Annual Report
2006

AT THE VERY HEART OF **MUTUALISM**

La Capitale
Civil Service Mutual

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Company Profile

La Capitale Civil Service Mutual was created in 1940 by members of the *Association des employés civils* to ensure their well-being and that of their families in the event of their death. By the end of 2006, the Mutual was at the head of ten subsidiaries, all serving La Capitale's primary market of financial products and services, and all dedicated to serving the members of the Mutual and other valued clients. With total assets now more than $2 billion, La Capitale is a major financial group in Quebec.

OUR MISSION

Ever since it was founded, La Capitale has continued to evolve to fit the needs and expectations of members of the Mutual. Over the years, the company has expanded by introducing new products and services, creating and acquiring new subsidiaries and pursuing key business partnerships.

The original mission of the Mutual has also grown to adjust to a changing environment and the ever-evolving needs of its members:

> "In the interest of members of the Mutual, La Capitale stands by civil servants and their families, and other valued clients, in building, protecting and enriching their estates by providing them with value-added products and services."

In carrying out its mission, La Capitale Civil Service Mutual has a clearly defined responsibility to:

- Ensure the sound overall governance of the whole company
- Determine the strategic directions taken by La Capitale Financial Group and its subsidiaries
- Oversee and coordinate certain strategic and functional operations that impact on all areas of the company

OUR VALUES

Proud of its origins, La Capitale is first and foremost a mutual company, and intends to stay that way. Membership of the Mutual is exclusive to active and retired civil servants and members of their families (spouses and dependent children). That is why the products and services La Capitale offers must, as a priority, meet the needs of civil servants, who contribute day by day to the well-being of our company.

True to its mission, La Capitale has adopted core values that guide and influence its decisions and actions, including the relationships it maintains with its clients. A true reflection of the principles followed by directors and employees, these core values go hand in hand with the company's mission, addressing the two key concepts of mutualism and sound business sense.

Mutualist values	Business values
Democracy	Integrity
People first	Profitability
Mutual aid and solidarity	Quality of service
Intergenerational financial balance	Controlled growth
Valuing the role of public administration employees	Employee satisfaction

MANAGEMENT TEAM

Jean-Yves Dupéré, M.Sc. (C)
Chairman of the Board and Chief Executive Officer

Hubert Auclair, LL.B.
Corporate Secretary

Key Facts and Figures

La Capitale has adopted core values that guide and influence its decisions and actions every day. These values are inherent to our beliefs, our practices and our ability to work as a team to meet the needs of our clients and Mutual members.

$2.3 billion

- Total assets reached $2.3 billion by the end of 2006.

211,000 Mutual members

- Close to 211,000 Mutual members are eligible to exercise their rights at La Capitale.

- Members' assets reached a total of over $350 million, and dividends paid totalled some $11.4 million.

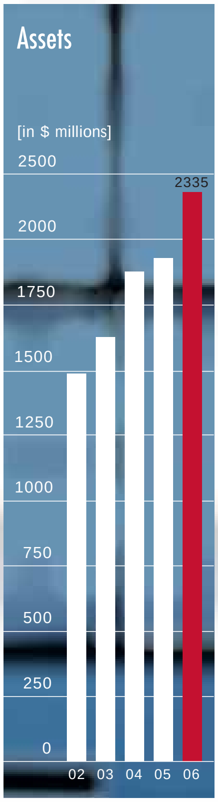
- Net profits are up:

  - Life and Health Insurance sector: $34.5 million
  - Property and Casualty Insurance sector: $22.3 million

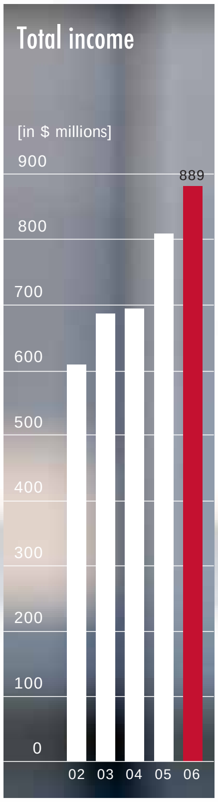
- Acquisition of Penncorp Life Insurance Company.

2,155 employees

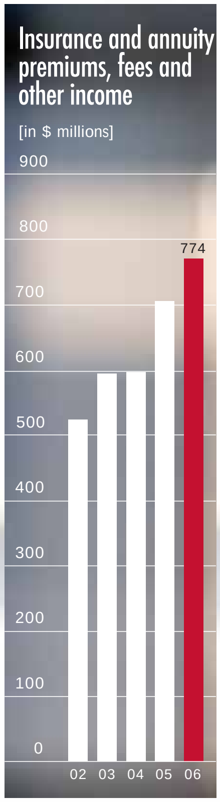
- With some 2,155 employees, La Capitale enjoys a significant presence in the Quebec economy.



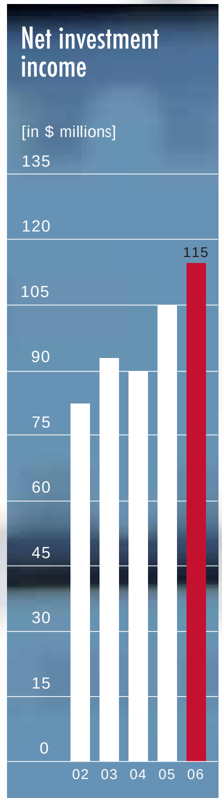
2006 shows an increase of 22.28% over 2005.



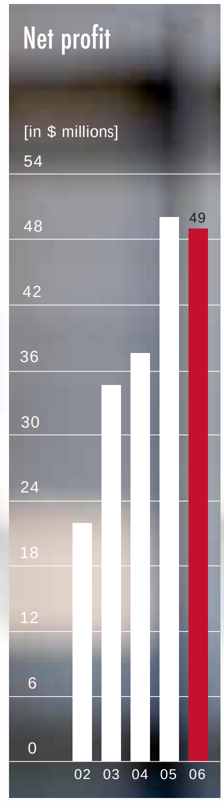
2006 shows an increase of 7.95% over 2005.



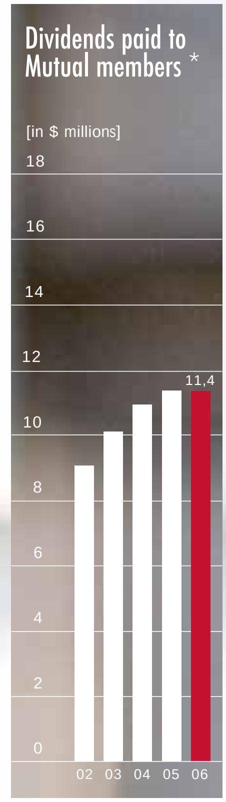
2006 shows an increase of 7.76% over 2005.



2006 shows an increase of 9.20% over 2005.



2006 shows a decline of 1.89% over 2005.



2006 shows a decline of 26.26% over 2005.

* The $15.4 million in dividends published in the 2005 Annual Report included additional benefits of $3.9 million paid to Mutual members in the settlement of a class action.

Corporate Structure

La Capitale Civil Service Mutual

La Capitale Financial Group

- La Capitale Financial Management
  - La Capitale Insurance and Financial Services
- La Capitale Civil Service Insurer
  - La Capitale General Insurance
    - L'Unique General Insurance
- La Capitale Financial Services
  - La Capitale MFQ Real Estate Management
- AGA Financial Group
  - Penncorp Life Insurance Company

Jean-Yves Dupéré
Chairman of the Board
and Chief Executive Officer

Message to **Mutual Members**

AT THE VERY HEART OF MUTUALISM

The 2006 Annual Report speaks volumes, demonstrating that the La Capitale family truly is "AT THE VERY HEART OF MUTUALISM". Once again reporting excellent financial performance, our group continues to proudly express its fundamental values by acting concretely in the best interests of the Mutual members who are its owners.

Founded on commitment and a corporate culture promoting integrity and transparency, the group has successfully incorporated such key mutualist concepts as sustainable development, mutual aid, solidarity, humanity and reciprocity into the way it does business.

The future of today's society is increasingly linked to the concept of sustainable development, which hinges on strategies that take into account the economic, social and environmental impacts of our activities. Profitability is an essential condition for successful business development, however to be sustainable, it must be approached with due respect for corporate values, taking into account the needs of future generations. Adhering to sustainable development requires businesses to look to the future and establish principles and values to be respected by all those involved within the company.

La Capitale is firmly engaged in the sustainable development process, as the harmony between the Group's mutual principles and business values clearly shows. This fundamental balance also demonstrates that the members of our Board of Directors and senior management have made the right decisions and indicates the true sincerity of the commitment made by the Group's employees.

Financial results that live up to our expectations

In 2006, the total income of La Capitale and its subsidiaries reached $889 million, an increase of 7.9% over the previous year, with total assets standing at $2.3 billion. Members' equity reached close to $350 million, with a return of 16.2%.

In 2005, profits reached $49.8 million, which included the sale of assets worth $5.8 million, leaving a net profit of $44 million. For the year 2006, La Capitale has posted a net profit of $48.9 million, an increase of 11.1%, without any sales of assets.

Dividends paid to Mutual members totalled $11.4 million, equivalent to what was paid in 2005, as the $15.4 million in dividends published in the 2005 Annual Report included additional benefits of $3.9 million paid to Mutual members in the settlement of a class action.

These results are a perfect reflection of the balance that must be maintained between La Capitale's duty to make its members' assets flourish and its responsibility to ensure the company's longevity, thereby maintaining intergenerational equity.

Sustainable business relationships

A sustainable business relationship between two corporate groups hinges first and foremost on the sharing of common values, followed by a mutual commitment to systematically apply management strategies taking both economic and social impacts into account.

For 20 years now, La Capitale has been pleased and proud to maintain a quality partnership with leading French mutual group *Garantie mutuelle des fonctionnaires* (GMF). By its vocation, GMF, just like La Capitale, serves the public sector, insuring close to one in every three employees in France.

Sharing similar mutualist values and concerns, GMF and La Capitale enjoy a common vision of future growth. It was in this spirit that La Capitale Civil Service Insurer and GMF, holding 30%, closed an acquisition to hold 100% of Penncorp Life Insurance Company.

Penncorp markets individual accident and disability insurance products across Canada. This major acquisition falls perfectly in line with the Mutual's Pan-Canadian expansion plan. The values our group holds so dear are already attracting great interest from Penncorp employees.

Whereas many companies today are just discovering the importance of building a sustainable business relationship with their clients, this fundamental principle has been a part of the La Capitale philosophy ever since the Group was founded, through its close links with groups and associations in the public and parapublic sectors. In 2006, La Capitale General Insurance renewed agreements with 14 groups, representing some 45,240 members, for the next 10 years. For example, a prominent Quebec teachers' federation, the FNEEQ, with La Capitale for the last 20 years, has renewed its agreement with us for a third 10-year period. These results come as welcome recognition for our consistent efforts to react to the changing needs of our clients and Mutual members and adapt the products we offer to them.

Mutual aid and intergenerational solidarity

Besides its ultimate aim to satisfy the financial needs of its Mutual members, La Capitale fully implements the concept of social economics through its actions and inherent values. An overall approach involving concerted actions within partnerships, social economics promotes autonomy, helping to improve standards of living for Mutual members and the general public.

In 2006, La Capitale created a special fund to finance pilot projects that aim to maintain a bridge between the generations, helping not only to ensure the continued autonomy of public sector retirees, but also to enhance their life in the community. This fund was created in response to two key realizations: First, that students represent a major asset for society today, and second, that many retirees often wish they had access to services that would enable them to continue learning new skills, obtain answers to their questions and share activities with others.

There are three projects currently underway in collaboration with the AQRP, Quebec's association of public and broader public service retirees. The benefits of these projects are twofold, serving both as an employment program for students and a point of access to services that are tailored to the needs and expectations of retired civil servants. We firmly believe in the potential of this truly unique initiative for intergenerational enrichment through the combination of students' dynamism, knowledge and ambition with retirees' wisdom and life experience.

La Capitale is proud to contribute to the development and promotion of this innovative collective undertaking, which upholds the fundamental mutualist values of solidarity, mutual aid and social involvement. These projects are an exceptional, highly appreciated source of improved quality of life and well-being for the population we serve.

Major real estate projects

With the real estate market looking good and the time ripe, La Capitale has set the ball rolling on two major projects key to the development of its real estate inventory, one being the expansion of its Head Office on Quebec City's Parliament Hill, a prominent location for its target clientele, and the other being the construction of a third office tower at the Delta business complex in Quebec City.

Already, La Capitale has laid the foundations of its Head Office expansion by purchasing the land needed for an ecologically sound 240,000 sq. ft. building certified under the "Green Building Rating System" in accordance with Leadership in Energy and Environmental Design (LEED) standards. This certification recognizes and rewards environmentally sound development of a site; efficient management of water, energy, and air emissions; efficient use of materials and resources and indoor air quality.

Construction of a 165,000 sq. ft. office tower is due to begin at Quebec City's Delta complex in Spring 2007. Strategically located close to the city's main transport arteries and bridges, the building is expected to welcome new tenants in Fall 2008.

A win-win relationship

La Capitale's relationship with its employees goes above and beyond simply reiterating its business values; it is a true partnership founded on mutual aid and solidarity, one partner's success being closely linked to the other's. It's a fact: La Capitale makes every effort to ensure its employees continue to evolve within a motivating environment that promotes career enhancement, with working conditions that are favourable to envisioning a retirement with no financial concerns.

Over time, our employees have developed a strong sense of belonging. In 2006, La Capitale General Insurance received for the second time "Best Employer" honours in the large firms category of an esteemed awards program, all thanks to the voluntary participation of its employees in a vast survey carried out by consulting firm Watson Wyatt. This great honour is an undeniable source of pride throughout the whole Group.

Furthermore, La Capitale recently announced to all employees the introduction of a contributory RRSP plan in January 2007, in complement to its existing employee pension plan. This plan, a concrete addition to existing fringe benefits, was neither an obligation for the company nor the result of a specific request by employees. To us it seemed only fair and natural to take this positive step to reward our employees for their loyalty, motivation and expertise.

This win-win employer / employee relationship became even clearer in 2006 and we are confident that its future will remain just as bright in decades to come.

Ensuring our longevity

At La Capitale, our employees are both our present and our future. Through their day-to-day interactions with our Mutual members, they ensure the longevity of our Group. With this in mind, it is imperative that our employees understand the underlying philosophy behind our every action. To reinforce our employees' understanding of our mutual principles and values, in January we launched a special training session on mutualism, which will be delivered to all employees throughout 2007.

Sustainable development requires not only a workforce that is qualified, committed and motivated, but also quality investment in the next generation. Given the scarcity of qualified resources on today's job market, hiring a new employee must now, more than ever, be a responsible, long-term decision. Our choice to offer our employees better fringe benefits, along with the "Best Employer" honours earned by La Capitale General Insurance, puts all the chances on La Capitale's side to recruit the most highly skilled professional resources available.

Our Group offers unparalleled opportunities for career development. For instance, in 2006, over 90% of promotions, including promotions to management positions, came from within. We are also particularly proud to note that over the period from January 2003 to December 2006, the number of individuals working in La Capitale's member companies rose from 1,350 to over 2,155, an impressive increase of 60%.

Mutual aid and solidarity

Mutual aid and solidarity are the founding values of mutualism, and these play a key role every day at La Capitale. Our financial resources are used in their entirety not only to satisfy the needs of our Mutual members in terms of financial security, but also to provide them with other services of socioeconomic importance. Profitability and the drive to meet the needs of our Mutual members enable us to offer products that are adapted to individuals experiencing difficult times. The Maxi-Privilege insurance policy we offer free of charge to La Capitale General Insurance clients who work in the public sector is a perfect example, as are the assistance products offered by our life and health and property and casualty insurance sectors, which provide free services to help ensure the quality of life and well-being of our insureds.

Risk management

We are particularly proud to highlight that the Board of Directors has adopted our new risk management policy covering the overall operations of the Group. Top management executives will be responsible for implementing this policy in their respective business lines. This new policy comes as reinforcement of our desire to promote transparency and integrity in the way we do business.

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We would like to thank all members of our boards of directors and employees who have contributed to the development, adoption and implementation of this important policy.

Strategic planning for 2020

During 2006, a long-term strategic planning exercise was carried out for the years 2010 to 2020. This exercise enabled us to situate the company in its future environment, by identifying potential medium- and long-term challenges as well as establishing objectives and setting priorities. One major, resounding conclusion was drawn from the exercise: that the members of the La Capitale Mutual should remain its *raison d'être*, and the Group's operations should continue to be planned with members' interests at heart.

Under this long-term plan, La Capitale aims to achieve a total income of $3.5 billion by 2020. La Capitale will be able to reach this goal by increasing the number of Mutual members and the number of products they hold, as well as through constant development in the property and casualty insurance, group insurance and individual life insurance markets across Canada. In addition, as a way into the rapidly-growing savings market, integrating asset management should also be a priority.

Such a rapid growth rate cannot be achieved solely through organic business development. That's why our Mutual will remain on the lookout for all potential future acquisitions.

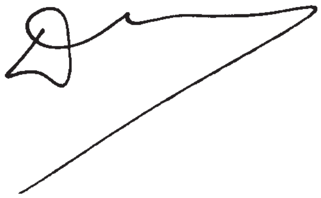
Departure of Mr. Réal Circé

Mr. Réal Circé, Chief Executive Officer of La Capitale General Insurance and Vice-President of Planning and Development of La Capitale Civil Service Mutual, made the decision to retire at the end of 2006 after more than 25 years' service. The dynamism and vision he shared with us had a positive influence not only in our property and casualty insurance sector but also across the whole Mutual, in which he was a true example to follow. We would like to thank him for his inestimable contribution, his thoroughness, and his creative, pioneering spirit. It was only natural to offer Mr. Circé the pages that follow to tell the story and highlights of the company he guided to the very top.

Before his departure, Mr. Circé made sure to leave La Capitale General Insurance in the expert hands of Mr. John Strome, Executive Vice-President since 2004, who has been with the company since 1984. We would like to congratulate Mr. Strome on his appointment and assure him of our full support.

Acknowledgements

It is thanks to strong teamwork and proactive, forward-looking strategies in line with our underlying mutualist values that our group can be so proud of its successes and achievements today. I would like to thank the members of the Board of Directors of La Capitale Civil Service Mutual for their unfailing support and collaboration. The trust they place in us sustains our commitment to act in the best interests of our Mutual members. I would also like to express my profound gratitude to all of our employees here at La Capitale. Their expertise, experience, professionalism and motivation have enabled us to achieve the results we can be so proud of, and it is thanks to them that we can look with optimism to La Capitale's future "At the Very Heart of Mutualism".



Jean-Yves Dupéré
Chairman of the Board
and Chief Executive Officer

Board of Directors

Jean-Yves Dupéré
Chairman of the Board and
Chief Executive Officer

Jacquelin Bergeron
Vice-Chairman

Danielle Poiré

Roland Guérin

Martial Fillion

François Jutras

Louise Potvin

Sophie Proulx

René Rouleau

Dominique Dubuc

Jean-Paul Beaulieu

Réal Circé

Retrospective

THE YEAR IN REVIEW

All throughout 2006, in a spirit of solidarity encompassing its mutual values, La Capitale General Insurance marked its 30th anniversary in a special way, empowering both long-standing and new clients to share in its success by giving several million dollars back to them in the form of additional benefits to their insurance contracts. This contributed to making 2006 another successful year.

It is in this context of success and trust in the future of the company, having carefully prepared the way for my successors, that I have decided to retire with the great satisfaction of a sense of duty done.

After more than 25 years of managing operations for La Capitale General Insurance, I can look back with pride on this time, during which the company was able to achieve a compound annual growth rate of more than 12%, generating a return on equity for Mutual members and shareholders of over 17%. These results, which speak for themselves, are the product of an efficient team of employees, managers and board directors, whose ideas and hard work have helped to build the reputation our company enjoys today.

It is with these individuals in mind – with those directly involved remaining anonymous – that I would like to give you a brief reminder of the key events that have shaped the company's success over the years.

1976 La Capitale General Insurance is created as a direct insurer.

1981 La Capitale is one of the first insurers to offer a direct online service, an early indication of the technological orientation the company will take.

1982 Insureds are given the benefit of the doubt in the event of contract ambiguity. Thanks to this policy, La Capitale is named No. 1 insurer for service satisfaction.

1988 The company ensures its longevity by offering products and services to the general public and expanding its network of branch offices.

1988 The acquisition of the insurance company The Personal, and its subsequent sale in 1993, reinforce the Group's financial strength.

1992 La Capitale General Insurance becomes Canada's top provider of legal access insurance.

1993 La Capitale's strategic decision to migrate from its proprietary information systems to open systems based on TCP / IP Internet protocol gives the company an undeniable advantage over its competitors.

1994 With the help of a California firm, La Capitale develops auto insurance rates based on sociodemographic variables, ensuring both future prosperity and the development of new opportunities in terms of profitability.

1995 Building our administrative systems on an Oracle database platform becomes an important factor in ensuring our current prosperity.

1996 The creation of an effective, dependable network of affiliated agents, with production now representing some 30% of total sales figures, becomes a valuable asset in La Capitale's distribution and development portfolio.

1999 The addition of free Auto and Home Assistance services for our clients with Serenity coverage gives an exceptional added value that shows the company's distinctive nature and makes a marked contribution to concretizing client loyalty.

2000 La Capitale General Insurance implements the world's first distributed IP telephone network. This technology, which integrates voice and data on a single network, is to become the future of the company.

2005 The acquisition of L'Unique General Insurance Inc. and Orleans General Insurance Company opens the door to a broker distribution network. La Capitale develops a complete range of products, allowing brokers to increase their range of insurers, largely restricted by market consolidation.

2006 The introduction of recreational vehicle insurance allows La Capitale to further expand its product offering for insureds.

These highlights clearly demonstrate the innovativeness of La Capitale General Insurance and its employees. As the past can hold valuable insight into the future, La Capitale can embrace new challenges with confidence, especially when it comes to technology, which consistently pushes the limits of communication. Other new challenges the company will face include distribution in a financial sector that is both increasingly regulated and more decompartmentalized, increasingly precise underwriting and the geographical expansion needed to ensure the company's longevity. I am confident that the strong, mature and dynamic team I am leaving will embrace all of these challenges with enthusiasm.

During my last few years with La Capitale Financial Group, our current Chairman, Mr Jean-Yves Dupéré, entrusted to me a greater role in ensuring the Group's future orientations. I was actively involved in strategic planning exercises and in introducing strategy round tables to promote intercompany communications and enhanced synergy. These two work forces, combined with the involvement of La Capitale Civil Service Insurer President and Chief Operating Officer Mr Robert St-Denis, have ensured years of exceptional prosperity for the group, allowing us to take a bold stance as we look to the future and embark upon unprecedented development.

Now to you, employees, members of senior management and board directors, I would like to extend my sincerest thanks for all of your support over the years and offer you my very best wishes for the most successful of futures.

Réal Circé

Réal Circé

Risk Management Policy

La Capitale's sense of corporate responsibility is reflected in its governance practices, which uphold the highest standards of integrity, equity and transparency. In order to concretize these values, La Capitale has decided to adopt a Risk Management Policy.

During 2006, La Capitale and its subsidiaries established a Risk Management Policy, which was implemented on January 1, 2007. This decision was consistent with the initiatives taken over the past three years, during which we clearly defined the principles, standards and code of conduct that must be followed by the senior management and boards of directors of La Capitale and its subsidiaries. The following outlines several of the reasons justifying the adoption of this new policy.

TO REASSURE AND PROTECT OUR MUTUAL MEMBERS

Over the last few years, a number of scandals and questionable practices have threatened the savings of many people. This has caused various problems for the financial markets, which in turn, have justifiably led to some mistrust on the part of investors. The authorities that regulate the financial markets have therefore implemented new rules that aim to reassure, and above all, protect the public. These measures require management to act with increased transparency and greater rigour when conducting business. Management is also called upon to improve communication with investors and savers, in order to allow them to better assess, compare and evaluate their investments.

TO BETTER SERVE OUR MUTUAL MEMBERS

Furthermore, as a mutual company, we believe that we have an increased responsibility because our clients are also the owners of the company. To reassure our clients and justify the trust that they have placed in us, we have adopted concrete measures to demonstrate how the principles and policies that we have set out in our governance rules are reflected in our actions.

Our Mutual members are our reason for being. It is therefore of the utmost importance that they be fully informed of what we are doing and the way that we are doing it. By adopting a risk management policy, we are providing them with better assurance that our activities are carried out according to established standards and in their interests.

TO OPTIMIZE OUR RESULTS

A risk management policy provides many other benefits. It allows us to maximize the yield of our surplus. In fact, by defining and adopting our Risk Management Policy and developing the related tools, we are better able to document our activities and refine our management practices.

THE CONCEPT OF RISK MANAGEMENT

In all facets of our activities, managers must make decisions. Whenever decisions are made, there is always some uncertainty, and therefore, a certain degree of risk. Decisions are made by considering all the available data and by taking into account our mutualist values as well as the policies and practices of the company. A risk management policy provides a framework for making decisions and reporting on these to the Board of Directors. This approach is consistent with the principles of sound governance and transparency in the management of a company.

DEFINING THE RISK MANAGEMENT POLICY

Defining the Policy did not involve starting from scratch as we were able to build on our existing sound financial and commercial practices and the rules of governance we already abide by.

We started from the principle that we wanted to maintain our current style of management. It was also important to implement the risk management policy in a simplified, streamlined yet highly efficient manner. We also hoped to put in place pertinent measures that would enable us to ensure that the Risk Management Policy could be applied effectively and that it would remain appropriate and relevant in years to come as the different components of La Capitale continue to evolve.

Our Risk Management Policy was therefore developed in the following manner. We began by indexing, identifying, and analyzing the operations of the companies requiring decisions as to the nature of the risk involved in each one. Analyzing the different risks to which we are exposed allowed us to better understand and see the interrelationships.

Then we documented the review process in order to provide a framework for the different risks and optimize the impact of each decision made. Finally, we synthesized the standards, processes and measures involved.

IDENTIFYING THE RISKS

The risks we analyzed were grouped into four generic categories.

- Risks related to insurance activities, such as products offered, product underwriting, issuance, claims, distribution, etc.
- Operational risks, such as business continuity, internal procedures and systems, technology, personnel, reputation and external events influencing our operations, etc.
- Financial risks involving assets, investments, financial markets, money, credit, derivatives, exchange rates, matching, etc.
- Strategic risks, such as those related to the growth of the organization, our business plan, planning, acquisitions, coordination between company sectors, etc.

THE FRAMEWORK FOR THE RISK MANAGEMENT POLICY

Adopting a risk management policy inherently requires a certain documentation of how we monitor the way the Policy is applied and adapted to new situations. We have therefore documented the various monitoring measures used, and responsibility for these activities has been placed with the Group's Strategic Table for Finance.

These monitoring measures are activated by a process that alerts management if established standards or procedures are not followed, resulting in less than optimal decisions. Further, the companies involved are required to present an annual performance report to the Board of Directors of La Capitale Civil Service Mutual.

RESPONSIBILITIES OF DIFFERENT LEVELS OF MANAGEMENT

La Capitale's Risk Management Policy applies to all employees of the Group.

Each and every employee has a well-defined role to play and specific responsibilities are conferred upon senior management in each sector. Senior management must first ensure that the risk management policy is implemented, then define guidelines, procedures and standards to be attained. It is also senior management's responsibility to make sure employees are aware of and apply the Risk Management Policy, and see that they receive the necessary training to do so. Senior management must also ensure that risk identification is kept up to date and produce an annual performance report.

The Board of Directors of La Capitale Civil Service Mutual, representing Mutual members, remains ultimately accountable. The Board adopted the Risk Management Policy and sees to its application and follow-up. Each year, Board Directors receive and approve performance reports from senior management and ratify any required modifications or additions to the Policy.

CONCLUSION

The ultimate goal of our Risk Management Policy is to support sound governance and transparency in the actions taken by our companies. It optimizes the risk-return ratio of the decisions we make and ensures the sound management of our company, while demonstrating to our Mutual members that their assets are well managed and in good hands.

This Risk Management Policy and the measures taken to apply it will serve as a high-return tool to inform the Board of Directors of La Capitale Civil Service Mutual as to the performance of our different business lines. This will enable the Board to carry out its mandate on behalf of Mutual members as accurately and effectively as possible.

Employee Satisfaction: A Sure Value

In line with the key principles of mutualism, at La Capitale, people come first. The best interests of our Mutual members and employees are always at the forefront in the day-to-day decisions made and actions taken by management.

La Capitale owes its success to the expertise and unfailing commitment of its employees, who devote their skills and energy to meeting the needs of clients and Mutual members. In recognition of this, La Capitale provides employees with a stimulating work environment designed to help fulfil a healthy work-life balance.

OUR EMPLOYEES

At the end of 2006, La Capitale had 2,155 employees, working in the following core business divisions:

Life and Health Insurance	1,145
Property and Casualty Insurance	982
Related Services	28

Over the summer, 70 students were able to benefit from work experience in our various lines of business.

TRAINING THAT MAKES THE GRADE

To hone their professional skills, employees in our core businesses benefit from access to a range of training programs. In 2006, La Capitale invested 2.8% of its overall payroll expenses in employee training, over and above the 1% standard set by provincial workforce training legislation.

Training is provided both internally and by recognized educational establishments, ranging from ongoing professional development to university certificates and diplomas.

2006: A YEAR IN SYNERGY

2006 was another year during which our Human Resources professionals pooled their resources to work in synergy. The key projects completed include the following:

- Finalizing the pay equity settlement for professional employees and middle managers, in follow-up to the process completed in 2005 for office employees
- Creating a common salary structure for all of La Capitale's member companies
- Implementing a corporate profit-sharing plan for all employees
- Launching a contributory RRSP plan for office and professional employees

WELL-DESERVED RECOGNITION

We would like to congratulate La Capitale General Insurance employees for working for the "Best Employer in Quebec", esteemed honours now enjoyed for a second time by this subsidiary of La Capitale.

We sincerely thank all of the employees involved in our Life and Health Insurance division for their collaboration with senior management in carrying out and consolidating our acquisitions this past year.

Mutual Aid and Solidarity: An Intrinsic Value

Mutual aid and solidarity are the concepts that drive mutualism, with a view to protecting human capital and ensuring a greater collective quality of life and financial well-being.

In 2006, La Capitale expressed its values of mutual aid and solidarity through its commitments, sponsorships and donations.

La Capitale continues to promote the cooperative and mutual movement through its active work with the *Conseil québécois de la coopération* et de la Mutualité (CQCM) and the S*ociété de coopération pour le développement international* (SOCODEVI).

This year, the company also renewed its agreements and signed new partnerships with several foundations linked to the public service in Quebec. For instance, La Capitale presented the *Défi Cancer* challenge organized by the *Fondation du CHUQ*, a prominent local hospital foundation, which aimed to raise funds for clinical cancer research.

Our top management executives showed their commitment as patrons of honour to a number of charitable initiatives, including Portage, the Alzheimer Society, the *Fondation de l'Hôpital de l'Enfant-Jésus* hospital foundation, the *Centre CASA* for alcohol, drug and gambling rehabilitation, the *Enfance à petits pas* children's foundation, a benefit evening organized by the FRESIQ nursing science research foundation, and the *Carrefour* cultural communities initiative.

To help promote healthy lifestyle habits, La Capitale joined forces with the Government of Quebec as the principal partner of its *Move More, Eat Better* initiative.

As well as renewing our association with the ENAP Public Administration University by supporting the La Capitale Research Chair for Public Sector Leadership, we continue to provide encouragement to public service establishments with active recognition policies that promote employee excellence, in line with one of our key mutualist values of "valuing the role of public administration employees".

During the year, we maintained our commitment to youth by supporting the Young Explorers program, which encourages young people to find out more about careers in federal, provincial and municipal government, health and education and parapublic organizations. It also helps high school students reflect on their career choice by encouraging them to take part in a day's work experience in a participating establishment.

Also in 2006, La Capitale signed a 3-year agreement with broadcaster Télé-Québec as a partner of the renowned *Dictée des Amériques* competition. Promoting correct usage of the French language, this esteemed event is broadcast in 165 countries and serves as a showcase for Quebec literary culture on the world stage.

On a cultural level, La Capitale is a proud partner of the Quebec City International Military Music Festival. This annual event provides entertainment with a true international flavour for the whole family and shows the armed forces in a whole new light. La Capitale continues to show its support for the *Conservatoire de musique et d'art dramatique de Québec* (Quebec City's institute of music and performing arts) through its partnership with the institute's popular Monday lunchtime concert initiative.

We were proud to give encouragement and financial support to a team of our employees who climbed Mount Kilimanjaro in November 2006. La Capitale employees also gave generously to the fundraising initiative launched by the group of climbers, which raised a total of $24,000 for The Arthritis Society of Quebec.

Once again this year, our employees showed great generosity in supporting the United Way and Red Cross fundraising campaigns, collecting a total of close to $45,000 for the organization of their choice. La Capitale itself made a corporate donation of $5,000 to each of these charitable organizations.

Consolidated Financial Statements

Responsibility for Consolidated Financial Statements

The financial statements of La Capitale Civil Service Mutual have been prepared by management in accordance with Canadian generally accepted accounting principles and contain certain amounts based on management's best estimates and judgment.

In order to carry out its responsibilities with regard to the financial statements, management maintains internal control systems that provide a reasonable degree of certainty that transactions are duly authorized, that the financial records are accurate and that the assets are well protected.

The Board of Directors names the Appointed Actuary, who is responsible for valuing policy liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries and to express an opinion regarding their adequacy to meet all policyholder obligations of the companies at the balance sheet date. In addition, the Appointed Actuary is required each year to prepare a report for the Board of Directors on the capital adequacy of these companies.

The external auditors Ernst & Young LLP, appointed by the members, carry out an independent audit of these consolidated financial statements in accordance with Canadian generally accepted audit standards and report on the fairness of the presentation of the consolidated financial statements of the Mutual.

Jean-Yves Dupéré
Chairman of the Board and Chief Executive Officer

Quebec City, February 23, 2007

Auditors' Report

To the Members of
La Capitale Civil Service Mutual,

We have audited the consolidated balance sheet of **La Capitale Civil Service Mutual** (the "Mutual") and the statement of net assets of the segregated fund as at December 31, 2006 and the consolidated statements of earnings, members' equity and cash flows and the statement of changes in net assets of its segregated fund for the year then ended. The financial statements are the responsibility of the Mutual's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Mutual and of its statement of net assets of the segregated fund as at December 31, 2006 and the results of its operations, its cash flows and the change in net assets of its segregated fund for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young s.r.l./S.E.N.C.R.L.

Chartered Accountants
Québec City, Canada
February 15, 2007

Consolidated Balance Sheet

As at December 31 [In thousands of dollars]

ASSETS

	2006	2005
Invested assets		
Bonds *[notes 4 and 9]*	$ **995,300**	$ 814,718
Mortgage loans *[notes 4 and 5]*	**408,498**	350,421
Stocks *[note 4]*	**256,301**	199,979
Real estate *[note 4]*	**120,958**	117,630
Cash and short-term deposits *[note 4]*	**74,222**	43,346
Policy loans *[note 4]*	**21,864**	20,313
Other invested assets *[notes 4 and 5]*	**24,994**	23,826
	1,902,137	1,570,233
Other items		
Premiums receivable	**190,772**	170,925
Goodwill *[note 21]*	**57,919**	8,296
Intangible assets *[notes 6 and 21]*	**31,319**	27,030
Other assets *[note 7]*	**152,949**	133,095
	432,959	339,346
GENERAL FUND ASSETS	$**2,335,096**	$1,909,579
SEGREGATED FUND NET ASSETS	$ **181,029**	$ 152,208

LIABILITIES

	2006	2005
Policy liabilities *[note 10]*		
Actuarial liabilities	$**1,245,917**	$ 953,023
Provisions for policy benefits in process of payment	**18,320**	17,172
Provisions for participating policy holder dividends and experience rating refunds	**15,425**	13,534
Policyholders' amounts on deposit	**29,842**	26,949
	1,309,504	1,010,678
Other items		
Unearned premiums	**225,296**	208,728
Provision for claims and loss adjustment expenses *[note 11]*	**74,809**	71,761
Long-term debt *[note 12]*	**6,442**	6,685
Accrued liabilities	**149,697**	129,603
Deferred net gains	**75,301**	63,617
Excess of outstanding cheques over cash	**5,934**	11,958
Other liabilities *[note 13]*	**51,285**	43,720
	588,764	536,072
Non-controlling interests	**86,607**	61,469
MEMBERS' EQUITY *[note 14]*	**350,221**	301,360
LIABILITIES AND MEMBERS' EQUITY	$**2,335,096**	$1,909,579
SEGREGATED FUND LIABILITIES	$ **181,029**	$ 152,208

Contingencies *[note 25]*

See accompanying notes

On behalf of the Board of Directors,

Jean-Yves Dupéré
Chairman of the Board and Chief Executive Officer

Jacquelin Bergeron
Vice-Chairman of the Board

Consolidated Statements of Members' Equity

Year ended December 31 [In thousands of dollars]

	2006	2005
Balance, beginning of year	$ **301,360**	$ 251,560
Net earnings	**48,861**	49,800
Balance, end of year	$ **350,221**	$ 301,360

See accompanying notes

Consolidated Statement of Earnings

Year ended December 31 [In thousands of dollars]

	2006	2005
Revenues		
Insurance and annuity premiums	$ **751,737**	$ 705,855
Net investment income *[note 17]*	**115,360**	105,641
Fees, commissions and royalties	**21,026**	11,167
Other	**738**	760
	888,861	823,423
Policy benefits and expenses		
Policy benefits and claims incurred	**507,426**	480,837
General expenses	**142,956**	127,645
Increase in actuarial liabilities *[note 10]*	**79,938**	61,189
Commissions	**41,236**	38,401
Premium taxes	**20,443**	19,480
Experience rating refunds	**4,243**	2,876
	796,242	730,428
Earnings before income taxes, non-controlling interests, participating policyholder dividends and discontinued operations	**92,619**	92,995
Income taxes *[note 18]*	**23,671**	25,248
Earnings before non-controlling interests, participating policyholder dividends and discontinued operations	**68,948**	67,747
Non-controlling interests	**8,666**	8,261
Participating policyholder dividends	**11,421**	15,489
	20,087	23,750
Earnings before discontinued operations	**48,861**	43,997
Net earnings from discontinued operations *[note 19]*	—	5,803
Net earnings	$ **48,861**	$ 49,800

See accompanying notes

Consolidated Statement of Cash Flows

Year ended December 31 [In thousands of dollars]

	2006	2005
OPERATING ACTIVITIES		
Earnings before discontinued operations	$ **48,861**	$ 43,997
Adjustments for:		
Increase in actuarial liabilities	**79,938**	61,189
Deferred net gains and amortization of deferred net gains and of net bond discount	(**27,637**)	(52,260)
Amortization	**17,915**	14,849
Future income taxes	**3,779**	6,816
Increase in non-controlling interests	**8,666**	8,261
Other items included in net earnings	(**53,130**)	(12,668)
	78,392	70,184
Net change in other items related to operations	**18,655**	(10,012)
Discontinued operations *[note 19]*	**—**	(525)
Cash flows related to operating activities	**97,047**	59,647
INVESTING ACTIVITIES		
Purchase of stocks and bonds	(**364,052**)	(546,231)
Purchase of real estate	(**1,977**)	(4,558)
Issue of mortgage loans and advances	(**443,160**)	(353,851)
Stock and bond sales and maturities	**471,414**	494,586
Maturities, sales and repayment of mortgage loans and advances and securitization	**383,647**	335,635
Net acquisition of other invested assets and other assets	(**9,718**)	(8,140)
Business sales *[note 19]*	—	29,251
Business acquisitions *[note 21]*	(**88,997**)	(15,929)
Cash flows related to investing activities	(**52,843**)	(69,237)
FINANCING ACTIVITIES		
Repayment of balance of purchase price payable	(**2,618**)	—
Repayment of long-term debt	(**256**)	(8,030)
Increase (decrease) in non-controlling interests	(**200**)	2,472
Dividends paid to non-controlling shareholders	(**3,509**)	(1,244)
Cash flows related to financing activities	(**6,583**)	(6,802)
Net increase (decrease) in cash and cash equivalents	**37,621**	(16,392)
Cash and cash equivalents, beginning of year	**30,383**	46,775
Cash and cash equivalents, end of year *[note 20]*	$ **68,004**	$ 30,383
Supplementary information		
Interest paid	$ **1,202**	$ 1,509
Income taxes paid	$ **10,055**	$ 33,321

See accompanying notes

Segregated Fund

Statement of net assets

Year ended December 31 [In thousands of dollars]

	2006	2005
Assets		
Bonds	$ **72,144**	$ 51,062
Mutual funds	**100,359**	95,033
Cash and short-term investments	**367**	621
Other assets	**8,293**	5,493
	181,163	152,209
Liabilities		
Accrued liabilities	**134**	1
Net assets	$ **181,029**	$ 152,208

Statement of changes in net assets

Year ended December 31 [In thousands of dollars]

	2006	2005
Net assets, beginning of year	$ **152,208**	$ 134,340
Additions		
Amounts received	**17,017**	8,648
Investment income	**2,657**	2,152
Realized net gains	**229**	1,478
Net increase in fair value	**12,967**	10,199
	185,078	156,817
Deductions		
Policy benefits paid	**3,469**	4,245
Investment expenses	**580**	364
	4,049	4,609
Net assets, end of year	$ **181,029**	$ 152,208

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2006
[In thousands of dollars]

1. Incorporating state and nature of operations

La Capitale Civil Service Mutual, incorporated on December 6, 1991 under the *Act respecting the Québec Civil Servants Mutual Life*, is a mutual management corporation.

Its operations are carried out mainly in Canada through its subsidiaries and consist principally of individual life insurance and property and casualty insurance.

2. Accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the accounting policies related to each of the types of businesses included in the consolidation:

- Individual life insurance companies;
- Property and casualty insurance companies.

The accounting policies used to prepare these consolidated financial statements are summarized below.

• BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Mutual and those of its subsidiaries. The investment in the joint venture has been accounted for using the proportionate consolidation method.

• USE OF ESTIMATES

In preparing these financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the financial statements have been properly prepared using careful judgement within the reasonable limits of materiality and within the framework of the accounting policies summarized below.

• REVENUE RECOGNITION

Individual life insurance and annuity premiums are recorded as revenues as they fall due under existing policies. As soon as the premiums are recognized, the actuarial liabilities are established to ensure matching between policy benefits and expenses related to these premiums.

Premiums written for property and casualty insurance are recognized in revenues proportionately to the terms of the policies. Unearned premiums in the balance sheet represent the portion of premiums written that relate to the unexpired term of the existing policies. Premiums receivable include the unexpired portion of the annual premiums written that have a staggered payment method.

Investment income is accounted for on an accrual basis and reported net of investment expenses.

• BONDS

Bonds are recognized at amortized cost. Premiums and discounts are amortized using the effective interest method over the remaining term to maturity of these investments. Permanent and material impairments in the value of these securities are charged to earnings in the year in which the impairments occur.

Realized gains and losses on the disposal of these investments by the individual life insurance companies are deferred and amortized over the bonds' remaining term to maturity up to a maximum of 20 years. The gains and losses relating to the other companies are recognized directly through earnings.

• MORTGAGE LOANS

Mortgage loans are recorded at their principal amount, net of an allowance for impaired loans. Realized gains and losses on the disposal of these investments are deferred and amortized over the average remaining term of the loans sold.

Impaired loans

Loans are classified as impaired if there is reasonable doubt as to the timely collection of the principal or interest when due or if a payment is over 90 days overdue. Interest income stops being recognized and the carrying amount of the loans is reduced to its estimated realizable amount.

The changes that subsequently occur in their estimated realizable value are recognized through earnings for the year.

• LOAN SECURITIZATION

A subsidiary of the Mutual securitizes pools of mortgage loans periodically by selling them to trusts that issue mortgage-backed securities to investors and retains responsibility for managing these loans.

Securitization transactions are recorded as sales given that the Mutual has surrendered control over these assets and that the subsidiary has received, in exchange, consideration other than beneficiary interests in these assets.

In connection with securitization transactions, the subsidiary of the Mutual retains a portion of the future interest that will be paid by the borrower whose mortgage loan was sold. The subsidiary thus accounts for this future revenue, net of management fees, as a servicing asset. The fair value of the servicing asset is estimated using the discounted value of expected future cash flows based on assumptions with respect to prepayments, credit losses, management fees and discount rates. The servicing asset is amortized over the average term to maturity of the loans sold.

Gains and losses arising from securitization correspond to the amount by which the consideration exceeds or is less than the carrying amount attributed to the assets sold. The gains and losses are deferred and amortized over the average term to maturity of the loans sold. These gains and losses are included in net investment income.

• STOCKS

Stocks include common shares, preferred shares, participating units and participating units in trading indices. The shares and participating units held by the individual life insurance companies are reported using the moving average market value method, whereby the carry value is adjusted toward market value every year, by an amount equal to 15% of the difference between the market value and the carrying value. Realized gains and losses on the disposal of these investments are deferred and amortized on a declining balance basis at an annual rate of 15%. The participating units in trading indices held to match certain commitments in relation to the universal life policy, guaranteed index investment certificates and index accounts are recorded at fair value.

Stocks held by the other companies are reported at cost; gains and losses arising from the disposal of these investments are recognized directly through earnings.

Any permanent and material impairment in the value of these securities is charged to earnings in the year in which the impairment occurs.

• REAL ESTATE

Real estate held by the individual life insurance companies for investing, operating and administrative purposes are accounted for using the moving average market value method, whereby the carrying value is adjusted towards market value every year, by an amount equal to 10% of the difference between market value and carrying value. Realized gains and losses on the disposal of such properties are deferred and amortized on a declining balance basis at an annual rate of 10%.

Properties acquired through foreclosure are recorded at the lower of the loan balance and the fair value net of selling expenses. Realized gains and losses on the disposal of these properties are recorded in earnings for the year.

Properties held by the other companies are recorded at amortized cost. Amortization is calculated mainly on a straight-line basis over a 40-year term. Gains and losses on the disposal of these properties are recognized through earnings for the year.

• POLICY LOANS

Policy loans are recorded at cost and are fully secured by the cash surrender value of the insurance policies on which the respective loans are made.

• OTHER INVESTED ASSETS

Personal loans are recorded at their principal amount, net of an allowance for impaired loans.

• GOODWILL

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable assets. Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate that it might be impaired. When the carrying amount of the goodwill exceeds its fair value, an impairment loss is charged to earnings.

• INTANGIBLE ASSETS

Intangible assets consist of indefinite-life intangible assets and definite-life intangible assets. Indefinite-life intangible assets are not amortized but are assessed for impairment annually. When the carrying amounts of the indefinite-life intangible assets exceed their estimated fair value, an impairment loss is charged to earnings.

Finite-life intangible assets are amortized on a straight-line basis over 10- and 12-year periods.

2. Accounting policies [Cont'd]

• OTHER ASSETS

Other assets consist of property, plant and equipment, deferred charges, future income tax assets, the servicing asset, prepaid expenses, lease acquisition expenses, investment income receivable and other receivables.

Property, plant and equipment, consisting primarily of furniture, computer hardware and software, leasehold improvements and rolling stock, are recorded at amortized cost. Amortization is calculated using the straight-line and declining balance methods over the expected useful lives at rates ranging from 10% to 33%.

Deferred charges, consisting primarily of commissions, taxes on deferred premiums and mortgage acquisition expenses, are recorded at amortized cost. Amortization is calculated mainly on a straight-line basis over a period not exceeding five years.

Lease acquisition expenses are recorded at amortized cost and amortized over the terms of the leases.

• IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when significant events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, which is the excess of net carrying value over fair value, is charged to earnings for the year.

• SEGREGATED FUND POLICIES

The segregated fund consists of the assets of the pension plans of La Capitale group. These assets are fully administered by a subsidiary of the Mutual, but are excluded from the assets of the general fund. The assets of the segregated funds are recorded at fair value.

• ACTUARIAL LIABILITIES

Actuarial liabilities represent the amount that, when added to premiums and future investment income, secures current policy commitments. These actuarial liabilities are determined using the Canadian asset liability method, which is in accordance with the practice established by the Canadian Institute of Actuaries.

• PROVISION FOR CLAIMS AND LOSS ADJUSTMENT EXPENSES

Claims and loss adjustment expenses are charged to earnings as incurred. The provision for claims and loss adjustment expenses is initially determined on a case-by-case basis for each claim filed and includes an additional amount based on estimated claims incurred but not reported. The provision is recorded on a discounted basis.

Determining the provision for claims and loss adjustment expenses and related reinsurers' shares requires the estimation of three major variables, that is, changes in claims, collections related to reinsurance and future investment income. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice.

The provision for claims and adjustment expenses and related reinsurers' shares are estimates subject to variability during the year. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can also be caused by the receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the historical experience of the subsidiaries of the Mutual. The Mutual believes that the estimation methods used produce reasonable results based on currently available information.

• INCOME TAXES

Income taxes are recorded using the liability method of tax allocation. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the financial statement carrying amount and the corresponding tax basis. These future income tax assets and liabilities are measured using tax rates that are expected to apply when such tax assets or liabilities are either settled or realized.

• DERIVATIVE FINANCIAL INSTRUMENTS

A subsidiary of the Mutual uses derivative financial instruments to hedge against interest rate fluctuations. In connection with asset-liability matching, said subsidiary uses interest rate [reverse] repurchase agreements. The resulting gains and losses are deferred and amortized mainly over two years.

To hedge against the interest rate risk related to securitized mortgage loans and mortgage loans or in the process of being securitized, the subsidiary also uses interest rate [reverse] repurchase agreements. Any gains or losses realized on these derivatives offset the losses or gains recognized on the pool of securitized mortgage loans. Any gain or loss realized on the derivative financial instruments are amortized over the average term to maturity of the securitized mortgage loans.

In order to benefit from a lower capital cost during securitizations, the subsidiary uses interest rate swaps. These swaps are recorded at fair value.

• PENSION PLANS AND EMPLOYEE FUTURE BENEFITS

The Mutual and its subsidiaries offer defined benefit pension plans and other post-employment benefits to its employees and records its obligations net of plan assets. The cost of pension and other post-employment benefits earned by employees is determined according to actuarial calculations using the projected benefit method prorated on services and management's most likely estimate of expected plan investment performance, salary escalation, the retirement age of employees and expected health care costs. Plan obligations are discounted based on current market interest rates, and plan assets are recorded at fair value.

The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation, the fair value of plan assets and the transitional (asset) obligation is amortized over the average remaining service life of employees.

During the year, the property and casualty insurance subsidiary terminated the defined contribution pension plan. The employees that were covered by this plan have enrolled in the defined benefit pension plans and other post-employment benefits.

• STOCK APPRECIATION RIGHTS PLAN

The expense in respect of the stock appreciation rights plan is charged to earnings for the year when the return on the shares is earned under the plan.

• FOREIGN CURRENCY TRANSLATION

The accounts denominated in foreign currencies are translated using the temporal method. Under this method, monetary items in the balance sheet are translated at the exchange rates in effect at year-end, while non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange on the transaction date or at the average exchange rates for the year. Gains or losses resulting from the translation are included in earnings for the year.

3. Future accounting policy changes

• FINANCIAL INSTRUMENTS

As of January 1, 2007, the Mutual will be required to comply with the new *CICA Handbook* provisions regarding the recognition of financial instruments. The new sections *Financial Instruments – Recognition and Measurement, Hedges* and *Comprehensive Income*, including the amendments to the section *Life Insurance Enterprises* and certain other sections, replace the former CICA recommendations regarding these items.

Financial Instruments – Recognition and Measurement

All financial assets and liabilities will be carried at fair value in the balance sheet, except the following which will be carried at amortized cost unless designated as held for trading upon initial recognition: loans and receivables, certain securities and non-trading financial liabilities. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will be recorded in the statement of earnings. Unrealized gains and losses on financial assets that are available for sale will be recorded in other comprehensive income until realized, at which time they will be recorded in the statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value in the balance sheet.

The instruments that are classified as held for trading under the “fair value option” are subject to certain additional conditions and requirements set out by the Autorité des marchés financiers and the Office of the Superintendent of Financial Institutions.

Hedges

In a fair value hedge, the change in fair value of the hedging derivative will be offset in the statement of earnings against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative, to the extent effective, will be recorded in other comprehensive income until the hedged item affects the statement of earnings, at which time the related change in fair value of the derivative will also be recorded in the statement of earnings. Any hedge ineffectiveness will be recorded in the statement of earnings.

Comprehensive Income

Unrealized gains and losses on financial assets that are available for sale and changes in the fair value of cash flow hedging instruments will be recorded in the statement of other comprehensive income until recognized in the statement of earnings. Accumulated other comprehensive income will form part of members' equity.

The Mutual is currently assessing the impact of these standards.

4. Invested assets

• CREDIT AND CONCENTRATION RISK

Credit risk is the risk of financial loss to which the Mutual and its subsidiaries can be exposed resulting from the failure of borrowers to make payments of principal or interest when due. Concentration risk arises when investments are made with one or more entities with similar characteristics.

The following tables provide data on the credit and concentration risk of the Mutual and its subsidiary.

Bonds

	2006			2005		
	Carrying amount	Fair value	Yield	Carrying amount	Fair value	Yield
Bonds issued or secured by:						
Canada	$ 80,037	$ 80,562	4.07%	$ 146,528	$ 145,929	3.63%
Provinces	773,505	960,154	6.66	575,511	755,517	6.82
Municipalities, school boards and hospitals	35,245	40,734	8.95	52,950	63,239	8.72
Other	106,513	102,986	5.30	39,729	40,600	4.88
	$ 995,300	$1,184,436	6.39%	$ 814,718	$ 1,005,285	6.28%

The individual life insurance companies limit their corporate bond investments to 40% of their bond portfolio with a maximum 2% per issuer.

Property and casualty insurance companies establish a maximum threshold in one or more entities.

Mortgage loans

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Insured	$ 240,484	$ 238,039	$ 213,774	$ 212,375
Conventional	168,014	168,678	136,647	138,342
	$ 408,498	$ 406,717	$ 350,421	$ 350,717

A subsidiary of the Mutual limits its investment to $400 for a new borrower and $800 for a related group of borrowers for new loans.

As at December 31, 2006, a mortgage loan amounting to $7,512 [2005: $7,700] was receivable from the joint venture.

Stocks

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Common shares and participating units	$ 138,953	$ 181,755	$ 120,552	$ 152,397
Preferred shares	35,775	38,330	33,629	36,035
Participating units in trading indices	81,573	81,573	45,798	45,798
	$ 256,301	$ 301,658	$ 199,979	$ 234,230

The individual life insurance companies limit their investment in a company or group of related companies to 1/2 of 1% of the combined assets of La Capitale Civil Service Insurer Inc. and La Capitale Insurance and Financial Services Inc.

The property and casualty insurance companies set a maximum threshold in one or more entities.

Real estate

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Held for investment	$ 118,713	$ 145,886	$ 116,412	$ 128,989
Held for resale	2,245	2,245	1,218	1,218
	$ 120,958	$ 148,131	$ 117,630	$ 130,207

Real estate is reported net of $2,622 in accumulated amortization [2005: $2,393] of which $361 is attributable to fiscal 2006 [2005: $343].

Cash and short-term deposits and policy loans

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and short-term deposits	$ 74,222	$ 74,222	$ 43,346	$ 43,346
Policy loans	$ 21,864	$ 21,864	$ 20,313	$ 20,313

Other invested assets

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Personal loans	$ 19,618	$ 19,439	$ 19,066	$ 18,931
Other loans	904	904	399	399
Other invested assets	4,472	4,551	4,361	4,819
	$ 24,994	$ 24,894	$ 23,826	$ 24,149

Personal loans include share purchase loans of a subsidiary in favour of employees amounting to $11,852 [2005: $11,508]. The interest rate of these loans is the government of Canada's statutory rate. The loans are collateralized by a movable hypothec with delivery of shares of the subsidiary. In addition, the employee agrees to provide the subsidiary, upon request, with any additional hypothec that the latter deems necessary to maintain the value of the collateral.

The fair value of the stocks and bonds is determined based on quoted market prices. The fair value of the mortgage loans is estimated using a discounted cash flow calculation that uses market interest currently charged for similar loans. The fair value of the real estate is determined by appraisers every three years. The fair value of cash and short-term deposits and policy loans approximates their carrying amount due to their short-term maturity. The fair value of other invested assets is estimated using a discounted cash flow calculation that uses market interest currently charged for similar invested assets.

4. Invested assets [Cont'd]

• INTEREST RATE RISK

Interest rate risk is the risk of loss attributable to interest rate fluctuations.

The following tables summarize the maturity dates and fair values of the invested assets that are subject to interest rate risk.

Bonds

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Due in 1 year or less	$ 73,511	$ 72,554	$ 64,869	$ 64,736
Due in 1 to 5 years	206,270	216,803	273,530	289,700
Due in 5 to 10 years	212,681	241,717	156,908	185,742
Due in 10 years or more	502,838	653,362	319,411	465,107
	$ 995,300	$ 1,184,436	$ 814,718	$ 1,005,285

Mortgage loans

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Due in 1 year or less	$ 99,098	$ 99,298	$ 107,757	$ 107,857
Due in 1 to 5 years	272,478	269,661	211,852	210,755
Due in 5 to 10 years	32,084	32,937	25,882	27,314
Due in 10 years or more	4,838	4,821	4,930	4,791
	$ 408,498	$ 406,717	$ 350,421	$ 350,717

The effective interest rate for bonds ranged from 2.72% to 12.65% [from 2.22% to 12.27% in 2005] and, for mortgage loans, from 1.40% to 11.50% [from 0.99% to 11.50% in 2005].

Mortgage loans

	2006			2005		
	Carrying amount	Average interest rate	Average loan maturity (year)	Carrying amount	Average interest rate	Average loan maturity (year)
Residential	$ 368,884	5.36%	3.09	$ 314,523	5.01%	3.23
Other	39,614	6.73	4.81	35,898	7.39	4.56
	$ 408,498	5.49%	3.26	$ 350,421	5.25%	3.37

5. Impaired loans

The following tables summarize impaired loans and the related allowance for impaired loans.

i) Impaired loans

	2006			2005		
	Gross loans	Allowance for impaired loans	Carrying amount	Gross loans	Allowance for impaired loans	Carrying amount
Mortgage loans	$ 841	$ 54	$ 787	$ 867	$ 59	$ 808
Personal loans	91	91	—	130	129	1
	$ 932	$ 145	$ 787	$ 997	$ 188	$ 809

ii) Allowance for impaired loans

The changes made to the allowance for impaired loans during the year are as follows:

	2006	2005
Allowance, beginning of year	$ 188	$ 1,253
Loan impairment charges	102	76
Write-offs	(128)	(1,093)
Recoveries	(17)	(48)
Allowance, end of year	$ 145	$ 188

6. Intangible assets

	Balance as at January 1, 2006	Acquisition	Accumulated amortization	Balance as at December 31, 2006
Indefinite life				
Trademarks	$ —	$ 2,679	$ —	$ 2,679
	—	2,679	—	2,679
Finite life				
Customer base and distribution networks	29,716	4,605	5,681	28,640
Total	$ 29,716	$ 7,284	$ 5,681	$ 31,319

	Balance as at January 1, 2005	Acquisition	Accumulated amortization	Balance as at December 31, 2005
Indefinite life				
Trademarks	$ —	$ —	$ —	$ —
	—	—	—	—
Finite life				
Customer base and distribution networks	16,470	13,246	2,686	27,030
Total	$ 16,470	$ 13,246	$ 2,686	$ 27,030

During the year, the Mutual recorded amortization charges totalling $2,994 [2005: $2,274] through earnings.

7. Other assets

Other assets consist of the following:

	2006	2005
Property, plant and equipment	$ 65,472	$ 56,790
Accumulated amortization	(50,489)	(45,643)
	14,983	11,147
Deferred charges	21,563	19,539
Future income taxes *[note 18]*	22,235	18,541
Servicing asset	16,063	12,827
Prepaid expenses	9,192	5,698
Lease acquisition expenses	7,329	4,963
Investment income receivable	10,201	8,136
Other receivables	51,383	52,244
	$ 152,949	$ 133,095

The property, plant and equipment line item includes $3,660 in software development costs. No amortization has been charged to earnings for the year since the software is not in use.

Amortization for the year was $14,560 [2005: $12,232].

The fair value of investment income receivable and other receivables approximates their carrying amount due to their short-term maturities.

8. Securitization

During the year, a subsidiary of the Mutual securitized residential mortgage loans totalling $214,639 [2005: $222,105] for net cash proceeds of $212,741 [2005: $223,441] and retained the rights to the excess spread on mortgage loans amounting to $7,998 [2005: $5,611]. A net gain of $724 [2005: $289] was deferred and amortized over the average term of the issued securities.

The key assumptions used to determine the value of the loans sold and retained interests at the securitization date are summarized as follows:

• KEY ASSUMPTIONS

	2006	2005
Prepayment rate	2.91%	5.00%
Excess spread	1.17%	0.83%
Discount rate	4.44%	3.76%

As at December 31, 2006, the sensitivity of the current fair value of retained interests to 10% and 20% adverse changes in the key assumptions is as follows:

• SENSITIVITY OF KEY ASSUMPTIONS TO ADVERSE CHANGES

	2006		2005	
	Assumption	Impact on fair value	Assumption	Impact on fair value
Prepayment rate				
Impact on fair value of 10% adverse change	3.20%	$ (70)	5.50%	$ (31)
Impact on fair value of 20% adverse change	3.49%	$ (98)	6.00%	$ (63)
Excess spread (net of credit losses)				
Impact on fair value of 10% adverse change	1.06%	$ (1,005)	0.75%	$ (687)
Impact on fair value of 20% adverse change	0.94%	$ (1,962)	0.67%	$(1,371)
Discount rate				
Impact on fair value of 10% adverse change	4.88%	$ (127)	4.14%	$ (48)
Impact on fair value of 20% adverse change	5.33%	$ (203)	4.52%	$ (95)

These sensitivities are hypothetical and should be used with caution. As shown by the tabular figures, the effect on fair value of a 10% adverse change generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in that table, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one given factor could result in changes in another, which may magnify or counteract the sensitivities.

The following table summarizes certain cash flows from securitization trusts:

Cash flows from securitization trusts

Residential mortgage loans	2006	2005
Proceeds from new securitization transactions	$ 212,741	$ 223,441
Cash flows from retained interests in securitization transactions	$ 4,210	$ 3,466

Securitized loans totalled $574,685 [2005: $484,817].

9. Credit facilities

The Mutual and its subsidiaries have lines of credit of $15,225 [2005: $22,225] bearing interest at the prime rate. A subsidiary has a $40,000 demand bridge loan bearing interest at the bankers' acceptance rate plus 50 b.p. or at prime, based on its use, which is collateralized by bond holdings whose fair value must cover 105% of the amount drawn. The credit facilities were undrawn as at December 31, 2006 [2005: $765].

10. Policy liabilities

As at December 31, policy liabilities and the assets backing such liabilities are summarized as follows:

Policy liabilities	2006 Participating	2006 Non-Participating	2006 Total	2005 Participating	2005 Non-Participating	2005 Total
Individual						
Life	$ 381,344	$ 97,756	$ 479,100	$ 374,349	$ 34,145	$ 408,494
Annuities	2,504	499,550	502,054	2,884	446,184	449,068
Health	—	167,067	167,067	—	985	985
Group						
Life	—	37,277	37,277	—	33,849	33,849
Annuities	—	1,884	1,884	—	1,274	1,274
Health	—	122,122	122,122	—	117,008	117,008
	$ 383,848	$ 925,656	$ 1,309,504	$ 377,233	$ 633,445	$ 1,010,678

Assets backing policy liabilities	2006 Individual Life	Individual Annuities	Individual Health	Group Life	Group Annuities	Group Health	Total
Participating							
Bonds	$ 277,852	$ 2,094	$ —	$ —	$ —	$ —	$ 279,946
Mortgage loans	14,653	96	—	—	—	—	14,749
Real estate	77,658	510	—	—	—	—	78,168
Stocks	6,476	42	—	—	—	—	6,518
Other	4,705	(238)	—	—	—	—	4,467
	381,344	2,504	—	—	—	—	383,848
Non-participating							
Bonds	76,690	43,956	163,512	26,765	933	61,731	373,587
Mortgage loans	—	345,120	8	9,433	553	42,847	397,961
Real estate	—	986	—	—	—	34	1,020
Stocks	554	80,530	31	—	—	—	81,115
Other	20,512	28,958	3,516	1,079	398	17,510	71,973
	97,756	499,550	167,067	37,277	1,884	122,122	925,656
Total	$ 479,100	$ 502,054	$ 167,067	$ 37,277	$ 1,884	$ 122,122	$ 1,309,504

Assets backing policy liabilities	2005						
	Individual			Group			
	Life	Annuities	Health	Life	Annuities	Health	Total
Participating							
Bonds	$ 279,726	$ 2,540	$ —	$ —	$ —	$ —	$ 282,266
Mortgage loans	15,059	121	—	—	—	—	15,180
Real estate	76,326	615	—	—	—	—	76,941
Stocks	5,821	47	—	—	—	—	5,868
Other	(2,583)	(439)	—	—	—	—	(3,022)
	374,349	2,884	—	—	—	—	377,233
Non-participating							
Bonds	27,096	96,600	1,904	23,055	862	68,867	218,384
Mortgage loans	—	325,311	(7)	3,596	175	10,494	339,569
Real estate	—	—	—	—	—	—	—
Stocks	391	45,061	24	—	—	—	45,476
Other	6,658	(20,788)	(936)	7,198	237	37,647	30,016
	34,145	446,184	985	33,849	1,274	117,008	633,445
Total	$ 408,494	$ 449,068	$ 985	$ 33,849	$ 1,274	$ 117,008	$ 1,010,678

The fair value of policy liabilities was $1,526,000 [2005: $1,193,000] and was based on the fair value of assets backing such liabilities given the interrelationship existing between these two balance sheet items..

• ASSUMPTIONS

In computing policy liabilities, the assumptions were determined using the appointed actuary's best estimates as to policy terms regarding numerous variables, such as mortality, morbidity, investment return, policy management expenses, future income taxes, policy lapses and participating policyholder dividends.

The following methods were used to determine the most significant assumptions:

Mortality

For individual life insurance mortality, the assumption stems from a combination of the companies' most recent experience and that of the industry published by the Canadian Institute of Actuaries. For group life insurance mortality, the assumption is based on recent industry experience.

For annuity mortality, the assumption is derived from the Canadian Institute of Actuaries' most recent industry experience. Moreover, the assumption used incorporates an improvement with regard to the current mortality level.

Morbidity

The assumption is based on industry morbidity tables, which are modified to reflect the companies' recent experience.

10. Policy liabilities [Cont'd]

- ASSUMPTIONS [Cont'd]

Investment return

The individual life insurance companies hold assets backing the policy liabilities. The expected rates of return for these assets are estimated based on current economic prospects, the companies' investment policy and anticipated cash flows by business line.

In order to reflect interest rate risk, that is, the financial loss that may arise from fluctuations in interest rates, the companies match each group of assets to the liabilities they back. This matching, which consists in managing spreads in maturities between assets and liabilities as well as expected net cash flows, minimizes potential losses related to interest rate risk.

The companies manage credit risk through detailed credit and underwriting policies, as well as counterparty exposure limits. An allowance for impaired loans was established and was charged against the value of these loans. Moreover, actuarial liabilities include an amount to cover any potential payment defaults in respect of assets currently held by the companies. The potential payment defaults are factored in by reducing the assets' expected rate of return. The reduction in the rate of return is based on the risk of a payment default for each asset class.

Policy management expenses

Policy management expenses are determined using internal cost allocation studies of the individual life insurance companies, based on the actual or budgeted overhead costs for the following fiscal year. These expenses are indexed to inflation for the coming years and take into account the anticipated business growth of the individual life insurance companies as well as economic conditions.

Future income taxes

Actuarial liabilities include amounts reflecting the interest-producing nature of the assets backing the future income tax liabilities recorded in the balance sheet. As at December 31, 2006, actuarial liabilities were reduced by $5,797 [2005: $8,487] in relation to this item and are established only for future income taxes related to policy liabilities.

Policy lapses

Assumptions regarding policy lapses are based on a study of the individual life insurance companies' recent experience of for each business line.

Participating policyholder dividends

Actuarial liabilities include amounts relating to regular future dividends to be paid to policyholders. The dividend scales are in keeping with policyholders' reasonable expectations and the assumptions used in measuring actuarial liabilities.

Margins for adverse deviations

The basic assumptions used to determine policy liabilities are the best estimates as to a range of possible results. Each assumption must include a margin for adverse deviations in order to recognize the uncertainty regarding the preparation of best estimates, to take into account potential experience deterioration and to provide better assurance that policy liabilities will be sufficient to cover future policy benefit payments.

• CHANGE IN ACTUARIAL LIABILITIES

	2006	2005
Balance, beginning of year	$ 953,023	$ 891,834
Business acquisition *[note 21]*	212,956	—
Normal changes	94,882	48,130
Changes related to assumptions		
Interest	(17,245)	10,089
Other	4,551	2,676
	(12,694)	12,765
Miscellaneous changes	(2,250)	294
	79,938	61,189
Balance, end of year	$ 1,245,917	$ 953,023

• REINSURANCE

To reduce the risk related to insurance benefits, the individual life insurance companies have entered into reinsurance agreements for policies whose insured principal exceeds certain maximums as well as reinsurance agreements enabling them to share certain risks with reinsurers on a pro rata basis. Reinsurance is purchased primarily from registered individual life insurance companies. In addition, the individual life insurance companies share among themselves the individual life insurance and group insurance risks. Reinsurance does not discharge the ceding company of its policy liabilities. The effect of the various reinsurance agreements in respect of actuarial liabilities and claims receivable is summarized as follows:

	Decrease in actuarial liabilities		Amounts of claims receivable	
	2006	2005	2006	2005
Individual				
Life	$ 30,708	$ 11,193	$ 379	$ 390
Health	8,149	4,538	—	—
Group				
Life	2,531	2,290	151	78
Health	50,537	48,746	2,868	2,502
	$ 91,925	$ 66,767	$ 3,398	$ 2,970

The inability of reinsurers to meet their obligations could translate into losses for these companies. Said companies have implemented a review process to verify the solvency of the entities they cede to. No information came to the companies' attention that would lead them to believe that a reinsurer they do business with is currently insolvent. As a result, no provision for bad debts has been set up. In addition, the companies do business with several reinsurers.

11. Provision for claims and loss adjustment expenses

a) The following table summarizes the breakdown of the provision for claims and loss adjustment expenses:

	2006	2005
Gross provision	$ 74,809	$ 71,761
Recoveries and subrogations receivable	8,683	7,363
Reinsurers' share	4,402	2,867
Net provision	$ 61,724	$ 61,531

b) Reinsurance ceded

In the normal course of business, the property and casualty insurance companies seek to mitigate losses that can result from catastrophes or other events that give rise to adverse claims experience by reinsuring certain levels of risk with other reinsurers. Information regarding reinsurer solvency is provided in note 10.

12. Long-term debt

	2006	2005
Loans collateralized by immovable hypothecs, 6.51%, maturing in 2022 and renewable in 2007	$ 6,428	$ 6,664
Other loans	14	21
	$ 6,442	$ 6,685

The interest on long-term debt amounted to $421 [2005: $436].

The fair value of long-term debt stood at $6,467 [2005: $6,773] and was estimated using a discounted cash flow calculation that uses market interest currently charged for similar debt.

Payments on long-term debt over the next five fiscal years, reflecting the renewal of loans collateralized by immovable hypothecs in 2007, amount $259 in 2007, $275 in 2008, $289 in 2009, $306 in 2010 and $326 in 2011.

13. Accrued and other liabilities

Other liabilities consist of the following:

	2006	2005
Future income taxes *[note 18]*	$ 42,960	$ 36,015
Deposits for taxes	5,772	5,535
Other	2,553	2,170
	$ 51,285	$ 43,720

The fair value of accrued and other financial liabilities included in other liabilities approximate their carrying amount due to their short-term maturities.

14. Members' equity

Members' equity consists of the following:

	2006	2005
Owners' equity	$ 265,578	$ 243,930
Participating policyholders' surplus	84,643	57,430
	$ 350,221	$ 301,360

15. Stock appreciation rights plan

Certain subsidiaries of the Mutual provide a stock appreciation rights plan to their executives. Under this plan, participants are entitled to receive cash compensation based on the appreciation of a subsidiary's share value in excess of the initial value determined under the plan. The rights must be exercised when participants leave their position, which renders them eligible for the plan. The amounts accumulated are paid in accordance with terms that vary according to the participant's departure type [transfer, retirement, permanent disability, death and voluntary termination of employment] over a four-year period after the participant's departure date.

Plan expense for the year amounted to $941 [2005: $1,162].

16. Interest in a joint venture

A subsidiary of the Mutual holds 50% of Société Bon Pasteur s.e.n.c. The latter manages two buildings held for the rental of office and commercial premises as well as the rental of residential premises.

This subsidiary exercises joint control over this company. The Mutual's share of assets and liabilities and the items in the statements of earnings and cash flows are summarized as follows:

	2006	2005
BALANCE SHEET		
Assets	$ 19,442	$ 19,450
Liabilities	14,090	14,528
Net assets of the joint venture	$ 5,352	$ 4,922
STATEMENT OF EARNINGS		
Revenues	$ 3,413	$ 3,360
Expenses	2,983	2,977
Net earnings	$ 430	$ 383
STATEMENT OF CASH FLOWS		
Cash flows related to operating activities	$ 514	$ 396
Cash flows related to investing activities	$ (51)	$ (82)
Cash flows related to financing activities	$ (425)	$ 391

17. Net investment income

	2006	2005
Net interest, dividends, rent and other gains	$ 90,599	$ 86,827
Amortization of deferred net gains on bonds	6,710	5,527
Amortization of deferred and unrealized gains on real estate and stocks	18,147	13,259
Net gains (losses) on impaired loans and mortgage foreclosures	(96)	28
	$ 115,360	$ 105,641

18. Income taxes

The actual provision for income taxes differs from the provision that would have been established using the combined statutory federal and provincial rate for the following reasons:

	2006	2005
Provision for income taxes based on the combined statutory federal and provincial rate	$ 29,773	$ 28,846
Change in income taxes resulting from the following:		
Participating policyholder dividends	(3,657)	(4,805)
Non-taxable items	(1,302)	(1,722)
Future income taxes arising from a change in tax rate	(1,815)	2,008
Other	(632)	(845)
	22,367	23,482
Income taxes on investment income	1,270	1,329
Other income taxes	34	437
	1,304	1,766
	$ 23,671	$ 25,248

Income tax expense is broken down as follows:

	2006	2005
Current	$ 19,892	$ 18,432
Future	3,779	6,816
	$ 23,671	$ 25,248

The tax consequences of the temporary differences that generate future income tax assets or liabilities are as follows:

	2006	2005
Future income tax assets		
Stocks	$ 7,149	$ 4,926
Accrued liabilities	5,078	8,284
Tax losses	6,295	6,289
Other	9,843	5,172
	28,365	24,671
Valuation allowance	(6,130)	(6,130)
	$ 22,235	$ 18,541
Future income tax liabilities		
Advances	$ 6,731	$ 6,893
Bonds	12,012	—
Real estate	11,141	11,022
Actuarial liabilities	6,384	13,653
Intangible assets	8,583	7,178
Other	(1,891)	(2,731)
	$ 42,960	$ 36,015

19. Discontinued operations

In 2005, a subsidiary of the Mutual sold its interests in Garage Michel Potvin inc. and La Capitale locations lutex inc. These disposals generated $6,328 in gains.

The following tables summarize the financial data related to discontinued operations:

	2005
ASSETS AND LIABILITIES SOLD	
Assets	
Net investment in direct financing leases	$ 159,346
Inventories	8,597
Other assets	4,663
	172,606
Liabilities	
Bank overdraft	3,443
Promissory notes payable	126,152
Note payable	6,916
Other liabilities	16,399
Non-controlling interest	216
	153,126
Net assets sold	$ 19,480
Net proceeds of disposal	$ 25,808
EARNINGS OF DISCONTINUED OPERATIONS	
Revenues	$ 6,116
Expenses	6,575
Loss before income taxes	(459)
Income taxes	66
Net loss resulting from discontinued operations	(525)
Gain on disposal	6,328
Net earnings resulting from discontinued operations	$ 5,803

20. Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits less the excess of outstanding cheques over cash. Cash and cash equivalents in the statement of cash flows include the following balance sheet amounts:

	2006	2005
Cash and short-term deposits [of less than three months]	$ 73,938	$ 42,341
Excess of outstanding cheques over cash	(5,934)	(11,958)
	$ 68,004	$ 30,383

21. Business acquisitions

On November 30, 2006, a subsidiary of the Mutual acquired 70% of the commons shares of 3602214 Canada inc. This company and its wholly owned subsidiary, Penncorp Life Insurance Company, operate in the individual life insurance industry in Canada. They provide their client base with individual life and accident-health insurance products.

On October 1, 2005, a subsidiary of the Mutual acquired all of the outstanding shares of AGA Financial Group Inc. This company operates in group insurance plan sales and administration.

On January 1, 2005, a subsidiary of the Mutual acquired all of the outstanding shares of Orleans General Insurance Company. This company operates in the bonding industry.

The consolidated financial statements include the results of these companies since their respective acquisition dates.

These acquisitions were recorded using the purchase method, and the purchase price is allocated as follows, based on the fair value of net assets acquired:

	2006	2005
ASSETS ACQUIRED		
Bonds	$ 277,575	$ 4,169
Liquidities	7,207	3,105
Future income tax assets	532	—
Goodwill	49,617	8,302
Intangible assets	7,061	13,246
Other assets	6,313	4,387
	348,305	33,209
LIABILITIES ASSUMED		
Policyholder liabilities	212,956	—
Unearned premiums and provision for claims	—	3,456
Accrued liabilities	4,471	2,171
Deferred revenues	7,578	—
Future income tax liabilities	—	3,938
Non-controlling interest	20,184	—
	245,189	9,565
NET ASSETS ACQUIRED	$ 103,116	$ 23,644
PURCHASE PRICE		
Cash	$ 96,204	$ 19,034
Balance of purchase price payable	6,912	4,610
	$ 103,116	$ 23,644

Since the acquisition of 3602214 Canada inc. took place at fiscal year-end, the allocation of the purchase price has not been completed. The final allocation will be based on the faire value of the net assets acquired at the acquisition date. Accordingly, the final allocation of the purchase price could differ from the above preliminary allocation.

The balance of purchase price amounting to $6,912 is payable within thirty days following receipt of the income tax returns, by the tax authorities, of Penncorp Life Insurance Company as at November 30, 2006. This amount is included in accrued liabilities.

22. Pension plans and employee future benefits

As at January 1, 2006, the pension plan for representatives was merged with the plan for managers and related staff. The Mutual and its subsidiaries now have four defined benefit plans that guarantee payment of most pension benefits to employees. These plans are based on years of service and use final average earnings or annually indexed pension credits. Pension benefits are increased based on the consumer price index up to a maximum of 3% each year. These plans are funded. Furthermore, the Mutual has additional unfunded plans for certain employees.

Other employee benefits include retirees' contributory health insurance plans for which employee contributions are annually adjusted, life insurance plans and retirement celebration costs. These plans are not funded.

Information for the pension plans and other employee benefits is as follows:

	Pension plans		Other employee benefits	
	2006	2005	2006	2005
Accrued benefit obligation				
Balance, beginning of year	$ 178,564	$ 149,919	$ 4,390	$ 3,816
Employee contributions	4,614	3,836	—	—
Current service costs	8,051	6,469	340	237
Transfers	457	(105)	—	8
Interest	9,439	8,624	239	225
Actuarial losses	16,120	14,726	2,216	199
Benefits paid	(8,815)	(4,905)	(78)	(95)
Balance, end of year	$ 208,430	$ 178,564	$ 7,107	$ 4,390

The accrued benefit obligation is allocated as follows:

	Pension plans		Other employee benefits	
	2006	2005	2006	2005
Funded plans	$ 197,784	$ 166,084	$ —	$ —
Unfunded plans	10,646	12,480	7,107	4,390
	$ 208,430	$ 178,564	$ 7,107	$ 4,390
Net assets				
Fair value, beginning of year	$ 152,208	$ 134,340	$ —	$ —
Actual return on plan assets	15,274	13,466	—	—
Employer contributions	12,191	4,842	—	—
Employee contributions	4,369	3,731	—	—
Transfers	457	74	—	—
Benefits paid	(3,470)	(4,245)	—	—
Fair value, end of year	$ 181,029	$ 152,208	$ —	$ —

	Pension plans		Other employee benefits	
	2006	2005	2006	2005
Funded status – plan deficit	$ (27,401)	$ (26,356)	$ (7,107)	$ (4,390)
Unamortized net actuarial loss	31,349	21,275	2,597	390
Unamortized transitional obligation (asset)	(5,590)	(6,018)	918	1,020
Accrued benefit liability	(1,642)	(11,099)	(3,592)	(2,980)
Provision for employee share	(455)	(733)	—	—
Accrued benefit liability, including provision for employee share	$ (2,097)	$ (11,832)	$ (3,592)	$ (2,980)

Pension plan assets and the accrued benefit obligation were measured as at December 31, 2006.

Pension plan assets do not include securities of the Mutual and its subsidiaries.

The breakdown of assets at fair value by main asset class is as follows:

	Pension plans		Other employee benefits	
	2006	2005	2006	2005
Asset class				
Stocks	59%	65%	—%	—%
Bonds	40	34	—	—
Other	1	1	—	—
Total	100%	100%	—%	—%

The following table summarizes the weighted average actuarial assumptions used to calculate the accrued benefit obligation and expenses:

	Pension plans		Other employee benefits	
	2006	2005	2006	2005
To determine the accrued benefit obligation				
Discount rate	4.95%	5.10%	4.95%	5.10%
Rate of increase in future compensation	4.10	4.10	—	—
To determine benefit expenses				
Discount rate	5.10	5.60	5.10	5.60
Expected rate of return on plan assets	6.00	6.65	—	—
Rate of increase in future compensation	4.10	4.30	—	—
Heath care cost trend rates for retirees				
Under 65	—	—	5.00	5.00
Age 65 and over	—	—	4.50	3.30

22. Pension plans and employee future benefits [Cont'd]

The net expenses in respect of employees' pension plans and other employee benefits are detailed as follows:

	Pension plans		Other employee benefits	
	2006	2005	2006	2005
Current service costs	$ 8,051	$ 6,469	$ 340	$ 237
Interest	9,439	8,624	239	225
Actual return on plan assets	(15,274)	(13,466)	—	—
Actuarial losses on accrued benefits	16,120	14,726	2,216	199
Expense before adjustments to recognize the long-term nature of costs	18,336	16,353	2,795	661
Adjustments to recognize the long-term nature of costs				
Difference between expected and actual return on plan assets	5,694	4,371	—	—
Difference between actual and recognized actuarial loss (gain)	(15,816)	(14,321)	(2,206)	(194)
Amortization of transitional obligation	(428)	(493)	102	104
	(10,550)	(10,443)	(2,104)	(90)
Valuation allowance established for accrued benefit asset	15	104	—	—
Net expense	$ 7,801	$ 6,014	$ 691	$ 571

The dates of the most recent and the next required actuarial valuations for funding purposes are as follows:

	Most recent valuation	Next valuation
Managers and related staff	December 31, 2005	December 31, 2008
Employees	December 31, 2005	December 31, 2008
Senior management	December 31, 2005	December 31, 2008
Board members	December 31, 2004	December 31, 2007

• SENSITIVITY ANALYSIS

The assumption regarding the increase in health care costs has a material impact on the amounts reported for other employee benefits. A one-percentage-point increase or decrease in the health care cost trend rate would have the following impact for 2006:

	Increase	Decrease
Total service costs and interest expense	$ 82	$ (61)
Accrued benefit obligation	$ 1,562	$(1,188)

23. Derivative financial instruments

A subsidiary of the Mutual uses interest rate [reverse] repurchase agreements and swaps in the normal course of its risks management. The notional amounts of these derivative financial instruments and their related fair values are detailed as follows:

	2006	2005
Notional amount by maturity		
Less than one year	$ 38,500	$ 70,700
One to five years	571,891	361,633
Total	$ 610,391	$ 432,333
Fair value	$ (2,348)	$ (1,535)

The notional amount is the amount to which the rate or price is applied to determine cash flows.

The fair value is the estimated amount that the subsidiary would be required to pay as at December 31, 2006 to terminate its positions.

24. Commitments

As at December 31, 2006, the Mutual and its subsidiaries are committed, under leases and service contracts expiring at various dates through 2022, which call for payments totalling $38,731. Minimum payments for each of the next five years are as follows: $5,899 in 2007, $5,135 in 2008, $4,500 in 2009, $3,938 in 2010 et $2,926 in 2011.

25. Contingencies

The Mutual and its subsidiaries are involved in various legal actions which arise in the normal course of business and, in management's opinion, have adequately provisioned potential losses, as they case may be, in relation to such legal actions.

26. Comparative figures

Certain 2005 comparative figures have been reclassified to conform to the current year presentation.

27. Segmented information

RESULTS
Revenues
Business
Portfolio investments
Expenses
Operations
Changes in actuarial liabilities
Operating earnings by segment
Income taxes
Discontinued operations
Non-controlling interests
Participating policyholder dividends
Net earnings (loss) by segment
Plus: intersegment investment income
Net earnings (loss)
BALANCE SHEET
ASSETS
Portfolio investments
Intersegment investments
Other
LIABILITIES
Policyholder liabilities
Long-term debt
Non-controlling interests
Other
MEMBERS' EQUITY

* Consisting of other segments and intercompany eliminations.

	Individual Life		Property & Casualty		Other*		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	$ 374,136	$ 333,845	$ 394,907	$ 379,515	$ 4,458	$ 4,422	$ 773,501	$ 717,782
	99,927	89,259	15,106	14,788	327	1,594	115,360	105,641
	474,063	423,104	410,013	394,303	4,785	6,016	888,861	823,423
	334,986	301,367	378,119	364,020	3,199	3,852	716,304	669,239
	79,938	61,189	—	—	—	—	79,938	61,189
	414,924	362,556	378,119	364,020	3,199	3,852	796,242	730,428
	59,139	60,548	31,894	30,283	1,586	2,164	92,619	92,995
	(13,264)	(15,951)	(9,552)	(8,839)	(855)	(458)	(23,671)	(25,248)
	—	—	—	—	—	5,803	—	5,803
	(736)	—	(5,749)	(5,493)	(2,181)	(2,768)	(8,666)	(8,261)
	(11,421)	(15,489)	—	—	—	—	(11,421)	(15,489)
	33,718	29,108	16,593	15,951	(1,450)	4,741	48,861	49,800
	16,977	16,183	—	—	(16,977)	(16,183)	—	—
	$ 50,695	$ 45,291	$ 16,593	$ 15,951	$ (18,427)	$ (11,442)	$ 48,861	$ 49,800
	$ 1,603,594	$ 1,280,791	$ 275,379	$ 258,159	$ 23,164	$ 31,283	$ 1,902,137	$ 1,570,233
	123,634	104,607	—	—	(123,634)	(104,607)	—	—
	166,866	90,351	247,461	231,365	18,632	17,630	432,959	339,346
	$ 1,894,094	$ 1,475,749	$ 522,840	$ 489,524	$ (81,838)	$ (55,694)	$ 2,335,096	$ 1,909,579
	$ 1,309,504	$ 1,010,678	$ —	$ —	$ —	$ —	$ 1,309,504	$ 1,010,678
	15	20	—	—	6,427	6,665	6,442	6,685
	18,820	—	41,778	37,664	26,009	23,805	86,607	61,469
	180,377	137,828	359,575	341,713	42,370	49,846	582,322	529,387
	1,508,716	1,148,526	401,353	379,377	74,806	80,316	1,984,875	1,608,219
	385,378	327,223	121,487	110,147	(156,644)	(136,010)	350,221	301,360
	$ 1,894,094	$ 1,475,749	$ 522,840	$ 489,524	$ (81,838)	$ (55,694)	$ 2,335,096	$ 1,909,579

Corporate Profile

Administrative Structure

La Capitale Civil Service Mutual

La Capitale Financial Group

Life and Health Insurance	Property and Casualty Insurance	Related Services
La Capitale Civil Service Insurer	La Capitale General Insurance	La Capitale Financial Management
La Capitale Insurance and Financial Services	L'Unique General Insurance	
La Capitale Financial Services		
La Capitale MFQ Real Estate Management		
Penncorp Life Insurance Company		
AGA Financial Group		

La Capitale Financial Group

CONSOLIDATED COMPARATIVE SUMMARY

[In thousands of dollars]

	2006 $	2005 $	2004 $	2003 $	2002 $
Assets	**2,332,206**	1,905,485	1,870,365	1,468,560	1,496,267
Total income	**888,777**	823,322	687,894	690,148	612,976
Insurance and annuity premiums, fees and other income	**773,514**	717,794	599,462	597,515	529,689
Net investment income	**115,263**	105,528	88,432	92,633	83,287
Net profit	**23,807**	30,712	30,559	21,801	27,598
Number of policies and certificates in force	**1,112,666**	1,066,795	1,018,808	857,194	810,347

La Capitale Financial Group

La Capitale Financial Group is a holding company that was created by La Capitale Civil Service Mutual to strengthen its strategic position. Through this entity, which encompasses all operating subsidiaries of the Mutual, La Capitale is able to explore potential financial partnerships and seek out new capital to take advantage of expansion and development opportunities.

BOARD OF DIRECTORS

Jean-Yves Dupéré, M.Sc. (C)
Chairman of the Board and Chief Executive Officer

Roland Guérin
Vice-Chairman

Jacquelin Bergeron

John Strome, FCIP

Robert St-Denis

OFFICERS*

Jean-Yves Dupéré, M.Sc. (C)
Chairman of the Board and Chief Executive Officer

Robert St-Denis
Chief Operating Officer
La Capitale Financial Group

President and Chief Operating Officer
Life and Health Insurance

John Strome, FCIP
President and Chief Operating Officer
Property and Casualty Insurance

Hubert Auclair, LL.B.
Corporate Secretary

Monique L. Bégin
Vice-President, Communications and Public Relations

LA CAPITALE CIVIL SERVICE MUTUAL

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LA CAPITALE FINANCIAL GROUP

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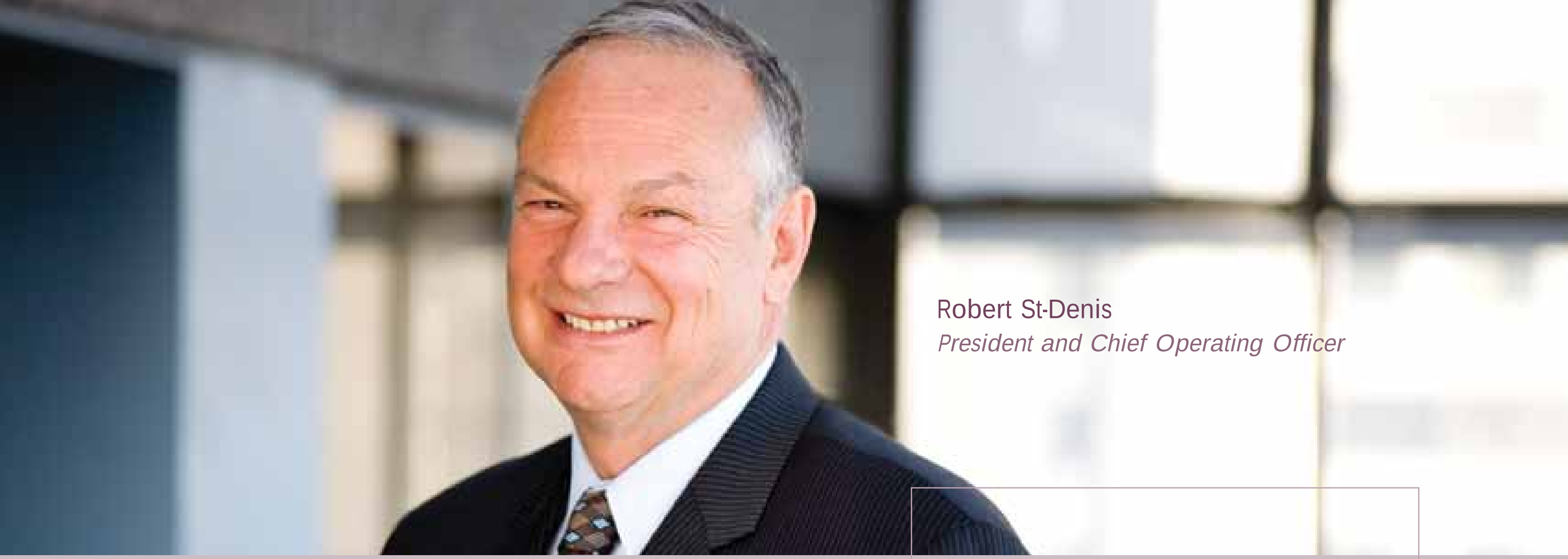
418 643-3884 or 1 800 463-5549

* Considering their responsibilities, Vice-Presidents in the Life and Health Insurance sector also act on behalf of La Capitale Financial Group in carrying out their duties.



Robert St-Denis
President and Chief Operating Officer

Life and Health Insurance

MESSAGE FROM MANAGEMENT

This past year marked the first stage in the 2006-2008 strategic plan that was submitted to our boards of directors in the fall of 2005. The fruit of careful reflection and rigorous analyses, this three-year plan hinges on four key points: accelerated and profitable growth; increased efficiency and cost control; innovation and involvement of human resources and finally compliance and transparency. We are pleased to observe that at the close of the first year of the plan, the objectives we set ourselves have been reached – and in most cases, even exceeded – readily confirming the accuracy of our strategic choices.

Each of our business lines saw strong growth in 2006. Sales of personal life insurance products were 20% higher than in 2005, which were already 44% higher than the previous year. This progress is mainly due to an enhanced offering for our mutual members and to the remarkable success of a distribution initiative with selected brokers.

Progress in individual insurance

This progress is mainly due to an enhanced offering for our Mutual members and to the remarkable success of a distribution initiative with selected brokers.

In 2006, in line with our strategic direction, we consolidated our position in the highly promising market niche of health insurance and living benefits products. This was the spirit in which we developed and launched *Health Visa* (complementary health insurance), *Tiempo Allegro* (long term care insurance), *Second Chance for Children* (critical illness insurance) and *Accimum* (accident, death and dismemberment coverage). The addition of these innovative products further enhances an already diversified product offering.

Our portfolio of individual savings products grew to $460 million, a 12.5% increase. Our index accounts and equity index GICs, hybrid products that offer clients the combined return potential of both GICs and market indices, were able to meet the changing needs of our mutual members.

Group insurance reaches new highs

In terms of group insurance, sales saw an exceptional increase of 89% over last year. Considering the numerous service agreements that were delivered in 2006, but which will take effect in 2007, we can already forecast that this sector will see even more significant growth in 2007.

In 2006, our innovative health and wellness program *Good for you*! attracted media attention as it was launched to five groups with group insurance contracts at La Capitale. Through this original initiative, which aims to reduce the costs related to absenteeism and illness by promoting good health and the benefits of regular exercise, we were able to get some 3,000 workers across Quebec to think about their lifestyle habits. The great interest and mobilization created by this unique incentive program have led us to widen its scope to other employees and insureds wishing to preserve the value of their group insurance plan through the promotion of healthy lifestyle habits.

We believe that prevention is, and always will be, the best way to keep claims to a minimum and ultimately maintain premium rates as low as possible for our clients. In this respect, in 2006, we created a position for a health and physical fitness professional. This person's role is essentially to implement various programs covering such topics as preventive screening, dietary choices and physical fitness initiatives for our clients and their employees.

Acquisition of a leading specialty insurer

In line with our strategic priority to accelerate growth in our Life and Health Insurance sector came the acquisition on November 30, 2006, of Penncorp Life Insurance Company, a leading specialty accident and disability insurance provider with its Head Office in Mississauga, Ontario. Penncorp's products and services are not only an excellent complement to La Capitale's existing range; they are also a solid base on which we will be able to build and develop our individual and group insurance activities in the rest of Canada. This acquisition will also increase the group's annual premium income by over $80 million.

Investment income for the year 2006 was $100 million, compared to $89 million in 2005.

As for the investment we made in AGA Financial Group in 2005, we are highly satisfied with the over 10% growth posted in 2006, as well as the profitability levels reached, which have exceeded our expectations.

Overall, the company's Life and Health Insurance sector ended the year with total premiums of $359 million, up 9.4% from 2005, showing a net profit after tax of $34.5 million, up from $29 million in 2005. These results do not include our investment in La Capitale General Insurance.

Investment income for the year 2006 was $100 million, compared to $89 million in 2005.

In order to continue to grow in such a highly competitive environment as the one we operate in, our triennial strategic plan emphasizes the necessity to control costs and improve efficiency. In spite of the pressure that comes with accelerated growth and despite investment of close to $1.3 million in updating our IT systems and developing new opportunities, we managed to contain the increase in unit costs for group insurance. As for individual insurance, this increase was limited to 1.1%. These results can be explained in large part by the investments we made in 2006 to secure two new partnership agreements with other financial institutions. However, it is only in 2007 that we will begin to reap the benefits of these exciting new partnerships.

Catering to our clients' needs

Always looking for ways to provide our clients and mutual members with efficient solutions that are quick, easy and hassle-free, we developed a new insurance product over the course of the year that covers the monthly payments on a mortgage or a new car purchase in the event of the unexpected. At the end of 2006, thanks to this new credit insurance product, agreements were entered into with more than 200 automobile dealers across Quebec.

Our mortgage loan operations recorded growth of over 13% in 2006. With the new sales made this year, the mortgage portfolio under management is now over $983 million. Furthermore, close to 21% of new loan contracts are issued with mortgage credit insurance underwritten by La Capitale.

In line with our 2006-2008 strategic plan, which recognizes the importance of innovation and the involvement of our human resources, four employee committees have been formed to promote the involvement of employees in the day-to-day management of the company's activities. Reporting directly to the executive committee, the heads of each of these committees have the power to call upon the expertise of employees in all sectors of the company to carry out mandates relating to the following broad areas:

- Enhancing our business processes to increase corporate efficiency
- Staying on top of the changing face of health care across the country
- Analyzing new developments in e-commerce technologies
- Optimizing sales by maximizing employee referrals

The implementation in 2006 of our risk management policy and the application of our compliance plan to our financial services firm stand as evidence of La Capitale's rigorous management practices, in compliance with the standards set by regulatory authorities. What's more, the ongoing training our financial security advisors receive represents a further guarantee of professionalism in a constantly evolving industry. Giving our advisors the professional training they need ensures our clients and mutual members receive the superior quality service they deserve.

Turning to our real estate operations, we announced in 2006 that the Delta complex, located on Quebec City's thriving Laurier Boulevard, is to be completed with the addition of a new 165,000 sq.ft. office tower. The ground floor area will be occupied by various businesses and the building's nine other floors are to be leased as office space. Construction is scheduled to begin in May 2007.

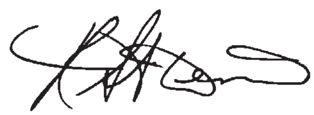
Perspectives

The accomplishments of 2006 will continue to have positive consequences in 2007. We are confident that our accelerated sales growth will enable us to achieve new highs, with increases in volumes for all of our business lines even greater than in 2006.

The acquisition of Penncorp, while posing a short-term challenge in terms of the adjustments required, will open the door during the second quarter of 2007 to a number of business opportunities. We plan to make the most of these to extend our individual and group insurance operations in the rest of Canada. Another priority will be to find a balance between managed growth and attractive returns for our Mutual members. Our development will continue in accordance with our triennial strategic plan for 2006-2008, now in its second year.

It is first and foremost thanks to the competence and determination of our employees, financial security advisors and management staff that we are able to present such positive results. I would personally like to thank each and every one for their unfailing commitment, professionalism and collaboration throughout the year.

Furthermore, the continued support and encouragement we receive from the boards of directors of the subsidiaries of our Life and Health Insurance sector remain an important part of the company's success. The strategic advice and recommendations they provide clearly demonstrate their deep commitment to our organization. On behalf of the members of our executive committee, I would like to take this opportunity to express our sincere gratitude. And in closing, the trust and loyalty our clients and Mutual members consistently show are an unending source of inspiration for all of us.



Robert St-Denis
President and Chief Operating Officer

Key Facts and Figures

- 20% increase in individual life insurance sales
- 89% increase in group insurance sales
- Acquisition of Penncorp, one of Canada's leading specialty accident and disability insurance providers
- The company's Life and Health Insurance sector posts net profits of $34.5 million for 2006
- 13% increase in our mortgage loan business
- Construction announced of a third office tower at Quebec City's Delta complex

Officers

Robert St-Denis
President and Chief Operating Officer

Steven Ross, C. Adm., F. Pl.
Executive Vice-President
Individual Insurance and Annuities

Marcel Bilodeau, FSA, FCIA
Vice-President, Group Insurance

Pierre Dansereau, MBA
Vice-President, Marketing and Communications

Lucie Garneau, CA
Vice-President, Finance

Pierre Grenier, CA
Vice-President, Real Estate Investments and Corporate Development

Francine Landry
Vice-President, Information Technology

Michel Lévesque, FSA, FCIA, CFA
Vice-President, Corporate Actuarial, Investments and Regulatory Affairs
Appointed Actuary

Éric Marcoux, FSA, FCIA
Vice-President, Operations and Sales
Public Sector – Individual Division

Raymond Rivest, BComm., CLU, F. Pl.
Vice-President, Sales – General Agent Channel
Individual Insurance and Annuities

Alain Roch, B.A., LL.B
Vice-President, Legal Affairs

Gilles Beaumont, PMP
Senior Director, IT Development and Electronic Affairs

Patrick Bolduc, ASA, FLMI, ACS
Senior Director, Administration
Group Insurance

Michel Boutin, B.B.A.
Senior Director, Marketing

Chantal Brisson, B.A.
Senior Director, Claims Management
Group Insurance

Shirley Brown, B.A.
Senior Director, Human Resources and Organizational Development

Christian Dufour, FSA, FCIA
Senior Director, Actuarial and Training
National Operations – Individual Division

Juliano Faleschini, B.B.A., C. App., C. Adm.
Senior Director, Real Estate Management and Financing

Richard Fecteau, FSA, FCIA
Senior Director, Actuarial
Group Insurance

André Fortin, B.B.A.
Senior Director, Mortgage and Property Investments

Jocelyn Garon
Senior Director, Technology

Annie Larochelle, CA
Senior Director, Finance

Jean-Guy Larochelle, CGA
Senior Director, Material Resources

Julie Plante, FLMI
Senior Director, Administration and Customer Relations
Individual Division

Jacques Tardif
Senior Director, Sales and Marketing
Group Insurance

Life and Health Insurance

LA CAPITALE CIVIL SERVICE INSURER

At the centre of La Capitale Financial Group is La Capitale Civil Service Insurer, which has provided value-added financial products to ensure the economic well-being of public and parapublic sector workers in Quebec for over 65 years. As the logical partner of the civil service, it works in synergy with other subsidiaries of the group to offer outstanding financial products and services to its clientele.

La Capitale Civil Service Insurer has developed unique expertise and knowledge in terms of life and health insurance, savings products, mortgages and personal loans. Its team of specialists design flexible, beneficial financial solutions that are tailored to clients' needs. And to simplify the payment of premiums, it also offers an exclusive payroll deduction system to some 600,000 civil service employees working in 800 institutions across the Quebec public and parapublic sectors.

PRODUCTS AND SERVICES OFFERED

- Individual life and health insurance
- Investments
- Mortgage loans and lines of credit, personal loans

HEAD OFFICE

625 Saint-Amable St.
Quebec QC G1R 2G5
418 643-3884 or 1 800 463-5549

LA CAPITALE MFQ REAL ESTATE MANAGEMENT

Operating under La Capitale Financial Group's life and health insurance division, this subsidiary is responsible for implementing the Group's real estate strategy and managing its real estate holdings across Quebec. With assets of some $155 million in diversified commercial and residential sectors, including offices and retirement homes, La Capitale MFQ Real Estate Management owns approximately 1.1 million square feet of property and manages over 300 housing units. Active in the construction and office leasing and layout markets, it also provides third party building management services and commercial mortgage financing.

PRODUCTS AND SERVICES OFFERED

- Real estate management
- Commercial mortgage management

HEAD OFFICE

625 Saint-Amable St.
Quebec QC G1R 2G5
418 643-4267 or 1 800 463-5549

LA CAPITALE INSURANCE AND FINANCIAL SERVICES

La Capitale Insurance and Financial Services is a wholly owned subsidiary of La Capitale Civil Service Insurer. First and foremost, it provides group insurance products to clients in the public and private sectors. It also distributes and manages the provision of individual insurance products by various financial service firms.

Since it was founded in 1989, La Capitale Insurance and Financial Services has built a reputation as a major player in the Quebec market. La Capitale Insurance and Financial Services provides truly personalized service and is renowned for its innovative, proactive approach to workplace attendance management and prevention. These are the key factors on which the growth of La Capitale Insurance and Financial Services will be based as it pursues the development of new markets across Canada.

PRODUCTS AND SERVICES OFFERED

- Life, health and disability insurance
- Critical illness, dental care and vision care insurance
- Travel and trip cancellation insurance
- Credit insurance
- Employee assistance program
- Legal access insurance
- Home care and assistance services
- Administration software
- Health insurance claims profile
- Workplace attendance management
- Online administrative services
- Health spending account
- Best Doctors assistance service

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Jacques Tardif
Senior Director, Sales and Marketing

Martin Bédard
Director, Business Development

Pierre Chamberland, B.B.A.
Regional Sales Director, Western Quebec

Mario Dion
Regional Sales Director, Eastern Quebec

Gilles Gobeil
Director, Public Sector Sales

LA CAPITALE FINANCIAL SERVICES

La Capitale Financial Services is a multidisciplinary financial services firm dedicated to serving Quebec civil service employees. It is a distribution network through which financial security advisors provide a complete range of products and services adapted to the needs of public and parapublic sector employees in order to simplify their financial choices.

By specializing in this market, La Capitale Financial Services has developed unparalleled expertise and understanding of the needs of government employees, as well as unique tools to establish precise financial projections.

Those who work in the public service can take advantage of the services of some 160 financial security advisors across Quebec, directly in their workplace, to benefit from the value-added financial products and services La Capitale offers to them and their families. Through its network of financial strategists, La Capitale Financial Services stands by its clients by providing personalized solutions that help to build, protect and enrich their estates.

PRODUCTS AND SERVICES OFFERED

- Savings products, registered and non-registered (e.g. RRSP, RESP), investment and segregated funds
- Term, whole, and universal life insurance
- Health, long term care and critical illness insurance
- Car, home and legal access insurance referrals
- Mortgage loans and lines of credit, personal loans
- Carte Capitale (budget-discount card)
- Financial situation analysis
- Personalized financial planning
- Mid-career sessions
- Retirement preparation sessions

HEAD OFFICE

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Fabien Després
Senior Director

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Senior Director

Martin Deslauriers
Associate Director

Shirley Marquis
Associate Director

Montreal West Island

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Regional Director

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Assistant Director

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François Beauregard
Associate Director

PENNCORP LIFE INSURANCE COMPANY

Since 1971, Penncorp Life Insurance Company has been one of Canada's leading specialty disability insurance companies. It provides products and services primarily to the self-employed, small business owners, affinity groups and qualified individuals.

Based in Mississauga, Ontario, Penncorp has a network of some 200 career agents and has regional branch offices and field representatives in every province. From coast to coast, thousands of Canadians rely on Penncorp for customized long and short term disability, hospital care, accident, critical illness and life insurance solutions.

The company has close to $262 million in assets and serves over 150,000 policyholders. Each month, Penncorp pays more than $2,100,000 in benefits. Since November 30, 2006, the company has been affiliated with La Capitale Financial Group.

PRODUCTS AND SERVICES OFFERED

- Short and long term disability insurance
- Hospital care insurance
- Critical illness and cancer insurance
- Accident insurance
- Life insurance

Lynn Grenier-Lew, FSA, FCIA, MAAA
Vice-President, Operations
Eli Pichelli, M.B.A., C.L.U.
Vice-President, Sales and Marketing – Career Channel

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55 Superior Blvd
Mississauga ON L5T 2X9
905 795-2300 or 1 800 268 2835

Administrative Office
1428 Grande-Allée Blvd
Lachenaie QC J6W 6B7
450 492-2272 or 1 800 363-8011

Regional Branch Offices

Barrie
431 Huronia Rd., Unit #2
Barrie ON L4N 9B3
705 728-5580 or 1 800 268-5168

Bedford
1600 Bedford Hwy, Suite 209
Sunnyside Place
Bedford NS B4A 1E8
902 835-9203

Calgary
A-16B 6120 2nd St. S.E.
Calgary AB T2H 2L8
403 252-7757

London
4026 Meadowbrooke Drive, Unit 129
London ON N6L 1A4
519 652-0255

Manotick
1165 Beaverwood
Manotick ON K4M 1A4
613 692-3590

Mississauga
55 Superior Blvd
Mississauga ON L5T 2X9
905 696-8477

Montreal
4949 Métropolitain Blvd E
Suite 140
Montreal QC H1R 1Z6
514 735-2058 or 1 877 735-2058

Quebec City
1265 Charest Blvd, Suite 1030
Quebec QC G1N 2C9
418 687-2058

Saskatoon
#5 - 2345 Avenue C North
Saskatoon SK S7L 5Z5
306 955-3000

Surrey
#203B 10190 152A St.
Surrey BC V3R 1J7
604 589-1381

Thunder Bay
301 - 1265 East Arthur St.
Thunder Bay ON P7E 5H7
807 473-0005

Winnipeg
#16 - 1313 Border St.
Winnipeg MB R3H 0X4
204 985-1580

AGA FINANCIAL GROUP

AGA Financial Group began as André Gingras and Associates, a firm specializing in providing consulting and administration services for group insurance and pension plans. Renowned across Quebec for its group insurance claims management and payment practices, AGA Financial Group has 85 employees, more than 1,500 clients and reports an annual premium volume of close to $120 million. Its acquisition by La Capitale Financial Group in 2005 was a strategic, as well as a financial, investment.

PRODUCTS AND SERVICES OFFERED

- Brokers in group insurance and annuity plans
- Consulting and administration services for group insurance and pension plans

Michel Marcaurelle
Executive Vice-President and Chief Executive Officer

HEAD OFFICE

4150 Sainte-Catherine St. W, Suite 490
Westmount QC H3Z 2W8
514 935-5444 or 1 800 363-6217

Quebec City
2365 Wilfrid-Hamel Blvd
Quebec QC G1P 2H8
418 683-8823 or 1 888 683-8823

5400 des Galeries Blvd, Suite 320
Quebec QC G2K 2B4
418 658-3188 or 1 877 330-3357

John Strome
President and Chief Operating Officer

Property and Casualty Insurance

MESSAGE FROM MANAGEMENT

The year 2006 was an eventful one for La Capitale General Insurance. We have been protecting our clients for 30 years and we are proud of the progress we have made and the results we have achieved.

A well-established firm in a highly competitive market, La Capitale General Insurance had an outstanding year in 2006, both in terms of profitability and growth. We improved upon the excellent results posted in 2005 and can look to the future with confidence and optimism.

Consolidated net income for 2006 was $22.3 million, versus $21.4 million in 2005, representing a return on shareholders' equity of 15.9%. Our assets grew by 6.8% to $523 million.

Consolidated results

Consolidated premiums rose to $426 million, up 6.2% from 2005. This strong growth, perfectly in line with our 2005-2010 strategic plan, sets us apart in the industry as we continue our ascent among Quebec's top insurers.

The loss ratio improved slightly from 68.8% in 2005 to 67.7% in 2006. The expense ratio was 28.0%, versus 27.2% in 2005, and our operating income was 4.2%, compared with 4.0% a year earlier.

As was the case last year, investment income was impacted by low interest rates, contributing $15.2 million to our 2006 results.

Our business lines

Once again, our Motor Vehicle Insurance line posted excellent results, which can be attributed to a number of factors. In addition to our sound underwriting practices, high gasoline prices during the summer and various public- and private-sector highway safety programs to reduce drunk driving and speeding all contributed to a further decrease in claim frequency in 2006.

However, automobile theft remains a major problem and still accounts for almost 20% of automobile insurance claims paid. However, the frequency of auto theft claims fell by 7% from 2005. This decline is due in part to the success of our automobile theft prevention program. Together with the SAAQ, the industry is looking into new initiatives to help reduce auto theft and its impact on insurance premiums, for the benefit of consumers.

In Home Insurance, our results were once again affected by losses due to water damage. This type of claim represents close to 48% of our total claims paid. However, we are pleased to note that the frequency of water damage claims was down by 8% from 2005 levels, an improvement attributable to our underwriting practices, which continue to prove their effectiveness over time.

The year 2006 marked the 15th anniversary of our Commercial Insurance line. This line of business enjoyed dazzling growth of 20%, fuelled by organic development, a new trustee civil liability insurance program, and a new partnership with a company specializing in services for automobile dealers. Unfortunately, three major losses prevented this line from ending the year with an underwriting profit.

Over the past year, some 13,900 files were processed by our Legal Access Insurance team, demonstrating the usefulness of an insurance product that enables our clients to defend their legal rights with the full force of their insurer behind them.

Our assistance services

Legal Assistance, a service available to all of our insureds, enables them to use, free of charge, the exclusive services of lawyers employed by La Capitale.

CAP Roadside Assistance is offered at no charge to our “Serenity” clients, i.e. policyholders with Motor Vehicle, Home, and Legal Access Insurance coverage. The 2006 results testify to the added value of this program, with nearly 30,000 service and assistance calls logged in 2006.

All of our Home Insurance clients have free access to an increasingly popular professional referral program, with some 850 service requests carried out in 2006.

Maxi-Privilege

Since 2005, our insureds who are members of the Quebec civil service have enjoyed $5,000 of free coverage under the Maxi-Privilege accidental death insurance policy, qualifying them as members of La Capitale Civil Service Mutual.

Over $140,000 in benefits has been paid to beneficiaries of these policies since this initiative was launched.

L’Unique General Insurance

Our subsidiary L’Unique General Insurance posted solid results for 2006, with profits of $3.5 million ($5.2 million in 2005) and a return on capital of 8.2% (13.7% in 2005), despite major investment costs to develop the commercial insurance market.

The Commercial Insurance line registered exceptional growth of 38.4%, thanks to our development of new markets, the excellence of our service, and our renowned expertise in the surety, credit insurance and legal hypothec insurance markets.

L’Unique represents another option for brokers, offering a viable solution for consolidation in the property and casualty insurance market. Brokers see in L'Unique an outstanding Quebec company that is part of a major financial group with an excellent reputation for quality products and efficient management.

Distribution channels

To better serve its clients, La Capitale has a network of 22 branch offices across Quebec, with a total of 749 employees. This branch network enables La Capitale to remain accessible and close to its clients.

The year 2006 marked another important milestone for La Capitale: the 10th anniversary of our network of affiliated agents. This network comprises 135 agencies and generates total premium volume of $117 million. We would like to take this opportunity to thank our agents for their valued collaboration and to celebrate this fine partnership.

Our direct marketing centres in Montreal and Quebec City also performed very well. Together with our e-business (Web) team, they contributed to our growth by increasing their volume by over 8%.

Our Groups and Associations department posted growth of over 35%, with total premium volume of more than $50 million. Over the years, we have succeeded in developing solid programs and in earning the trust of our partners so as to ensure the longevity of this distribution channel. Thanks to the quality of service we have been offering, 14 agreements have been renewed for a 10-year period.

Innovating... to serve you better

La Capitale is always looking for new ways to better serve its clients. Our *raison d'être* is to listen, understand, innovate, offer solutions and make sure our clients are well insured. Our assistance services and our $500,000 identity theft coverage are tangible examples of our efforts in this regard.

In 2006 we also brought to market a new insurance program for recreational vehicles. La Capitale is the first direct insurer to serve this market niche. This innovative program offers a wide range of coverage geared to all types of recreational vehicles. It even includes a helicopter assistance service provided through a special agreement with the *AirMédic* air ambulance company.

These are just some examples of our constant desire to innovate and to give more to our clients.

The future

Considering our financial results and our market position, as well as the sound governance rules and risk management policies we have put in place, we remain confident in the future.

We carefully plan all our operations and are always alert to new opportunities. Our goals are both ambitious and realistic. The many projects currently underway will enable us to maintain our growth and to consolidate the market we serve.

Technological development is one of our key priorities. In 2007, the introduction of a new technology infrastructure will enhance the capacities and performance of our IT systems. Our e-business rollout plan will ensure a bright future for our company via the Web.

For the past three years, strategy sessions involving the different companies of La Capitale Financial Group have fostered synergy and highly positive communication between the Company and the various affiliated entities.

Other projects pooling our experience, our competencies and our desire to better serve our clients have been launched.

A solid team

Our company's success is a collaborative effort. We would therefore like to thank, first and foremost, our employees, who helped La Capitale General Insurance earn the title of "Best Employer of the Year" for the second time in the large firms category of the "Best Employers Challenge." In fact, 99.3% of our employees said they were proud to work for La Capitale. This is a great honour. We appreciate our employees' excellent work and we want them to know that we are equally proud of them.

We would also like to thank our management team for their unflagging efforts and the quality of their achievements.

We owe a debt of gratitude as well to the members of our Board of Directors for their participation, their support, and their trust.

A very special occasion also warrants mention here. On January 4, 2007, our Chief Executive Officer, Réal Circé, officially retired. Mr. Circé's career at La Capitale spanned more than 25 years, including 18 years as Chief Executive Officer.

Mr. Circé left his mark on La Capitale with his drive and his dynamic spirit. He epitomized the great mutual values of integrity, solidarity, mutual aid, and respect for individuals that we hold so dear. We would like to take this opportunity to thank Mr. Circé for his invaluable contribution and we wish him a happy, well-earned retirement!

The year 2006 was a highly successful one for La Capitale General Insurance, and the outlook for 2007 is highly promising:

So much MORE than insurance

John Strome
President and Chief Operating Officer

CONSOLIDATED COMPARATIVE SUMMARY

For the year ended December 31 — [In thousands of dollars]

	2006 $	2005 $	2004 $	2003 $	2002 $
Assets	**522,858**	489,528	440,444	327,064	281,022
Shareholders' equity	**163,269**	147,815	132,544	111,265	95,281
Gross premiums written (1)	**435,024**	410,772	328,153	281,771	247,027
Net profit	**22,342**	21,444	26,473	20,438	19,838
Loss ratio	**67.7%**	68.8%	65.5%	65.9%	63.9%
Expense ratio	**28.0%**	27.2%	26.1%	25.9%	25.2%
Number of insured policies in force	**757,750**	734,764	681,286	510,729	465,991

(1) *Before premiums assumed and ceded to the Risk Sharing Pool of the Groupement des assureurs automobiles.*

Key Facts and Figures

- Consolidated net profits reach $22.3 million, generating a return on shareholders' equity of 15.9%
- Written premiums up 6.2% to $426 million
- La Capitale General Insurance voted "Best Employer" in the large firms category of an esteemed awards program
- Launch of RV Solutions Insurance™ program for recreational vehicles
- Commercial insurance line sees 20% growth in premiums written to $22 million

Officers

SENIOR MANAGEMENT

John Strome, FCIP
President and Chief Operating Officer

Stéphane Dodier
Senior Director, Project Management

ACTUARIAL

Marthe Lacroix, FCIA, FCAS
Vice-President

François Dumas, FCIA, FCAS
Senior Director, Standards and Actuarial Science

CORPORATE AFFAIRS

Richard St-Pierre, LL. B.
Vice-President

Céline Daigle, LL. B.
Senior Director, Legal Affairs

FINANCE AND ADMINISTRATION

John Kirouac, CA
Vice-President

Johanne Gauthier, CGA
Senior Director, Finance

CLAIMS

Marie-Claude Dulac, FCIP
Vice-President

Gilles Lortie, CIP
Senior Director, External Claims

Pierre Legault, CIP
Senior Director, Call Centre Claims

MARKETING AND COMMUNICATIONS

Simon Jean, B. Admin
Vice-President

Régis Auclair, MBA
Senior Director

HUMAN RESOURCES AND ORGANIZATIONAL DEVELOPMENT

Martin Delage, B.A., CHRP
Vice-President

Linda Gaboury, B.A., CHRP
Senior Director, Human Resources

INFORMATION TECHNOLOGY

Marcel Bélanger, I.S.P.
Vice-President

Liette Labrie
Senior Director, Systems Development

Denys Gariépy
Senior Director, Competitive Intelligence and Innovation

SALES AND DEVELOPMENT

Sylvain Simard, B.A., CIP
Vice-President

Marcel Leclerc
Senior Director, Affiliated Damage Insurance Agents Network

Kathleen Gendron, FCIP
Senior Director, Personal Lines Insurance

Estelle Thériault
Senior Director, Call Centre and Groups

Michel Talbot, FCIP
Senior Director, Commercial Lines Insurance

Property and Casualty Insurance

LA CAPITALE GENERAL INSURANCE

Since it was established in 1976, La Capitale General Insurance has become one of Quebec's leading home and auto insurance companies. Originally founded in response to the needs of owner members of La Capitale Civil Service Mutual, the company has maintained its commitment to public service employees while extending its product offering to the general public, establishing a network of 22 branch offices across Quebec to remain close to its clients and better serve their needs.

With some 750 employees, La Capitale General Insurance is a direct insurer that distributes its products without intermediaries. As well as offering home and auto insurance products, it has diversified into legal access insurance, insurance for private companies and the self employed, travel insurance as well as insurance for recreational vehicles.

La Capitale General Insurance also invests in ways to further assist its clients. That is why it has rounded out its line of products by creating the CAP Priority Assistance program: a complimentary service that provides clients with exclusive roadside, home and legal access assistance.

PRODUCTS AND SERVICES OFFERED (DIRECT DISTRIBUTION)

- Auto insurance
- Recreational vehicle insurance (motorcycles, snowmobiles, ATVs, motor homes, trailers and boats)
- Home insurance
- Legal access insurance
- Professional liability insurance
- Insurance for private companies and the self-employed:
  - Income replacement protection
  - Car dealers
- Travel insurance
- Assistance services:
  - CAP Roadside Assistance
  - CAP Home Assistance
  - CAP Legal Access Assistance

HEAD OFFICE

Hector-Fabre Building
525 René-Lévèsque Blvd E
6th Floor, P.O. Box 17100
Quebec QC G1K 9E2
418 266-9525

Regional Branch Offices

Anjou
7333, Place des Roseraies, Suite 200
H1M 2X6
514 906-1700

Baie-Comeau
337 Lasalle Blvd, Suite 203
G4Z 2Z1
418 294-6300

Blainville
28, Côte Saint-Louis W, Suite 001
J7C 1B8
514 906-1700

Boucherville
204 de Montarville Blvd, Suite 100
J4B 6S2
514 906-1700

Brossard
7005 Taschereau Blvd, Suite 170
J4Z 1A7
514 906-1700

Chicoutimi
305 de l'Hôtel-de-Ville St., Suite 200
G7H 4W8
418 698-5900

Drummondville
121 Hériot St
J2C 1J5
819 475-1799

Gatineau
290 Saint-Joseph Blvd, Suite 201
J8Y 3Y3
819 420-1700

Granby
151 Saint-Jacques St.
J2G 9A7
450 777-1750

Jonquière
2106 Sainte-Famille St., Suite 102
G7X 4X1
418 547-4597

La Sarre
65A 5th Avenue E
J9Z 1L1
819 333-6140

Laval
3030 Le Carrefour Blvd, Suite 101
H7T 2P5
514 906-1700

Montreal
425 de Maisonneuve Blvd W
Suite 500
H3A 3G5
514 906-1700

Pointe-Claire
755 Saint-Jean Blvd, Suite 140
H9R 5M9
514 906-1700

Quebec
Hector-Fabre Building
525 René-Lévesque Blvd E
5th Floor, P.O. Box 17100
G1K 9E2
418 266-1700

Rimouski
92 2nd St. W, Suite 21
G5L 8B3
418 724-0777

Rouyn-Noranda
170 Principale Ave.
J9X 4P7
819 764-2700

Saint-Georges
9012 Lacroix Blvd
G5Y 5P4
418 227-5461

Sept-Îles
456 Arnaud Ave., Suite 206
G4R 3B1
418 968-0044

Sherbrooke
2100 King St. W, Suite 250
J1J 2E8
819 822-0060

Sorel-Tracy
16200, Chemin Saint-Roch
J3P 5N3
450 561-1529

Trois-Rivières
Le Trifluvien Building
4450 des Forges Blvd, Suite 200
G8Y 1W5
819 374-3050

Commercial Insurance
Hector-Fabre Building
525 René-Lévèsque Blvd E
5th Floor, P.O. Box 17100
Quebec QC G1K 9E2
418 266-9600

Quebec City Claims Office
Delta I Building
2875 Laurier Blvd, Suite 700
Quebec QC G1V 2M2
418 266-9760

Montreal Claims Office
425 de Maisonneuve Blvd W
Suite 500
Montreal QC H3A 3G5
514 906-2222

Quebec City Call Centre
1075 de l'Amérique-Française St.
Ground Floor North
Quebec QC G1R 5P8
418 266-9908

Montreal Call Centre
425 de Maisonneuve Blvd W
Suite 800
Montreal QC H3A 3G5
514 906-2208

Group Development
425 de Maisonneuve Blvd W
Suite 800
Montreal QC H3A 3G5
514 906-2208

Legal Access Insurance
Hector-Fabre Building
525 René-Lévesque Blvd E
5th Floor, P.O. Box 17100
Quebec QC G1K 9E2
418 266-9555

L'UNIQUE GENERAL INSURANCE

Established in 1978, L'Unique was acquired by La Capitale General Insurance in November 2004. L'Unique thereby became a wholly Canadian company, ensuring the permanence and stability of its operations. It continues to be independently managed and distributes its products through a network of more than 350 independent brokers. Both companies' intimate knowledge of the Quebec market is a key factor in their ability to offer innovative products and tools to its broker network. L'Unique's advanced computer systems provide user-friendly access to brokers, and its *Le Guichet Unique* electronic data interchange system allows brokers to communicate in real time with L'Unique over the Web. With an assistance program available on a 24 / 7 basis, the majority of claims submitted to L'Unique are settled internally. Some 120 employees work at L'Unique's head office in Quebec City and its branch office in Montreal.

Until recently, L'Unique distributed only individual insurance (home and auto). In February 2005, L'Unique began to distribute commercial insurance products. Also in 2005, L'Unique acquired Orleans General Insurance Company, which is specialized in surety bonding. L'Unique is now able to offer its brokers a diverse line of products for individuals and businesses, along with a complete line of contract and commercial bonding services. L'Unique is renowned as the leading small business insurer in Quebec.

Officers

Jean Tardif, CA, MBA
President and Chief Operating Officer

Gaétan Boudreau, Eng., MBA
Vice-President, Surety and Credit Insurance

Yves Gagnon, B.A., CIP
Vice-President, Sales and Development

Guy Ferland, FCIP
Vice-President, Commercial Insurance

Richard Consigny, FCIP
Director, Claims

Jean-Eudes Boudreau, MBA
Director, Underwriting and Sales,
Surety and Credit Insurance

André Boucher, CMA
Controller

PRODUCTS AND SERVICES OFFERED
(BROKER DISTRIBUTION)

- Auto insurance
- Home insurance
- Commercial insurance
- Legal access insurance
- Surety bonding
- Credit insurance
- Assistance services
  - L'Unique roadside assistance
  - L'Unique home assistance

HEAD OFFICE

925 Grande-Allée W, Suite 240
Quebec QC G1S 1C1
418 683-2711 or 1 800 463-4800

MONTREAL

1 Place du Commerce, Suite 225
Île-des-Soeurs, Montreal QC H3E 1A2
514 768-0707 or 1 877 768-0707

Related Services

LA CAPITALE FINANCIAL MANAGEMENT

A subsidiary that offers unique, original services to clients of La Capitale Financial Group. With over 65 years' experience, La Capitale Financial Management is one of North America's leading providers of payroll deduction services for insurance and financial product premiums.

Carte Capitale is a budget-discount card offered to Quebec public administration employees and La Capitale insureds. Using payroll deduction, it is designed to help cardholders manage the family budget for savings, car expenses and municipal taxes.

The Corp-Rate Card is a credit, discount and verification card for commercial vehicle fleet managers throughout Canada and employees of large corporations who benefit from a car allowance program. It is accepted in 35,000 locations across Canada.

In 2006, total assets for La Capitale Financial Management amounted to $38 million, with discounts and other income managed reaching some $8 million.

Officers

Robert St-Denis
President and Chief Operating Officer

Steven Ross, C. Adm., F. Pl.
Executive Vice-President
Individual Insurance and Annuities

Lucie Garneau, CA
Vice-President, Finance

André Fortin, B.B.A.
Senior Director, Carte Capitale Operations

Robert Potvin
Vice-President, Sales and Marketing
Corp-Rate Card

PRODUCTS AND SERVICES OFFERED (BROKER DISTRIBUTION)

- Payroll deduction service
- Carte Capitale (Budget-discount card)
- Corp-Rate card

HEAD OFFICE

625 Saint-Amable St.
Quebec QC G1R 2G5
418 643-3884 or 1 800 463-5549

For information about La Capitale,
please contact our Public Relations department
at 418 643-3884 or 1 800 463-5549.

An electronic copy of this document is available at
www.lacapitale.com