



# RBC Insurance

*Audited Financial Statements of*

## **RBC LIFE INSURANCE COMPANY FUNDS**

*December 31, 2015*

# RBC LIFE INSURANCE COMPANY FUNDS

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December 31, 2015

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## Independent Auditor's Report

To the unitholders of

RBC Life Equity Growth Fund  
RBC Life Bond Fund  
RBC Life Balanced Fund  
(collectively referred to as the "RBC Life Insurance Company Funds")

We have audited the accompanying financial statements of each of the RBC Life Insurance Company Funds, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the RBC Life Insurance Company Funds as at December 31, 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Unaudited Information**

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Financial Highlights and the Top 25 Holdings of the Underlying Fund contained in the financial statements.

The logo for Deloitte LLP, written in a black, cursive, handwritten-style font.

Chartered Professional Accountants  
Licensed Public Accountants  
April 18, 2016

## RBC Life Equity Growth Fund

### Statement of Financial Position

As at	Dec 31, 2015	Dec 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ -
Investments in underlying fund at fair value	25,567,669	30,656,750
Other assets		
Accounts receivable - unitholders	-	-
Due from RBC Life Insurance Company	-	-
Other	-	-
	<b>25,567,669</b>	<b>30,656,750</b>
<b>Liabilities</b>		
Bank indebtedness	-	-
Other liabilities		
Accounts payable - unitholders	-	-
Due to RBC Life Insurance Company	12,830	15,150
Other	-	-
	<b>12,830</b>	<b>15,150</b>
<b>Net assets attributable to unitholders</b>	<b>\$ 25,554,839</b>	<b>\$ 30,641,600</b>
Net assets attributable to unitholders per unit	\$ 36.71	\$ 40.72

### Statement of Cash Flow

For the year ended December 31,	2015	2014
<b>Operating activities</b>		
Net income (loss) attributable to unitholders	\$ (2,813,126)	\$ 2,646,279
Add (deduct) to convert net income to a cash basis		
Net loss on investments	3,006,919	4,447,552
Change in other assets	-	-
Change in other liabilities	(2,320)	(26,819)
Purchases of investments	(929,565)	(8,041,484)
Proceeds from sales of investments	3,011,727	3,449,581
<b>Cash provided by (used in) operating activities</b>	<b>2,273,635</b>	<b>2,475,109</b>
<b>Financing activities</b>		
Distributions to the unitholders	-	-
Proceeds from issue of units	1,512,701	1,884,340
Redemption of units	(3,786,336)	(4,359,449)
<b>Cash provided by (used in) financing activities</b>	<b>(2,273,635)</b>	<b>(2,475,109)</b>
Increase (decrease) in cash	-	-
Cash at beginning of year	-	-
<b>Cash at end of year</b>	<b>\$ -</b>	<b>\$ -</b>

### Statement of Comprehensive Income

For the year ended December 31,	2015	2014
<b>Income</b>		
Distribution from underlying fund	\$ 929,565	\$ 7,909,571
Realized loss on sale of investments	(1,117,449)	(130,641)
Decrease in unrealized appreciation of investments	(1,889,470)	(4,316,911)
	<b>(2,077,354)</b>	<b>3,462,019</b>
<b>Expenses</b>		
Management fees	733,075	808,617
Other administrative expenses	2,697	7,123
	<b>735,772</b>	<b>815,740</b>
<b>Net income (loss) attributable to unitholders</b>	<b>\$ (2,813,126)</b>	<b>\$ 2,646,279</b>
Net income (loss) attributable to unitholders per unit	\$ (4.04)	\$ 3.37

For the year ended December 31,	2015	2014
<b>Other expenses absorbed by the manager (note 8)</b>		
Management fees	\$ 733,075	\$ 808,617
Other administrative expenses	\$ 2,697	\$ 7,123
MER <sup>1</sup>	2.62%	2.67%

### Sales and redemption of units (note 9)

Units issued	35,185	41,211
Proceeds from issue of units	\$ 1,512,701	\$ 1,884,340
Units redeemed	91,431	106,576
Amounts paid on redemption	\$ 3,786,336	\$ 4,359,449

As at	Dec 31, 2015	Dec 31, 2014
<b>Investment in underlying fund at fair value (note 10)</b>		
Level 1	\$ 25,567,669	\$ 30,656,750

### Statement of Changes in Net Assets Attributable to Unitholders

For the year ended December 31,	2015	2014
Net assets, beginning of the year	\$ 30,641,600	\$ 30,470,430
Premium deposits	1,512,701	1,884,340
Net income (loss) attributable to unitholders	(2,813,126)	2,646,279
	<b>29,341,175</b>	<b>35,001,049</b>
Withdrawals	3,786,336	4,359,449
<b>Net assets, end of the year</b>	<b>\$ 25,554,839</b>	<b>\$ 30,641,600</b>
Number of units outstanding	696,206	752,452

### Schedule of invested assets

RBC Canadian Equity Fund Series O		
Number of units	1,328,612	1,420,142
Cost	\$ 33,753,473	\$ 36,953,084
Fund owned	9.8600%	12.5188%
Fair value	\$ 25,567,669	\$ 30,656,750
Fair value per unit	\$ 19.24	\$ 21.59

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

## RBC Life Equity Growth Fund (continued)

### Top 25 holdings of the underlying fund (unaudited)

Royal Bank of Canada	7.0	TransCanada Corp.	2.0
Toronto-Dominion Bank	6.8	Canadian Pacific Railway Ltd.	1.9
Bank of Nova Scotia	4.8	TELUS Corp.	1.7
Suncor Energy Inc.	4.4	Power Corporation of Canada	1.7
RBC Canadian Small & Mid-Cap Resources Fund	4.3	Sun Life Financial Inc.	1.7
Canadian National Railway Co.	3.4	Alimentation Couche-Tard Inc.	1.6
Bank of Montreal	3.1	Loblaws Companies Ltd.	1.6
Brookfield Asset Management Inc., Class A	3.1	Thomson Corp.	1.5
Canadian Natural Resources Ltd.	3.0	Rogers Communications Inc., Class B	1.5
Manulife Financial Corporation	2.8	Cenovus Energy Inc.	1.4
Enbridge Inc.	2.5	Potash Corporation of Saskatchewan Inc.	1.3
Canadian Imperial Bank of Commerce	2.3	Brookfield Property Partners LP	1.2
BCE Inc.	2.1	<b>Total % of top 25 holdings</b>	<b>68.7</b>

### Financial Highlights (unaudited)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years.

For the years ended December 31, <sup>3</sup>	2015	2014	2013	2012	2011
Net Asset Value attributable to unitholders	\$ 36.71	\$ 40.72	\$ 37.26	\$ 33.49	\$ 31.42
Net assets attributable to unitholders (\$ '000)	\$ 25,555	\$ 30,642	\$ 30,470	\$ 29,694	\$ 31,359
Net income (loss) (\$ '000)	\$ (2,813)	\$ 2,646	\$ 3,340	\$ 1,631	\$ (4,277)
Premium deposits (\$ '000)	\$ 1,513	\$ 1,884	\$ 1,790	\$ 2,337	\$ 2,393
Withdrawals (\$ '000)	\$ 3,786	\$ 4,359	\$ 4,353	\$ 5,633	\$ 7,811
Number of units outstanding	696,206	752,452	817,817	886,693	997,958
Management expense ratio <sup>1</sup>	2.62%	2.67%	2.52%	2.43%	2.50%
Portfolio turnover rate of the underlying fund <sup>2</sup>	18.00%	24.24%	41.26%	46.00%	58.58%

<sup>1</sup> The management expense ratio ("MER") is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>2</sup> The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>3</sup> Financial highlights for the years ended December 31, 2015, 2014 and 2013 are based on IFRS and for the years ended December 31, 2012 and 2011 are based on CGAAP.

## RBC Life Bond Fund

### Statement of Financial Position

As at	Dec 31, 2015	Dec 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ -
Investments in underlying fund at fair value	3,818,303	4,109,915
Other assets		
Accounts receivable - unitholders	-	-
Due from RBC Life Insurance Company	-	-
Other	-	-
	<b>3,818,303</b>	<b>4,109,915</b>
<b>Liabilities</b>		
Bank indebtedness	-	-
Other liabilities		
Accounts payable - unitholders	-	-
Due to RBC Life Insurance Company	1,570	1,686
Other	-	-
	<b>1,570</b>	<b>1,686</b>
<b>Net assets attributable to unitholders</b>	<b>\$ 3,816,733</b>	<b>\$ 4,108,229</b>
Net assets attributable to unitholders per unit	\$ 33.97	\$ 33.47

### Statement of Cash Flow

For the year ended December 31,	2015	2014
<b>Operating activities</b>		
Net income attributable to unitholders	\$ 68,498	\$ 270,252
Add (deduct) to convert net income to a cash basis		
Net gain on investments	(11,184)	(220,941)
Change in other assets	-	-
Change in other liabilities	(116)	(1,848)
Purchases of investments	(149,324)	(157,451)
Proceeds from sales of investments	452,120	386,296
<b>Cash provided by (used in) operating activities</b>	<b>359,994</b>	<b>276,308</b>
<b>Financing activities</b>		
Distributions to the unitholders	-	-
Proceeds from issue of units	230,507	275,093
Redemption of units	(590,501)	(551,401)
<b>Cash provided by (used in) financing activities</b>	<b>(359,994)</b>	<b>(276,308)</b>
Increase (decrease) in cash	-	-
Cash at beginning of year	-	-
<b>Cash at end of year</b>	<b>\$ -</b>	<b>\$ -</b>

### Statement of Comprehensive Income

For the year ended December 31,	2015	2014
<b>Income</b>		
Distribution from underlying fund	\$ 144,170	\$ 138,740
Realized gain on sale of investments	53,440	35,676
Increase (decrease) in unrealized appreciation of investments	(42,256)	185,265
	<b>155,354</b>	<b>359,681</b>
<b>Expenses</b>		
Management fees	85,955	87,742
Other administrative expenses	901	1,687
	<b>86,856</b>	<b>89,429</b>
<b>Net income attributable to unitholders</b>	<b>\$ 68,498</b>	<b>\$ 270,252</b>
Net income attributable to unitholders per unit	\$ 0.61	\$ 2.13

For the year ended December 31,	2015	2014
<b>Other expenses absorbed by the manager (note 8)</b>		
Management fees	\$ 85,955	\$ 87,742
Other administrative expenses	\$ 901	\$ 1,687
MER <sup>1</sup>	2.19%	2.18%

### Sales and redemption of units (note 9)

Units issued	6,099	8,067
Proceeds from issue of units	\$ 230,507	\$ 275,093
Units redeemed	16,489	16,772
Amounts paid on redemption	\$ 590,501	\$ 551,401

As at	Dec 31, 2015	Dec 31, 2014
<b>Investment in underlying fund at fair value (note 10)</b>		
Level 1	\$ 3,818,303	\$ 4,109,915

### Statement of Changes in Net Assets Attributable to Unitholders

For the year ended December 31,	2015	2014
Net assets, beginning of the year	\$ 4,108,229	\$ 4,114,285
Premium deposits	230,507	275,093
Net income attributable to unitholders	68,498	270,252
	<b>4,407,234</b>	<b>4,659,630</b>
Withdrawals	590,501	551,401
<b>Net assets, end of the year</b>	<b>\$ 3,816,733</b>	<b>\$ 4,108,229</b>
Number of units outstanding	112,352	122,742

### Schedule of invested assets

RBC Canadian Bond Fund Series O		
Number of units	553,257	596,297
Cost	\$ 3,482,669	\$ 3,730,123
Fund owned	0.0277%	0.0360%
Fair value	\$ 3,818,303	\$ 4,109,915
Fair value per unit	\$ 6.90	\$ 6.89

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

## RBC Life Bond Fund (continued)

### Top 25 holdings of the underlying fund (unaudited)

Province of Ontario 3.450% Jun 2 45	3.4	Canada Housing Trust No. 1 2.350% Sep 15 23	1.2
Province of Ontario 3.500% Jun 2 43	2.5	BlueBay Emerging Markets Corporate Bond Fund	1.2
Province of Ontario 2.900% Dec 2 46	2.3	Province of Ontario 6.500% Mar 8 29	1.2
Province of Ontario 4.600% Jun 2 39	2.2	Province of Ontario 4.000% Jun 2 21	1.1
Province of Ontario 4.650% Jun 2 41	2.0	Canadian 10-Year Bond Future, March 2016	1.1
Province of Ontario 2.850% Jun 2 23	2.0	Toronto-Dominion Bank 2.447% Apr 2 19	1.1
Province of Ontario 2.600% Jun 2 25	1.8	Province of Ontario 4.700% Jun 2 37	1.0
Province of Ontario 3.500% Jun 2 24	1.8	Cash & Cash Equivalents	1.0
RBC Private Corporate Bond Pool	1.8	Province of Ontario 3.150% Jun 2 22	1.0
Province of Quebec 3.000% Sep 1 23	1.6	Province of Ontario 4.400% Jun 2 19	1.0
Province of Ontario 4.200% Jun 2 20	1.3	RBC Emerging Markets Foreign Exchange Fund	1.0
Province of Quebec 3.750% Sep 1 24	1.3	United States 10-Year Note Future, March 2016	-2.4
Province of Quebec 5.000% Dec 1 41	1.2	<b>Total % of top 25 holdings</b>	<b>34.7</b>

### Financial Highlights (unaudited)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years.

For the years ended December 31, <sup>3</sup>	2015	2014	2013	2012	2011
Net Asset Value attributable to unitholders	\$ 33.97	\$ 33.47	\$ 31.30	\$ 32.13	\$ 31.20
Net assets attributable to unitholders (\$ '000)	\$ 3,817	\$ 4,108	\$ 4,114	\$ 4,486	\$ 4,715
Net income (loss) (\$ '000)	\$ 68	\$ 270	\$ (105)	\$ 130	\$ 344
Premium deposits (\$ '000)	\$ 231	\$ 275	\$ 292	\$ 309	\$ 366
Withdrawals (\$ '000)	\$ 591	\$ 551	\$ 558	\$ 668	\$ 1,018
Number of units outstanding	112,352	122,742	131,447	139,626	151,116
Management expense ratio <sup>1</sup>	2.19%	2.18%	2.16%	2.16%	2.05%
Portfolio turnover rate of the underlying fund <sup>2</sup>	22.38%	35.76%	31.64%	33.88%	49.74%

<sup>1</sup> The management expense ratio ("MER") is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>2</sup> The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>3</sup> Financial highlights for the years ended December 31, 2015 and 2014 and 2013 are based on IFRS and for the years ended December 31, 2012 and 2011 are based on CGAAP.



## RBC Life Balanced Fund

### Statement of Financial Position

As at	Dec 31, 2015	Dec 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ -
Investments in underlying fund at fair value	12,213,757	13,031,587
Other assets		
Accounts receivable - unitholders	-	-
Due from RBC Life Insurance Company	-	-
Other	-	-
	<b>12,213,757</b>	<b>13,031,587</b>
<b>Liabilities</b>		
Bank indebtedness	-	-
Other liabilities		
Accounts payable - unitholders	-	-
Due to RBC Life Insurance Company	6,123	6,488
Other	-	-
	<b>6,123</b>	<b>6,488</b>
<b>Net assets attributable to unitholders</b>	<b>\$ 12,207,634</b>	<b>\$ 13,025,099</b>
Net assets attributable to unitholders per unit	\$ 38.49	\$ 38.41

### Statement of Cash Flow

For the year ended December 31,	2015	2014
<b>Operating activities</b>		
Net income attributable to unitholders	\$ 56,249	\$ 1,064,740
Add (deduct) to convert net income to a cash basis		
Net loss (gain) on investments	238,966	(579,171)
Change in other assets	-	-
Change in other liabilities	(365)	(9,726)
Purchases of investments	(658,865)	(857,833)
Proceeds from sales of investments	1,237,729	1,371,623
<b>Cash provided by (used in) operating activities</b>	<b>873,714</b>	<b>989,633</b>
<b>Financing activities</b>		
Distributions to the unitholders	-	-
Proceeds from issue of units	684,140	808,720
Redemption of units	(1,557,854)	(1,798,353)
<b>Cash provided by (used in) financing activities</b>	<b>(873,714)</b>	<b>(989,633)</b>
Increase (decrease) in cash	-	-
Cash at beginning of year	-	-
<b>Cash at end of year</b>	<b>\$ -</b>	<b>\$ -</b>

### Statement of Comprehensive Income

For the year ended December 31,	2015	2014
<b>Income</b>		
Distribution from underlying fund	\$ 631,052	\$ 825,124
Realized gain on sale of investments	160,579	170,715
Increase (decrease) in unrealized appreciation of investments	(399,545)	408,456
	<b>392,086</b>	<b>1,404,295</b>
<b>Expenses</b>		
Management fees	334,261	335,674
Other administrative expenses	1,576	3,881
	<b>335,837</b>	<b>339,555</b>
<b>Net income attributable to unitholders</b>	<b>\$ 56,249</b>	<b>\$ 1,064,740</b>
Net income attributable to unitholders per unit	\$ 0.18	\$ 3.01

For the year ended December 31,	2015	2014
<b>Other expenses absorbed by the manager (note 8)</b>		
Management fees	\$ 334,261	\$ 335,674
Other administrative expenses	\$ 1,576	\$ 3,881
MER <sup>1</sup>	2.66%	2.61%

### Sales and redemption of units (note 9)

Units issued	17,243	20,230
Proceeds from issue of units	\$ 684,140	\$ 808,720
Units redeemed	39,240	48,434
Amounts paid on redemption	\$ 1,557,854	\$ 1,798,353

As at	Dec 31, 2015	Dec 31, 2014
<b>Investment in underlying fund at fair value (note 10)</b>		
Level 1	\$ 12,213,757	\$ 13,031,587

### Statement of Changes in Net Assets Attributable to Unitholders

For the year ended December 31,	2015	2014
Net assets, beginning of the year	\$ 13,025,099	\$ 12,949,992
Premium deposits	684,140	808,720
Net income attributable to unitholders	56,249	1,064,740
	<b>13,765,488</b>	<b>14,823,452</b>
Withdrawals	1,557,854	1,798,353
<b>Net assets, end of the year</b>	<b>\$ 12,207,634</b>	<b>\$ 13,025,099</b>
Number of units outstanding	317,139	339,136

### Schedule of invested assets

RBC Balanced Fund Series O		
Number of units	837,178	873,929
Cost	\$ 11,321,404	\$ 11,739,688
Fund owned	23.7471%	27.6937%
Fair value	\$ 12,213,757	\$ 13,031,587
Fair value per unit	\$ 14.59	\$ 14.91

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

## RBC Life Balanced Fund (continued)

### Top 25 holdings of the underlying fund (unaudited)

RBC Emerging Markets Equity Fund	4.4	Manulife Financial Corporation	1.0
Royal Bank of Canada	2.5	Province of Manitoba 6.500% Sep 22 17	1.0
Toronto-Dominion Bank	2.4	Province of Ontario 2.100% Sep 8 18	0.9
Bank of Nova Scotia	1.6	Canadian Natural Resources Ltd.	0.9
Suncor Energy Inc.	1.6	Canada Housing Trust No. 1 3.350% Dec 15 20	0.9
RBC Canadian Small & Mid-Cap Resources Fund	1.4	Enbridge Inc.	0.9
Province of Ontario 4.650% Jun 2 41	1.3	Hydro-Quebec 6.500% Feb 15 35	0.8
Province of Ontario 2.850% Jun 2 23	1.3	Province of Ontario 2.600% Jun 2 25	0.8
Province of Ontario 3.150% Jun 2 22	1.2	Province of Ontario 4.700% Jun 2 37	0.8
Canadian National Railway Co.	1.2	Canadian Imperial Bank of Commerce	0.8
Bank of Montreal	1.1	Province of Ontario 3.450% Jun 2 45	0.8
Brookfield Asset Management Inc., Class A	1.1	Province of Quebec 3.000% Sep 1 23	0.8
Province of Ontario 4.600% Jun 2 39	1.0	<b>Total % of top 25 holdings</b>	<b>32.5</b>

### Financial Highlights (unaudited)

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years.

For the years ended December 31, <sup>3</sup>	2015	2014	2013	2012	2011
Net Asset Value attributable to unitholders	\$ 38.49	\$ 38.41	\$ 35.25	\$ 32.37	\$ 30.34
Net assets attributable to unitholders (\$ '000)	\$ 12,208	\$ 13,025	\$ 12,950	\$ 12,630	\$ 12,842
Net income (loss) (\$ '000)	\$ 56	\$ 1,065	\$ 1,068	\$ 698	\$ (489)
Premium deposits (\$ '000)	\$ 684	\$ 809	\$ 818	\$ 1,028	\$ 1,064
Withdrawals (\$ '000)	\$ 1,558	\$ 1,798	\$ 1,566	\$ 1,938	\$ 2,233
Number of units outstanding	317,139	339,136	367,340	390,209	423,256
Management expense ratio <sup>1</sup>	2.66%	2.61%	2.57%	2.43%	2.45%
Portfolio turnover rate of the underlying fund <sup>2</sup>	42.78%	60.51%	70.00%	81.81%	102.06%

<sup>1</sup> The management expense ratio ("MER") is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>2</sup> The underlying fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>3</sup> Financial highlights for the years ended December 31, 2015, 2014 and 2013 are based on IFRS and for the years ended December 31, 2012 and 2011 are based on CGAAP.

# RBC LIFE INSURANCE COMPANY FUNDS

## Notes to the Financial Statements

December 31, 2015

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### 1. THE FUNDS

The RBC Life Insurance Company Funds are segregated funds, originally established by a predecessor company, Westbury Life Insurance Company and are no longer marketed by RBC Life Insurance Company, a related party.

RBC Life Equity Growth Fund ("Equity Growth") established December 15, 1989

RBC Life Bond Fund ("Bond") established May 1, 1991

RBC Life Balanced Fund ("Balanced") established May 1, 1991

(hereafter the funds are referred to in these financial statements as collectively the "Funds" and individually the "Fund"). The Funds invest in RBC Global Asset Management Inc. ("RBC GAM") mutual funds, a related party. RBC Life Insurance Company, a related party, is the fund manager (the "Manager") and sole issuer of the individual variable insurance contracts providing for investment in each Fund, and is guarantor of the guarantee provisions contained in these contracts. The Funds invest in underlying mutual funds managed by RBC GAM, a wholly owned subsidiary of Royal Bank of Canada ("RBC"). All investment transactions with the corresponding underlying RBC GAM managed mutual funds are at quoted market values. The Manager's registered office is located at 6880 Financial Dr., Mississauga, Ontario L5N 7Y5, Canada.

The Funds pay management fees to RBC Life Insurance Company as presented in the Statement of Comprehensive Income of each Fund as detailed in the supplementary information disclosed alongside the financial statements.

The Funds invest in units of underlying mutual funds managed by RBC GAM. These financial statements were authorized for issue by the Manager on April 18, 2016.

### 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Canadian dollar is the functional and presentation currency of the Funds.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies:

#### a) Investments

The investments in underlying mutual funds are valued on each business date at their published closing net asset value. Investment transactions are accounted for on the trade date. Realized gains and losses on sales of investments and unrealized appreciation or depreciation in value of investments are calculated on an average cost basis.

Investments are recorded at their fair value. Underlying mutual funds are valued on each business day at their net asset value as reported by the fund manager. The fair value of investments is measured using closing prices, in the same manner in which the daily net asset value per unit is measured for unit holder transaction purposes.

#### b) Income recognition

Distributions from investments are recorded when declared by the underlying mutual fund.

#### c) Net asset value per unit

Net asset value per unit is computed by dividing the net assets attributable to a series of units on a business day by the total number of units of the series outstanding on that day.

#### d) Net income per unit

Net income per unit in the Statement of Comprehensive Income represents the increase (decrease) in net assets from operations attributable to the series for the year, divided by the average number of units outstanding at the end of the year.

#### e) Use of estimates

These financial statements are prepared in accordance with IFRS, and include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses. The most significant estimates relate to the fair valuation of investments. However, all investments are level 1 (refer to note 10). Actual results may differ from these estimates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### f) Expenses of funds

Each Fund is responsible for the payment of the fees and expenses related to the operation of that Fund. Such fees and expenses, which are recorded on an accrual basis, include custodian fees, management fees, legal fees, audit fees, operations and administration fees, bank charges, interest, brokerage on securities transactions and all indirect taxes. As the Funds invest solely in units of the underlying mutual funds, the Funds are not subject to transaction costs pertaining to the purchase, sale or redemption of units.

### g) Income taxes

Each Fund is deemed to be an inter-vivos trust under the provisions of the Income Tax Act (Canada) and is deemed to have allocated its income to the contract holders. Each Fund's net capital gains (losses) are deemed to be those of the contract holders. Accordingly, each Fund is not subject to income tax on its net income, including net realized capital gains for the year.

## 4. FINANCIAL INSTRUMENTS RISK

The Funds may be exposed to a variety of financial risks. Each of the Fund's exposures to financial risks is concentrated in its investment holdings. The Schedule of Invested Assets on each Fund's supplementary information, disclosed alongside the financial statements, presents the details of units held by each Fund as at December 31, 2015 and 2014, and groups the underlying mutual funds by their nature. The Funds do not manage their underlying mutual funds and therefore the quantitative and qualitative risk disclosures, as required by IFRS 7, *Financial Instruments: Disclosures*, of the underlying mutual funds have not been disclosed. For further information on the financial instruments risk of the underlying mutual fund and the sensitivity to price changes please refer to the financial statements of the underlying mutual funds which are filed on SEDAR.

Each of the Fund's risk management practice includes the monitoring of compliance to investment guidelines. The Fund Manager manages the potential effects of these financial risks on the Funds' performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Funds' positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

### a) Credit risk

Credit risk is the possibility that a borrower, or the counterparty to a derivatives contract, repurchase agreement or reverse repurchase agreement, is unable or unwilling to repay the loan or obligation, either on time or at all. Companies and governments that borrow money, and the debt securities they issue, are rated by specialized rating agencies. Debt securities issued by companies or governments in emerging markets often have higher credit risk (lower rated debt), while debt securities issued by well-established companies or by governments of developed countries tend to have lower credit risk (higher rated debt). A downgrade in an issuer's credit rating or other adverse news regarding an issuer can reduce a security's market value. Lower rated and unrated debt instruments generally offer a better return than higher grade debt instruments, but have the potential for substantial loss. Funds that invest in companies or markets with higher credit risk tend to be more volatile in the short term. However, they may offer the potential of higher returns over the long term. Credit risk arises when an underlying mutual fund invests in fixed income securities. Credit risk is considered as part of the investment decision making process.

During the years ended December 31, 2015 and 2014, the underlying mutual funds only bought and sold investments through brokers which are RBC approved counterparties, thus minimizing the risk of default during settlement.

### b) Currency risk

The underlying mutual funds are valued in Canadian dollars. However, underlying mutual funds that purchase foreign securities may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value of any foreign securities. For example, if the Canadian dollar rises relative to a foreign currency (like the U.S. dollar or the Euro), the Canadian dollar value of an investment denominated in that foreign currency may decline. This decline may reduce, or even eliminate, any return the Fund has earned on the security. On the other hand, a Fund may also benefit from changes in exchange rates. Currency exposure may increase the volatility of foreign investments relative to Canadian investments. The underlying mutual funds may hedge (protect against) the risk of changes in foreign currency exchange rates of the underlying assets of the Fund.

During the years ended December 31, 2015 and 2014, as the Funds only invested in Canadian denominated underlying mutual funds, the Funds do not have a direct currency risk exposure.

## 4. FINANCIAL INSTRUMENTS RISK (continued)

### c) Interest rate risk

If a Fund invests primarily in bonds and other fixed-income securities, the biggest influence on the Fund's value will be changes in the general level of interest rates. If interest rates fall, the value of the Fund's units will tend to rise. If interest rates rise, the value of the Fund's units will tend to fall. Short-term interest rates can have a different influence on a Fund's value than long-term interest rates. If a Fund invests primarily in bonds and other fixed-income securities with longer-term maturities, the biggest influence on the Fund's value will be changes in the general level of long-term interest rates. If a Fund invests primarily in bonds and other fixed-income securities with shorter-term maturities, the biggest influence on the Fund's value will be changes in the general level of shorter-term interest rates. Investors seeking current income should be aware that the level of interest income from a money market fund will fluctuate as short-term interest rates vary.

Interest rate risk arises when the underlying mutual fund invests in interest bearing financial instruments such as a bond. The underlying mutual fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

As at December 31, 2015 and 2014, the Schedule of Invested Assets on each Fund's supplementary information, disclosed alongside the financial statements, presents the details of units held by each Fund and groups the underlying mutual funds by their nature to indicate those underlying mutual funds which invest in interest bearing financial instruments.

### d) Liquidity risk

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. Most securities owned by an underlying mutual fund can be sold easily and at a fair price. In highly volatile markets, such as in periods of sudden interest rate changes, certain securities may become less liquid, which means they cannot be sold as quickly or easily. Some securities may be illiquid because of legal restrictions, the nature of the investment, or because of features like guarantees. Another reason for illiquidity is a lack of buyers interested in a particular security or market. Difficulty in selling securities may result in a loss or reduced return for a Fund.

As at December 31, 2015 and 2014, the Funds' assets were comprised of units of underlying mutual funds which can be redeemed upon request from the issuer on a valuation date. A valuation date occurs every day that the principal exchange is open for trading and a value is available for the assets of the relevant fund. The Toronto Stock Exchange currently is the principal exchange used for purposes of determining the valuation dates.

### e) Market risk

Market risk is the risk that the value of investments will fluctuate as a result of changes in market condition. Several factors can influence market trends, such as economic developments, changes in interest rates, political changes, and catastrophic events. As at December 31, 2015 and 2014, the Funds are exposed to the market risk of the underlying mutual funds.

## 5. FINANCIAL RISK MANAGEMENT

The Funds use a fund-of-fund structure to invest in underlying mutual funds exclusively managed by RBC GAM. As part of the fund selection process for the Funds, the existing mutual funds line-up are reviewed at least annually by RBC Life Insurance Company to identify any product gaps that result from the changing needs of the market and distribution partners.

The screening criteria may include qualitative as well as quantitative measures of performance and must satisfy internal risk management standards.

Ongoing monitoring throughout the year by the Funds' management includes monitoring any organizational or fund changes announced by underlying mutual fund managers or news items that may affect organizational stability or Funds performance as well as analysis on the Funds' rate of return to verify that it is appropriate compared to the underlying mutual fund or fund's benchmark.

Included in the ongoing due diligence process, managers of the underlying mutual funds are required to verify that the Funds have adhered to the Funds' Investment Policies and that the underlying mutual funds are managed in accordance with the investment objectives and strategies as detailed in the Funds' Information Folders. The Information Folder also details the specific risks that the underlying mutual funds could be exposed to. Such risks primarily arise because the value of the investments are affected by changes in the local and global economies including interest rates, foreign exchange rates, financial markets and company-specific news. The underlying mutual funds' manager has developed policies and procedures to manage the fund-specific risks. Fund portfolios are reviewed on a regular basis by RBC Life Insurance Company to ensure that the existing asset mix and weightings continue to meet the current and future needs of the Funds.

## 6. CAPITAL MANAGEMENT

The Funds have no externally imposed capital requirements. The relevant capital movements are disclosed in the Statement of Changes in Net Assets Attributable to Unitholders. To manage risks, the Funds' Manager uses internal guidelines, maintains a governance structure that oversees each Fund's investment activities, and monitors compliance with the Fund's investment strategies, internal guidelines and securities regulations.

# RBC LIFE INSURANCE COMPANY FUNDS

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## 7. MANAGEMENT FEES AND OTHER ADMINISTRATIVE EXPENSES

In consideration for management services and investment advice, RBC Life Insurance Company, a related party, is entitled to a management fee. The maximum management fee, exclusive of Harmonized Sales Tax ("HST"), is based on the following annual percentages, applied on a weekly basis to the respective net asset values of the Fund

Equity Growth Fund	Up to 2.275%
Bond Fund	Up to 1.900%
Balanced Fund	Up to 2.275%

The management expense ratios for the Funds are based on expenses charged directly to the Fund (other than brokerage commissions and taxes on securities transactions) plus, if applicable, expenses of the underlying mutual funds, calculated on a weighted average basis on the percentage weighting of underlying mutual funds and is expressed as a percentage of the annual average net asset value calculated for the purpose of the issue of units of the Funds. Custodian fee, audit fee, interest and bank charges are payable by the Funds.

Management fees and other administrative expenses charged to the Funds are subject to the Goods and Services Tax (GST) / Harmonized Sales Tax (HST). Based on the rules and guidance issued by the Department of Finance, the effective GST/HST rate will reflect the tax rates that are applicable in the Provinces/Territories where the Fund's unit holders reside. Since each fund will have unit holders in more than one Province/Territory, the blended rate will be a weighted average based on the tax rate in each Province/Territory and the value of unit holder assets. Therefore the blended rate is likely to be different for each Fund.

## 8. OTHER EXPENSES ABSORBED BY THE MANAGER

In addition to the management and insurance fees, the Funds also bear all operating and administrative expenses including legal and audit fees. The management expense ratio ("MER") is all of the expenses of the Fund expressed as a percentage of the Fund's average net asset value.

The RBC Life Insurance Company may absorb/waive certain expenses of the Funds when the aggregate expenses exceeded a certain percentage ("MER cap") of the average daily net asset value of each Series of the Funds. In the case of the money market fund the management fee may be waived/reduced when rates increase in accordance with RBC's administrative rules. The waiver may be terminated by RBC at any time in accordance with its administrative rules. Included in Due from RBC Life Insurance Company, in the Statement of Financial Position, are balances of expenses absorbed by RBC Life Insurance Company. The MER of a Fund is subject to change without prior notification.

## 9. SALES AND REDEMPTIONS OF UNITS

Units of the Funds, which are redeemable at the option of the unitholder in accordance with the provisions of the related policy contracts, do not have any nominal value or par value and the number of units which may be issued is unlimited. Units of the Fund are issued or redeemed on a weekly basis at the net asset value per unit next determined after the purchase order or redemption request, respectively, is received by RBC Life Insurance Company.

## 10. FAIR VALUE MEASUREMENT

Investments recorded at fair value on the Funds' Statement of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined in accordance with IFRS 13 and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets, are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Quoted price for these investments are not adjusted even in situations where a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

As at December 31, 2015 and 2014, the investments in underlying mutual fund by each of the Fund's are classified as Level 1.

## 11. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, management fees, which includes insurance fees were paid to RBC Life Insurance Company as disclosed in Note 7 and presented separately in the Statement of Comprehensive Income of each Fund. As at December 31, 2015 and 2014, the management fees and insurance fees payable to RBC Life Insurance Company are presented separately in the Statement of Financial Position of each Fund.

During the years ended December 31, 2015 and 2014, the Funds did not pay any expenses to RBC GAM.