



Assumption Life

# 2014 ANNUAL REPORT

2014 annual report

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## ▶ DOING BUSINESS WITH US IS EASY.

We honor this philosophy on a daily basis by adopting an individual and corporate code of conduct CENTERED ON THE CLIENT, INTEGRITY, ACCOUNTABILITY, COMMITMENT and INNOVATION.



“We have come to realize that we do not need to compete with anyone but ourselves. Each day gives us an opportunity – as individuals, as professionals, and as a company – to exceed our own expectations.”

– André Vincent  
President and CEO



# BOARD OF DIRECTORS 2014



## Yvon Fontaine, LL.B, LL.M.

Chairman of the Board  
1, 2, 3, 4, 5 (24/25)

## André Vincent

President and CEO  
Assumption Life  
1, 2, 3, 4, 5, 6, 7 (32/33)

## Denis Larocque, CPA, CA

Vice Chairman of the Board  
Chief Financial Officer  
Major Drilling Group International Inc.  
1, 2, 3, 5, 6, 7 (26/29)

## Yves Arseneau, CPA, CA

Partner  
Allen, Paquet & Arseneau LLP  
1, 2, 3, 5, 6 (22/23)

## Andrée Savoie

President and Managing Director  
Acadian Construction (1991) Ltd.  
Managing Director of Acadian  
Properties Ltd.  
2, 3, 5, 6 (22/22)

## Nathalie Godbout, LL.B

Partner  
Lawson & Creamer  
2\*\*\*, 4, 8 (13/16)

## Allister Surette

President and Vice-Chancellor  
Université Sainte-Anne  
1, 4, 8 (14/15)

## Jacques Valotaire, FCPA, FCA, ICD.D

Corporate Director  
2, 3, 4, 6, 7 (24/24)

## Monique Tremblay

FCIA, FSA, MBA  
2, 3, 4, 6 (18/18)

## Ivan Toner

Vice President IT and Services  
Engineering for Bell Aliant  
2\*/\*\*\*, 4\* (14/15)

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. Louisbourg Investments
8. Assumption Foundation

The numbers following the directors' names indicate Board committee memberships as of December 31, 2014. 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



Our 2014 review has instilled in us a strong sense of pride. The solid performances across all Company business lines, underpinned by sound management, have allowed us once again to post outstanding financial results. Indeed, profits attributable to policyholders increased by 44%, reaching \$9.5 million in 2014. Group insurance and investments and retirement performed particularly well, each shattering previous sales records. We owe this success to the tireless efforts of the management team, to the strong relationships we have developed with our business partners, and to the great dedication of Assumption Life employees.

## **Towards a Promising Future**

We are all committed to ensuring the long-term success of Assumption Life. Over the past year, the Board of Directors and management team have embarked on a strategic planning process to clearly and unequivocally stake out the initiatives that the Company will take to ensure its continued

growth and profitability. This extensive and ongoing process will target the 2016-2018 timeframe. The resulting findings and guidelines will lay the groundwork for the enduring success of Assumption Life for years to come.

## **Sound Governance**

The Board is ever attentive to adopting the best corporate governance practices. To this end, we carry out our work in compliance with the Corporate Governance Guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI) and in accordance with all applicable guidelines, laws and regulations. The Governance Committee has also emphasized the importance of committee chair succession planning and the continued evaluation of Board members to optimize individual contributions.

## Enviably Corporate Culture

Assumption Life was once again recognized as one of the best employers in Canada. The Company was named by Progress Magazine as one of the Top 101 companies in Atlantic Canada in 2014, and ranks among Canada's 50 best small and medium employers, according to a survey facilitated jointly by Queen's School of Business and AON Hewitt. This not only confirms the stimulating work environment at Assumption Life, but also attests to the extraordinary dedication of our employees. Their commitment far exceeds the scope of their job descriptions, as their community involvement so clearly demonstrates. We are proud of the fact that our employees, the heart of our company, are also at the heart of our communities.

## A Word of Thanks

Last year was a resounding success. We faced significant challenges, but the efforts undertaken by our team have yielded significant rewards. I would like to extend my thanks to our President and CEO, Mr. André Vincent, and the members of the Board of Directors for their dedication and for their trust and confidence in me throughout the year. I would also like to express my gratitude to Denis Larocque and Nathalie Godbout as they reach the end of their term on the Board of Directors. The dedication and wise counsel of these two Board members has been invaluable, and we are deeply grateful for their contributions.

Finally, I would like to express my sincere appreciation to our many clients, agents and brokers. We hope you will join us in celebrating the success of this company to which you are so vitally important.



**Yvon Fontaine**  
Chairman of the Board



# MESSAGE FROM THE PRESIDENT AND CEO



## Assumption Life among top employers in Canada

When I arrived at Assumption Life two years ago, it quickly became obvious that one of the Company's biggest strengths is its employees, a fact that has been proven to me time and again. Employee commitment and dedication are the reasons

We can look back on 2014 with great pride and satisfaction. While our financial performance was certainly impressive, even more noteworthy was that the work done was well done. The efforts put forth by all of our employees and partners gives me great pride. We have come to realize that we do not need to compete with anyone but ourselves. Each day gives us an opportunity—as individuals, as professionals, and as a company—to exceed our own expectations.

In 2014, all of Assumption Life's business lines showed outstanding growth. Profit attributable to policyholders reached \$9.5 million, a 44% jump from last year. At the end of the fiscal year, Assumption Life's policyholder equity totalled \$110 million, an increase of \$14 million over 2013. These results show that we are able to offer solutions suited to clients' needs and that Assumption Life has become a leading provider for a large number of distributors.

for our company's outstanding reputation and incredible success. A survey by the Queen's School of Business in partnership with Aon Hewitt recognized Assumption Life as one of the 50 best small and medium employers in Canada. Our employees' exceptional level of involvement is what sets us apart; it also demonstrates that their outstanding commitment makes a significant difference in the eyes of our clients and partners. I am very proud to be part of this team.

## Our Social Responsibility Program for the Benefit of the Community

From the beginning, Assumption Life has been involved in the community in an effort to see it flourish. In 2014, we officially developed our Social Responsibility Program to make our commitment official and to maintain our standing as a good corporate citizen. Assumption Life wishes to keep giving back by being involved

in activities mostly at the local level, but also by extending its involvement through nation-wide initiatives. Charitable giving and philanthropy have always been essential values for Assumption Life. Today, we are confirming our commitment to the community through this program.

### Looking to the Future

We are now at a stage where further initiatives are being launched. The development of new products and a review of some of our existing ones will allow us to become even more competitive. We live in a time that does not allow any company to rest on its laurels. Whenever one raises the bar, through services or product offerings, the others must follow suit. Our new Strategic Marketing Research team will ensure that Assumption Life continues innovating and being proactive while reacting quickly to what the industry delivers. This forward-looking way of thinking gives us the tools to ensure Assumption Life's success as well as its long-term survival.

### Success on a Small and Large Scale - Thanks to You

We had many successes in 2014, both big and small. I wish to thank everyone who has worked so hard to make this company what it is today: employees, partners, and of course, members of the Board of Directors. I would also like to sincerely thank our clients for their continued trust in us.



**André Vincent**  
President and CEO



## OUR COMMITMENT TO OUR COMMUNITIES: DEEPLY ROOTED IN OUR VALUES

Charitable giving and philanthropy are part of Assumption Life's DNA. One hundred and eleven years later, we still honor the same values. In 2014, the Company contributed nearly 4% of its net profit to social causes.

### **Our Commitment to Health and Wellness: Investing in a Healthy Future**

Assumption Life's Bobby Orr Golf Tournament is a great example of the amazing things that can be accomplished when the business and healthcare communities work together. Over the last 12 years, this event has raised over \$1.4 million for the Atlantic Cancer Research Institute (ACRI).



For many years now, Assumption Life has been at the forefront of the fight against cancer and now wants prevention to be part of its approach. Whether by encouraging youth to become more active by participating in the Acadian Games (Jeux de l'Acadie), by supporting athlete Armand Doucet in his impressive Iron Will challenge, or simply by wholeheartedly encouraging similar endeavors, we hope to make a difference in the health and well-being of our communities.

### *Employees Contributing Their Fair Share*

Our employees work hard to encourage health and wellness in our community. They have also demonstrated their tremendous generosity towards many organizations such as the Tree of Hope, United Way, Crossroads for Women in Moncton, IWK, the Juvenile Diabetes Research Foundation as well as Movember, the men's health awareness campaign.

Assumption Life is proud of its employees' commitment and supports their community involvement.



### **Our Commitment to Education: A Top Concern**

Access to education was one of our founders' main areas of involvement, and remains a focus to this day. In 2014, the Foundation awarded 17 scholarships ranging in value from \$1,500 to \$10,000. Since its beginnings, the Company has granted over \$4 million in donations to educational institutions and in scholarships.

### **Our Commitment to Culture: Celebrating our Artists' Exceptional Contribution**

Philanthropy also extends to arts and culture, which bring life to our communities. In 2014, Assumption Life supported, among others, the Lamèque International Baroque Music Festival and the New Brunswick Youth Orchestra. Furthermore, six exhibitions are showcased each year at our Assumption Gallery.

### **Our Commitment to the Environment: Toward a Greener Future**

Our company understands that it has a responsibility to protect the environment. Recycling to reduce our environmental footprint and sustainable housing practices piloted by our subsidiary Assumption Place are just some of the ways we do this.

Assumption Life also works hand in hand with wildlife specialists and Natural Resources, to protect some unusual tenants on our Assumption Place rooftop, the peregrine falcons.

### **Our Socioeconomic Commitment: Promoting our Communities' Economy**

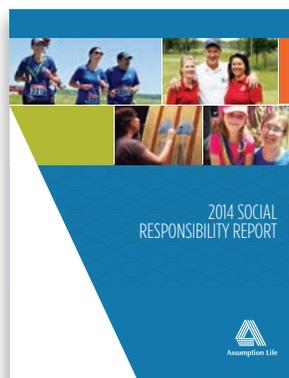
As a supporter of economic development, our company works with various organizations, such as the New Brunswick Business Council and the Conseil économique du Nouveau-Brunswick.

### **Our Commitment to Our Employees, the Heart of Our Business**

Our success depends greatly on our employees. Their dedication is recognized at meetings and award ceremonies as well as through our program saluting excellence in the workplace.

Proof that we are on the right track:

- Employee retention rate: 95%.
- On Aon Hewitt's list of Top 50 Best Employers in Canada for 2015, in the Best Small and Medium Employers category.
- Ranked 22nd among Atlantic Canada's Top 101 companies (Best Places to Work in Atlantic Canada survey), Progress Magazine 2014.



*To learn more about our philanthropic endeavors, see Assumption Life's 2014 Social Responsibility Report.*

# ASSUMPTION LIFE'S FINANCIAL HEALTH IN 2014

\$9.5 MILLION

Profit attributable to policyholders

\$110 MILLION

Policyholders' equity

\$1.5 BILLION

Assets under management

232%

Solvency Ratio at December 31, 2014.

A – for a 15th 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

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# 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, 2014**, 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, 2014**, 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 26, 2015

# 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, 2014**, and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods.

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



Moncton, New Brunswick  
February 16, 2015

Luc Farmer  
Fellow, Canadian Institute of Actuaries



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands)

As at December 31

		2014	2013
		\$	\$
<b>ASSETS</b>			
<b>Invested assets</b>	4		
Cash and cash equivalents		28,793	28,500
Debt securities		473,113	388,000
Equity securities		73,685	56,115
Mortgages		117,880	119,840
Other invested assets		2,436	2,765
Policy loans		8,497	8,597
Investment properties		30,797	32,647
		735,201	636,464
Other assets	7	20,450	18,900
Reinsurance assets	11	158,663	129,082
Deferred tax assets	17	2,168	1,105
Property and equipment	8	4,342	4,766
Intangible assets	9	6,117	7,099
Goodwill		467	467
Segregated fund net assets	10	612,037	546,447
		1,539,445	1,344,330
<b>LIABILITIES</b>			
Insurance contract liabilities	11	737,017	636,946
Investment contract liabilities	12	23,358	23,114
Other liabilities	14	31,393	19,214
Employee benefit liability	15	14,725	9,961
Deferred tax liabilities	17	4,108	3,872
Borrowings	16	6,089	7,945
Segregated fund net liabilities	10	612,037	546,447
		1,428,727	1,247,499
<b>EQUITY</b>			
<b>Policyholders' equity</b>			
Surplus		102,345	96,901
Accumulated other comprehensive income		7,493	(757)
		109,838	96,144
Non-controlling interests		880	687
		110,718	96,831
		1,539,445	1,344,330

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	
		2014	2013
REVENUE	Notes	\$	\$
Gross premiums		174,112	152,543
Premiums ceded to reinsurers		(26,343)	(25,739)
<b>Net premiums</b>	21	147,769	126,804
Fees and commission income	23	18,078	15,793
Investment income	24	17,702	17,193
Realized gains and losses from available- for-sale financial assets	26	213	1,168
Fair value gains and losses	27	63,324	(24,523)
Other operating revenue		497	460
<b>Other revenue</b>		99,814	10,091
<b>Total revenue</b>		247,583	136,895
<b>EXPENSES</b>			
Gross benefits and claims paid	22	127,996	111,264
Claims ceded to reinsurers	22	(24,484)	(18,797)
Gross change in contract liabilities		99,288	(27,543)
Change in contract liabilities ceded to reinsurers		(27,840)	6,314
<b>Net benefits and claims</b>		174,960	71,238
Borrowing costs		190	228
Fees and commission expenses	28	24,211	22,249
Administrative expenses	29	29,629	28,224
Other operating expenses	29	4,759	4,338
<b>Other expenses</b>		58,789	55,039
<b>Total expenses</b>		233,749	126,277
<b>PROFIT BEFORE DIVIDENDS AND INCOME TAXES</b>		13,834	10,618
Policyholder dividends		1,042	1,182
<b>PROFIT BEFORE INCOME TAXES</b>		12,792	9,436
Income taxes	17	2,933	2,470
<b>PROFIT FOR THE YEAR</b>		9,859	6,966
<b>PROFIT ATTRIBUTABLE TO:</b>			
Non-controlling interests		376	377
Policyholders		9,483	6,589
		9,859	6,966

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands)

	Year ended December 31	
	<b>2014</b>	<b>2013</b>
	\$	\$
<b>PROFIT FOR THE YEAR</b>	9,859	6,966
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 \$3,115 ((\$1,656) in 2013)	8,403	(4,332)
Reclassification of realized losses (gains) included in other revenue, net of income taxes of (\$57) ((\$322) in 2013)	(156)	(846)
Total of items that will be reclassified subsequently to net income	8,247	(5,178)
Items that will not be reclassified subsequently to net income		
Remeasurement of defined benefit pension plans, net of income taxes of (\$1,512) (\$2,296 in 2013)	(4,039)	6,714
Total of other comprehensive income	4,208	1,536
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>14,067</b>	<b>8,502</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Non-controlling interests	373	395
Policyholders	13,694	8,107
	<b>14,067</b>	<b>8,502</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in thousands)

Year ended December 31

	<b>2014</b>				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non- controlling interests	Total equity
	\$	\$	\$	\$	\$
<b>Balance, beginning of year</b>	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)
<b>Balance, end of year</b>	102,345	7,493	109,838	880	110,718

	<b>2013</b>				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non- controlling interests	Total equity
	\$	\$	\$	\$	\$
<b>Balance, beginning of year</b>	83,598	4,439	88,037	502	88,539
Profit for the year	6,589	-	6,589	377	6,966
Items that will be reclassified subsequently to net income	-	(5,196)	(5,196)	18	(5,178)
Remeasurement of defined benefit pension plans	6,714	-	6,714	-	6,714
Total comprehensive income	13,303	(5,196)	8,107	395	8,502
Dividends	-	-	-	(210)	(210)
<b>Balance, end of year</b>	96,901	(757)	96,144	687	96,831

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

# CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands)

	Year ended December 31	
	2014	2013
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Profit for the year	9,859	6,966
Items not affecting cash:		
Deferred income taxes	684	(352)
Change in reinsurance assets	(29,581)	7,110
Change in insurance and investment contract liabilities	100,315	(25,374)
Amortization of property and equipment and intangible assets	2,591	2,544
Fair value gains and losses	(63,324)	24,523
Realized gains and losses on disposal of available -for-sale financial assets	(213)	(1,168)
Employee benefit plan expense	2,003	2,092
Other	(3,565)	(2,587)
	18,769	13,754
Change in non-cash working capital items related to operations	4,785	(897)
Cash flows from operating activities	23,554	12,857
<b>INVESTING</b>		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	53,655	96,762
Purchases and loans	(74,521)	(88,280)
Acquisition of property and equipment and intangible assets	(1,447)	(3,401)
Disposition of property and equipment and intangible assets	262	-
Other	667	(85)
Cash flows from investing activities	(21,384)	4,996
<b>FINANCING</b>		
Change in borrowings	(1,877)	220
Cash flows from financing activities	(1,877)	220
<b>INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	293	18,073
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	28,500	10,427
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	28,793	28,500

See note 18 for additional information

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 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 26, 2015.

### *Basis of Preparation*

The Group presents its consolidated statement of financial position primarily in order of liquidity. Assets are considered current when

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

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

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

### *Consolidation*

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

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

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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, must be 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 recognized in 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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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.

On 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 in the accumulated other comprehensive income is reclassified to income. Any decline in value is recognized to income and any increase in value is recognized to other comprehensive income. Impairment losses recognized in profit or loss shall not be reversed through profit or loss.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *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 in the income statement.

On 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 according to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. This provision is immediately recorded in 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 at the 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, 2014

## 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

(in thousands) Year ended December 31, 2014

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 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 reevaluates 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

(in thousands) Year ended December 31, 2014

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 commissions 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).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *(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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

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

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

## *Taxes*

The Group provides for income taxes using the liability method of tax allocation. The income tax provision is comprised of current and deferred income taxes. 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *Provisions*

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

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

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

## *Premiums*

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *Changes in Accounting Policies*

The following paragraphs present the impact on the financial statements of the standards or amendments that the Group adopted on January 1, 2014.

### *IAS 32 - Financial Instruments: Presentation*

The amendments provide clarification on the application of rules to offset financial assets and financial liabilities. The following notions are clarified: legally enforceable right to offset, application of simultaneous realization or settlement, offsetting a guaranteed amount and the unit of accounting for application of the offsetting obligations. The adoption of this amendment has had no impact on the Group's consolidated financial statements.

### *IFRS 10 - Consolidated Financial Statements*

The amendment proposes that entities controlled by an investment entity be recognized at fair value through profit or loss, in accordance with IAS 39 - "Financial Instruments: Recognition and Measurement". This means that entities that meet the definition of investment entity will be exempt from consolidation, but will have to recognize their overall share at fair value through profit or loss, as per IAS 39. The amendment also requires additional disclosure on the concept of investment entity. This amendment has no impact on the Group's financial statements.

### *IAS 36 - Impairment of Assets*

In May 2013, the IASB issued an amendment "Recoverable Amount Disclosures for Non-Financial Assets," which requires additional disclosure on the recoverable amount of impaired assets, if such amount is based on fair value less costs of disposal. The

amendment also requires disclosure of the discount rate used to determine, using a discounting technique, the recoverable amount of an impaired asset, whether such amount is based on fair value less costs of disposal or value in use. The adoption of this amendment has no impact on the Group's consolidated financial statements.

## *Future Accounting Policy Changes*

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

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

### *IFRS 9 - Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" 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. 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *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 comments period ended on November 30, 2010. Phase II of the standard should not take effect prior to 2017-2018. 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.

## 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

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

## *Classification of Properties*

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

## *Estimates and Assumptions*

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *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.

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, 2014

## 4. INVESTED ASSETS

### Carrying Value and Fair Value

2014

	Designated at fair value through profit or loss	Available- for-sale	Loans & receivables	Other	Total	Fair value
	\$	\$	\$	\$	\$	\$
<b>Cash and cash equivalents</b>	28,793	-	-	-	28,793	28,793
<b>Debt securities</b>						
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
<b>Equity securities</b>						
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
<b>Mortgages</b>						
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
<b>Other invested assets</b>	-	-	2,436	-	2,436	2,446
<b>Policy loans</b>	-	-	8,497	-	8,497	8,497
<b>Investment properties</b>	-	-	-	30,797	30,797	30,797
	467,743	107,848	128,813	30,797	735,201	735,973

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## Carrying Value and Fair Value

2013

	Designated at fair value through profit or loss	Available- for-sale	Loans & receivables	Other	Total	Fair value
	\$	\$	\$	\$	\$	\$
<b>Cash and cash equivalents</b>	28,500	-	-	-	28,500	28,500
<b>Debt securities</b>						
Government	295,818	81,610	-	-	377,428	377,428
Municipal	2,052	-	-	-	2,052	2,052
Corporations & other	6,618	1,902	-	-	8,520	8,520
	304,488	83,512	-	-	388,000	388,000
<b>Equity securities</b>						
Common stocks	-	144	-	-	144	144
Preferred stocks	30,926	-	-	-	30,926	30,926
Investment fund units	20,493	4,552	-	-	25,045	25,045
	51,419	4,696	-	-	56,115	56,115
<b>Mortgages</b>						
Insured residential	-	-	13,140	-	13,140	13,220
Other residential	-	-	21,905	-	21,905	22,410
Commercial	-	-	84,795	-	84,795	85,806
	-	-	119,840	-	119,840	121,436
<b>Other invested assets</b>	-	-	2,765	-	2,765	2,770
<b>Policy loans</b>	-	-	8,597	-	8,597	8,597
<b>Investment properties</b>	-	-	-	32,647	32,647	32,647
	384,407	88,208	131,202	32,647	636,464	638,065



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## Investment Properties

The following table details the transactions on investment properties.

	2014	2013
	\$	\$
Balance, beginning of year	32,647	32,129
Disposition	(2,067)	(22)
Change in fair value	217	540
Balance, end of year	30,797	32,647
Rental income and service charge income	7,145	7,098
Operating expenses that generate rental income	(4,243)	(4,188)
Operating expenses that do not generate rental income	(908)	(1,063)

## 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, 2014

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.

	2014	2013
	\$	\$
Cash and cash equivalents	28,793	28,500
Debt securities	473,113	388,000
Mortgages	117,880	119,840
Other invested assets	2,436	2,765
Policy loans	8,497	8,597
Reinsurance assets	158,663	129,082
Other receivables	17,987	15,643
	807,369	692,427

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## Quality of the Debt Securities Portfolio

	2014	2013
	\$	\$
AAA	1,610	2,425
AA	211,589	165,303
A	259,914	220,272
	473,113	388,000

## Quality of the Preferred Equity Securities Portfolio

	2014	2013
	\$	\$
PF-1	4,699	4,344
PF-2	42,344	26,582
	47,043	30,926

## Loans in Arrears and Provisions for Losses

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

	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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

	2013			Total
	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	
	\$	\$	\$	\$
Non impaired mortgages				
Insured residential	3	-	-	3
Other residential	207	-	-	207
Commercial	-	286	335	621
	210	286	335	831
Impaired mortgages				
Commercial	-	-	532	532
	-	-	532	532

## Provisions for losses

	2014	2013
	\$	\$
Mortgage loans:		
Beginning of year	382	59
Provisions for losses - increase (decrease)	(29)	323
End of year	353	382

## 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	3,097	-	-

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

	2014						Fair value
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	
	\$	\$	\$	\$	\$	\$	\$
<b>Cash and cash equivalents</b>	28,793	-	-	-	-	28,793	28,793
<b>Debt securities</b>							
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
<b>Equity securities</b>							
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
<b>Mortgages</b>							
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
<b>Other invested assets</b>	-	940	1,262	234	-	2,436	2,446
<b>Policy loans</b>	8,497	-	-	-	-	8,497	8,497
<b>Other receivables</b>	17,987	-	-	-	-	17,987	17,987

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

	2013						Fair value
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	
	\$	\$	\$	\$	\$	\$	\$
<b>Cash and cash equivalents</b>	11,418	17,082	-	-	-	28,500	28,500
<b>Debt securities</b>							
Government	-	2,032	23,086	24,116	328,194	377,428	377,428
Municipal	-	302	1,164	586	-	2,052	2,052
Corporations & other	-	2,950	1,088	-	4,482	8,520	8,520
	-	5,284	25,338	24,702	332,676	388,000	388,000
<b>Equity securities</b>							
Common stocks	144	-	-	-	-	144	144
Preferred stocks	30,926	-	-	-	-	30,926	30,926
Investment fund units	25,045	-	-	-	-	25,045	25,045
	56,115	-	-	-	-	56,115	56,115
<b>Mortgages</b>							
Insured residential	-	3,947	6,115	-	3,078	13,140	13,220
Other residential	-	7,913	7,526	30	6,436	21,905	22,410
Commercial	-	27,742	32,036	18,210	6,807	84,795	85,806
	-	39,602	45,677	18,240	16,321	119,840	121,436
<b>Other invested assets</b>	-	963	1,423	-	379	2,765	2,770
<b>Policy loans</b>	8,597	-	-	-	-	8,597	8,597
<b>Other receivables</b>	15,643	-	-	-	-	15,643	15,643

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *Market Risk*

Market risk is the risk that the fair value or future cash flow 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).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *Stock Market Risk*

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

## 6. FAIR VALUE MEASUREMENT

### **Fair Value Hierarchy**

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

	2014			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>	\$	\$	\$	\$
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
<b>Assets disclosed at fair value</b>				
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
<b>Liabilities measured at fair value</b>				
Investment contract liabilities	-	23,358	-	23,358
<b>Liabilities disclosed at fair value</b>				
Borrowings	-	5,888	-	5,888
	-	29,246	-	29,246

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

	2013			
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>	\$	\$	\$	\$
Cash and cash equivalents	28,500	-	-	28,500
Financial assets designated at fair value through profit or loss				
Debt securities	-	304,488	-	304,488
Equity securities	51,419	-	-	51,419
Financial assets available-for-sale				
Debt securities	-	83,512	-	83,512
Equity securities	4,696	-	-	4,696
Investment properties	-	-	32,647	32,647
<b>Assets disclosed at fair value</b>				
Mortgages	-	121,436	-	121,436
Other invested assets	-	2,770	-	2,770
Policy loans	-	8,597	-	8,597
	84,615	520,803	32,647	638,065
<b>Liabilities measured at fair value</b>				
Investment contract liabilities	-	23,114	-	23,114
<b>Liabilities disclosed at fair value</b>				
Borrowings	-	7,636	-	7,636
	-	30,750	-	30,750

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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

Investment properties are recorded at fair value as determined by a qualified independent 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:

	2014	2013
	%	%
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 to 10

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 7. OTHER ASSETS

	2014	2013
	\$	\$
<b>Financial assets</b>		
Insurance receivables:		
Policyholders	3,474	3,773
Reinsurers	8,038	5,240
Agents, brokers and intermediates	1,273	1,051
Accrued investment income	1,335	1,422
Accounts receivable	3,867	4,157
	17,987	15,643
<b>Non financial assets</b>		
Commissions and prepaid expenses	2,380	1,810
Income tax receivable	49	1,410
Other	34	37
	2,463	3,257
	20,450	18,900

## 8. PROPERTY AND EQUIPMENT

	Equipment
	\$
<b>Cost</b>	
At December 31, 2013	8,614
Additions	736
Dispositions	(373)
Other movements	(858)
At December 31, 2014	8,119
<b>Accumulated amortization</b>	
At December 31, 2013	3,848
Amortization	898
Dispositions	(111)
Other movements	(858)
At December 31, 2014	3,777
<b>Carrying amount</b>	
At December 31, 2013	4,766
At December 31, 2014	4,342

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 9. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Client list	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
At December 31, 2013	1,682	12,373	97	898	15,050
Cost capitalized	101	-	594	-	695
Completed projects	161	519	(664)	-	16
Other movements	(667)	-	-	-	(667)
At December 31, 2014	1,277	12,892	27	898	15,094
<b>Accumulated amortization</b>					
At December 31, 2013	1,152	6,799	-	-	7,951
Amortization	270	1,423	-	-	1,693
Other movements	(667)	-	-	-	(667)
At December 31, 2014	755	8,222	-	-	8,977
<b>Carrying amount</b>					
At December 31, 2013	530	5,574	97	898	7,099
At December 31, 2014	522	4,670	27	898	6,117

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 10. SEGREGATED FUNDS NET ASSETS

	2014	2013
<b>NET ASSETS</b>	\$	\$
Investments:		
Debt securities	10,773	-
Equity securities	8,549	8,542
Pooled funds	587,355	532,997
Cash and term deposits	4,820	6,205
Accrued investment income	53	22
Other	1,127	2,097
	612,677	549,863
Liabilities	640	3,416
<b>NET ASSETS</b>	612,037	546,447

	2014	2013
	\$	\$
<b>CHANGE IN NET ASSETS</b>		
NET ASSETS - BEGINNING OF YEAR	546,447	472,859
Net contributions:		
Contributions	90,851	79,192
Withdrawals	(62,890)	(71,474)
	27,961	7,718
Investment income:		
Change in value of investments	16,051	46,604
Interest and dividends	31,362	27,482
	47,413	74,086
Management and administrative fees	(9,784)	(8,216)
<b>NET ASSETS - END OF YEAR</b>	612,037	546,447

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

### Nature and Composition

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

	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

	2013		
	Insurance contract liabilities	Reinsurance assets	Net
	\$	\$	\$
Individual insurance	378,630	(98,398)	280,232
Group insurance	46,667	(29,956)	16,711
Annuities and pensions	207,862	(716)	207,146
Other insurance contract liabilities	3,787	(12)	3,775
	636,946	(129,082)	507,864

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## Change in insurance contract liabilities and reinsurance assets

The change for the year is explained as follows:

	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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

	2013		
	Insurance contracts	Reinsurance assets	Net
	\$	\$	\$
Balance, beginning of period before other insurance contract liabilities	658,254	(134,208)	524,046
Change in balances on in-force policies	(52,958)	7,029	(45,929)
Balances arising from new policies	32,602	(6,064)	26,538
Method and assumption changes	(4,739)	4,173	(566)
Increase (decrease) in insurance contract liabilities and reinsurance assets	(25,095)	5,138	(19,957)
Balance before the following:	633,159	(129,070)	504,089
Other insurance contract liabilities	3,787	(12)	3,775
Total insurance contract liabilities and reinsurance assets	636,946	(129,082)	507,864

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

	2014	2013
	\$	\$
Mortality	(275)	(1,190)
Interest	(6,216)	169
Lapses	2,194	1,895
Segregated funds	-	(570)
Expense	(905)	(909)
Other (dividends, data)	599	39
Total	(4,603)	(566)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 12. INVESTMENT CONTRACT LIABILITIES

	2014	2013
	\$	\$
Balance, beginning of period	23,114	22,857
Deposits	2,355	3,470
Interest	386	387
Withdrawals	(2,497)	(3,600)
Increase in investment contract liabilities	244	257
Total investment contract liabilities	23,358	23,114

## 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, 2014

## *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:

	<b>Under 1 year</b>	<b>1 to 5 years</b>	<b>5 to 10 years</b>	<b>Over 10 years</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Individual insurance	(10,646)	(6,067)	34,628	307,626	325,541
Group insurance	6,036	6,403	3,789	3,266	19,494
Annuities and pensions	73,537	99,405	24,056	36,321	233,319

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

Assumption	Change	After-tax income impact	
		2014	2013
	\$	\$	\$
Mortality - life insurance products	+ 2%	(2,033)	(1,833)
Mortality - annuity products	- 2%	(344)	(316)
Morbidity	5% adverse	(1,489)	(1,318)
Expenses (contract maintenance)	+ 5 %	(1,615)	(1,465)
Policy termination rates	10% adverse	(4,654)	(3,862)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	257	1,518
	- 100 bps	(600)	(1,327)
Investment properties			
Immediate change in market value	+ 10%	2,244	2,391
	- 10%	(2,244)	(2,393)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	436	412
	- 10%	(966)	(460)

## 14. OTHER LIABILITIES

	2014	2013
	\$	\$
<b>Financial liabilities</b>		
Insurance payable:		
Policyholders	13,324	7,079
Reinsurers	4,010	3,284
Agents, brokers and intermediates	1,176	1,019
Suppliers and other charges	7,345	6,692
Other	1,097	1,017
	26,952	19,091
<b>Non financial liabilities</b>		
Income tax	4,441	123
	31,393	19,214

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 15. EMPLOYEE BENEFIT PLANS

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

	2014	2013
	\$	\$
<b>Changes in accrued benefit obligation of defined benefits:</b>		
Balance at beginning of year	46,390	51,630
Current service cost	1,571	1,448
Employees' contributions	829	780
Interest cost	2,246	2,024
Benefits paid	(1,689)	(3,940)
Change resulting from curtailment	(113)	-
Actuarial (gains) losses resulting from experience adjustments	668	(1,283)
Actuarial losses resulting from changes of demographic assumptions	-	2,264
Actuarial losses resulting from changes of financial assumptions	6,179	(6,533)
Balance at end of year	56,081	46,390
<b>Changes in plan assets:</b>		
Fair value at beginning of year	36,901	33,951
Employer's contributions	2,790	1,362
Employees' contributions	829	780
Return on plan assets	3,070	4,748
Benefits paid	(1,689)	(3,940)
Fair value at end of year	41,901	36,901

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

	2014	2013
	\$	\$
Present value of the defined benefit obligation	56,081	46,390
Fair value of plan assets	(41,901)	(36,901)
Defined benefit obligation, net amount	14,180	9,489

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

	2014	2013
	\$	\$
Current service cost, net of employees' contributions	1,571	1,448
Change resulting from curtailment	(113)	-
Net interest on the net defined benefit liability	472	730
	1,930	2,178

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

	2014	2013
	\$	\$
Group insurance benefits liability	545	472
Pension plan liability	14,180	9,489
	14,725	9,961

Plan members contribute 7.5% (7.5% in 2013) 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, 2013, for the Assumption Mutual Life Insurance Company Agent and Employee Pension Plan ("AML") and December 31, 2013, for the Assumption Place Employee Pension Plan ("Place"). The average remaining service periods of the

active employees covered by the AML pension plan is 21 years (21 years in 2013) and 9 years (9 years in 2013) for the Assumption 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, 2015, is \$5,081.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

The pension fund monies are invested in the following assets:

	2014	2013
	\$	\$
Assumption Life Balanced Fund - Pension	-	36,693
Assumption Life and Assumption Place Plan Fund	41,662	-
Cash	239	208
	41,901	36,901

### *Assumption Life Balanced Fund - Pension*

The Assumption Life Balanced Fund - Pension (the "Balanced Fund") is a segregated fund established by Assumption Life. The overall objective of the Balanced 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 Balanced Fund portfolio consists of a mix of cash (2%), Canadian bonds (35%), Canadian equities (31%), foreign equities (28%) and hedge funds (4%). The Balanced Fund is eligible as a registered retirement savings plan under the Income Tax Act of Canada.

### *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 (3%), Canadian bonds (40%) and equities (27%), foreign equities (27%) and hedge funds (3%). The Pension Plan Fund is eligible as a registered retirement savings plan under the Income Tax Act of Canada.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *Actuarial Assumptions Utilized to Determine Benefit Obligation Under the Defined Benefit Plans*

	2014	2013
	%	%
Discount rate	4.0 to 4.1	3.8 to 4.7
Rate of compensation increase	3.25 to 3.75	3.25 to 3.75

### *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.

	2014	
	+ 1%	- 1%
Discount rate	(9,925)	13,254
Rate of compensation increase	2,272	(2,142)

### *Defined Contribution Plan*

As of July 1, 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 \$80 for the year ended December 31, 2014 (nil in 2013).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 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, 2014.

	2014	2013
	\$	\$
<b>Mortgage Loans</b>		
Mortgage loan at a rate of 2.66%, repayable in monthly installments of \$34, including interest, maturing in April 2015 and pledging investment property	2,759	3,087
Mortgage loan at a rate of 2.66%, repayable in monthly installments of \$33, including interest, maturing in April 2015 and pledging investment property	1,976	2,316
Mortgage loan repaid during the year	-	1,209
<b>Bank Loans and Other</b>		
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	557	536
	6,089	7,945
Fair value	5,888	7,636

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

Years ending December 31,	2015	\$1,103
	2016	\$1,756
	2017	\$716
	2018	\$740
	2019	\$766

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 \$4,050.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 17. TAXES

Income tax expense consists of the following:

	2014	2013
	\$	\$
Current income taxes	2,260	2,882
Adjustments from prior year	(11)	(60)
Deferred income taxes	684	(352)
	2,933	2,470

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:

	2014		2013	
	\$	%	\$	%
Income tax at statutory rate	3,467	27.1	2,529	26.8
Increase (decrease) in the tax rate resulting from:				
Non taxable investment income	(597)	(4.7)	(366)	(3.9)
Differences in tax rates in other provincial jurisdictions	15	0.1	76	0.8
Change in tax rate	-	-	314	3.3
Adjustments from prior year	(11)	(0.1)	(60)	(0.6)
Other	59	0.5	(23)	(0.2)
	2,933	22.9	2,470	26.2

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

	2014	2013
	\$	\$
Investment properties, property and equipment and intangible assets	5,499	5,507
Insurance contract liabilities (assets)	26	(195)
Debt securities	303	360
Employee benefit plans	(4,010)	(2,713)
Other	122	(192)
	1,940	2,767
Deferred tax assets	(2,168)	(1,105)
Deferred tax liabilities	4,108	3,872
	1,940	2,767

## 18. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2014	2013
	\$	\$
Interest received	9,482	10,418
Income taxes paid	25	3,058
Dividends paid	200	361
Dividends received	2,283	1,412
Cash flows related to financing activities include the following:		
Interest paid on financing	193	213

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 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

	2014		2013	
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	\$	\$	\$	\$
Individual insurance	52,383	(13,292)	39,091	38,519
Group insurance	56,551	(13,049)	43,502	40,148
Annuities and pensions	65,178	(2)	65,176	48,137
	174,112	(26,343)	147,769	126,804

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 22. NET BENEFITS AND CLAIMS PAID

	2014		2013	
	Gross benefits and claims paid	Claims ceded to reinsurers	Net benefits and claims paid	Net benefits and claims paid
	\$	\$	\$	\$
Individual insurance	31,305	(11,667)	19,638	14,878
Group insurance	46,850	(12,598)	34,252	30,120
Annuities and pensions	49,841	(219)	49,622	47,469
	127,996	(24,484)	103,512	92,467

## 23. FEES AND COMMISSION INCOME

	2014	2013
	\$	\$
Policyholder administration and investment management services	13,896	11,960
Surrender charges and other contract fees	1,845	719
Reinsurance commission income	2,337	3,114
	18,078	15,793

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 24. INVESTMENT INCOME

	2014	2013
	\$	\$
Interest on cash and cash equivalents	357	253
Interest on debt securities designated at fair value through profit or loss	1,931	2,049
Interest on debt securities available-for-sale	3,374	3,037
Dividends on equity securities designated at fair value through profit or loss	2,041	1,232
Dividends on equity securities available-for-sale	291	175
Interest on mortgage loans and other invested assets	6,382	7,125
Interest on policy loans	424	412
Rental income from investment properties	3,533	3,641
Service charge income from investment properties	3,612	3,457
Service charge expense from investment properties	(4,243)	(4,188)
	17,702	17,193

## 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:

	2014	2013
	\$	\$
Not later than one year	4,573	5,630
Later than one year and not later than five years	9,616	11,996
Later than five years	1,922	2,977
	16,111	20,603

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

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

	2014	2013
	\$	\$
Realized gains		
Equity securities	18	12
Debt securities	202	2,204
Realized losses		
Equity securities	(7)	(2)
Debt securities	-	(1,046)
	213	1,168

## 27. FAIR VALUE GAINS AND LOSSES

	2014	2013
	\$	\$
Financial assets at fair value through profit or loss	63,107	(25,063)
Investment properties	217	540
	63,324	(24,523)

## 28. FEES AND COMMISSION EXPENSES

	2014	2013
	\$	\$
Fees expenses	1,141	908
Commission expenses	23,070	21,341
	24,211	22,249

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## 29. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2014	2013
	\$	\$
<b>Administrative expenses</b>		
Salaries and employee benefits expense	18,625	17,537
Amortization on property and equipment	898	817
Amortization of intangible assets	1,693	1,727
Professional and consultant fees	3,163	3,227
Investment property related expenses	908	1,063
Other	4,342	3,853
	29,629	28,224
<b>Other operating expenses</b>		
Allowance for credit losses	381	23
Other	4,378	4,315
	4,759	4,338

## 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, 2014

## *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, 2014, the Group's ratio is 232% (251% in 2013).

A ratio of 232% means that the Group has sufficient capitalization to face unexpected negative results of approximately \$35.5 million (\$38.1 million in 2013) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

### **Regulatory capital**

	<b>2014</b>	<b>2013</b>
Available capital according to requirements	\$100,312	\$94,850
Required capital	\$ 43,177	\$ 37,797
Solvency ratio	232%	251%

## **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, 2014, is \$701 (\$845 in 2013).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands) Year ended December 31, 2014

## *Compensation of Key Management Personnel*

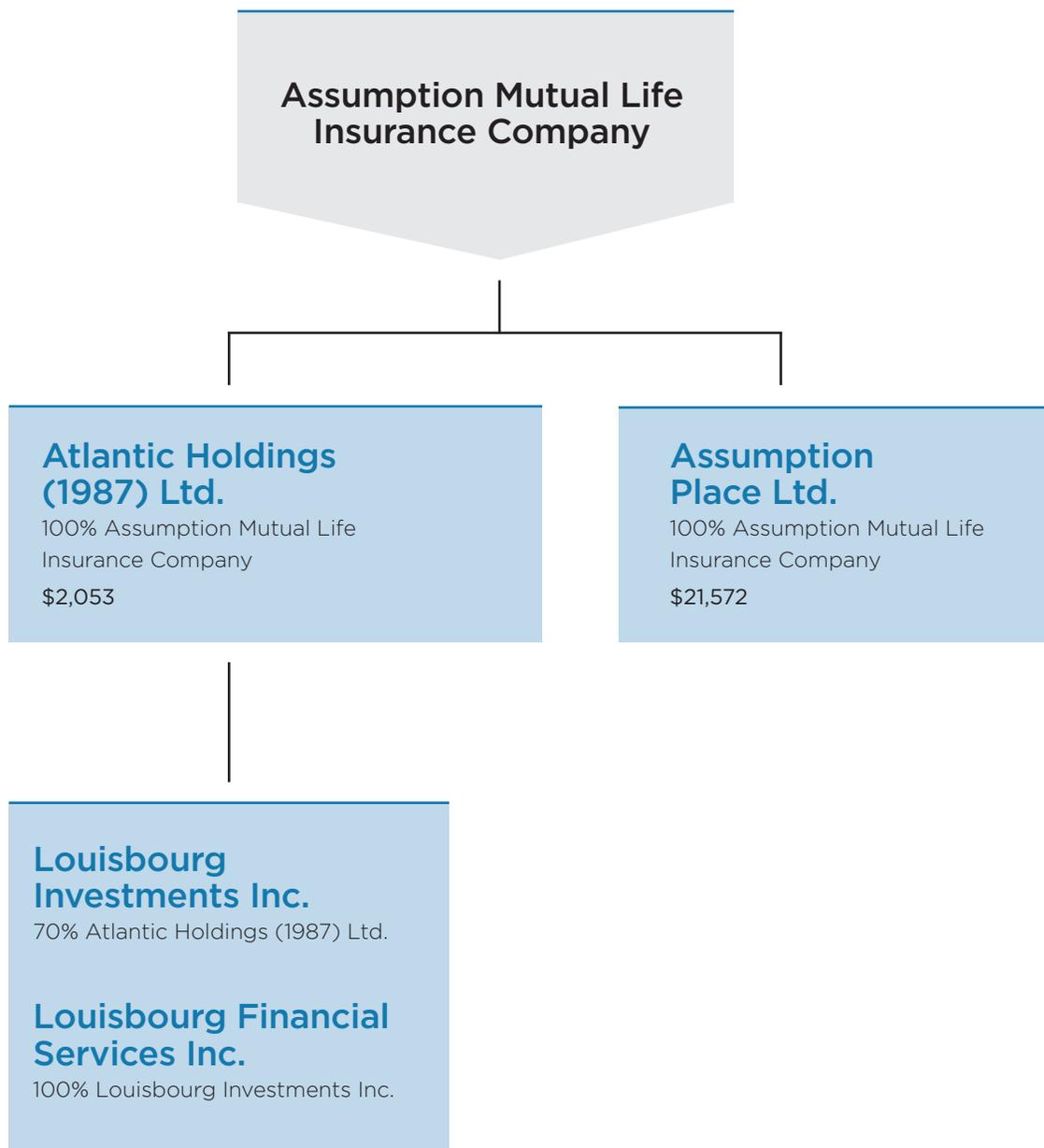
Key management personnel of the Group includes all directors, executive and non executive, and senior management. The summary of compensation of key management personnel for the year is as follows:

	2014	2013
	\$	\$
Salaries and other short-term employment benefits	3,997	3,781
Fees	223	202
Post employment pension benefits	231	289
	4,451	4,272

## 32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted for the year ended December 31, 2014.

# ORGANIZATIONAL CHART



*% value = percentage of voting rights held*  
*\$ value = book value (in thousands of Canadian dollars)*





# Assumption Life

[www.assumption.ca](http://www.assumption.ca)

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telephone: 506.853.6040  
toll free: 1.800.455.7337  
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**Atlantic Holdings (1987) Ltd.**

770 Main Street  
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**Louisbourg Investments Inc.**

770 Main Street / P.O. Box 160  
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