration and Client Experience. These internal promotions reflect the quality and competence of Assumption Life employees. I am delighted that this revitalized management team has demonstrated the commitment, integrity, and discipline required to address challenges. We have in place the team needed to ensure the Company's strength and reputation for years to come.

These appointments occurred following the departure of two vice presidents who have chosen to take on new challenges elsewhere.

On behalf of the Board of Directors, I thank each member of the management team for their hard work and cooperation in helping the Board fulfill its duties.

Human Resources

I would also like to mention the exceptional contribution and efforts of each employee during this past year. Their outstanding commitment is the key to our success.

This dedication was underscored by AON Hewitt, which has accorded us its greatest honour by adding Assumption Life to its platinum category, reserved for the best employers in small and medium businesses in Canada.

Corporate Governance

At our last annual meeting in February 2015, we appointed two new directors. Patrick Gillespie, LL.B., brings expertise in law, investments, and business management, while Marcel Godbout, CPA,CA, specializes in accounting and taxation.

During 2015, the Board continued to ensure the Company's good governance. We have focused on internal controls and risk management, an important part of our discussions.

The Board has also actively supervised the preparation of the next strategic plan, which gives us the tools to double our size by 2020.

Directors once again completed self-assessments to ensure maximum performance. The Board also amended its bylaws to extend the total length of directors' mandates from 9 to 11 years. This change was necessary because of the difficulties in recruiting experienced candidates for the position of director. This also corresponds to standard good governance practices and ensures stability and optimal knowledge within the Board of Directors.

During the year, the Board discussed the importance of recruiting more women to its ranks and pledged to make efforts in this direction.

Conclusion

My third term as Chair of the Board expires at the annual meeting, in February 2016. I would like to take this opportunity to thank my fellow Board members for their confidence in me and for their valuable contributions to our deliberations. My thanks also to André Vincent, CEO, for his boundless dedication to the Company and its employees.

In closing, I would like to thank the members of our sales network as well as our clients, who all contribute hugely to Assumption Life's success. We continue to respond to the financial security needs of our clients by providing simplified, appropriate, and obtainable solutions, as stated in our mission statement.

Yvon Fontaine
Chairman of the Board

Message From the President and CEO

Our company was founded in 1903 to ensure education and a future for Acadian families living in New England and Acadia. More than 112 years later, we have grown and spread our wings to ensure financial security for families across Canada.

As you will see in this annual report, financial results in 2015 were very satisfactory. Indeed, profit attributable to policyholders surpassed our target, reaching $8.9 million. At the end of the year, policyholders' equity increased to $117 million - $7 million higher than last year. These figures show that we are market-oriented and on the right track. We have added attractive features to some of our flagship products and developed individual health insurance and long-term care products to meet the specific needs of certain distributors.

We have once again had a successful year, which bodes well for the future. I would like to thank all of our employees, our most valuable resource, without whom these results could not have been achieved. They are among the most engaged in Canada. Aon Hewitt has recognized this commitment by ranking Assumption Life among the Best Employers in Canada at the Platinum Level. The study found that the level of engagement and commitment among our employees was at 86% - much higher than the national average of 67%. The commitment of our employees is the fuel that allows us to grow and reach new heights. We will continue to work towards maintaining a healthy and stimulating environment so that our employees can reach their potential and remain actively engaged.

Small Acts Make a Big Difference

In June 2015, we officially launched our Social Responsibility Program with the goal of contributing to the development of our society through a variety of philanthropic activities. The Company has chosen to return 6% of our net profit to the community. In addition, our teams had a chance to volunteer and help those in need. The management team and employees all had rewarding experiences and learned first-hand that even small acts can often make a huge difference. Our commitment to the community honours the founding values of Assumption Life.

Growing, Together

Together we are entering a period of significant growth. Having barely scratched the surface of potential markets nationwide, we have before us a vast playing field to explore. Our five-year plan, ending in 2020, is very ambitious and aims at ensuring our long-term viability along with sustained social and economic impact.

Maximizing our existing distribution channels and exploring new avenues of distribution will power our growth. By doing so, we hope to foster our manufacturing know-how while tending to our existing distributors, with whom we have had great successes.

Innovation will be another important factor in achieving our goals. A true culture of innovation leads to improved agility and will allow us to continuously improve our processes, our products, and our services to respond to market expectations and needs.

These are some of the avenues we explored in 2015 to initiate this significant growth phase. With success comes the opportunity to give back and to contribute to our community. Ultimately, that is what the founders of this company always wanted, to ensure a bright future for their own.

Special Thanks

I would like to thank everyone who contributed to our success in 2015. Thank you to the members of the Board of Directors, to our numerous collaborators, and to our sales partners from coast to coast. I would also like to thank our clients for their trust and our employees for their outstanding commitment.

André Vincent
President and CEO

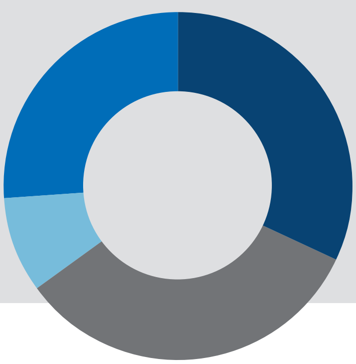
Assumption Life and its Employees More Committed Than Ever to Their Community!

Our company was founded in 1903 for the purpose of ensuring the well-being of Acadian families. Giving back to their community has since become second nature for the Assumption Group and its employees. In 2015, the Group returned 6% of its net profit to a variety of causes through donations, sponsorships, and volunteer work.

Our community at a glance

The following is a breakdown of our contributions by sector.

Health and wellness	32%
Education	33%
Culture	9%
Socio-economic	26%



Our Commitment Translated Into Action

To be proactive in our support and to maximize the impact of our contribution, the Assumption Group launched mid-year its Social Responsibility Program. An important aspect of this new program was the introduction of volunteer hours.

The Group has always encouraged its employees to actively participate in their community, but wanted to go even further. Teams of volunteers were therefore able to devote a half-day to a cause they hold dear. The experience proved very positive for all involved and this activity will certainly become a tradition.

This contribution in staff time totaled over 650 hours in 2015.

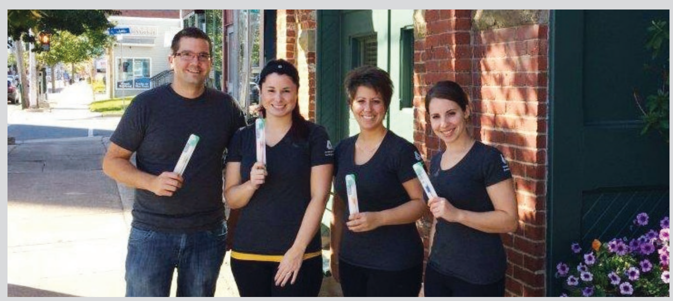
« Do something meaningful for the community. That was our goal when we offered our employees a half-day off for volunteer work. We gave of our time and, of course, our money. But in the end, we got back far more. »

– Réjean Boudreau,
Vice President, Chief of Organizational Development at Assumption Life.

#KindActChallenge

In 2015, we also took up the challenge of contributing to our community by performing random acts of kindness, big or small! We are encouraging our clients, partners, and collaborators to do the same. Will you take up the #KindActChallenge?

To learn more about our philanthropic endeavors, see our 2015 Social Responsibility Report.



Assumption Life's Financial Health in 2015

$8.9 MILLION
Profit attributable to policyholders

$182 MILLION
Premium Income

$117 MILLION
Policyholders' equity

$1.6 BILLION
Assets under management

242%
Solvency Ratio at December 31, 2015.

A – for a 16th consecutive year

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

ASSUMPTION MUTUAL LIFE INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT TO THE POLICYHOLDERS

We have audited the attached consolidated financial statements of **Assumption Mutual Life Insurance Company**, which include the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Assumption Mutual Life Insurance Company** as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Dieppe, New Brunswick
February 25, 2016

VALUATION ACTUARY'S REPORT

To the policyholders of Assumption Mutual Life Insurance Company,

I have valued the policy liabilities of **Assumption Mutual Life Insurance Company** for its consolidated statement of financial position as at December 31, 2015, and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods.

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

Luc Farmer

Moncton, New Brunswick
February 16, 2016

Luc Farmer
Fellow, Canadian Institute of Actuaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands)

		As at December 31	
		2015	2014
ASSETS	**Notes**	**$**	**$**
Invested assets	4		
Cash and cash equivalents		8,818	28,793
Debt securities		485,253	473,113
Equity securities		66,081	73,685
Mortgages		116,334	117,880
Other invested assets		1,867	2,436
Policy loans		8,714	8,497
Investment properties		30,869	30,797
		717,936	735,201
Other assets	7	23,101	20,450
Reinsurance assets	11	168,883	158,663
Deferred tax assets	17	2,241	2,168
Property and equipment	8	4,756	4,342
Intangible assets	9	4,689	6,117
Goodwill		467	467
Segregated fund net assets	10	657,596	612,037
		1,579,669	1,539,445
LIABILITIES			
Insurance contract liabilities	11	735,237	737,017
Investment contract liabilities	12	22,138	23,358
Other liabilities	14	24,289	31,393
Employee benefit liability	15	13,022	14,725
Deferred tax liabilities	17	4,261	4,108
Borrowings	16	5,492	6,089
Segregated fund net liabilities	10	657,596	612,037
		1,462,035	1,428,727
EQUITY			
Policyholders' equity			
Surplus		110,512	102,345
Accumulated other comprehensive income		6,418	7,493
		116,930	109,838
Non-controlling interests		704	880
		117,634	110,718
		1,579,669	1,539,445

Contingencies and Commitment 19, 20

SIGNED ON BEHALF OF THE BOARD,

Chairman

President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

(in thousands) Year ended December 31

	Notes	2015	2014
REVENUE		$	$
Gross premiums		182,170	174,112
Premiums ceded to reinsurers		(29,493)	(26,343)
Net premiums	21	152,677	147,769
Fees and commission income	23	18,970	18,078
Investment income	24	16,825	17,702
Realized gains and losses from available-for-sale financial assets	26	1,804	213
Fair value gains and losses	27	9,263	63,324
Other operating revenue		503	497
Other revenue		47,365	99,814
Total revenue		200,042	247,583
EXPENSES			
Gross benefits and claims paid	22	156,147	127,996
Claims ceded to reinsurers	22	(21,747)	(24,484)
Gross change in contract liabilities		(2,772)	99,288
Change in contract liabilities ceded to reinsurers		(10,064)	(27,840)
Net benefits and claims		121,564	174,960
Borrowing costs		146	190
Fees and commission expenses	28	28,819	24,211
Administrative expenses	29	31,012	29,629
Other operating expenses	29	5,404	4,759
Other expenses		65,381	58,789
Total expenses		186,945	233,749
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		13,097	13,834
Policyholder dividends		1,097	1,042
PROFIT BEFORE INCOME TAXES		12,000	12,792
Income taxes	17	2,688	2,933
PROFIT FOR THE YEAR		9,312	9,859
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		410	376
Policyholders		8,902	9,483
		9,312	9,859

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands) Year ended December 31

	2015	2014
	$	$
PROFIT FOR THE YEAR	9,312	9,859
Other comprehensive income:		
Items that will be reclassified subsequently to net income		
Available-for-sale financial assets:		
Change in unrealized gains (losses), net of income taxes of $88 ($3,115 in 2014)	207	8,403
Reclassification of realized losses (gains) included in other revenue, net of income taxes of ($506) (($57) in 2014)	(1,298)	(156)
Total of items that will be reclassified subsequently to net income	(1,091)	8,247
Items that will not be reclassified subsequently to net income		
Remeasurement of defined benefit pension plans, net of income taxes of ($275) (($1,512) in 2014)	(735)	(4,039)
Total of other comprehensive income	(1,826)	4,208
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,486	14,067
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	394	373
Policyholders	7,092	13,694
	7,486	14,067

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY

(in thousands) Year ended December 31

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

	2014				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	96,901	(757)	96,144	687	96,831
Profit for the year	9,483	-	9,483	376	9,859
Items that will be reclassified subsequently to net income	-	8,250	8,250	(3)	8,247
Remeasurement of defined benefit pension plans	(4,039)	-	(4,039)	-	(4,039)
Total comprehensive income	5,444	8,250	13,694	373	14,067
Dividends	-	-	-	(180)	(180)
Balance, end of year	102,345	7,493	109,838	880	110,718

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands) Year ended December 31

	2015	2014
	$	$
OPERATING ACTIVITIES		
Profit for the year	9,312	9,859
Items not affecting cash:		
Deferred income taxes	356	684
Change in reinsurance assets	(10,220)	(29,581)
Change in insurance and investment contract liabilities	(1,428)	100,315
Amortization of property and equipment and intangible assets	2,434	2,591
Fair value gains and losses (note 27)	(9,263)	(63,324)
Realized gains and losses on disposal of available-for-sale financial assets (note 26)	(1,804)	(213)
Employee benefit plan expense	2,225	2,003
Other	(3,703)	(3,565)
	(12,091)	18,769
Change in non-cash working capital items related to operations	(15,850)	4,785
Cash flows from operating activities	(27,941)	23,554
INVESTING		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	111,933	53,655
Purchases and loans	(101,818)	(74,521)
Acquisition of property and equipment and intangible assets	(1,420)	(1,447)
Disposition of property and equipment and intangible assets	-	262
Other	(41)	667
Cash flows from investing activities	8,654	(21,384)
FINANCING		
Change in borrowings	(688)	(1,877)
Cash flows from financing activities	(688)	(1,877)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(19,975)	293
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	28,793	28,500
CASH AND CASH EQUIVALENTS – END OF YEAR	8,818	28,793

See note 18 for additional information

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

1. CORPORATE INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECLARATION OF COMPLIANCE

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

These consolidated financial statements, including all notes, were approved by the Board of Directors on February 25, 2016.

BASIS OF PREPARATION

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

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

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

CONSOLIDATION

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

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

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

FINANCIAL INSTRUMENTS

Recognition

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

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

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

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

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

INVESTED ASSETS

Cash and Cash Equivalents

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

Debt Securities

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

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

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

Equity Securities

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

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

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

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

Mortgages

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

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

Other Invested Assets

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

Policy Loans

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

Investment Properties

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

OTHER ASSETS

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

REINSURANCE ASSETS

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

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

PROPERTY AND EQUIPMENT

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INTANGIBLE ASSETS

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

GOODWILL

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

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

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

SEGREGATED FUND NET ASSETS

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

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

INSURANCE CONTRACT LIABILITIES

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

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

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

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

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

(a) Mortality

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

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

(b) Disability

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

(c) Investment Returns

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

(d) Expenses

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

(e) Lapses

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

(f) Policyholder Dividends

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

(g) Margins for Adverse Deviation

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

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

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

INVESTMENT CONTRACT LIABILITIES

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

OTHER LIABILITIES

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

EMPLOYEE BENEFIT PLANS

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

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

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

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

TAXES

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

BORROWINGS

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

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

SEGREGATED FUNDS NET LIABILITIES

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

FOREIGN CURRENCY TRANSLATION

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

Translation gains and losses are included in other operating revenue.

PROVISIONS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

PREMIUMS

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

FEES AND COMMISSION INCOME

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

INVESTMENT INCOME

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

REALIZED GAINS AND LOSSES

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

RECOGNITION OF EXPENSES

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

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

CHANGES IN ACCOUNTING POLICIES

The IASB publishes annual IFRS improvements to amend certain standards.These annual improvements have no significant impact on the Group's financial statements as of January 1, 2015.

FUTURE ACCOUNTING POLICY CHANGES

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. However, insurers have the option to delay adoption of the standards to follow phase II of IFRS 4, up to January 1, 2021. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group is currently evaluating the impact of the new standard on its financial statements.

IASB Projects

On July 30, 2010, the IASB published the Exposure Draft on phase II of IFRS 4, Insurance Contracts, covering the valuation and recognition of insurance contracts. The comment period ended on November 30, 2010. Phase II of the standard should not take effect prior to 2020-2021. The IASB's proposed accounting method for insurance contracts separates the valuation of insurance liabilities from the assets they are matched to. As a result, these proposals could lead to a significant increase in insurance contract liabilities and required capital on adoption.

IAS 16 – Property and Equipment and IAS 38 – Intangible Assets

In May 2014, the IASB issued an amendment to IAS 16 "Property, plant and equipment" and to IAS 38 "Intangible assets". The amendment titled "Acceptable Methods of Depreciation and Amortization" clarifies that a revenue-based method of amortization can no longer be used. The amortization basis should reflect the asset's consumption rather than its future economic benefit. The provisions outlined in this amendment will apply prospectively to financial statements for periods beginning on or after January 1, 2016. The adoption of this amendment will not have an impact on the Group's consolidated financial statements.

IFRS 15 – Revenue From Contracts With Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers, excluding insurance contracts, lease contracts and financial instruments. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for tranferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 on its consolidated financial statements.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

JUDGMENTS

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

Classification of Insurance and Investment Contracts

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

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

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

Classification of Properties

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

ESTIMATES AND ASSUMPTIONS

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

Fair Value of Financial Instruments

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

Fair Value of Investment Properties

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

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

Fair Value of Investment Contract Liabilities

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

Employee Future Benefits

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

Life and Health Insurance Contract Liabilities

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

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

4. INVESTED ASSETS

Carrying Value and Fair Value

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

Carrying Value and Fair Value

	2014					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	28,793	-	-	-	28,793	28,793
Debt securities						
Government	362,593	97,805	-	-	460,398	460,398
Municipal	1,717	-	-	-	1,717	1,717
Corporations & other	6,025	4,973	-	-	10,998	10,998
	370,335	102,778	-	-	473,113	473,113
Equity securities						
Common stocks	-	161	-	-	161	161
Preferred stocks	47,043	-	-	-	47,043	47,043
Investment fund units	21,572	4,909	-	-	26,481	26,481
	68,615	5,070	-	-	73,685	73,685
Mortgages						
Insured residential	-	-	10,598	-	10,598	10,635
Other residential	-	-	26,166	-	26,166	26,547
Commercial	-	-	81,116	-	81,116	81,460
	-	-	117,880	-	117,880	118,642
Other invested assets	-	-	2,436	-	2,436	2,446
Policy loans	-	-	8,497	-	8,497	8,497
Investment properties	-	-	-	30,797	30,797	30,797
	467,743	107,848	128,813	30,797	735,201	735,973

(in thousands) Year ended December 31, 2015

Investment Properties

The following table details the transactions on investment properties.

	2015	2014
	$	$
Balance, beginning of year	30,797	32,647
Disposition	-	(2,067)
Change in fair value	72	217
Balance, end of year	30,869	30,797
Rental income and service charge income	6,947	7,145
Operating expenses that generate rental income	(4,343)	(4,243)
Operating expenses that do not generate rental income	(574)	(908)

5. RISK MANAGEMENT RELATING TO FINANCIAL INSTRUMENTS

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

CREDIT RISK

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

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

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

Maximum Credit Risk

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

	2015	2014
	$	$
Cash and cash equivalents	8,818	28,793
Debt securities	485,253	473,113
Mortgages	116,334	117,880
Other invested assets	1,867	2,436
Policy loans	8,714	8,497
Reinsurance assets (note 11)	168,883	158,663
Other receivables (note 7)	19,099	17,987
	808,968	807,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Quality of the Debt Securities Portfolio

	2015	2014
	$	$
AAA	586	1,610
AA	221,582	211,589
A	263,085	259,914
	485,253	473,113

Quality of the Preferred Equity Securites Portfolio

	2015	2014
	$	$
PF-1	-	4,699
PF-2	38,239	42,344
PF-3	2,538	-
	40,777	47,043

(in thousands) Year ended December 31, 2015

Loans in Arrears and Provisions for Losses

The carrying value of mortgages in arrears before provisions for losses is as follows:

	2015			
	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total
	$	$	$	$
Non impaired mortgages				
Other residential	-	-	-	-
	-	-	-	-
Impaired mortgages				
Commercial	-	-	-	-
	-	-	-	-

	2014			
	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total
	$	$	$	$
Non impaired mortgages				
Other residential	-	-	202	202
	-	-	202	202
Impaired mortgages				
Commercial	-	-	653	653
	-	-	653	653

Provisions for losses

	2015	2014
	$	$
Mortgage loans:		
Beginning of year	353	382
Provisions for losses increase (decrease)	(353)	(29)
End of year	-	353

LIQUIDITY RISK

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

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

Additional liquidities are available through credit lines, if needed.

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

	1-6 months	7-12 months	Over 1 year
	$	$	$
Undisbursed approved mortgages	1,204	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

	2014						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	28,793	-	-	-	-	28,793	28,793
Debt securities							
Government	-	2,786	20,141	33,087	404,384	460,398	460,398
Municipal	-	-	1,717	-	-	1,717	1,717
Corporations & other	-	1,002	5,047	-	4,949	10,998	10,998
	-	3,788	26,905	33,087	409,333	473,113	473,113
Equity securities							
Common stocks	161	-	-	-	-	161	161
Preferred stocks	47,043	-	-	-	-	47,043	47,043
Investment fund units	26,481	-	-	-	-	26,481	26,481
	73,685	-	-	-		73,685	73,685
Mortgages							
Insured residential	-	3,037	4,564	-	2,997	10,598	10,635
Other residential	-	10,362	9,785	-	6,019	26,166	26,547
Commercial	-	22,980	35,110	19,947	3,079	81,116	81,460
	-	36,379	49,459	19,947	12,095	117,880	118,642
Other invested assets	-	940	1,262	234	-	2,436	2,446
Policy loans	8,497	-	-	-	-	8,497	8,497
Other receivables	17,987	-	-	-	-	17,987	17,987

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

MARKET RISK

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

Interest Rate Risk

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

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

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

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

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

Stock Market Risk

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

6. FAIR VALUE MEASUREMENT

Fair Value Hierarchy

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

	2014			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value	$	$	$	$
Cash and cash equivalents	28,793	-	-	28,793
Financial assets designated at fair value through profit or loss				
Debt securities	-	370,335	-	370,335
Equity securities	68,615	-	-	68,615
Financial assets available-for-sale				
Debt securities	-	102,778	-	102,778
Equity securities	5,070	-	-	5,070
Investment properties	-	-	30,797	30,797
Assets disclosed at fair value				
Mortgages	-	118,642	-	118,642
Other invested assets	-	2,446	-	2,446
Policy loans	-	8,497	-	8,497
	102,478	602,698	30,797	735,973
Liabilities measured at fair value				
Investment contract liabilities	-	23,358	-	23,358
Liabilities disclosed at fair value				
Borrowings	-	5,888	-	5,888
	-	29,246	-	29,246

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

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

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

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

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

	2015	2014
	%	%
Overall discount rate	9 to 10	9 to 10
Growth rate		
Rent	0 to 2	0 to 2
Operating expenses	2	2
Vacancy rate	5	5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

7. OTHER ASSETS

	2015	2014
	$	$
Financial assets		
Insurance receivables:		
Policyholders	4,183	3,474
Reinsurers	9,069	8,038
Agents, brokers and intermediates	1,292	1,273
Accrued investment income	1,212	1,335
Accounts receivable	3,343	3,867
	19,099	17,987
Non financial assets		
Commissions and prepaid expenses	2,654	2,380
Income tax receivable	1,313	49
Other	35	34
	4,002	2,463
	23,101	20,450

8. PROPERTY AND EQUIPMENT

	Equipment
	$
Cost	
At December 31, 2014	8,119
Additions	1,186
Other movements	(572)
At December 31, 2015	8,733
Accumulated amortization	
At December 31, 2014	3,777
Amortization	772
Other movements	(572)
At December 31, 2015	3,977
Carrying amount	
At December 31, 2014	4,342
At December 31, 2015	4,756

(in thousands) Year ended December 31, 2015

9. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Client list	Total
	$	$	$	$	$
Cost					
At December 31, 2014	1,277	12,892	27	898	15,094
Cost capitalized	21	-	233	-	254
Completed projects	112	27	(159)	-	(20)
Other movements	(223)	-	-	-	(223)
At December 31, 2015	1,187	12,919	101	898	15,105
Accumulated amortization					
At December 31, 2014	755	8,222	-	-	8,977
Amortization	266	1,396	-	-	1,662
Other movements	(223)	-	-	-	(223)
At December 31, 2015	798	9,618	-	-	10,416
Carrying amount					
At December 31, 2014	522	4,670	27	898	6,117
At December 31, 2015	389	3,301	101	898	4,689

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

10. SEGREGATED FUNDS NET ASSETS

	2015	2014
NET ASSETS	$	$
Investments:		
Debt securities	18,356	10,773
Equity securities	7,568	8,549
Pooled funds	629,362	587,355
Cash and term deposits	1,435	4,820
Accrued investment income	85	53
Other	2,197	1,127
	659,003	612,677
Liabilities	1,407	640
NET ASSETS	657,596	612,037

	2015	2014
	$	$
CHANGE IN NET ASSETS		
NET ASSETS BEGINNING OF YEAR	612,037	546,447
Net contributions:		
Contributions	113,545	90,851
Withdrawals	(77,702)	(62,890)
	35,843	27,961
Investment income:		
Change in value of investments	(17,168)	16,051
Interest and dividends	38,394	31,362
	21,226	47,413
Management and administrative fees	(11,510)	(9,784)
NET ASSETS – END OF YEAR	657,596	612,037

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

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

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

	2014		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	448,496	(122,955)	325,541
Group insurance	52,572	(34,075)	18,497
Annuities and pensions	234,297	(978)	233,319
Other insurance contract liabilities	1,652	(655)	997
	737,017	(158,663)	578,354

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

Change in Insurance Contract Liabilities and Reinsurance Assets

The change for the year is explained as follows:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

	2014		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	633,159	(129,070)	504,089
Change in balances on in-force policies	62,940	(26,481)	36,459
Balances arising from new policies	48,318	(6,906)	41,412
Method and assumption changes	(9,052)	4,449	(4,603)
Increase (decrease) in insurance contract liabilities and reinsurance assets	102,206	(28,938)	73,268
Balance before the following:	735,365	(158,008)	577,357
Other insurance contract liabilities	1,652	(655)	997
Total insurance contract liabilities and reinsurance assets	737,017	(158,663)	578,354

Principal changes to actuarial methods and assumptions are detailed as follows:

	2015	2014
	$	$
Mortality	(1,074)	(275)
Interest	(1,801)	(6,216)
Lapses	(142)	2,194
Segregated funds	(31)	-
Expense	(858)	(905)
Other (dividends, data)	4	599
Total	(3,902)	(4,603)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

12. INVESTMENT CONTRACT LIABILITIES

	2015	2014
	$	$
Balance, beginning of period	23,358	23,114
Deposits	2,145	2,355
Interest	352	386
Withdrawals	(3,717)	(2,497)
Increase (decrease) in investment contract liabilities	(1,220)	244
Total investment contract liabilities	22,138	23,358

13. INSURANCE RISK

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

Insurance Contracts

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

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

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

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

Deferred annuities are contracts that bear a guaranteed interest rate usually for a period equal or less than 5 years. These contracts waive market value adjustment until death of the policyholder.

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

	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	$	$	$	$	$
Individual insurance	(12,598)	(10,060)	35,454	313,719	326,515
Group insurance	7,091	6,339	3,868	3,573	20,871
Annuities and pensions	63,330	96,330	23,620	35,688	218,968

(in thousands) Year ended December 31, 2015

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

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

Sensitivities

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

		After-tax income impact	
Assumption	**Change**	**2015**	**2014**
	$	$	$
Mortality - life insurance products	+ 2%	(2,186)	(2,033)
Mortality - annuity products	- 2%	(355)	(344)
Morbidity	5% adverse	(1,651)	(1,489)
Expenses (contracts maintenance)	+ 5%	(1,671)	(1,615)
Policy termination rates	10% adverse	(5,366)	(4,654)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	(1,042)	257
	- 100 bps	943	(600)
Investment properties			
Immediate change in market value	+ 10%	2,250	2,244
	- 10%	(2,250)	(2,244)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	774	436
	- 10%	(1,491)	(966)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

14. OTHER LIABILITIES

	2015	2014
	$	$
Financial liabilities		
Insurance payable:		
Policyholders	8,858	13,324
Reinsurers	5,963	4,010
Agents, brokers and intermediates	1,304	1,176
Suppliers and other charges	6,929	7,345
Other	1,091	1,097
	24,145	26,952
Non financial liabilities		
Income tax	144	4,441
	24,289	31,393

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

15. EMPLOYEE BENEFIT PLANS

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

	2015	2014
	$	$
Changes in accrued benefit obligation of defined benefits:		
Balance at beginning of year	56,081	46,390
Current service cost	1,641	1,571
Employees' contributions	767	829
Interest cost	2,331	2,246
Benefits paid	(3,161)	(1,689)
Change resulting from curtailment	-	(113)
Actuarial (gains) losses resulting from experience adjustments	686	668
Actuarial (gains) losses resulting from changes of demographic assumptions	(85)	-
Actuarial losses resulting from changes of financial assumptions	-	6,179
Balance at end of year	58,260	56,081
Changes in plan assets:		
Fair value at beginning of year	41,901	36,901
Employer's contributions	4,937	2,790
Employees' contributions	767	829
Return on plan assets	1,359	3,070
Benefits paid	(3,161)	(1,689)
Fair value at end of year	45,803	41,901

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

	2015	2014
	$	$
Present value of the defined benefit obligation	58,260	56,081
Fair value of plan assets	(45,803)	(41,901)
Pension plan liability	12,457	14,180

(in thousands) Year ended December 31, 2015

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

	2015	2014
	$	$
Current service cost, net of employees' contributions	1,641	1,571
Change resulting from curtailment	-	(113)
Net interest on the net defined benefit liability	564	472
	2,205	1,930

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

	2015	2014
	$	$
Group insurance benefits liability	565	545
Pension plan liability	12,457	14,180
	13,022	14,725

Plan members contribute 7.5% (7.5% in 2014) to their retirement plan. The Group makes the necessary residual contributions to the plans. The Group finances the plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits was established by the latest actuarial valuation, dated December 31, 2015 for the Assumption Mutual Life Insurance Company Agent and Employee Pension Plan ("AML") and December 31, 2015 for the Assumption Place Employee Pension Plan ("Place"). The average remaining service periods of the active employees covered by the AML pension plan is 20 years (21 years in 2014) and 9 years (9 years in 2014) for the Place pension plan. The average remaining service periods of the active employees covered by the other retirement benefit plans are the same as the pension plans.

The Group's best estimate of expected payments for the pension plans for the year ending December 31, 2016, is $5,178.

(in thousands) Year ended December 31, 2015

The pension fund monies are invested in the following assets:

	2015	2014
	$	$
Assumption Life and Assumption Place Pension Plan Fund	45,617	41,662
Cash	186	239
	45,803	41,901

Assumption Life and Assumption Place Pension Plan Fund

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

The Pension Plan Fund portfolio consists of a mix of cash (4%), Canadian bonds (41%) and equities (23%), foreign equities (27 %) and hedge funds (5%). The Pension Plan Fund is eligible as a registered retirement savings plan under the Income Tax Act of Canada.

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

	2015	2014
	%	%
Discount rate	4.0 to 4.1	4.0 to 4.1
Rate of compensation increase	3.25 to 3.75	3.25 to 3.75
Mortality rate	CPM-B2D2014	CPM-B1D2014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

Sensitivity Analysis

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

	2015	
	+1%	**-1%**
Discount rate	(10,023)	13,302
Rate of compensation increase	2,224	(2,070)
Mortality rate	(85)	86

Defined Contribution Plan

As of July 1st, 2014, the Group stopped offering the defined benefit plan to new employees and is now offering a defined contribution plan providing pension benefits. The Group's contributions to the defined contribution plan are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Group's defined contribution plan is $144 for the year ended December 31, 2015 ($80 in 2014).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

16. BORROWINGS

The Group has authorized credit margins totaling $500 bearing interest at the bank's base rate. These bank loans are renewable annually, are not guaranteed and are not used as at December 31, 2015.

	2015	2014
	$	$
Mortgage Loans		
Mortgage loan at a rate of 2.55%, repayable in monthly installments of $34, including interest, maturing in April 2016 and pledging investment property	2,421	2,759
Mortgage loan at a rate of 2.55%, repayable in monthly installments of $33, including interest, maturing in April 2016 and pledging investment property	1,626	1,976
Bank Loans and Other		
Loans at prime rate minus 1% without fixed repayment conditions	297	297
Promissory note at a rate of 4%, repayable in full in 2016	500	500
Contingent consideration repayable in full in 2016	648	557
	5,492	6,089
Fair value	5,373	5,888

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

Years ending December 31,	2016	$1,851
	2017	$ 720
	2018	$ 741
	2019	$ 765
	2020	$ 487

These estimated payments are based on the assumption that the loans will be renewed. The balance of mortgage loans to be renewed within one year is $3,344.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

17. TAXES

Income tax expense consists of the following:

	2015	2014
	$	$
Current income taxes	2,338	2,260
Adjustments from prior year	(6)	(11)
Deferred income taxes	356	684
	2,688	2,933

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

	2015		2014	
	$	%	$	%
Income tax at statutory rate	3,252	27.1	3,467	27.1
Increase (decrease) in the tax rate resulting from:				
Non taxable investment income	(644)	(5.4)	(597)	(4.7)
Differences in tax rates in other provincial jurisdictions	59	0.5	15	0.1
Adjustments from prior year	(6)	-	(11)	(0.1)
Other	27	0.2	59	0.5
	2,688	22.4	2,933	22.9

(in thousands) Year ended December 31, 2015

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

	2015	2014
	$	$
Investment properties, property and equipment and intangible assets	5,336	5,499
Insurance contract liabilities (assets)	(46)	26
Debt securities	249	303
Employee benefit plans	(3,547)	(4,010)
Other	28	122
	2,020	1,940
Deferred tax assets	(2,241)	(2,168)
Deferred tax liabilities	4,261	4,108
	2,020	1,940

18. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2015	2014
	$	$
Interest received	8,639	9,482
Income taxes paid	7,975	25
Dividends paid	594	200
Dividends received	2,455	2,283
Cash flows related to financing activities include the following:		
Interest paid on financing	147	193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

19. CONTINGENCIES

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

20. COMMITMENT

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

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

21. NET PREMIUMS

	2015			2014
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	$	$	$	$
Individual insurance	56,451	(13,913)	42,538	39,091
Group insurance	65,852	(15,580)	50,272	43,502
Annuities and pensions	59,867	-	59,867	65,176
	182,170	(29,493)	152,677	147,769

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

22. NET BENEFITS AND CLAIMS PAID

	2015			2014
	Gross benefits and claims paid	Claims ceded to reinsurers	Net benefits and claims paid	Net benefits and claims paid
	$	$	$	$
Individual insurance	30,286	(9,598)	20,688	19,638
Group insurance	50,008	(12,076)	37,932	34,252
Annuities and pensions	75,853	(73)	75,780	49,622
	156,147	(21,747)	134,400	103,512

23. FEES AND COMMISSION INCOME

	2015	2014
	$	$
Policyholder administration and investment management services	15,271	13,896
Surrender charges and other contract fees	1,246	1,845
Reinsurance commission income	2,453	2,337
	18,970	18,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

24. INVESTMENT INCOME

	2015	2014
	$	$
Interest on cash and cash equivalents	306	357
Interest on debt securities designated at fair value through profit or loss	1,827	1,931
Interest on debt securities available-for-sale	3,496	3,374
Dividends on equity securities designated at fair value through profit or loss	2,200	2,041
Dividends on equity securities available-for-sale	211	291
Interest on mortgage loans and other invested assets	5,746	6,382
Interest on policy loans	435	424
Rental income from investment properties	3,332	3,533
Service charge income from investment properties	3,615	3,612
Service charge expense from investment properties	(4,343)	(4,243)
	16,825	17,702

25. RENTAL INCOME

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

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

	2015	2014
	$	$
Not later than one year	5,439	4,573
Later than one year and not later than five years	11,485	9,616
Later than five years	1,052	1,922
	17,976	16,111

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

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

	2015	2014
	$	$
Realized gains		
Equity securities	3	18
Debt securities	1,804	202
Realized losses		
Equity securities	(3)	(7)
Debt securities	-	-
	1,804	213

27. FAIR VALUE GAINS AND LOSSES

	2015	2014
	$	$
Financial assets at fair value through profit or loss	9,191	63,107
Investment properties	72	217
	9,263	63,324

28. FEES AND COMMISSION EXPENSES

	2015	2014
	$	$
Fees expenses	1,378	1,141
Commission expenses	27,441	23,070
	28,819	24,211

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

29. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2015	2014
	$	$
Administrative expenses		
Salaries and employee benefits expense	19,421	18,625
Amortization on property and equipment (note 8)	772	898
Amortization of intangible assets (note 9)	1,662	1,693
Professional and consultant fees	3,470	3,163
Investment property related expenses (note 4)	574	908
Other	5,113	4,342
	31,012	29,629
Other operating expenses		
Allowance for credit losses	584	381
Other	4,820	4,378
	5,404	4,759

30. CAPITAL MANAGEMENT

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

REGULATORY REQUIREMENTS AND SOLVENCY RATIO

The regulatory authorities require life insurance companies in Canada to maintain a minimum capitalization ratio in order to carry on business activities. In reference to the guideline imposed by OSFI, the Group maintains a ratio above the minimum requirement of 150%. As of December 31, 2015, the Group's ratio is 242% (232% in 2014).

A ratio of 242% means that the Group has sufficient capitalization to face unexpected negative results of approximately $42.0 million ($35.5 million in 2014) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory Capital

	2015	2014
Available capital according to requirements	$110,028	$100,312
Required capital	$45,379	$43,177
Solvency ratio	242%	232%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2015

31. RELATED PARTY TRANSACTIONS

Related parties include directors, executives and their affiliates.

DIRECTORS AND THEIR AFFILIATES

In 2009, the Company granted to 647439 NB Inc., whose shareholders are directors of Louisbourg Investments Inc., a loan of 1.3 million, as well as an additional $467 in 2012, without interest, refundable before October 30, 2024. The balance of this loan as of December 31, 2015, is $485 ($701 in 2014).

COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2015	2014
	$	$
Salaries and other short-term employment benefits	3,586	3,997
Fees	257	223
Post employment pension benefits	276	231
	4,119	4,451

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted for the year ended December 31, 2015.

Organizational Chart

Assumption Mutual Life Insurance Company

Atlantic Holdings (1987) Ltd.
100% Assumption Mutual Life Insurance Company

$1,643

Assumption Place Ltd.
100% Assumption Mutual Life Insurance Company

$22,659

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

Louisbourg Financial Services Inc.
100% Louisbourg Investments Inc.

% value = percentage of voting nights held

$ value = book value (in thousands of Canadian dollars)

Assumption Life

2015 ANNUAL REPORT

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www.assumption.ca

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fax: 506.853.5449

Louisbourg Investments Inc.
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fax: 506.853.5457

Assumption Place Ltd.
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