2008 Annual Report

La Capitale
Civil Service Mutual

2008 Annual Report

A strong mutual

69 years ago,
a simple idea was born.
To build a company where
clients and members have
a say. A strong mutual
founded on human values:
Solidarity, mutual aid
and democracy.

Today, we are
2,442 employees,
still driven by the
very same values and
looking forward...
to the future.

Photos taken on the set of the TV commercial filmed in October 2008. All actors and extras were La Capitale staff members.

Key Facts and Figures

Acquisition
La Capitale General Insurance expands into the rest of Canada with its acquisition of Ontario-based York Fire & Casualty Insurance Company.

Sustained growth
Despite a difficult economic context, La Capitale sees continued development with insurance and annuity premiums up 5.8% over 2007.

A Canada-wide presence
In 2008, La Capitale consolidated its life and health insurance distribution network across all of the Canadian provinces.

Assets The Mutual's assets rose above the $3 billion mark, up 9.9% from last year.

Dividends Dividends paid to Mutual members totalled $12.2 million.

Members As at December 31, 2008, the number of Mutual members is now 216,548.

René **Rouleau**
Chairman of the Board and Chief Executive Officer

Mutual Energy

In 2008, La Capitale continued to proudly display its firm commitment to the mutual values that form the very foundation of the company's philosophy. While remaining loyal to its roots, La Capitale Civil Service Mutual performed very well in spite of market volatility and worsening economic conditions.

In 2008, a number of cautionary measures were taken by global financial communities in anticipation of a challenging economic environment. Despite the uncertain situation, La Capitale still performed well. Admittedly, we were affected by the economic events in the second half of 2008 and the stock market downturn, but the financial impact of this economic decline on La Capitale was mitigated by two factors: first, Canada's relatively good economic situation due to healthier household balance sheets and a better managed real estate market, and second, our company's adherence to mutualist values, which advocate a prudent approach at all times.

La Capitale's rules of corporate governance uphold the highest standards of integrity, equity and transparency. As a key contributor to the social economy, the Mutual is renowned for its pursuit of both social and economic goals. Its democratic structure without shareholders means that its products and services are designed for the well-being of its members and that it puts economic stability and sustainability ahead of maximizing profits, thereby contributing to both the well-being of individuals and an improved social environment. It upholds a long-term vision of development for the benefit of the individuals it serves. In these times of economic turmoil, we can celebrate our status as a mutual, which in 2008 not only enabled us to continue building the heritage of our Mutual members, but also to protect the jobs of our some 2,400 employees.

In January 2003, the Mutual's Board of Directors reinforced the company's status as a mutual for many years to come. By 2020, La Capitale expects to reach $3.5 billion in sales, an ambitious goal that includes increasing the number of Mutual members and the number of products they hold. In concrete terms, this will also require ongoing development of the general insurance, group insurance and individual insurance markets beyond Quebec. The acquisition of Penncorp Life Insurance Company in 2006 and York Fire & Casualty Insurance Company in September 2008 are concrete steps in our expansion plan designed to achieve this goal.

As I take over the helm of La Capitale, the route ahead is clearly mapped out. This provides welcome reassurance that in difficult times, mutualism can navigate through turbulence without compromising growth. Mutualism ensures the protection of members' assets by upholding the solid business values of integrity, profitability, service quality, controlled growth and employee satisfaction, while maintaining a steadfast commitment to mutualist values. I will personally guarantee our company's adherence to these fundamental values.

In the coming years, La Capitale will need to position itself in the insurance industry not only as a significant marker, but as THE benchmark for mutuals. We will invest time, money and energy into increasing our brand awareness through a variety of campaigns designed to solidify our status and promote the benefits of a mutual like La Capitale over a stock company. We already took the first step towards this in 2008 with a television ad focusing on the dedication and commitment of our employees.

Results generated by Mutual energy

La Capitale performed well in 2008 given the very challenging economic environment. In spite of the economic climate worldwide, we continued to grow and achieve an acceptable level of profitability.

In 2008, La Capitale Civil Service Mutual had $3 billion in assets, with nearly $1.1 billion in total income. The Mutual posted net income of $39.4 million while members' equity reached $438.8 million, for a return of 8.9%.

Once again, the Life and Health Insurance sector continued to increase its market share in Quebec and strengthen its position elsewhere in the country, with the number of insureds increasing from 133,600 to 137,418 in 2008. Given the economic context, this achievement is a huge credit to our sales force, our management teams and our administrative support staff. Overall, this sector showed a net profit of $23.4 million in 2008.

In spite of poor climatic conditions, the Property and Casualty Insurance sector also intensified efforts to maintain the right balance between controlled growth and profitability, generating $16 million in net income. In keeping with its strategic orientations, La Capitale General Insurance also made an acquisition that will help it break into the Ontario market, then gradually expand operations to other parts of the country.

Partnership and growth

A sustainable business relationship between two corporate groups derives its success from sharing a common vision. For more than twenty years, we have benefited from the support of French mutual group *Garantie mutuelle des fonctionnaires* (GMF), which is a key component of COVÉA, a leader in the French insurance industry that comprises three mutuals.

Our mutualist values and ways of thinking are what enable us to share a common vision of growth. With this vision in mind, GMF contributed financially to the September 2008 acquisition of Ontario-based York Fire & Casualty Insurance Company, whose head office is located in Mississauga. York Fire provides home, auto and commercial insurance products through a network of over 200 independent brokerage firms in Ontario and Alberta. This acquisition will help La Capitale pursue its Canada-wide development strategy in accordance with the strategic plan drawn up in 2006. In the coming years, it intends to capitalize on the strength of this network by putting into place all of the support and resources needed for its expansion while further enhancing its products and services.

With the acquisition of Penncorp Life Insurance Company in 2006, the La Capitale name and products are now recognized and appreciated Canada-wide.

Firmly committed to sustainable development

With intergenerational balance being one of our Mutual's key values, it is only natural that now, more than ever, our actions reflect our commitment to sustainable development.

This vision of a future rooted in sustainable development is shared by all managers and employees whose day-to-day actions are guided by this principle. In 2008, the *Eco-Committee*, made up entirely of employees, carried out a number of initiatives to promote the protection of the environment. One such initiative enabled us to reduce the amount of paper used by 15%. True to its social commitment, La Capitale presented the environmental improvement organization *Environnement jeunesse* with a cheque for over $41,000, which represents the amount of money saved by this initiative every year. Other similar programs will be introduced in 2009.

As a real estate owner and developer, La Capitale plans and carries out large real estate projects that support the principles of sustainable development. The Delta III building on Laurier Boulevard in Quebec City, for example, which has been under construction since 2007 and is scheduled for completion shortly, is the first "green" office building in Quebec City aiming to achieve *LEED* (Leadership in Energy and Environmental Design) Gold certification. A head office expansion plan aiming for the same certification was presented to the Quebec City municipal authorities in 2008.

Social commitment: An extension of our values

As a mutual created by and for public service employees, La Capitale naturally takes part in a number of events and activities each year associated with health and social services, education, municipalities and the civil service. We also support a number of foundations and associations and encourage our employees to volunteer their time for recognized social and humanitarian causes. All of these actions are an extension of the values of solidarity and mutual aid that form the foundations of mutualism.

Below is a brief overview of how we demonstrated our social commitment in 2008:

> Providing financial support to the La Capitale Chair in Leadership of the ENAP Public Administration University

> Working with the Quebec Institute of Public Administration (QIPA) to present the 2008 Public Service Awards of Excellence

> Teaming up with four health care facilities under the *Cargo* program to help nursing assistants go back to school to get their nursing degree

> Supporting the *Jeunes explorateurs d'un jour* (Young Explorers) program

> Providing financial assistance to various initiatives aimed at recognizing the achievements of public service employees

> Lending financial support to help set up 211 service in the Quebec City–Chaudière-Appalaches region that provides prompt referrals to community resources

> Supporting the United Way and Red Cross campaigns and the *Noël du Bonheur* campaign for individuals who are chronically ill

La Capitale and Quebec City's 400th anniversary

Quebec City celebrated its 400th anniversary in 2008. With strong hometown roots and solid ties to its community, La Capitale contributed in various ways to the many events and activities organized throughout the year to mark the occasion. These contributions included:

> Actively taking part in Quebec City's International Festival of Military Bands for the third consecutive year. This event brings together military music bands from all parts of the world.

> Sponsoring the publication of *Québec 1608-2008: Les chroniques de La Capitale*, a more than 800-page volume on the history of Quebec City and our Mutual's contribution to Quebec society since 1940.

> Setting up a network of interpretive sites as part of *Circuit Québec*, a walking route designed to help people learn about the city's 400 years of history, heritage and urban life. The route includes a total of 32 visual and auditory interpretive sites, one of which is located beside head office.

> Organizing a session on mutualism that included discussions between representatives from COVÉA (a group of French mutuals) and La Capitale on the status and future of mutualism.

Employees devoted to the mutualist cause

Our Mutual's most valuable asset, without a doubt, lies in the collective skills offered by our dedicated employees, without whom La Capitale could not have achieved the kind of results it did in 2008. This is why all of the actors and extras used in the TV ad produced this year were La Capitale employees. The ad aired for Quebec viewers in the fall and was designed to highlight and recognize the valuable contribution of La Capitale's employees, whose energy and commitment help to uphold the tradition of mutual aid and solidarity established right from La Capitale's inception, 69 years ago. The second goal of the ad was to serve as a reminder of La Capitale's mutual philosophy and standpoint.

Changes to the Board of Directors

The beginning of 2009 marked the retirement of Mr. Jean-Yves Dupéré, Chairman of the Board and Chief Executive Officer since 2003. During his term, Mr. Dupéré breathed new life into the Mutual, where his profound belief in the principles of mutualism and his desire to value the role of public service employees brought recognition to this method of management rooted in social economics and a philosophy of sharing. By rallying Board directors and all employees around the idea of a strong, modern and distinctive Mutual, he helped La Capitale distinguish itself as an organization dedicated to the public service and other clients throughout Quebec and in the rest of Canada.

I would like to congratulate Mr. Dupéré on a job well done, and thank him for his twenty-five years of loyal service as a Board director for La Capitale, including six as Chairman of the Board and Chief Executive Officer.

Mr. Jacquelin Bergeron also left the Board of Directors of La Capitale Civil Service Mutual in 2008, after serving on the Board since 1992. I would like to thank Mr. Bergeron for his valuable contribution to La Capitale and the mutual movement.

Ms. Marie-Josée Guérette and Mr. François Latreille were elected by the Board to fill the vacant positions and complete the mandate embarked upon by their predecessors. I would like to wish both of them a warm welcome, and to thank them for agreeing to join the Board of Directors.

I cannot conclude without acknowledging the death of Mr. J.-Claude Simoneau in March 2008. Mr. Simoneau was a true mutualist at heart and a key player in our organization from 1984 to 2008.

I would like to thank all of our employees, who give their all each and every day to help La Capitale grow and prosper while remaining true to its mutual and business values. Thank you also to the members of the Board for their loyal support and sound advice. Their contribution is what ensures the longevity of our organization.

My mandate for 2009 is to continue what has already been set in motion. The strong ties that bind us together—employees, directors and Mutual members—testify to the durability of our long-standing tradition of mutual aid and solidarity, which I will continue to uphold in the years to come. They also prove that with the support and commitment of mutual energy, anything is possible.

On behalf of all employees and members of the Board, I would like to thank our Mutual members for continuing to place their confidence and trust in us.

René Rouleau
Chairman of the Board and Chief Executive Officer

Board of Directors

René Rouleau
Chairman of the Board and Chief Executive Officer

Dominique Dubuc
Vice-Chairman

Jean-Paul Beaulieu

Martial Fillion

Marie-Josée Guérette

Roland Guérin

François Jutras

François Latreille

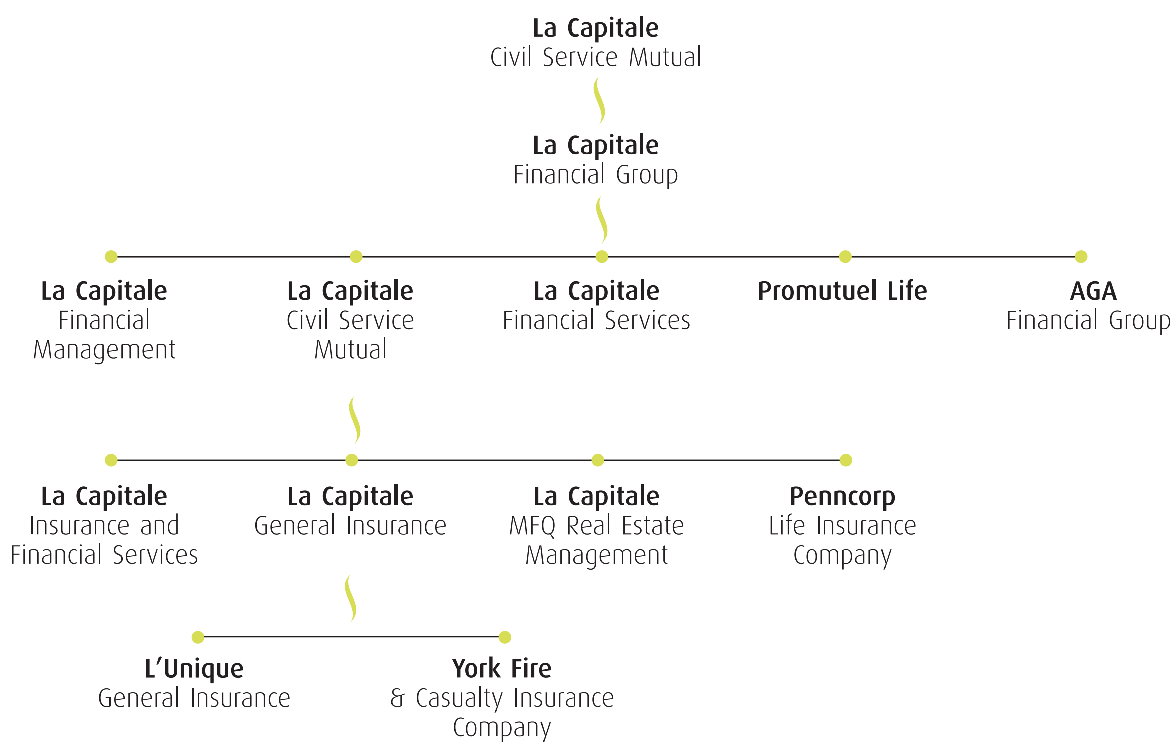
Danielle Poiré

Louise Potvin

Sophie Proulx*

* Left the board on February 13, 2009

Corporate Structure



Security policy regarding information assets

The protection of confidential information and data integrity are crucial to a company's or organization's survival.

La Capitale Financial Group and its subsidiaries recognize that information is crucial to operations, and as such, it needs to be evaluated, used appropriately and adequately protected. It is with this in mind that the company developed a security policy regarding information assets in 2008. Information assets are defined as all personal information, information systems, documents, business processes, structures or set of structures set up to conduct company business. La Capitale's goal in introducing this policy is to:

> Ensure the availability, integrity and confidentiality of its information assets and their use

> Ensure the protection of individuals' privacy, including the confidentiality of personal information regarding clients or employees

> Establish a framework that promotes the harmonization of guidelines, as well as the roles and responsibilities of the individuals involved in security

This policy applies to all information assets held and used by La Capitale or by suppliers on its behalf. All employees of La Capitale Financial Group and its subsidiaries, as well as all authorized individuals who have access to the company's information assets in the course of their duties, are required to comply with the policy.

To safeguard the security of clients' personal information, all users are required to immediately report any event or situation that could represent a real or presumed violation of the security rules, including theft, network or system breach, deliberate damage, misuse, fraud and disclosure.

To help raise employee awareness regarding the security of information assets and provide the necessary training on how to protect the information identified by the policy, a variety of measures will be taken in 2009, including an in-house information campaign.

La Capitale Financial Group uses this policy to ensure the protection of all client information through all stages of the business process, from the collection and handling of the information to its processing and use. Its mission is to assure all of its Mutual members and clients that its commitment to confidentiality includes the protection of individual privacy, and it intends to uphold this commitment with the utmost integrity.

Governance

In recent years, La Capitale has consolidated its rules of corporate governance, a process that entailed codifying its core values, policies, standards and guidelines that the Board directors, managers and employees of the Mutual and its subsidiaries must follow in the course of their duties.

Our corporate governance rules meet requirements of integrity, equity and transparency. Updating our compliance and ethics policies will ensure that La Capitale continues to be governed as soundly and efficiently as possible.

The Mutual's corporate governance rules have also served to clarify the roles of the Board of Directors and its committees, delineating their respective responsibilities. These principles of governance have also resulted in a review of the Professional Code of Conduct and Ethics, which sets out the requirements and constraints that La Capitale's Board directors, managers and employees must follow in the course of their duties. In 2008, new standards were issued regarding our rules of governance. These new standards will be integrated into our current rules, and most of them will take effect in 2009.

Board of Directors

The Board is made up of eleven members who ensure an even geographic and professional representation, while encouraging the involvement of various areas of the public sector. This makeup ensures a fair representation across the Board's various committees.

As the administrator and agent of La Capitale's Mutual members, the Board of Directors is responsible for defining the company's mission and strategic plan, and appointing the Chief Executive Officer. In general, the Board ensures that the Mutual is run soundly and governed efficiently. It guides the company's socioeconomic and commercial activities, as well as its internal affairs, with a view to maintaining a healthy balance between the interests of Mutual members in the short, medium and long term. To this end, it oversees senior management to ensure that business is conducted in accordance with the orientations it has put forward. Finally, the Board of Directors ensures that La Capitale Civil Service Mutual plays a social role in keeping with its mutualist values, driven by the vitality of its various representatives.

Committees of the Board of Directors

The committees of the Board enable responsibilities to be shared and allow the Board to devote the necessary resources to specific areas or to any issues that may arise. Of these committees, which are mostly made up of Board directors, only the Nomination Committee is made up exclusively of Mutual members who do not sit on the Board. The committees submit regular reports to the Board of Directors about their specific mandates.

> **Human Resources and Governance Committee**
> The Human Resources and Governance Committee is responsible for the general supervision and enforcement of policies with regard to human resources at La Capitale Civil Service Mutual and its subsidiaries. It ensures that the corporate governance rules remain up-to-date and that the Board complies with these principles. Finally, it proposes various policies and strategic directions to the other boards, as may be required, and sets executive salaries.

> **Audit committees**
> Pursuant to the applicable legislation, audit committees have been set up at all of the insurance companies related to La Capitale Civil Service Mutual. At least one member of the Mutual's Board of Directors sits on each committee, in order to ensure that the company's overall vision is upheld.
>
> The audit committees' mandate is to help the Board fulfill its oversight responsibilities towards Mutual members and shareholders concerning financial disclosures, internal controls, the evaluation of risks to the company, IT systems security and compliance with the laws and regulations of the insurance industry. The audit committees are responsible for the internal and external auditing of the Mutual's subsidiaries.

> **Ethics committees**

Pursuant to the applicable legislation, ethics committees have been set up at each of La Capitale's insurance companies. In addition, La Capitale Civil Service Mutual has its own committees, which have jurisdiction over all of its subsidiaries operating outside the field of insurance.

The ethics committees are responsible for ensuring that Board directors, managers and employees comply with the company's Professional Code of Conduct and Ethics.

> **Pension committees**

The pension committees administer the pension plan under their authority. In this role, they see that the assets held in the pension fund are managed soundly. They make investment decisions and decide how benefits will be paid out, while fulfilling obligations towards participants and beneficiaries. The same employer representatives sit on each pension committee; only the plan representatives and the independent members vary by committee.

> **Nomination Committee**

The Nomination Committee verifies whether candidates are eligible to sit on the Board of Directors of La Capitale Civil Service Mutual and ensures that nomination formalities are respected. It is made up exclusively of Mutual members who do not sit on the Board of Directors. The committee accepts or rejects each nomination and submits a report at the Annual General Meeting. It is also responsible for ruling on cases of contested eligibility raised by candidates or their representatives.

La Capitale promotes these practices as part of its commitment to maintaining sound corporate governance while continually seeking to improve performance. These practices are firmly in line with the company's mutualist convictions as well as regulatory requirements.

La Capitale's rules of governance will ensure the longevity of the company, and provide the necessary tools for Board directors, managers and employees to act for the common good of its Mutual members and other clients.

A strong commitment to sharing

Mutual aid and solidarity are integral to the very spirit of La Capitale and the driving force behind our continued involvement in the community to help create a better quality of life. With this in mind, La Capitale provided sponsorships or donations throughout the year to a number of community and public service organizations.

Mutualism

In 2008, La Capitale continued to promote the cooperative and mutual movement through its work with the *Conseil québécois de la coopération et de la mutualité* (CQCM). In this regard, La Capitale Civil Service Mutual teamed up with the Fondation pour l'éducation à la coopération, a foundation that promotes cooperative education, and took part in round table sessions on cooperation.

La Capitale has a long-standing partnership with the *Société coopérative pour le développement international* (SOCODEVI), a cooperative organization for international development, and it maintained its cooperative relationship with the organization in 2008.

The public service

La Capitale's primary clientele consists of public service employees, who make up its Mutual members. The relationship that exists between the two entities is evident in the company's commitment to a number of public service associations and related foundations, including its continued support of the *Fondation du Cégep de Sainte-Foy* college foundation and the signing of a partnership agreement with the *Fondation du Centre hospitalier universitaire de Québec* university hospital foundation.

With the support of La Capitale, the La Capitale Chair in Leadership of the ENAP Public Administration University continued its research on issues pertaining to leadership in the public sector, communicating the results to the government community as a whole. The Institute of Public Administration also received support from La Capitale for the presentation of the 2008 Public Service Awards of Excellence.

In the interest of supporting the greater well-being of Quebecers, La Capitale teamed up with four health care facilities under the *Cargo* program. Developed by La Capitale, this program is the first of its kind to offer financial assistance to nursing assistants wanting to obtain their university degree in nursing. This initiative is in keeping with the mutualist value of "people first" by helping to give health care professionals the training they need to improve health care services for the general population.

In terms of knowledge sharing and training, La Capitale took part in a number of conferences and seminars that brought together employees from the public, parapublic and peripublic sectors, as well as related associations.

The community

On the community front, La Capitale supported a number of worthwhile initiatives province-wide, including the launch of a 211 phone service in the Quebec City–Chaudière-Appalaches region that provides prompt referrals to community resources. La Capitale also provided support to United Way and Red Cross canvassing campaigns.

La Capitale is also concerned with the sustainability of cultural activities and the arts. In this regard, the company sponsored or provided financial support to several such events and activities, including Quebec City's International Festival of Military Bands, taking part in this prestigious musical event for the third consecutive year.

As a partner in Quebec City's 400th anniversary celebrations, La Capitale took part in this important community event by setting up a network of interpretive sites as part of a historical tour of the city and by publishing an impressive volume on Quebec City's history entitled: *Québec 1608-2008: Les chroniques de La Capitale.*

Employee commitment

Once again, employees demonstrated their commitment and generosity to the community in 2008. A number of benefit events were organized to raise money for charitable organizations in the region that provide assistance to those less fortunate, including the *Noël du Bonheur* campaign for individuals who are chronically ill. In total, our employees devoted over 14,600 hours to volunteering for various causes.

Competence and commitment

At La Capitale, we recognize that human resources are a valuable asset and as such, we place a great deal of importance on the satisfaction of our employees and making sure they have the tools they need to further their skills. In turn, our employees reward us with the day-to-day energy, enthusiasm and commitment needed to achieve positive, concrete results from one year to the next. This was precisely the case in 2008.

What sets La Capitale apart is its stimulating environment, combined with working conditions that promote respect, recognition and accountability. Added to this distinctive quality is a commitment to two-way communication that ensures direct dialogue between employees and management, where employees can voice their comments and suggestions for management's consideration in their annual planning exercise. Regular meetings are also held with all employees and senior management.

Fostering skills

At La Capitale, we want each and every employee to develop and acquire the knowledge they need to enhance their job skills and continue their personal development. It is with this in mind that we have developed customized training programs in various areas, including English as a second language.

La Capitale's Pan-Canadian development plan that began in 2006 has created a growing need for bilingual resources. In 2008, 276 people signed up for English classes to improve their second language skills.

In 2008, 2.6% of total payroll was invested in training activities, 1.6% higher than the standard set out by Quebec's *Act to promote workforce skills development and recognition*.

With a view to providing quality service to our Mutual members and clients, La Capitale reimburses the cost of any successfully completed training course offered outside the company for employees wanting to improve their professional skills.

Looking forward... to the future

Like most companies today, La Capitale is increasingly aware of the quality of the work environment and how it impacts the health of its employees. In 2008, the company adopted new standards to comply with *LEED (Leadership in Energy and Environmental Design)* sustainable development principles in all of its buildings. Over the next few years, La Capitale plans to gradually reconfigure its offices to comply with these new standards, which focus on natural lighting, outside views, improved ventilation, physical comfort, and pleasant, inviting common areas for all staff members.

To ensure that staff members benefit from a healthy work environment, the *Health and Wellness Committee*, whose mandate is to promote healthy lifestyle habits, and the *Eco-Committee*, which aims to raise employee awareness about adopting environmentally friendly practices, developed or extended a number of activities and programs that proved to be very popular with employees in 2008.

With the help of these committees, La Capitale hopes to create an eco-friendly future for its next generation of workers.

Working today for a better tomorrow

Just over twenty years ago, a concept was born that would alter the way companies are built and managed: the concept of sustainable development.

This philosophy promotes respect for nature and equity among all peoples. Companies and institutions are increasingly putting this concept to work in their action plans and are adopting practices that will benefit current and future generations alike in an effort to share the available resources fairly.

As an environmentally responsible organization committed to this growing movement, La Capitale, with the help of its managers and employees, is introducing policies and taking concrete steps to promote this new way of thinking. Created in the spirit of solidarity and mutual aid, La Capitale is firmly committed to respecting the resources shared by its clients, employees and the general public.

In 2008, a number of initiatives were introduced and set in motion in the spirit of sustainable development.

Eco-Committee

The *Eco-Committee* is comprised entirely of employees, and its mandate is to encourage all employees to adopt environment-friendly behaviour, both at home and in the workplace, through concrete measures based on the company's sustainable development principles. In 2008, the *Eco-Committee* carried out a number of initiatives to improve the work environment and the quality of life at La Capitale and in the community.

> Continuing to use and encourage the use of paper containing 100% post-consumer recycled fibres, an initiative introduced in 2007.

> When printing is absolutely necessary, printing all documents double-sided in order to conserve as much paper as possible. In addition, memos and communications are sent by e-mail and reports are produced electronically in PDF format. All e-mails are accompanied by the message: "Do you really need to print this e-mail? If you do, think eco-friendly and print it double-sided." Thanks to these measures, La Capitale has been able to reduce its paper consumption by 15%.

> Handing out recycling bins, reusable insulated mugs and environmentally friendly shopping bags to all new employees.

> Selling fair trade coffee in our cafeterias and vending machines.

> Reducing greenhouse gases by using teleconferencing more often between our Quebec City, Montreal and Mississauga offices in place of travelling, which is costly in terms of both time and energy.

> Recycling all residual materials such as obsolete computer equipment, batteries, paper, fluorescent light bulbs, plastic, glass, and ink cartridges to reduce the amount of waste.

> Saving energy outside business hours by using programmable controls to turn off the lights and turn down the heat, ventilation and air conditioning in our buildings.

- Participating in the *Défi Climat* climate awareness challenge organized by the cities of Montreal and Quebec City, where 436 employees from Montreal and 489 employees from Quebec City committed to taking concrete steps to reduce greenhouse gases (GHG). La Capitale employees who took part in the challenge helped reduce GHG emissions by 1.6 tonnes per person.
- Granting reduced insurance premiums to individuals who purchase a hybrid vehicle.
- Encouraging public transit by offering employees the option to pay for their monthly passes through payroll deduction.
- Conducting a carpooling survey, which generated responses from 630 La Capitale employees. This survey showed that many employees are responsive to this form of transportation. Initiatives are planned for 2009 to help promote carpooling at La Capitale.

Green buildings

As a building owner and lessee, La Capitale demonstrates its commitment to sustainable development by taking a strong stand in favour of green buildings, and taking concrete steps in this regard. La Capitale aims to ensure that any new buildings constructed or acquired by the company are *LEED*-certified. This means they must meet a variety of environmental and energy requirements, as well as high standards of comfort and indoor air quality. This is the case with the Delta III building currently under construction in Quebec City, which is awaiting *LEED-CS* Gold certification.

In addition, all buildings managed by La Capitale comply with the environmental and energy standards set out by the *Go Green* campaign created by BOMA, a company whose mission since its inception in 1927 has been to train, inform and represent building owners and administrators and to encourage efficient building management.

On the leasing front, La Capitale encourages its tenants to have their facilities *LEED-CI* certified. We help them do so by paying the registration and certification costs and by providing them with the expertise required to carry out their plan.

Thanks to our many sustainable development initiatives in 2008, we have made great strides in protecting the well-being of our employees, ensuring the environmentally sound management of our material resources and becoming a company that is increasingly aware of the challenges we will face in the future.

Assets (in $ millions)

La Capitale Civil Service Mutual

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 reasonable assurance that transactions are duly authorized, that the financial records are reliable and that assets are safeguarded. These control systems are strengthened by the work of the internal auditor who conducts a periodic review of all of the key lines of business of the Mutual.

The Boards of Directors name the Appointed Actuary, who is responsible for valuing policy liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries and for expressing 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 Boards 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.

René Rouleau

Chairman of the Board and Chief Executive Officer

Quebec City

February 12, 2009

Auditors' Report

To the Members of
La Capitale Civil Service Mutual,

We have audited the consolidated balance sheet of **La Capitale Civil Service Mutual** as at December 31, 2008 and the consolidated statements of income, comprehensive income (loss), retained earnings and accumulated other comprehensive income, and cash flows 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 consolidated financial statements present fairly, in all material respects, the financial position of the Mutual as at December 31, 2008, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

Chartered Accountants
Quebec City, Canada
February 12, 2009

1 CA auditor permit no.: 10367

Consolidated Balance Sheet

AS AT DECEMBER 31 [in thousands of dollars]

ASSETS

	2008	2007
Investments *[note 5]*		
Bonds *[note 10]*	**$1,368,312**	$1,210,152
Mortgage loans	**484,554**	479,522
Stocks	**293,256**	350,482
Real estate	**151,987**	129,707
Cash and cash equivalents	**60,563**	98,918
Policy loans	**25,007**	23,349
Other investments	**29,268**	19,356
	$2,412,947	$2,311,486
Other items		
Premiums receivable	**$264,260**	$210,656
Intangible assets *[notes 7 and 21]*	**49,752**	36,485
Other assets *[note 8]*	**192,867**	130,942
Future income taxes *[note 20]*	**18,043**	9,967
Goodwill *[notes 6 and 21]*	**98,000**	62,012
	$622,922	$450,062
TOTAL ASSETS	**$3,035,869**	$2,761,548

LIABILITIES

	2008	2007
Policy liabilities *[note 11]*		
Actuarial liabilities	**$1,596,109**	$1,601,324
Provisions for benefits incurred	**20,491**	21,951
Provisions for dividends and experience refunds	**15,758**	18,218
Policyholder amounts on deposit	**37,444**	30,614
	$1,669,802	$1,672,107
Other items		
Unearned premiums	**$345,441**	$249,625
Provision for claims and loss adjustment expenses *[note 12]*	**268,996**	80,556
Bank loans *[note 10]*	**—**	15,000
Accrued liabilities	**133,208**	123,972
Deferred net gains	**2,571**	2,857
Other liabilities *[note 13]*	**30,695**	21,482
Future income taxes *[note 20]*	**38,524**	53,517
	$819,435	$547,009
Non-controlling interests	**$100,834**	$97,052
Subordinated debenture *[note 14]*	**$7,000**	$—
MEMBERS' EQUITY		
Retained earnings and accumulated other comprehensive income *[note 15]*	**$438,798**	$445,380
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$3,035,869**	$2,761,548

Commitments *[note 24]*
Contingencies *[note 25]*

See accompanying notes to consolidated financial statements

On behalf of the Board of Directors,

René Rouleau
Chairman of the Board and Chief Executive Officer

Dominique Dubuc
Vice-Chairman of the Board

Consolidated Statement of Income

For the year ended December 31 [in thousands of dollars]

	2008	2007
Revenues		
Insurance and annuity premiums	**$1,005,795**	$950,480
Net investment income *[note 19]*	**33,158**	115,972
Fees, commissions and royalties	**20,717**	22,281
Other	**1,051**	1,089
	$1,060,721	$1,089,822
Policy benefits and expenses		
Benefits and claims incurred	**$678,190**	$578,219
Participating policyholder dividends	**12,198**	12,108
Experience rating refunds	**4,812**	5,158
Changes in policy liabilities *[note 11]*	**(5,215)**	125,552
	$689,985	$721,037
Commissions	**74,081**	62,271
Premium taxes	**27,971**	24,664
General expenses	**185,167**	169,681
Non-controlling interests	**11,722**	15,701
	$988,926	$993,354
Income before income taxes	**$71,795**	$96,468
Income taxes *[note 20]*	**32,375**	30,663
Net income	**$39,420**	$65,805

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income (Loss)

For the year ended December 31 [in thousands of dollars]

	2008	2007
Net income	**$39,420**	$65,805
Other comprehensive loss, net of taxes		
Unrealized losses on available-for-sale financial assets, net of income taxes of $22,060 [2007: $1,089]	**$(50,862)**	**$**(1,809)
Reclassification of realized gains to net income, net of income taxes of $2,415 [2007: $6,227]	**(5,302)**	(13,880)
Non-controlling interests	**10,162**	2,034
	$(46,002)	$(13,655)
Comprehensive income (loss)	**$(6,582)**	$52,150

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings and Accumulated Other Comprehensive Income

For the year ended December 31 [in thousands of dollars]

	2008	2007
Retained earnings		
Balance, beginning of year	**$430,749**	$364,944
Net income	**39,420**	65,805
Balance, end of year	**$470,169**	$430,749
Accumulated other comprehensive income		
Balance, beginning of year	**$14,631**	$28,286
Other comprehensive loss, net of taxes	**(46,002)**	(13,655)
Balance, end of year	**$(31,371)**	$14,631
	$438,798	$445,380

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended December 31 [in thousands of dollars]

	2008	2007
OPERATING ACTIVITIES		
Net income	**$39,420**	$65,805
Adjustments for:		
Changes in actuarial liabilities	**(5,215)**	125,552
Amortization of intangible assets	**5,484**	3,997
Amortization of other assets	**7,668**	8,053
Changes in deferred net gains	**2,507**	(2,539)
Changes in net discounts	**(39,162)**	(37,475)
Changes in fair value of held-for-trading investments	**85,858**	6,715
Realized gains and valuation allowance on available-for-sale assets	**(7,367)**	(19,900)
Future income taxes	**(18,514)**	15,831
Non-controlling interests	**11,722**	15,701
Other items included in net income	**(421)**	(202)
	$81,980	$181,538
Net change in other items related to operating activities	**41,665**	7,504
Cash flows related to operating activities	**$123,645**	$189,042
INVESTING ACTIVITIES		
Purchase of stocks and bonds	**$(725,166)**	$(655,360)
Purchase of real estate	**(28,419)**	(9,102)
Issue of mortgage loans and advances	**(175,922)**	(266,846)
Stock and bond sales and maturities	**575,297**	611,873
Maturities, sales and repayments of mortgage loans and advances and securitization	**138,284**	196,364
Disposal of real estate	**10,750**	2,130
Additions to intangible assets	**(9,249)**	(5,286)
Net additions to property, plant and equipment	**(4,540)**	(5,328)
Net additions to other investments and other assets	**(9,987)**	(2,047)
Business acquisition *[note 21]*	**(96,377)**	(6,574)
Liquid assets from acquisition of a subsidiary	**167,671**	—
Cash flows related to investing activities	**$(157,658)**	$(140,176)
FINANCING ACTIVITIES		
Net change in bank loans	**$(15,000)**	$15,000
Long-term debt	**—**	282
Repayment of balance of purchase price payable	**(125)**	(8,779)
Repayment of long-term debt	**(71)**	(6,892)
Issuance of subordinated debenture	**7,000**	—
Change in non-controlling interests	**7,549**	(12,354)
Dividends paid to non-controlling shareholders	**(3,695)**	(5,209)
Cash flows related to financing activities	**$(4,342)**	$(17,952)
Net increase (decrease) in cash and cash equivalents	**$(38,355)**	$30,914
Cash and cash equivalents, beginning of year	**98,918**	68,004
Cash and cash equivalents, end of year	**$60,563**	$98,918
Supplementary information		
Interest paid	**$1,234**	$1,352
Income taxes paid	**$36,617**	$27,912

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2008
[in thousands of dollars]

1) Incorporating statute and nature of operations

La Capitale Civil Service Mutual (the "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 life and health insurance and property and casualty insurance.

2) Changes in accounting policies

Capital disclosures and disclosure and presentation of financial instruments

Effective January 1, 2008, the Mutual adopted three new sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation.

Section 1535 identifies disclosure requirements regarding capital management objectives, policies and processes, quantitative data on the components of capital management and compliance with regulatory capital requirements, and the consequences of non-compliance with said requirements.

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 sets out enhanced financial instrument disclosure requirements, focusing on the nature and extent of risks arising from financial instruments and how the Mutual manages those risks.

Future accounting changes

Goodwill and intangible assets

In January 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062. The Mutual is currently assessing the future impact of this new standard. The Mutual will adopt this new section on January 1, 2009.

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board has issued an exposure draft proposing the adoption of IFRS for the accounting and presentation of financial information of publicly accountable enterprises. These standards will replace current generally accepted accounting principles ("GAAP") and be effective for fiscal years beginning on or after January 1, 2011. The Mutual is currently evaluating the future impact of these new standards and is preparing a conversion plan for the changeover to IFRS.

3) Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian GAAP.

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. Significant estimates made by management consist of the fair value of investments, retained interests, goodwill, policy liabilities, provision for claims and loss adjustment expenses and employee future benefits. Actual results may differ from these estimates.

The accounting policies used to prepare the 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. Investments in companies where the Mutual exercises significant influence are accounted for using the equity method.

Financial instruments

Financial instruments are recorded at fair value at acquisition. Subsequent remeasurements will depend on the category in which the financial instrument was initially classified.

The Mutual has elected to classify the financial assets backing policy liabilities as held-for-trading assets, except for mortgage loans receivable, which are classified as loans and receivables. Changes in fair value of these assets are included in net income.

Stocks and bonds that are not used to cover policy liabilities are classified as available for sale. Changes in the fair value of these investments, net of taxes, are presented in comprehensive income. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method.

Financial instruments classified as available for sale are tested for impairment and, when there is evidence of impairment and the decline in value is considered other than temporary, the loss recognized in accumulated other comprehensive income is reclassified to income. Once an impairment loss is recorded in income, it cannot be reversed. Following impairment loss recognition, impaired financial instruments continue to be recorded at fair value with subsequent devaluations recognized in net income.

Financial instruments are accounted for at fair value and changes to the fair value of derivatives are recorded in net income.

Fair value is based on bid prices in an active market. If the market is not active, the Mutual determines the fair value based on other observable market transactions in the same instrument or on another valuation technique whose variables include only observable market data.

The Mutual uses settlement date accounting for regular-way purchases and sales of financial assets. Under this method, any gains or losses between the transaction and settlement dates are recognized in net income for held-for-trading assets and in other comprehensive income for available-for-sale assets.

The transaction costs of held-for-trading and available-for-sale assets and liabilities are recognized in net income. Transaction costs of assets classified as loans and receivables are capitalized and amortized using the effective interest method.

Fair value

Fair values for stocks and bonds are determined with reference to market bid prices where available. Where bid prices cannot be obtained, fair value is determined using valuation techniques that factor in the interest rate particular to each security and discounted cash flows, and are based on observable market data.

The fair value of mortgage loans is determined by discounting future cash flows using market interest rates for loans with similar terms.

The fair value of properties is determined by chartered appraisers.

The fair value of cash and cash equivalents and policy loans approximates their carrying amount due to their short-term maturity.

The fair value of the other investments is determined primarily by discounting future cash flows using market interest rates for loans with similar terms.

The fair value of premiums receivable, investment income receivable, cash in trust, receivables from reinsurers and other receivables approximates their carrying amount due to their short-term maturities.

The fair value of bank loans and accrued and other liabilities approximates their carrying amount due to their short-term maturities.

Bonds

Held for trading

Bonds classified as held for trading are recorded at fair value. Realized and unrealized gains and losses are recognized through income.

Available for sale

Bonds classified as available for sale are recorded at fair value. Unrealized gains and losses are recognized through comprehensive income. When realized, gains and losses are reclassified in income.

Mortgage loans

Mortgage loans are classified as loans and receivables and reported at amortized cost. Amortized cost is the amount at which the mortgage loan is initially recognized less any principal repayments, plus or minus accumulated amortization determined using the effective interest method.

Realized gains and losses on disposal of these securities are recognized through income.

3) Significant accounting policies [Cont'd]

Loan securitization

The Mutual securitizes pools of mortgage loans periodically by selling them to trusts that issue mortgage-backed securities to investors while retaining responsibility for managing the loans.

In securitization transactions, the Mutual retains a portion of the future interest that will be paid by the borrower whose mortgage loan was sold. The Mutual accounts for this future revenue, net of management fees, as retained interests.

The fair value of retained interests is calculated using the discounted value of expected future cash flows based on assumptions concerning prepayments, management fees and discount rates. Retained interests are classified as held for trading and reported at fair value.

Gains and losses arising from securitization are recorded to the extent of the excess or shortfall of the consideration received over the carrying amount allocated to the assets sold. These gains and losses are charged to income and included in net investment income.

Stocks

Held for trading

Stocks classified as held for trading are recorded at fair value. Realized and unrealized gains and losses are recognized through income.

Available for sale

Stocks classified as available for sale are recorded at fair value. Unrealized gains and losses are recognized through comprehensive income. When realized, gains and losses are reclassified in income.

Real estate

Real estate held by the life and health insurance companies for investing, operating and administrative purposes are accounted for using the moving average market value method, whereby the carrying amount is adjusted toward 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 properties are deferred and amortized on a declining balance basis at an annual rate of 10%.

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

Allowance for losses

The Mutual maintains allowances for bonds, mortgage loans receivable and real estate held for resale to safeguard itself against potential losses. Loans are classified as impaired if there is reasonable doubt as to the timely collection of the principal or interest or if a payment is over 90 days past due. When an asset is classified as impaired, an estimated loss provision is established to adjust the asset's carrying amount based on its net recoverable amount. Furthermore, interest on impaired assets is no longer accrued.

Another allowance is established for policy liabilities to safeguard the Mutual against credit losses.

Cash and cash equivalents

Cash and cash equivalents classified as held for trading consist of cash, short-term deposits and bankers' acceptances less the excess of outstanding cheques over cash.

Policy loans

Policy loans classified under loans and receivables are recorded at amortized cost and are fully secured by the cash surrender value of the insurance policies on which the respective loans are granted.

Other investments

Other investments include personal loans, other loans and other investments, which consist mainly of an investment in an entity subject to significant influence. Personal loans and other loans are classified as loans and receivables and reported at amortized cost using the effective interest method.

Intangible assets

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

Finite-life intangible assets are amortized on a straight-line basis over four- to 18-year periods.

Other assets

Other assets consist of property, plant and equipment, deferred charges, income taxes receivable, retained interests, prepaid expenses, investment income receivable, cash in trust, receivables from reinsurers and other receivables.

Investment income receivable, cash in trust, receivables from reinsurers and other receivables are classified as loans and receivables and reported at amortized cost using the effective interest method.

Retained interests are classified as held for trading and reported at fair value.

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

Where significant circumstances or events indicate a possible impairment, the Mutual revalues the carrying value of property, plant and equipment. Impairment exists when the carrying value of an asset exceeds the sum of the expected future undiscounted cash flows from that asset. The amount of impairment loss representing the excess of net carrying value over fair value is recognized in income for the year.

Deferred charges consist primarily of commissions, taxes on premiums, and mortgage and lease acquisition expenses. Deferred charges are recognized at amortized cost. Commissions and taxes on premiums are amortized over the term of the relevant policy provided that they are recoverable. They are considered recoverable to the extent that unearned premiums and investment income, net of projected losses, loss adjustment expenses and administrative costs, exceed deferred charges. Mortgage acquisition expenses are amortized using the effective interest method. Lease acquisition expenses are amortized on a straight-line basis over the terms of the leases.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the estimated fair value of their 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 goodwill exceeds its fair value, an impairment loss is charged to income.

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. Total actuarial liabilities are presented net of reinsurance amounts ceded.

Provision for claims and loss adjustment expenses

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

Determining the provision for claims and loss adjustment expenses and the related reinsurers' share requires the estimation of three major variables: 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 loss adjustment expenses and the related reinsurers' share are estimates subject to variability during the year. These variations are due to events affecting the ultimate settlement of claims, but which have not yet occurred and may not occur for some time. These variations may also be caused by additional information regarding the claims, by changes in court interpretations of policies, or by significant differences in claim severity and frequency relative to historical trends. The estimates are based on the experience of the Mutual's subsidiaries. According to management, the estimation methods used produce reasonable results based on the data currently available.

3) Significant accounting policies [Cont'd]

Bank loans

Bank loans are classified as other liabilities and recorded at cost.

Income taxes

Income taxes are recorded using the liability method of accounting for income taxes whereby future 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 calculated using substantively enacted tax rates that are expected to be in effect when the assets are realized or the liabilities settled in future years. Future tax assets are recognized only if management deems it more likely than not that future tax assets will be realized.

Subordinated debenture

The subordinated debenture is classified as other liabilities and recorded at cost.

Derivative financial instruments

The Mutual uses derivative financial instruments to manage interest rate risk. In connection with asset-liability matching and to hedge against interest rate risk related to mortgage loans that are or are being securitized, the Mutual 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 as a result of changes in interest rates. The Mutual uses interest rate swaps to benefit from a lower cost of capital in securitization transactions.

Derivative financial instruments are reported at fair value, and realized and unrealized gains and losses on these financial instruments are recognized in net income for the year.

Revenue recognition

Life insurance and annuity premiums are recorded as revenues as they fall due under existing policies. Premiums are reported net of reinsurance amounts ceded to other insurers and amounts assumed from other insurers. As soon as premiums are recognized, actuarial liabilities are established to ensure matching between policy benefits and expenses related to these premiums.

Premiums written for property and casualty insurance are recorded as revenues over the term of each policy on a pro rata basis. Unearned premiums in the balance sheet represent the share of premiums written pertaining to the unexpired term of outstanding policies. Premiums receivable include instalments of premiums written that are not yet due.

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

Employee future benefits

The Mutual offers defined benefit pension plans and post-employment benefits to its employees. It accounts for plan obligations net of plan assets. The cost of pension and post-employment benefits obtained by employees is calculated actuarially according to the projected benefit method prorated to the number of years of service and management's best estimates regarding the projected return on investments, salary escalation, the retirement age of employees and projected 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.

Stock appreciation rights plan

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

Foreign currency translation

Foreign currency accounts are translated using the temporal method whereby balance sheet monetary items are translated at the rates in effect at year-end, while non-monetary items are translated at historical exchange rates. Revenues and expenses are translated using rates in effect on the transaction date or average exchange rates for the period. Translation gains and losses are included in income for the year.

4) Management of financial instrument risk

Principles and responsibilities of risk management

The guiding principle of risk management is to identify, understand and report the Mutual's risk exposures to its various stakeholders. A variety of policies have been implemented and approved by the Board of Directors with various committees in place to monitor risk exposures. These policies are reviewed on an annual basis.

The Board of Directors is responsible for establishing the Mutual's level of risk tolerance and for implementing the policies required to ensure monitoring and understanding of the risk it assumes. The Board of Directors is also responsible for governance. The audit committees of the insurance companies are responsible for liaising between the Boards of Directors and the various committees involved in the Mutual's risk management. The Internal Audit function, which reports to the Audit Committee, is responsible for assessing compliance with the policy.

The Risk Management Committee, the Regulatory Compliance Committee and the Investment Committee report to senior management, which liaises with the Board of Directors and the audit committees of the insurance companies.

The risk management policy, managed by the Risk Management Committee, provides a framework for the Mutual's key risks, consisting of insurance, financial, operational and strategic risks.

The standards of sound financial and commercial practices, managed by certain members of the Executive Committee, provide a more specific framework for these risks. With respect to insurance risks, product design and pricing as well as underwriting and liabilities are monitored. With respect to financial risks, market, exchange rate, credit, real estate, liquidity and capital management risks are assessed and managed. For operational risks, standards designed to limit the risks of administrative inefficiencies are set out and followed. Strategic risk exposures are managed by the implementation and stringent monitoring of a strategic plan, as well as by monitoring the Mutual's business.

The financial soundness of the Mutual is validated annually by dynamic capital adequacy testing (DCAT) conducted by the appointed actuary, which includes a formal opinion as to the financial health of the Mutual.

Market risk is defined as the risk that fluctuations in market prices of financial instruments will result in a loss arising from stock market or interest rate changes.

The Investment Committee is responsible for monitoring the investment policy, which is reviewed annually. The Board of Directors approves amendments, if any. Investment policy limits are set prudently to mitigate the Mutual's exposure to risk. The performance spread risk between assets and liabilities is limited as the portfolios are managed on the matching principle.

The use of derivative financial instruments for hedging purposes is permitted under the investment policy as part of a prudent management framework. No derivative products are used to create speculative market exposure. The Investment Committee plays a key role with respect to the understanding of derivative product strategies by senior management and the Board of Directors.

A stock market downturn reduces the management fees generated by the insurer on market-linked, fully matched insurance policies; the cost to guarantee capital on certain products can increase. Furthermore, such a market downturn has a direct impact on the value of investments matched to the Mutual's surplus.

A stock market downturn of approximately 10% would result in a $9,398 decrease in the Mutual's after-tax comprehensive income, assuming the downturn does not require the recognition of other-than-temporary declines in value. A 10% stock market upturn would have the opposite effect, resulting in a $9,032 increase in the Mutual's after-tax comprehensive income.

A rise in interest rates would have an unfavourable short-term impact on surplus portfolios invested in bonds; over the long term, such an increase would make it possible to match future premium inflows at more attractive interest rates. The unavailability of bond investments over the very long term for matching purposes is offset by long-term real estate and stock market investments. A drop in interest rates would have the opposite effect.

A 1% rise in interest rates would have a $54,382 after-tax impact on the Mutual's comprehensive income. A 1% decline in interest rates would have the opposite effect, resulting in an $84,924 after-tax impact on the Mutual's comprehensive income.

Foreign exchange risk is the unfavourable impact of a currency mismatch between assets and liabilities or the difference between foreign currency income and expenses.

When the Mutual is exposed to foreign currency policy liabilities, investments are made in these currencies for policy liability matching purposes. Other foreign currency investments are hedged in whole or in part with derivative products to convert exposure to foreign currencies into Canadian dollars.

In light of the performance of foreign currency matching, changes in foreign currencies had little impact on the Mutual's results.

The Mutual's foreign currency income and expenses are not significant.

4) Management of financial instrument risk [Cont'd]

Principles and responsibilities of risk management (Cont'd)

Credit risk is the risk of financial loss, despite realization of principal or collateral security or property, resulting from the failure of a debtor to honour its obligations to the Mutual.

Credit risk management is the process of controlling the impact of credit risk-related events on the Mutual. This management involves identification, understanding and quantification of the degree of risk of loss and the consequent taking of appropriate measures.

Credit risk may also arise when there is a concentration of investments involving one or more entities with similar characteristics. The Mutual's investment policy aims to reduce this risk by ensuring sound diversification.

The Mutual is exposed to credit risk on mortgage, personal and commercial loans as well as on corporate bonds and preferred shares held in its portfolios, to counterparty risk on derivative products and to risk related to its reinsurers. Strict monitoring of credit risk is performed with respect to mortgage, personal and commercial loans. Corporate bonds and preferred shares are managed to ensure a diversified, low-risk portfolio by maintaining a minimum credit rating of "A" on bonds and "P2" on preferred shares according to DBRS to limit concentration default risk. Derivative product counterparties have minimum credit ratings of "AA" according to DBRS; for reinsurance counterparties, credit and credit worthiness ratings are verified annually or when warranted by market events.

To manage the risk of potential credit losses, the Mutual maintains specific allowances for impaired mortgage and personal loans and real estate held for resale. When credit risk exposure arises on a loan and the Mutual is uncertain of principal or interest recovery, the loan is deemed impaired. Specifically, a loan that is more than 90 days past due or in foreclosure proceedings is deemed impaired. The allowance reduces the value of the asset to reflect the amount the Mutual believes it can recover.

Another allowance is established for actuarial liabilities to safeguard the Mutual against potential credit losses.

The Mutual's maximum credit risk exposure for its financial instruments is equal to the carrying amount of the bonds, mortgage loans, stocks, cash and cash equivalents, policy loans, other investments, premiums receivable and other receivables included in other assets totalling $2,601,737 [$2,440,828 in 2007].

Real estate risk is the possibility of incurring significant financial losses subsequent to an inaccurate appraisal or a potential decline in value of real estate acquired for investing purposes, held subsequent to a loan default or pledged as loan collateral. Real estate also includes the possibility of deterioration in cash flows provided by real estate operations as a result, for instance, of increased vacancy or physical degradation requiring major maintenance.

The Mutual's real estate inventory is used primarily to match long-term insurance liabilities. A portion of the real estate inventory is used for the Mutual's own purposes, which significantly reduces vacancy risk.

The portion of the Mutual's investment portfolio allocated to real estate is limited in relation to total assets, and individual property yields are monitored by the Investment Committee.

There is no impact on the Mutual's results due to changes in the real estate properties since the properties are matched to the Mutual's business lines and the results are offset by the policy liability reserves.

Liquidity risk is the risk that the Mutual will fail to honour its financial obligations, anticipated or otherwise, when due.

The Mutual relies on asset-liability matching to generate the funds required to honour its obligations when they fall due. Effective management of cash resources minimizes the cost of raising funds and honouring financial obligations. Moreover, nearly 100% of the Mutual's bond securities are readily marketable, further underpinning the Mutual's cash resources. Lastly, the Mutual can avail itself of credit facilities to meet unexpected cash requirements.

5) Investments

The amounts below represent the carrying amount and the fair value of investments.

Carrying amount and fair value of investments

	2008						
	Held for trading	Designated as held for trading	Available for sale	Loans and receivables	Other	Total carrying amount	Total fair value
Bonds							
Government of Canada	$—	$928	$159,725	$—	$—	$160,653	$160,653
Provincial governments	—	789,481	216,498	—	—	1,005,979	1,005,979
Municipalities, school boards and hospitals	—	14,073	8,378	—	—	22,451	22,451
Corporate	—	74,606	89,988	—	—	164,594	164,594
Other	—	14,159	476	—	—	14,635	14,635
	$—	$893,247	$475,065	$—	$—	$1,368,312	$1,368,312
Mortgage loans							
Insured	$—	$—	$—	$307,447	$—	$307,447	$307,265
Conventional	—	—	—	177,107	—	177,107	179,339
	$—	$—	$—	$484,554	$—	$484,554	$486,604
Stocks							
Common shares and participating units	$—	$14,668	$134,242	$—	$—	$148,910	$148,910
Preferred shares	—	—	48,722	—	—	48,722	48,722
Participating units in trading indices	—	74,945	6,287	—	—	81,232	81,232
Foreign currency participating units in trading indices	—	14,392	—	—	—	14,392	14,392
	$—	$104,005	$189,251	$—	$—	$293,256	$293,256
Real estate							
Held for investment	$—	$—	$—	$—	$146,768	$146,768	$179,971
Held for resale	—	—	—	—	5,219	5,219	5,219
	$—	$—	$—	$—	$151,987	$151,987	$185,190
Cash and cash equivalents	$59,098	$544	$921	$—	$—	$60,563	$60,563
Policy loans	$—	$—	$—	$25,007	$—	$25,007	$25,007
Other investments							
Personal loans	$—	$—	$—	$16,702	$—	$16,702	$16,611
Other loans	—	—	—	2,805	—	2,805	2,805
Other investments	3,326	—	—	—	6,435	9,761	9,761
	$3,326	$—	$—	$19,507	$6,435	$29,268	$29,177
	$62,424	$997,796	$665,237	$529,068	$158,422	$2,412,947	$2,448,109

5) Investments [Cont'd]

Carrying amount and fair value of investments (Cont'd)

	2007						
	Held for trading	Designated as held for trading	Available for sale	Loans and receivables	Other	Total carrying amount	Total fair value
Bonds							
Government of Canada	$—	$952	$111,402	$—	$—	112,354	112,354
Provincial governments	—	846,887	148,736	—	—	995,623	995,623
Municipalities, school boards and hospitals	—	25,448	3,279	—	—	28,727	28,727
Corporate	—	18,772	53,850	—	—	72,622	72,622
Other	—	—	826	—	—	826	826
	$—	$892,059	$318,093	$—	$—	$1,210,152	$1,210,152
Mortgage loans							
Insured	$—	$—	$—	$293,891	$—	$293,891	$286,309
Conventional	—	—	—	185,631	—	185,631	183,697
	$—	$—	$—	$479,522	$—	$479,522	$470,006
Stocks							
Common shares and participating units	$—	$8,674	$175,692	$—	$—	$184,366	$184,366
Preferred shares	—	—	56,480	—	—	56,480	56,480
Participating units in trading indices	—	91,727	—	—	—	91,727	91,727
Foreign currency participating units in trading indices	—	17,909	—	—	—	17,909	17,909
	$—	$118,310	$232,172	$—	$—	$350,482	$350,482
Real estate							
Held for investment	$—	$—	$—	$—	$128,138	$128,138	$158,226
Held for resale	—	—	—	—	1,569	1,569	1,569
	$—	$—	$—	$—	$129,707	$129,707	$159,795
Cash and cash equivalents	$97,542	$639	$737	$—	$—	$98,918	$98,918
Policy loans	$—	$—	$—	$23,349	$—	$23,349	$23,349
Other investments							
Personal loans	$—	$—	$—	$16,749	$—	$16,749	$16,668
Other loans	—	—	—	2,037	—	2,037	2,037
Other investments	64	—	—	139	367	570	570
	$64	$—	$—	$18,925	367	$19,356	$19,275
	$97,606	$1,011,008	$551,002	$521,796	$130,074	$2,311,486	$2,331,977

Credit risk

Bonds by credit quality

The following table provides data on the Mutual's credit and concentration risk.

	Carrying amount	
	2008	2007
Credit risk		
AAA	**$209,290**	$116,441
AA	**295,437**	275,442
A	**863,109**	817,443
Bond Fund	**476**	826
	$1,368,312	$1,210,152

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

The Mutual holds investments in the form of non-bank sponsored asset-backed commercial paper covered by the Montreal Accord for a notional amount of $1,053 as at December 31, 2008. These investments are reported with corporate bonds under bonds on the balance sheet. A loss of $568 [2007: $210], net of income taxes of $393 [2007: $145], was recorded in recognition of the permanent and significant impairment of these investments. These securities have not been traded in an active market since mid-August 2007. The method used to estimate these provisions is based on a review of the quality of the underlying financial assets grouped in broad categories, each of which has been assigned impairment probabilities according to information available as at December 31, 2008.

Mortgage loans by property class

The following table shows the carrying amount and fair value of mortgage loans by property class.

	2008			2007		
	Carrying amount	**Fair value**	**CMHC secured**	Carrying amount	Fair value	CMHC secured
Residential	**$414,771**	**$419,468**	**$257,743**	$423,058	$415,050	$261,031
Other	**69,783**	**67,136**	**49,704**	56,464	54,956	32,860
	$484,554	**$486,604**	**$307,447**	$479,522	$470,006	$293,891

The carrying amount of mortgage loans secured by the Canada Mortgage and Housing Corporation (CMHC) represented 63.45% of the total carrying amount of the mortgage loan portfolio as at December 31, 2008 [61.29% in 2007].

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

Preferred shares by credit quality

The following table provides data on the Mutual's credit and concentration risk.

	Carrying amount	
	2008	2007
Credit risk		
P1	**$37,173**	$40,291
P2	**10,939**	14,287
P3	**610**	1,902
	$48,722	$56,480

The life and health 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 place a maximum of 10% of shareholders' equity on investment in one or more entities of a related group.

5) Investments [Cont'd]

Credit risk (Cont'd)

Impaired loans and allowance for losses

Impaired loans

A loan is deemed impaired when the counterparty has failed to make a payment when contractually due.

	2008			
	30-59 days in arrears	**60-89 days in arrears**	**90 days or more in arrears or in process of foreclosure**	**Total**
Insured mortgage loans	**$2,172**	**$430**	**$1,703**	**$4,305**
Conventional mortgage loans	**252**	**1**	**122**	**375**
	$2,424	**$431**	**$1,825**	**$4,680**

	2007			
	30-59 days in arrears	60-89 days in arrears	90 days or more in arrears or in process of foreclosure	Total
Insured mortgage loans	$5,643	$707	$2,529	$8,879
Conventional mortgage loans	535	121	—	656
	$6,178	$828	$2,529	$9,535

Allowance for losses

The changes made to the allowance for losses during the year were as follows:

	2008			
	Mortgage loans	**Personal loans**	**Other**	**Total**
Balance, beginning of year	**$49**	**$117**	**$3**	**$169**
Increase in allowance for losses	**136**	**41**	**8**	**185**
Decrease in allowance for losses	**(37)**	**(61)**	**—**	**(98)**
	$148	**$97**	**$11**	**$256**

	2007			
	Mortgage loans	Personal loans	Other	Total
Balance, beginning of year	$54	$88	$—	$142
Increase in allowance for losses	—	78	3	81
Decrease in allowance for losses	(5)	(49)	—	(54)
	$49	$117	$3	$169

Interest rate risk

The following tables show the carrying amount and fair value of investments by maturity.

Carrying amount

	2008						2007
	No specific maturity	Maturing in under 1 year	Maturing in 1 to 5 years	Maturing in 5 to 10 years	Maturing in over 10 years	Total carrying amount	Total carrying amount
Bonds							
Government of Canada	$—	$11,999	$136,572	$5,744	$6,338	$160,653	$112,354
Provincial governments	—	18,272	101,838	180,777	705,092	1,005,979	995,623
Municipalities, school boards and hospitals	—	7,611	12,897	1,355	588	22,451	28,727
Corporate	—	7,936	57,700	68,873	30,085	164,594	72,622
Other	476	—	14,159	—	—	14,635	826
	$476	$45,818	$323,166	$256,749	$742,103	$1,368,312	$1,210,152
Mortgage loans							
Insured	$917	$67,529	$193,408	$43,634	$1,959	$307,447	$293,891
Conventional	18,356	47,557	101,230	9,964	—	177,107	185,631
	$19,273	$115,086	$294,638	$53,598	$1,959	$484,554	$479,522
Stocks							
Common shares and participating units	$148,910	$—	$—	$—	$—	$148,910	$184,366
Preferred shares	12,336	4,032	29,503	2,851	—	48,722	56,480
Participating units in trading indices	81,232	—	—	—	—	81,232	91,727
Foreign currency participating units in trading indices	14,392	—	—	—	—	14,392	17,909
	$256,870	$4,032	$29,503	$2,851	$—	$293,256	$350,482
Real estate							
Held for investment	$146,768	$—	$—	$—	$—	$146,768	$128,138
Held for resale	5,219	—	—	—	—	5,219	1,569
	$151,987	$—	$—	$—	$—	$151,987	$129,707
Cash and cash equivalents	$9,366	$51,197	$—	$—	$—	$60,563	$98,918
Policy loans	$—	$24,899	$—	$—	$108	$25,007	$23,349
Other investments							
Personal loans	$—	$750	$15,952	$—	$—	$16,702	$16,749
Other loans	—	31	676	2,098	—	2,805	2,037
Other investments	6,435	3,326	—	—	—	9,761	570
	$6,435	$4,107	$16,628	$2,098	$—	$29,268	$19,356
	$444,407	$245,139	$663,935	$315,296	$744,170	$2,412,947	$2,311,486

5) Investments [Cont'd]

Interest rate risk (Cont'd)

Fair value

	2008						2007
	No specific maturity	Maturing in under 1 year	Maturing in 1 to 5 years	Maturing in 5 to 10 years	Maturing in over 10 years	Total fair value	Total fair value
Bonds							
Government of Canada	$—	$11,999	$136,572	$5,744	$6,338	$160,653	$112,354
Provincial governments	—	18,272	101,838	180,777	705,092	1,005,979	995,623
Municipalities, school boards and hospitals	—	7,611	12,897	1,355	588	22,451	28,727
Corporate	—	7,936	57,700	68,873	30,085	164,594	72,622
Other	476	—	14,159	—	—	14,635	826
	$476	$45,818	$323,166	$256,749	$742,103	$1,368,312	$1,210,152
Mortgage loans							
Insured	$923	$67,836	$195,620	$41,336	$1,550	$307,265	$286,309
Conventional	18,365	47,784	103,591	9,599	—	179,339	183,697
	$19,288	$115,620	$299,211	$50,935	$1,550	$486,604	$470,006
Stocks							
Common shares and participating units	$148,910	$—	$—	$—	$—	$148,910	$184,366
Preferred shares	12,336	4,032	29,503	2,851	—	48,722	56,480
Participating units in trading indices	81,232	—	—	—	—	81,232	91,727
Foreign currency participating units in trading indices	14,392	—	—	—	—	14,392	17,909
	$256,870	$4,032	$29,503	$2,851	$—	$293,256	$350,482
Real estate							
Held for investment	$179,971	$—	$—	$—	$—	$179,971	$158,226
Held for resale	5,219	—	—	—	—	5,219	1,569
	$185,190	$—	$—	$—	$—	$185,190	$159,795
Cash and cash equivalents	$9,684	$50,879	$—	$—	$—	$60,563	$98,918
Policy loans	$—	$24,899	$—	$—	$108	$25,007	$23,349
Other investments							
Personal loans	$—	$16,611	$—	$—	$—	$16,611	$16,668
Other loans	—	31	676	2,098	—	2,805	2,037
Other investments	6,435	3,326	—	—	—	9,761	570
	$6,435	$19,968	$676	$2,098	$—	$29,177	$19,275
	$477,943	$261,216	$652,556	$312,633	$743,761	$2,448,109	$2,331,977

The effective interest rate for bonds ranged from 0.79% to 12.65% [from 3.34% to 12.65% in 2007], for mortgage loans from 3.49% to 11.50% [from 3.85% to 11.50% in 2007], and for policy loans from 4.97% to 7.64% [from 6.94% to 7.64% in 2007].

Securities lending

The Mutual engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents from 104% to 110% of the market value of the loaned securities, is pledged by the borrower and held in escrow by a lending agent until the underlying securities have been returned to the Mutual. The fair value of loaned securities is monitored on a daily basis with additional collateral obtained or refunded as market values fluctuate. It is the Mutual's practice to obtain collateral from the lending agent against counterparty default and collateral deficiency. As at December 31, 2008, the Mutual had loaned securities, which are included in investments, with a carrying amount of approximately $106,934 [$115,224 in 2007].

Other investments

On January 1, 2008, the Mutual acquired a 50% interest in Promutuel Life Inc. for an amount of $4,293 paid in cash. Promutuel Life Inc. is an individual insurance provider. This investment was accounted for using the equity method.

6) Goodwill

Goodwill and changes in goodwill are allocated as follows:

	2008	2007
Balance, beginning of year	**$62,012**	$57,919
Acquisition of York Fire & Casualty Insurance Company *[note 21]*	**37,664**	—
Disposal of La Capitale Participations inc. [4%] *[note 21]*	**(1,676)**	—
Adjustment to purchase price of AGA Financial Group Inc.	**—**	105
Adjustment after final allocation of purchase price of 3602214 Canada Inc.	**—**	(4,364)
Acquisition of La Capitale Participations inc. [5%] *[note 21]*	**—**	6,129
Acquisition of La Capitale Financial Group Inc. [0.9%] *[note 21]*	**—**	2,223
Balance, end of year	**$98,000**	$62,012

7) Intangible assets

Intangible assets are detailed as follows:

	2008			
	Cost, beginning of year	**Acquisition**	**Accumulated amortization**	**Net carrying value**
Indefinite life				
Trademarks	**$1,339**	**$1,900**	**$—**	**$3,239**
Finite life				
Clients and distribution networks	**$34,684**	**$7,958**	**$(12,590)**	**$30,052**
Software	**18,755**	**8,893**	**(11,187)**	**16,461**
	$53,439	**$16,851**	**$(23,777)**	**$46,513**
	$54,778	**$18,751**	**$(23,777)**	**$49,752**

7) Intangible assets [Cont'd]

	2007				
	Cost, beginning of year	Adjustment after final allocation of purchase price	Acquisition	Accumulated amortization	Net carrying value
Indefinite life					
Trademarks	$2,679	$(1,340)	$—	$—	$1,339
Finite life					
Clients and distribution networks	$34,513	$—	$171	$(9,189)	$25,495
Software	13,025	—	5,730	(9,104)	9,651
	$47,538	$—	$5,901	$(18,293)	$35,146
	$50,217	$(1,340)	$5,901	$(18,293)	$36,485

The software item includes an amount of $9,712 [$6,383 in 2007] for software under development. No amortization has been charged to earnings for software under development as it is not yet operational.

During the year, the Mutual recorded amortization charges totalling $5,484 [$3,997 in 2007] through income.

8) Other assets

Other assets consist of the following:

	2008	2007
Property, plant and equipment	**$59,990**	$55,401
Accumulated amortization	**(47,461)**	(43,650)
	$12,529	$11,751
Deferred charges	**$46,206**	$36,112
Accumulated amortization	**(9,048)**	(7,909)
	$37,158	$28,203
Income taxes receivable	**$42,508**	$23,189
Retained interests	**18,503**	13,526
Prepaid expenses	**6,151**	5,880
Investment income receivable	**11,320**	11,355
Cash in trust	**849**	786
Receivables from reinsurers	**22,861**	10,708
Other receivables	**40,988**	25,544
	$143,180	$90,988
	$192,867	$130,942

Amortization of property, plant and equipment and deferred charges for the year amounted to $5,045 [$5,219 in 2007] and $2,623 [$2,834 in 2007], respectively.

9) Securitization

During the year, the Mutual securitized residential mortgage loans totalling $97,382 [$162,455 in 2007] for net cash proceeds of $97,375 [$161,422 in 2007] and retained the rights to the excess spread on mortgage loans amounting to $6,004 [$5,170 in 2007].

This securitization transaction resulted in a gain before income taxes of $1,783. Securitization transactions had a $2,235 negative impact on results for the year, including the impact of a change in valuation model.

ASSUMPTIONS

In 2008, the Mutual modified its retained interests valuation model in favour of a model based on the Mutual's historical experience. Modifications to the model's parameters reduced net income by $1,689.

Key assumptions

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

	2008	2007
Prepayment rate	**20.40%**	5.00%
Excess spread	**1.18%**	0.87%
Discount rate	**1.31%**	4.50%

As of December 31, 2008, the sensitivity of the current fair value of retained interests to 10% and 20% adverse changes in the key assumptions was as follows:

Sensitivity of key assumptions to adverse changes

	2008		2007	
	Assumption	**Impact on fair value**	Assumption	Impact on fair value
Prepayment rate				
Impact on fair value of 10% adverse change	**22.40%**	**$(442)**	5.50%	$(59)
Impact on fair value of 20% adverse change	**24.40%**	**$(869)**	6.00%	$(117)
Excess spread (net of credit losses)				
Impact on fair value of 10% adverse change	**1.06%**	**$(1,386)**	0.79%	$(532)
Impact on fair value of 20% adverse change	**0.95%**	**$(2,772)**	0.70%	$(1,048)
Discount rate				
Impact on fair value of 10% adverse change	**1.44%**	**$(13)**	4.95%	$(50)
Impact on fair value of 20% adverse change	**1.58%**	**$(26)**	5.40%	$(100)

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 between the change in assumption and the change in fair value may not be linear. Also, in this table, the impact of a variation in a particular assumption on the fair value of 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 cash flows from securitization trusts:

Cash flows from securitization trusts

	Residential mortgage loans	
	2008	2007
Proceeds from new securitization transactions	**$97,375**	$161,422
Cash flows from retained interests in securitization transactions	**$7,237**	$3,239

Securitized loans totalled $513,208 [$589,265 in 2007]. Of that amount, loans that are more than 90 days past due but not considered impaired totalled $6,609 [$5,698 in 2007]. There were no credit losses in respect of these loans in 2008 [none in 2007].

10) Credit facilities

As at December 31, 2008, the Mutual has lines of credit of $15,225 [$15,225 in 2007] bearing interest at prime. It also has a $40,000 demand bridge loan bearing interest at the bankers' acceptance rate [4.67%] plus 50 basis points or at prime [6.00%], based on its use. The loan is collateralized by bond holdings whose fair value must cover 105% of the amount drawn. The credit facilities were undrawn as at December 31, 2008 [$15,000 drawn in 2007].

11) Policy liabilities

The Boards of Directors name the Appointed Actuary, who is responsible for valuing policy liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries and for expressing 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 Boards of Directors on the capital adequacy of these companies.

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

	2008				2007			
Policy liabilities	**Participating**	**Non-participating**	**Net total**	**Reinsurance ceded**	Participating	Non-participating	Net total	Reinsurance ceded
Individual								
Life and health insurance	**$566,467**	**$315,083**	**$881,550**	**$50,823**	$573,971	$316,394	$890,365	$36,768
Annuities	**2,116**	**564,953**	**567,069**	**(204)**	2,350	584,309	586,659	10,868
Group								
Life and health insurance	**—**	**219,344**	**219,344**	**56,206**	—	193,117	193,117	56,982
Annuities	**—**	**1,839**	**1,839**	**—**	—	1,966	1,966	—
	$568,583	**$1,101,219**	**$1,669,802**	**$106,825**	$576,321	$1,095,786	$1,672,107	$104,618

	2008				
	Individual		**Group**		
Assets backing policy liabilities	**Life and health insurance**	**Annuities**	**Life and health insurance**	**Annuities**	**Total**
Participating					
Bonds	**$424,735**	**$1,565**	**$—**	**$—**	**$426,300**
Mortgage loans	**11,952**	**45**	**—**	**—**	**11,997**
Real estate	**108,003**	**403**	**—**	**—**	**108,406**
Stocks	**7,298**	**27**	**—**	**—**	**7,325**
Other	**14,479**	**76**	**—**	**—**	**14,555**
	$566,467	**$2,116**	**$—**	**$—**	**$568,583**
Non-participating					
Bonds	**$308,692**	**$69,830**	**$87,510**	**$915**	**$466,947**
Mortgage loans	**286**	**376,091**	**95,402**	**778**	**472,557**
Real estate	**3,040**	**5,156**	**63**	**—**	**8,259**
Stocks	**1,037**	**95,643**	**—**	**—**	**96,680**
Other	**2,028**	**18,233**	**36,369**	**146**	**56,776**
	$315,083	**$564,953**	**$219,344**	**$1,839**	**$1,101,219**
	$881,550	**$567,069**	**$219,344**	**$1,839**	**$1,669,802**

	2007				
	Individual		Group		
Assets backing policy liabilities	Life and health	Annuities	Life and health	Annuities	Total
Participating					
Bonds	$449,994	$1,809	$—	$—	$451,803
Mortgage loans	12,840	53	—	—	12,893
Real estate	83,611	342	—	—	83,953
Stocks	8,308	34	—	—	8,342
Other	19,218	112	—	—	19,330
	$573,971	$2,350	$—	$—	$576,321
Non-participating					
Bonds	$306,674	$40,725	$92,196	$661	$440,256
Mortgage loans	27	412,678	53,431	493	466,629
Real estate	2,954	1,570	—	—	4,524
Stocks	745	109,223	—	—	109,968
Other	5,994	20,113	47,490	812	74,409
	$316,394	$584,309	$193,117	$1,966	$1,095,786
	$890,365	$586,659	$193,117	$1,966	$1,672,107

The fair value of policy liabilities was $1,696,481 [2007: $1,687,081] 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. Margins for adverse deviations are then factored into these best estimates by the actuary to determine final assumptions used.

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 most recent experience of the companies and 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 most recent industry experience published by the Canadian Institute of Actuaries. 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 recent experience of the companies.

Return on investments

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

No assets backing policy liabilities are classified as available-for-sale, which matches investment income to changes in actuarial liabilities for accounting purposes, both of which are recognized in the statement of income. As for policy liabilities other than actuarial liabilities, the accounting mismatch is low.

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.

11) Policy liabilities [Cont'd]

ASSUMPTIONS (Cont'd)

Return on investments (Cont'd)

An immediate 1% decline over the entire yield curve would result in an $11,332 decrease in income before income taxes. A 1% rise over the entire yield curve would result in an $11,173 increase in income before income taxes.

The companies manage credit risk through detailed credit and underwriting policies, and by placing aggregate limits on each issuer in their investment portfolios. 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 expected rate of return of the asset. The reduction in rate of return is based on the risk of payment default for each asset class.

Policy management expenses

Policy management expenses are determined using internal cost allocation studies of the individual life and health 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 life and health 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. This discounting resulted in a $7,500 reduction in actuarial liabilities as at December 31, 2008 [$10,435 in 2007], which are established only for future income taxes related to policy liabilities.

Policy lapses

Assumptions regarding policy lapses are based on a study of the recent experience of the life and health insurance companies 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 an additional margin for adverse deviations in order to recognize the uncertainty regarding the preparation of best estimates and to take into account potential policy liability deterioration. These margins provide better assurance that policy liabilities will be sufficient to cover future policy benefit payments.

The Canadian Institute of Actuaries prescribes minimum standards for determining the margin related to the interest assumption. The margins for the other assumptions must fall within a range prescribed by the Canadian Institute of Actuaries and are determined based on the risk profile of the insurance companies.

CHANGES IN ACTUARIAL LIABILITIES

	2008	2007
Balance, beginning of year	**$1,601,324**	$1,481,132
Adjustment after final allocation of purchase price of a subsidiary	**—**	(5,360)
Balance excluding the undernoted	**$1,601,324**	$1,475,772
Normal changes	**$12,408**	$128,488
Other changes related to assumptions	**(17,623)**	(2,936)
	$(5,215)	$125,552
Balance, end of year	**$1,596,109**	$1,601,324

REINSURANCE

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

	2008	2007
Insurance and annuity premiums		
Direct premiums	**$548,990**	$549,662
Reinsurance ceded	**(24,538)**	(23,023)
	$524,452	$526,639

Actuarial liabilities are presented net of reinsurance amounts of $106,825 [$104,618 in 2007] ceded to other insurers.

Failure of reinsurers to honour their obligations could result in losses to these companies. Said companies have adopted a review process to verify the solvency of the companies to which they cede. The companies have no knowledge of any information leading them to believe that a reinsurer with which they currently do business is insolvent; consequently, no provision for bad debts has been recorded. Further, business is spread across a number of reinsurers to reduce reinsurance concentration and coverage risk.

12) Provision for claims and loss adjustment expenses

a) The following table summarizes the items related to the provision for claims and loss adjustment expenses:

	2008	2007
Gross provision	**$268,996**	$80,556
Salvage and subrogation receivable	**(9,503)**	(8,590)
Reinsurers' share	**(16,085)**	(3,382)
Net provision	**$243,408**	$68,584

b) Reinsurance ceded

In the normal course of business, the property and casualty insurance companies seek to reduce the loss that may arise from catastrophes or other events that give rise to unfavourable underwriting results by reinsuring certain levels of risk with other insurers. Information regarding reinsurance management and the risk of reinsurer insolvency are provided in note 11.

13) Other liabilities

Other liabilities consist of the following:

	2008	2007
Income taxes payable	**$4,602**	$1,673
Deposits for taxes	**5,855**	6,202
Amounts payable to reinsurers	**4,127**	3,671
Deposit in trust	**849**	786
Employee future benefits	**2,072**	7,055
Liability related to mortgage loan securitizations	**13,190**	2,095
	$30,695	$21,482

14) Subordinated debenture

	2008	2007
Subordinated debenture maturing on September 29, 2012, bearing interest at 6.36%, payable semi-annually, repayable in whole or in part until September 28, 2012 subject to certain considerations, extendible to September 29, 2013 and bearing interest at the one-year Canada bond rate plus 455 basis points payable semi-annually.	**$7,000**	$—

The interest expense in respect of the debenture totalled $115.

The subordinated debenture represents an unsecured direct liability of the Mutual, ranking junior to policyholder interests and other creditors of the Mutual. Repayment of the subordinated debenture is subject to approval by the Autorité des marchés financiers.

15) Retained earnings and accumulated other comprehensive income

Retained earnings and accumulated other comprehensive income consist of the following:

	2008	2007
Equity capital	**$338,494**	$344,615
Participating policyholders’ surplus	**100,304**	100,765
	$438,798	$445,380

16) Capital management

The Mutual’s capital management objectives are as follows:

- Ensure capital preservation, development and growth.
- Meet the requirements of the authorities that regulate the operations of its insurance subsidiaries.

To ensure its objectives are met, the Mutual has implemented sound business and financial practices relative to capital management. The policies and procedures described in these practices enable the Mutual and its subsidiaries to support its strategic directions and its performance goals while meeting the capital adequacy target they set for themselves.

The capital of the Mutual and its subsidiaries is reviewed regularly using various tools including the Dynamic Capital Adequacy Testing report and monitoring of their capital position.

These documents are reviewed and approved each year by their Boards of Directors.

The Mutual and its subsidiaries have set a target capital level which greatly exceeds the required level of capital under regulatory authority guidelines. As at December 31, 2007 and 2008, the Mutual and its subsidiaries were in compliance with the capital requirements they are subject to under regulatory authority regulations and to the target level of capital they set for themselves.

The key regulatory capital items are detailed as follows:

	2008	2007
Subordinated debenture	**$7,000**	$—
Retained earnings and accumulated other comprehensive income	**438,798**	445,380
	$445,798	$445,380

The main item behind the increase in capital was the issuance of a subordinated debenture. The item that resulted in a decrease in capital was the change in fair value of available-for-sale financial instruments subsequent to market movements arising from the financial crisis.

17) Stock appreciation rights plan

The Mutual offers a stock appreciation rights plan to some of its officers. Under this plan, participants are entitled to receive cash compensation based on appreciation in a subsidiary's share value in excess of the initial value determined under the plan. The rights must be exercised when participants leave the position qualifying them for the plan. The accumulated amounts are payable under terms that vary according to the participant's departure type (transfer, retirement, permanent disability, death and voluntary termination) over a maximum term of four years following the termination date.

Plan expense for the year amounted to $905 [$3,097 in 2007].

18) Interest in a joint venture

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

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

	2008	2007
BALANCE SHEET		
Assets	**$18,982**	$19,274
Liabilities	**13,107**	13,680
Net assets of the joint venture	**$5,875**	$5,594
STATEMENT OF INCOME		
Revenues	**$3,580**	$3,522
Expenses	**3,144**	3,124
Net income	**$436**	$398
STATEMENT OF CASH FLOWS		
Cash flows related to operating activities	**$70**	$712
Cash flows related to investing activities	**$(16)**	$—
Cash flows related to financing activities	**$(682)**	$(625)

19) Net investment income

	2008					
	Held for trading	Designated as held for trading	Available for sale	Loans and receivables	Other	Total
Bonds						
Interest	$—	$42,406	$15,138	$—	$—	$57,544
Realized gains (losses)	—	(1,397)	6,739	—	—	5,342
Change in fair value	—	(43,107)	—	—	—	(43,107)
Valuation allowance	—	—	(350)	—	—	(350)
Mortgage loans						
Interest	—	—	—	28,995	—	28,995
Realized gains	—	—	—	298	—	298
Stocks						
Dividends	—	3,890	8,760	—	—	12,650
Realized gains	—	—	978	—	—	978
Change in fair value	—	(42,751)	—	—	—	(42,751)
Real estate						
Rental income	—	—	—	—	7,283	7,283
Amortization of realized gains	—	—	—	—	763	763
Amortization of unrealized gains	—	—	—	—	2,181	2,181
Cash and cash equivalents						
Interest	2,175	—	—	—	—	2,175
Policy loans	—	—	—	1,772	—	1,772
Other investments						
Interest	40	17	12	911	(451)	529
Realized losses	—	—	—	(1)	—	(1)
Change in fair value	9,409	—	127	—	—	9,536
Other	—	—	—	—	(682)	(682)
	$11,624	$(40,942)	$31,404	$31,975	$9,094	$43,155
Investment expenses	141	906	686	8,264	—	9,997
	$11,483	$(41,848)	$30,718	$23,711	$9,094	$33,158

	2007					
	Held for trading	Designated as held for trading	Available for sale	Loans and receivables	Other	Total
Bonds						
Interest	$—	$46,116	$13,034	$—	$—	$59,150
Realized gains (losses)	—	(520)	3,338	—	—	2,818
Change in fair value	—	(11,475)	—	—	—	(11,475)
Valuation allowance	—	—	(207)	—	—	(207)
Mortgage loans						
Interest	—	—	—	26,155	—	26,155
Realized gains	—	—	—	46	—	46
Stocks						
Dividends	—	2,524	7,281	—	—	9,805
Realized gains	—	—	16,769	—	—	16,769
Change in fair value	—	4,760	—	—	—	4,760
Real estate						
Rental income	—	—	—	—	6,399	6,399
Amortization of realized gains	—	—	—	—	897	897
Amortization of unrealized gains	—	—	—	—	2,045	2,045
Cash and cash equivalents						
Interest	2,731	—	—	—	—	2,731
Policy loans	—	—	—	1,647	—	1,647
Other investments						
Interest	—	20	12	3,575	(139)	3,468
Realized gains	—	—	—	—	1,648	1,648
Change in fair value	(749)	—	452	—	—	(297)
	$1,982	$41,425	$40,679	$31,423	$10,850	$126,359
Investment expenses	—	605	726	9,056	—	10,387
	$1,982	$40,820	$39,953	$22,367	$10,850	$115,972

20) 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:

	2008		2007	
Provision for income taxes based on the combined statutory federal and provincial rate	**$26,010**	**31.1%**	$36,390	32.4%
Change in income taxes resulting from the following:				
Non-deductible items (non-taxable)	**3,501**	**4.2**	(2,109)	(1.9)
Future income taxes arising from a change in tax rate	**1,223**	**1.5**	(4,494)	(4.0)
Other	**312**	**0.4**	(559)	(0.5)
	$31,046	**37.2%**	$29,228	26.0%
Income taxes on investment income	**1,329**	**1.6**	1,435	1.3
Income taxes and effective interest rates	**$32,375**	**38.8%**	$30,663	27.3%

Income tax expense is broken down as follows:

	2008	2007
Current	**$50,889**	$14,832
Future	**(18,514)**	15,831
	$32,375	$30,663

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

	2008	2007
Future income tax assets		
Capital assets	**$1,250**	$2,046
Accrued liabilities	**2,212**	1,565
Employee future benefits	**4,655**	4,479
Provision for claims	**3,859**	1,038
Unused tax losses	**11,206**	5,901
Other	**991**	1,068
	$24,173	$16,097
Valuation allowance	**(6,130)**	(6,130)
	$18,043	$9,967
Future income tax liabilities		
Advances	**$6,731**	$6,300
Stocks	**(6,724)**	(41)
Bonds	**37,102**	57,329
Real estate	**10,563**	10,753
Actuarial liabilities	**(36,408)**	(47,993)
Intangible assets	**7,799**	6,604
Deferred net tax gains	**21,365**	22,357
Other	**(1,904)**	(1,792)
	$38,524	$53,517

21) Business acquisitions

On September 30, 2008, a subsidiary of the Mutual paid $96,377 in cash to acquire 100% of the common shares of York Fire & Casualty Insurance Company, a Canadian property and casualty insurance company.

The consolidated financial statements include the results of this company as of its acquisition date.

This acquisition was recorded using the purchase method, and the purchase price is allocated as follows, based on the fair value of net assets acquired:

	2008
ASSETS ACQUIRED	
Investments	$40,505
Liquid assets	167,671
Future income tax assets	6,457
Goodwill	37,664
Intangible assets	8,800
Other assets	71,177
	$332,274
LIABILITIES ASSUMED	
Unearned premiums	$54,527
Claims and loss adjustment expenses	174,675
Amounts payable	4,781
Future income tax liabilities	1,914
	$235,897
NET ASSETS ACQUIRED	$96,377

As at December 31, 2008, the allocation of the purchase price of this company has not been completed. The final allocation will be based on the fair 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.

Non-controlling interest

During fiscal 2008, the Mutual disposed of 4% of the Class G shares of La Capitale Participations inc. for a consideration of $7,266. This disposal resulted in a $1,676 decrease in goodwill.

During fiscal 2008, the Mutual acquired Class G, Y and Z shares of La Capitale Participations inc. for a consideration of $175.

During fiscal 2007, the Mutual acquired 5% of the Class G and Class Y shares of La Capitale Participations inc. for a consideration of $13,629. This acquisition was recorded using the purchase method, and the fair value of net identifiable assets and resulting goodwill amounted to $7,500 and $6,129, respectively.

During 2007, the Mutual also acquired 0.9% of the Class B, C, E, Y and Z shares of La Capitale Financial Group Inc. for an amount of $6,493. This acquisition was recorded using the purchase method, and the fair value of net identifiable assets and resulting goodwill amounted to $4,270 and $2,223, respectively.

22) Employee future benefits

The Mutual has four defined benefit plans providing pension benefits to most of its 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 adjusted annually, life insurance plans and celebration costs and retirements. These plans are not funded.

22) Employee future benefits [Cont'd]

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

	Pension plans		Other employee benefits	
	2008	2007	**2008**	2007
Accrued benefit obligation				
Balance, beginning of year	**$209,066**	$212,146	**$9,028**	$7,107
Past service costs	**—**	—	**—**	1,718
Employee contributions	**5,004**	5,123	**—**	—
Current service costs	**8,477**	9,341	**913**	786
Transfers	**18**	333	**—**	—
Interest cost	**11,639**	10,830	**624**	332
Actuarial gains	**(62,382)**	(24,679)	**(1,453)**	(818)
Benefits paid	**(10,714)**	(4,028)	**(300)**	(97)
Balance, end of year	**$161,108**	$209,066	**$8,812**	$9,028

The accrued benefit obligation is allocated as follows:

	Pension plans		Other employee benefits	
	2008	2007	**2008**	2007
Funded plans	**$155,279**	$198,287	**$—**	$—
Unfunded plans	**5,829**	10,779	**8,812**	9,028
	$161,108	$209,066	**$8,812**	$9,028
Net assets				
Fair value, beginning of year	**$198,473**	$185,310	**$—**	$—
Actual return on plan assets	**(47,470)**	4,104	**—**	—
Employer contributions	**13,490**	8,010	**—**	—
Employee contributions	**5,069**	4,744	**—**	—
Transfers	**18**	333	**—**	—
Benefits paid	**(10,714)**	(4,028)	**—**	—
Fair value, end of year	**$158,866**	$198,473	**$—**	$—
Funded status – Net deficit	**$(2,242)**	$(10,593)	**$(8,812)**	$(9,028)
Unamortized net actuarial loss	**12,126**	13,830	**65**	1,736
Unamortized past service costs	**—**	—	**915**	1,234
Unamortized transitional obligation (asset)	**(4,503)**	(5,018)	**722**	819
Accrued benefit asset (liability)	**$5,381**	$(1,781)	**$(7,110)**	$(5,239)
Provision for employee share	**(343)**	(35)	**—**	—
Accrued benefit asset (liability), including provision for employee share	**$5,038**	$(1,816)	**$(7,110)**	$(5,239)

Pension plan assets were measured as at December 31, 2008 and accrued benefit obligations were measured as at December 31, 2007 and projected to December 31, 2008.

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	
	2008	2007
Asset class		
Stocks	**59%**	61%
Bonds	**39**	38
Other	**2**	1
	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	
	2008	2007	**2008**	2007
To determine the accrued benefit obligation				
Discount rate	**7.50%**	5.55%	**7.50%**	5.55%
Rate of increase in future compensation	**4.10%**	4.10%	**—%**	—%
To determine benefit expenses				
Discount rate	**5.55%**	4.95%	**5.55%**	4.95%
Expected rate of return on plan assets	**6.00%**	6.00%	**—%**	—%
Rate of increase in future compensation	**4.10%**	4.10%	**—%**	—%
Health care cost trend rates for retirees				
Under age 65	**—%**	—%	**5.00%**	5.00%
Age 65 and over	**—%**	—%	**4.50%**	4.50%

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

	Pension plans		Other employee benefits	
	2008	2007	**2008**	2007
Current service costs	**$8,477**	$9,341	**$913**	$786
Interest	**11,639**	10,830	**624**	332
Actual return on plan assets	**47,470**	(4,104)	**—**	—
Actual actuarial losses (gains) on accrued benefit obligations	**(62,382)**	(24,679)	**(1,453)**	(818)
Past service costs	**—**	—	**—**	1,718
Expense before adjustments to recognize the long-term nature of costs	**$5,204**	$(8,612)	**$84**	$2,018
Adjustments to recognize the long-term nature of costs				
Difference between expected and actual return on plan assets	**$(60,670)**	$(7,357)	**$—**	$—
Difference between actual and recognized actuarial loss (gain)	**62,380**	25,620	**1,671**	860
Difference between recognized costs and required amortization	**—**	—	**319**	(1,234)
Amortization of transitional obligation	**(521)**	(502)	**97**	99
	$1,189	$17,761	**$2,087**	$(275)
Valuation allowance established for accrued benefit asset	**$243**	$49	**$—**	$—
Net expense	**$6,636**	$9,198	**$2,171**	$1,743

22) Employee future benefits [Cont'd]

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 plan	December 31, 2005	December 31, 2008
Employee plan	December 31, 2005	December 31, 2008
Senior management plan	December 31, 2005	December 31, 2008
Board members plan	December 31, 2007	December 31, 2010

Sensitivity analysis

The assumption regarding the increase in health care costs has little 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 2008:

	Increase	Decrease
Total service costs and interest expense	**$234**	**$(177)**
Accrued benefit obligation	**$1,167**	**$(922)**

23) Derivative financial instruments

The Mutual uses interest rate contracts including interest rate [reverse] repurchase agreements, as well as swaps, in the normal course of its risk management.

The notional amounts of these derivative financial instruments and their related fair values are detailed as follows:

	Interest rate contracts	
	2008	2007
Notional amount by maturity		
Under 1 year	**$415,620**	$347,300
From 1 to 5 years	**652,034**	733,623
	$1,067,654	$1,080,923
Fair value of assets (liabilities)	**$(9,864)**	$970

The notional amount is the amount to which the rate or price is applied to determine the amounts to be exchanged periodically.

The fair value recognized in other liabilities is the estimated amount that the Mutual would be required to pay at the end of the year to close out its positions.

24) Commitments

As at December 31, 2008, the Mutual is committed under lease and service contracts expiring at various dates through 2022 to make payments totalling $35,609. Minimum payments for each of the next five years are as follows: $7,427 in 2009, $5,709 in 2010, $4,089 in 2011, $2,419 in 2012 and $2,131 in 2013.

Investment commitments

In the normal course of the Mutual's business, various outstanding contractual commitments related to residential loan offers are not reflected in the consolidated financial statements and may not be fulfilled.

	Expires in	
45 days	46 to 365 days	2010 and thereafter
$6,529	$9,040	$—

25) Contingencies

The Mutual is involved in various lawsuits which arise in the normal course of business. Management believes that the Mutual has set aside sufficient provisions to cover potential losses, if any, in relation to such lawsuits.

26) Segmented information

The Mutual's operations consist principally of life and health insurance and property and casualty insurance.

	Life and health insurance		Property and casualty insurance		Total	
	2008	2007	**2008**	2007	**2008**	2007
Revenues						
Insurance and annuity premiums	**$524,524**	$528,038	**$481,271**	$422,442	**$1,005,795**	$950,480
Net investment income	**14,667**	100,825	**18,491**	15,147	**33,158**	115,972
Other	**21,768**	23,370	**—**	—	**21,768**	23,370
	$560,959	$652,233	**$499,762**	$437,589	**$1,060,721**	$1,089,822
Policy benefits and expenses						
Benefits and claims incurred	**$347,858**	$308,607	**$330,332**	$269,612	**$678,190**	$578,219
Changes in actuarial liabilities	**(5,215)**	125,552	**—**	—	**(5,215)**	125,552
Operating expenses	**151,701**	141,777	**140,330**	119,997	**292,031**	261,774
Participating policyholder dividends	**12,198**	12,108	**—**	—	**12,198**	12,108
Non-controlling interests	**6,670**	8,404	**5,052**	7,297	**11,722**	15,701
	$513,212	596,448	**$475,714**	$396,906	**$988,926**	$993,354
Income before income taxes	**$47,747**	$55,785	**$24,048**	$40,663	**$71,795**	$96,468
Income taxes	**24,386**	15,956	**7,989**	14,707	**32,375**	30,663
Net income	**$23,361**	$39,829	**$16,059**	$25,976	**$39,420**	$65,805
ASSETS						
Investments	**$1,940,033**	$1,983,626	**$472,914**	$327,860	**$2,412,947**	$2,311,486
Intangible assets	**22,645**	18,757	**27,107**	17,728	**49,752**	36,485
Other assets	**100,792**	106,497	**374,378**	245,068	**475,170**	351,565
Goodwill	**60,336**	62,012	**37,664**	—	**98,000**	62,012
	$2,123,806	$2,170,892	**$912,063**	$590,656	**$3,035,869**	$2,761,548

27) Comparative figures

Certain 2007 comparative figures have been reclassified to conform to the current year presentation.

Risk Management

Our sound approach to risk management has positioned us well to take advantage of the opportunities offered by today's volatile market environment while ensuring the protection of our Mutual members' capital.

The Board of Directors has the crucial role of determining how much risk La Capitale Civil Service Mutual and its subsidiaries are willing to take. The Board is equipped with a number of tools to help ensure that the desired level of risk is the level of risk actually assumed. The Risk Management Policy sets out a comprehensive framework for the various risks facing the different companies, and a monitoring process keeps the Board of Directors informed as to the risks assumed and the steps taken to manage and control these risks. Reports are submitted periodically to the appropriate governing bodies by the Risk Management Committee, the Internal Audit department and the Regulatory Compliance Committee. A performance report on sound business practices is also submitted. Using all of these tools, the Board of Directors is able to have an accurate overview of the risks assumed by the company, along with the control and mitigation measures taken.

Risk Management Policy

The Risk Management Policy provides a framework for strategic risks, insurance risks, financial risks and operational risks. By controlling these risks for the Mutual and its subsidiaries, the policy provides peace of mind and minimizes the kind of adverse effects experienced by other financial institutions in 2007 and 2008.

The risk management reports for 2008 were drafted by senior management and presented to the Boards of Directors and the Boards' audit committees in early 2009. The areas for improvement noted in the 2007 performance report are being monitored, and plans are in place for 2009 to monitor any additional areas for improvement noted in the 2008 performance report.

Quantitative approach

The Notes to the Financial Statements have been revised to include a new section on risk management. Certain quantitative tests have been added to show how a 1% increase or decrease in interest rates and a 10% increase or decrease in the stock markets would impact the Mutual and its subsidiaries.

Volatile market environment

The current market environment has led to a decrease in market values for several asset classes. From our standpoint up until 2007, the credit risk associated with bonds yielded a fairly weak payoff. As a result, our exposure to corporate bonds was relatively limited. Since then, the markets have come to realize that credit risk needs to yield an adequate payoff, and consequently, the yield spreads have become increasingly attractive. Current rates offer a significant payoff for the bond default risk, leaving us with an excellent surplus yield. Our strategy for 2009 is to gradually and prudently increase our exposure to credit risk. This is an enviable position in the current market environment where we are purchasing credit as opposed to selling it.

Transparency

All investment values are recorded on our balance sheet at the fair market value calculated using market data. Only asset-backed commercial paper (ABCP) uses an estimated market value given the absence of a market for buying or selling these securities. As a result, after analyzing the underlying assets, we set up provisions of approximately $0.6 million for these securities. Further to the ruling on ABCP, we are confident that these provisions will be sufficient and that we will recover the net ABCP amounts recorded on our balance sheet at the agreed-upon maturity date.

New *Autorité des marchés financiers* (AMF) guidelines

Following the release of new risk management guidelines by the AMF in January 2009, our normative framework will be adjusted, as necessary, to comply with these guidelines.

The Governance Guideline requires that an appropriate governance program be set up at La Capitale based on its specific characteristics. This will allow the Board of Directors of La Capitale to determine the company's risk tolerance and appetite and to gain a better understanding of the impact on all levels of the Mutual and its subsidiaries.

The Compliance Guideline requires that a process be introduced to mitigate risk that may arise from non-compliance. The Regulatory Compliance Committee will oversee the application of this guideline.

The Integrated Risk Management Guideline requires that the company's risk management be approached from a global standpoint, not on a risk by risk basis. This guideline will replace the standards of sound business practices in effect since December 2000, but will not preclude La Capitale from monitoring these risks if pertinent. We plan to re-evaluate our current procedures regarding investment limits and sound business practices to ensure that we are acting in the spirit of this new guideline. A global, consolidated approach to risk management for La Capitale and its subsidiaries will also be considered.

The Outsourcing Guideline requires a three-tiered approach: governance of outsourcing agreements, management of outsourcing activities and management of outsourcing risks. Our Risk Management Policy already covers a portion of these risks in the performance reports required from each manager, which call for an evaluation of certain risks associated with outsourced activities. The Risk Management Policy will be adapted accordingly, in cooperation with the company's compliance officers.

The Liquidity Risk Management Guideline targets deposit-taking institutions, trusts and insurers that are authorized to accept deposits. However, sound business practices dictate that liquidity risk management be monitored. La Capitale currently has a number of tools in place for ensuring the optimal, diversified management of its liquidity needs at the best possible cost. However, the guideline is more in-depth, and we are planning to integrate this new AMF standard into our current practices.

New Quebec government regulation on derivatives

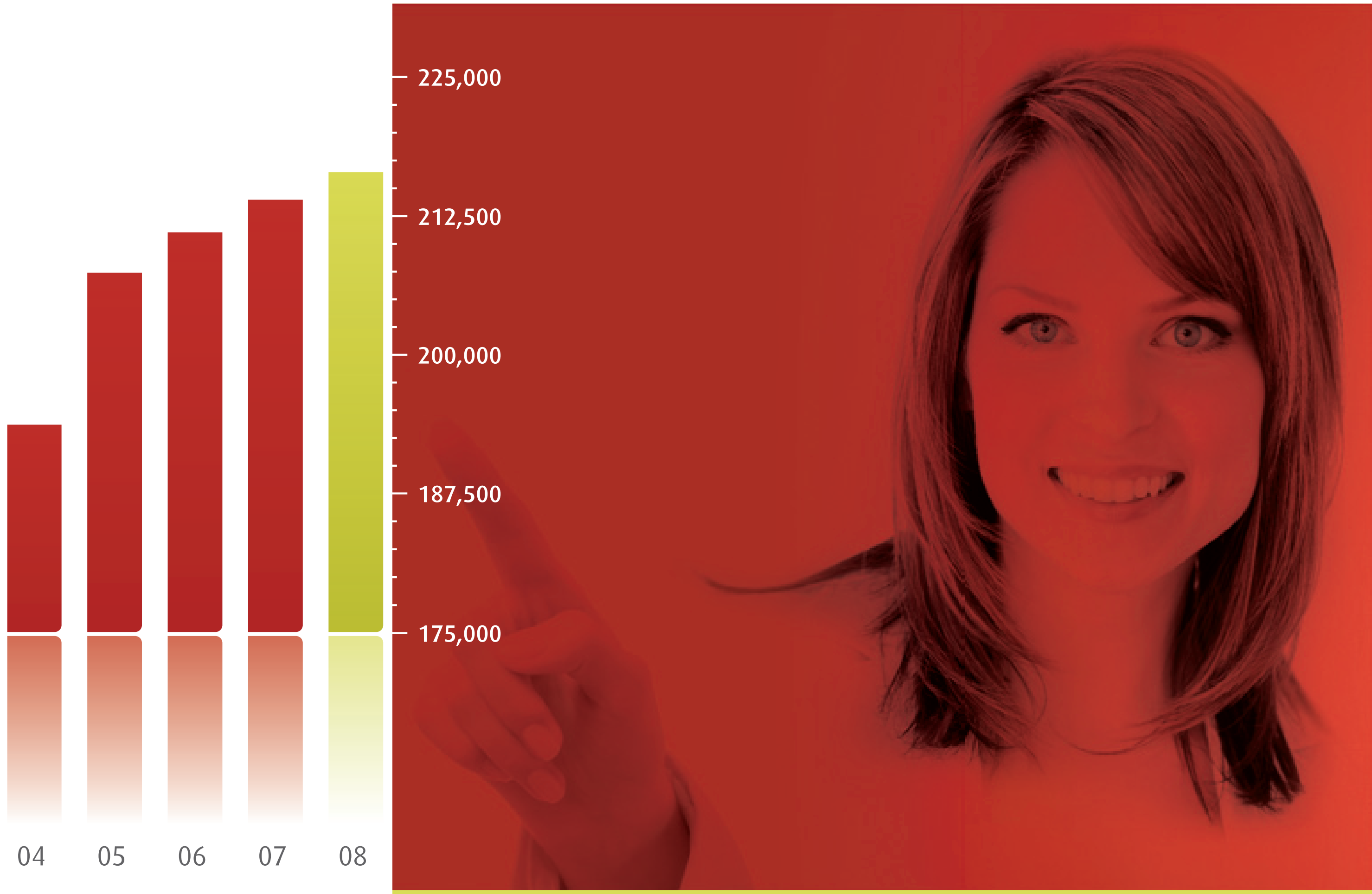
A new regulation on derivatives came into effect on February 1, 2009. This regulation will only impact La Capitale on an administrative level and will be taken into account in our internal procedures.

International Financial Reporting Standards (IFRS-4) in Canada

In a few years, the IFRS-4 International Financial Reporting Standards will apply to all insurance companies. Under the current standards, the actuarial reserves and the investments backing them are coordinated on the balance sheet, which ensures a certain stability in our net income. The introduction of the IFRS-4 standards involves splitting up the actuarial reserves and the assets since the returns generated on either side will no longer be the same. This will lead to more volatility in the results posted by insurance companies. Nevertheless, we plan to put strategies in place that will allow us to manage and contain this volatility.

Conclusion

In view of La Capitale's approach to risk management, our Mutual members can rest assured that their assets are in good hands and are being managed effectively. Thanks to our relatively conservative approach, we are well positioned to take advantage of the higher returns currently available on the markets without taking any positions that would be too risky for the Mutual and its subsidiaries. The primary risks are well known and are strictly monitored, and as much as possible, La Capitale endeavours to conserve the risks that will lead to good returns for our Mutual members. In the months and years ahead, legislation will change and La Capitale will do what it takes to comply with the new laws. We will be proactive in turning risks into business opportunities, while continuing to act prudently for the greater good of our Mutual members.



Number of Mutual Members

La Capitale Financial Group

Consolidated Comparative Summary
La Capitale Financial Group

For the year ended December 31 [in thousands of dollars]

	2008	2007	2006	2005	2004
Assets	**$3,030,263**	$2,757,945	$2,332,761	$1,905,485	$1,870,365
Total income	**$1,060,637**	$1,089,778	$888,777	$823,322	$687,894
Insurance and annuity premiums, fees and other income	**$1,027,576**	$973,864	$773,514	$717,794	$599,462
Net investment income	**$33,061**	$115,914	$115,263	$105,528	$88,432
Net income allocated to shareholders	**$33,626**	$53,246	$23,807	$30,712	$30,559
Number of policies and certificates in force	**1,525,883**	1,378,282	1,112,666	1,066,795	1,018,808

Company Profile
La Capitale Financial Group

In 1987, La Capitale Civil Service Mutual strengthened its strategic position by creating La Capitale Financial Group. Taking responsibility for the organizational development of its parent company, La Capitale Financial Group optimizes the coordination of operations for the company's various subsidiaries while allowing each one to remain independently managed. It also implements the group's principle of controlled growth, which in recent years has involved developing new markets both within Quebec and across the rest of Canada.

Board of Directors

René Rouleau, M.P.A.
Chairman of the Board and Chief Executive Officer

Roland Guérin
Vice-Chairman

Dominique Dubuc

Jean-Yves Dupéré

Robert St-Denis

John Strome, FCIP

Officers

René Rouleau, M.P.A.
Chairman of the Board and Chief Executive Officer

Robert St-Denis
President and Chief Operating Officer
La Capitale Financial Group and
Life and Health Insurance Sector

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

Hubert Auclair, LL. B.
Corporate Secretary

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

Lucie Garneau, CA
Vice-President, Human Resources
and Organizational Development

Pierre Grenier, CA
Vice-President, Real Estate Investment
and Special Projects

Simon Jean, B. Admin
Vice-President, Communications
and Marketing

John Kirouac, CA
Vice-President, Finance

Constance Lemieux
Vice-President, Development of New Financial Sectors
and Organizational Effectiveness

Michel Lévesque, FSA, FCIA, CFA
Vice-President, Investments

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

Robert **St-Denis**
President and Chief Operating Officer

La Capitale Financial Group and
Life and Health Insurance Sector

The Year in Review

The Life and Health Insurance sector, comprising eight of the eleven companies that make up La Capitale Financial Group, once again recorded strong business growth in 2008, as well as posting very satisfactory net profits given the challenging economic environment.

Sustained growth

For the fifth consecutive year, our in-force portfolio was strengthened by steady growth in all our life insurance operations.

In individual insurance, combined sales for our life insurance companies, specifically La Capitale Civil Service Insurer, La Capitale Insurance and Financial Services and Penncorp Life Insurance Company, totalled nearly $14 million, a 13.2% increase over 2007. It is important to note that a good part of our growth occurred outside Quebec, reinforcing the wisdom of our decision to diversify geographically. Penncorp Life Insurance Company, which has Canada-wide operations, posted a 19.2% increase in sales compared to the previous year. The number of financial security advisors associated with this subsidiary grew from 166 to 181 by the end of 2008, a factor that bodes very well for future growth.

At year-end, our total premium volume for individual insurance amounted to $147.6 million, a 3.8% increase over the previous year.

Savings and investments

On the individual savings front, despite the major downturn in the stock markets and a challenging economic environment, we still ended the year with $565 million in in-force business, roughly the same as in 2007 when we reached $566 million. Since many of our products are linked to market indices, however, weakened stock markets caused the value of our portfolio to drop by some $48 million. Nevertheless, given the long maturities of these products, we are confident of a recovery in the next few years. Note that a number of savings products offered by La Capitale have capital guarantee clauses to protect our clients and Mutual members against any depreciation in their investments.

As a mutual, our mission is to build, protect and value our Mutual members' heritage. This is why, even in the midst of an economic downturn, we offered our members an additional 0.25% on GIC interest rates at several points throughout the year, as well as a preferred mortgage rate that is lower than the one offered to our non-Mutual member clients. We see this as yet another way to strengthen the preferred relationship we enjoy with public service employees. In individual insurance and annuities, 89% of all new business generated by La Capitale comes from Quebec public service employees. We are extremely proud of the ties we have forged with these employees and grateful to them for their confidence and trust.

A promising partner

2008 was also the first year that we held a 50% interest in Promutuel Life. Under the agreement signed in December 2007, La Capitale can distribute its life insurance products through a network of mutuals with approximately 160 points of service throughout Quebec. We are pleased with the results achieved to date and appreciate the support of our mutual partner.

As is the case when starting up any life insurance company, the investments made in the first few years will become profitable once we have achieved a certain volume of business and can release certain policy reserves. The success we have already achieved in 2008 leaves us feeling optimistic about the future.

Increased sales in group insurance

On the group insurance front, our sales outside the public and parapublic sectors were up 27.4% over 2007, bringing our in-force business to nearly $347 million despite a challenging economic environment for many of our clients. All of our claims experience was in line with expectations. Thanks to our exclusive *Good for you!* program, which promotes physical activity and healthy lifestyle habits, we continued to help certain target clients reduce the costs related to absenteeism and illness. We believe that these concrete support and prevention measures also help to minimize rate increases.

Always looking for ways to remain on the leading edge, we continued to roll out our new technological infrastructure and upgrade our computer systems in the group insurance sector. As scheduled, a number of improvements and new features will be implemented and fully functional in 2009.

In 2008, we also reinforced our group insurance service offer outside Quebec. Despite a challenging economic environment and a highly competitive market in Ontario, we are pleased to have made inroads with a number of brokers in this province. At year-end, over 15.7% of our sales were from outside Quebec, and we anticipate some excellent business opportunities in this market in 2009.

With respect to credit insurance, a market niche we entered in 2006, our 2008 results were 24.4% higher than the previous year. New sales in this sector totalled $8.8 million.

Our subsidiary AGA Financial Group Inc. purchased a 50% interest in employee benefits company *Groupe Cloutier Avantages Sociaux inc.* Income growth for AGA, a firm that specializes in providing administration services for group insurance and pension plans, was approximately 17.9% in 2008.

Distribution

To meet the needs of its diverse clienteles, La Capitale offers diversified access to its products and services through a Pan-Canadian network of 23 financial centres that comprise 336 financial security advisors and financial planners. All of our individual and group products are also offered through 35 general agents and other unaffiliated advisors across Canada. The complementary nature of these distribution networks gives us a solid base for pursuing controlled growth Canada-wide.

Financial results

Excluding AGA Financial Group, the companies and subsidiaries that make up the Life and Health Insurance sector ended the year with close to $450 million in insurance premium income, up 8.8% over 2007, and $75 million in annuity premiums.

We decided to decrease our mortgage loan portfolio in 2008 and to stop using securitization as a financing strategy in order to limit our loans to the cash flow generated by our company. This new course of action, which is part of our long-term strategy, reduced our mortgage loan portfolio by almost 9% in 2008.

With respect to our comprehensive income, the stock market downturn had a direct impact on our surplus investments. The decrease in the market value of these investments amounted to $28.9 million after tax.

With a capital ratio of 216%, La Capitale Civil Service Insurer is financially sound and thus has no need to consider the short-term sale of its stock market investments. The recent market devaluation should correct itself naturally as the financial markets recover in the years to come.

Additional activities

With respect to our real estate activities, we continued construction on a third 170,000 sq. ft. office tower at the Delta complex in Quebec City. The ground floor will be occupied by various businesses, and the building's other nine floors will be used for office space. The project will be completed on time and according to budget in the spring of 2009. In keeping with the guideline adopted by La Capitale, this building was constructed in accordance with the criteria for obtaining *LEED* Gold certification, a first for an office building in Quebec City.

La Capitale also completed the negotiations it began in 2008 with a Toronto real estate developer to purchase a 60,000 sq. ft. office building in Mississauga with *LEED* Silver certification. The transaction, which will allow us to have all employees working for our Mississauga subsidiaries under the same roof, was completed at the beginning of 2009.

Human resources

Our human resources are, without a doubt, our most valuable asset. Deeply aware of the value and contribution of the 1,215 employees working for the Life and Health Insurance sector, La Capitale places a great deal of importance on human resources development and mobilization. In this regard, we have set up a three-year training plan for all of our managers.

Like the rest of the financial services industry, our company is soon likely to face a significant shortage of qualified personnel. As a result, we feel it is imperative to start thinking about talent management and looking for new ways to promote work/life balance, a key concern for the new generation of workers.

Our commitment to the public service

As in previous years, senior management in the Life and Health Insurance sector and other Company officers supported a variety of causes of special interest to the public service. Two projects in particular received special attention in 2008. One of these projects was the launch of the *Cargo* program in cooperation with four health care facilities. This initiative is the only one of its kind in Quebec and aims to boost the number of nursing graduates in Quebec hospitals. Given the tremendous need in this area, we are very proud of our involvement in this initiative.

We also increased the number of financial education and retirement planning seminars offered each year to all public service employees. In total, 304 sessions were held province-wide in 2008, and our goal is to increase this number by 50% in 2009. Our in-depth knowledge of public sector employee plans enables us to be even more effective in helping participants set up an optimal financial strategy, no matter what their situation.

Outlook for 2009

The Life and Health Insurance sector has adopted a three-year strategic plan for 2009-2011 that sets out some very specific goals for the end of this period. The plans focuses on continuing to achieve profitable growth and developing an integrated plan for managing our human resources. The permanent addition of products and services designed for our Mutual members is also a priority.

In 2009, we will be forced to face certain challenges arising from our business environment. Naturally, our assessment of the economic situation will have a crucial impact on our decisions, and some of these decisions will be guided by the long-term financial soundness of the Life and Health Insurance sector. Nevertheless, we will have to ensure that everything is in place for a recovery.

As we are expecting a number of our managers to be retiring in years to come, we must ensure that appropriate succession planning is done in 2009 to guarantee a smooth intergenerational transition.

In conclusion, we would like to thank all of our employees for the excellent results achieved in 2008 and our financial security advisors for their contribution to our steady growth. Their day-to-day commitment and dedication are what help us to build, protect and value the heritage of our Mutual members and clients.

On behalf of the Executive Committee, I would also like to extend my sincere thanks to the Board members of the Life and Health Insurance subsidiaries who, through their wisdom and sound advice, have helped us grow our company for the greater good of our Mutual members.

Robert St-Denis
President and Chief Operating Officer

Key Facts and Figures

- > **13.2% growth** in individual insurance sales
- > **8.8% increase** in insurance premium income
- > **More than 89% of new business** in individual insurance and annuities generated by the Quebec public sector
- > **Inroads made with group insurance brokers in Ontario**, with 15.7% of group insurance sales generated outside Quebec
- > **24.4% growth** in credit insurance sales

Sector Profile

La Capitale Civil Service Insurer

At the heart 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 Quebec's public administration employees for close to 70 years. With unique expertise and knowledge it has developed in terms of life and health insurance, savings and investments, mortgages and personal loans, La Capitale Civil Service Insurer remains the logical partner of choice for the clientele it was originally created to serve. Its teams of specialists design attractive, flexible financial solutions that are tailored to clients' needs. And to simplify the payment of premiums, it also offers the exclusive Payroll Deduction Privilege to some 600,000 public 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

La Capitale Insurance and Financial Services

Established in 1989, La Capitale Insurance and Financial Services is a wholly owned subsidiary of La Capitale Civil Service Mutual. It provides group insurance products to clients in the public and private sectors and is known for its personalized service as well as its innovative, proactive approach to workplace attendance management and prevention initiatives such as the *Good for you!* program. It also distributes and manages the provision of individual insurance products by various financial services firms.

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
> Medical assistance service
> Direct deposit of benefits
> Automatic claims payment system

Penncorp Life Insurance Company

Since 1971, Penncorp Life Insurance Company has been one of Canada's leading specialty insurance providers. Its mission is to provide financial security by specializing in simplified, personal disability insurance and financial solutions that fit the unique needs of Canada's self-employed, skilled tradespeople and other individuals who do not have easy access to traditional insurance and financial products.

With its Head Office in Mississauga, Ontario, Penncorp has a network of approximately 200 career agents with branch offices and field representatives in every province. In addition, Penncorp counts on an independent distribution channel across Canada.

Penncorp continues to pursue aggressive growth strategies which build on its key strengths: specialization in personal disability insurance; expertise in the unique needs of the self-employed and skilled tradespeople; development of simple, innovative product solutions; partnership with its distributors; efficient, reliable operations; and a commitment to keeping promises to clients, employees and distributors.

Products and services offered

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

La Capitale Financial Services

La Capitale Financial Services is a financial services firm dedicated to serving the needs of those who work in the Quebec public service by helping them to get the very best coverage when it comes to financial protection. 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 155 financial security advisors across Quebec, directly in their workplace, to meet their current needs and those of their family and to help them build, protect and enrich their estates.

Products and services offered

- Term, permanent and universal life insurance
- Health, long term care and critical illness insurance
- Registered and non-registered savings products (e.g.: RRSP, RESP, TFSA)
- Investment and segregated funds
- Referrals for car, home and mortgage insurance, Legal Access insurance, personal loans and mortgage loans and lines of credit
- Financial situation analysis
- Personalized financial planning
- Mid-career sessions
- Retirement preparation sessions

Promutuel Life

Through its network of mutual associations with some 160 points of service throughout Quebec, Promutuel Life, in which La Capitale Financial Group holds a 50% interest, offers a range of individual life and health insurance products and annuities that are designed and administered by La Capitale. This agreement, reached in December 2007, allows our company to take advantage of new market opportunities while our mutualist partner benefits from our expertise in the life and health insurance field to strengthen the products and services it offers.

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 87 employees, more than 2,900 clients and reports an annual premium volume of close to $149 million.

Products and services offered

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

La Capitale MFQ Real Estate Management

Operating within La Capitale's Life and Health Insurance sector, this subsidiary is responsible for implementing the Group's real estate strategy and managing its real estate holdings. With assets of some $294 million in commercial mortgage loans, commercial and residential buildings, including offices and retirement homes, La Capitale MFQ Real Estate Management owns approximately 1.25 million sq. ft. of property and manages some 354 housing units in 10 buildings. Active in the construction, office leasing and office layout markets, it also provides third party building management services and commercial mortgage financing.

Products and services offered

> Real estate management
> Commercial mortgage management
> Green buildings
> Quality rental management services

La Capitale Financial Management

A subsidiary that offers unique, original services to clients of La Capitale Financial Group. With close to 70 years' experience, La Capitale Financial Management is one of North America's leading providers of payroll deduction services for financial product premiums with Payroll Deduction Privilege, an exclusive payroll deduction service for public service employees.

Carte Capitale is a budget-discount card offered to Quebec public administration employees and La Capitale insureds. Using Payroll Deduction Privilege, it is designed to help cardholders manage the family budget for savings, car expenses and municipal taxes. Discounts and other income managed amounted to some $4.8 million in 2008.

Products and services offered

> Payroll Deduction Privilege
> Carte Capitale (Budget-discount card)

Officers
Life and Health Insurance Sector

Senior Management

Robert St-Denis
President and Chief Operating Officer

Corporate Actuarial

France Déziel, FSA, FCIA, CA
Vice-President and Appointed Actuary

Guy Harvey, ASA
Senior Director

Legal Affairs

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

Group Insurance

Mario Cusson, CA, MBA
Vice-President

Patrick Bolduc, ASA, FLMI, ACS
Senior Director, Operational Performance

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

Jacques Tardif
Senior Director, Sales and Marketing

Richard Fecteau, FSA, FCIA
Senior Director, Actuarial and Underwriting

Finance

John Kirouac, CA
Vice-President

Annie Larochelle, CA
Senior Director, Financial Disclosure
and International Standards

Hélène Myrand, CA
Senior Director

Individual Insurance and Annuities

Steven Ross, C. Adm.
Executive Vice-President

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

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

Sylvie Chartrand, RLU, F. Pl.
Senior Director, Sales

Michel Lafrance, FSA, FCIA
Senior Director, Actuarial

Dany Leboeuf, FLMI, FLHC, ALHC, ACS, UND, AIAA
Senior Director, Administration
and Customer Relations

Lorne Brennan, RLU
Regional Director
East Regional Financial Centre

Christian Breton, RLU
Regional Director
South-West Regional Financial Centre

Alain Legault, MBA
Regional Director
North-West Regional Financial Centre

Pierre Maltais
Regional Director
Saguenay – North Shore Regional Financial Centre

Development of New Financial Sectors and Organizational Effectiveness

Constance Lemieux
Vice-President

Christian Dufour, FSA, FCIA
Senior Director, Mortgages and Personal Loans

Real Estate Investment and Special Projects

Pierre Grenier, CA
Vice-President

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

Jean-Guy Larochelle, CGA
Senior Director, Material Resources

Investments

Michel Lévesque, FSA, FCIA, CFA
Vice-President

Human Resources and Organizational Development

Lucie Garneau, CA
Vice-President

Shirley Brown, B.A.
Senior Director

Technological Infrastructure

Marcel Bélanger
Vice-President

Éric Eustache, Eng., M. Sc.
Senior Director, Technology

Denys Gariépy
Senior Director, Strategic Projects

Information Technology

Francine Landry
Vice-President

Raymond St-Gelais
Senior Director, IT Development
Individual Division

Penncorp Life Insurance Company

Steven Ross, C. Adm.
President and Chief Operating Officer

Lynn Grenier-Lew, FSA, FCIA, MAAA
Vice-President, Operations

Eli Pichelli, MBA, CLU
Vice-President, Sales and Marketing – Career Channel

Neil Brown
Senior Director, Finance

Scott Hunt
Senior Director, Underwriting
and Policy Services

Mark Turkiewicz
Senior Director, Claims

Stephen Cole
Senior Director, Sales

AGA Financial Group

Michel Marcaurelle
Executive Vice-President and Chief Executive Officer

John **Strome**
President and Chief Operating Officer

Property and Casualty Insurance Sector

The Year in Review

Despite poor weather conditions, La Capitale General Insurance and its subsidiary, L'Unique General Insurance, posted excellent operating results in 2008. Thanks to our operational efficiency and the dedicated efforts of our Claims personnel, we were able to meet the needs of our clients effectively.

Heavy snowfalls had a significant impact on results for the first half of the year, adding over $20 million in estimated losses for the period. However, the loss ratio improved considerably in the second half, ending the year at 68.6% compared to 63.8% in 2007. Consolidated net operating income for 2008 amounted to $21.1 million. This result is in line with our budgets, and includes an operating loss for our Ontario-based subsidiary York Fire & Casualty Insurance Company, which we acquired in September 2008. We are especially proud of this result as the property and casualty insurance market continues to be very competitive, and we have once again succeeded in striking the right balance between controlled growth and profitability.

La Capitale General Insurance was impacted by the stock market downturn in 2008, with our assets posting a 13% decrease during the year. Nevertheless, we are pleased with this result given the 35% drop in the Toronto Stock Exchange's TSX index. This not only demonstrates the high quality of our assets, it attests to the sound and prudent management and appropriate allocation of these assets. Consolidated assets amounted to $912 million, compared to $591 million in 2007.

Consolidated operating results

Premium volume for La Capitale and L'Unique grew by 10.6%, once again well above the organic growth seen in the Quebec property and casualty insurance market. Our companies' consolidated gross premiums surpassed the half billion dollar mark to reach $545 million in Quebec, an increase of $72 million over 2007. This is an important symbolic threshold for our companies that operate in Quebec.

Consolidated management fees of 29.2% in 2008, compared to 28.4% in 2007, take into account the operations of our subsidiaries that invested in their growth and expansion into the Canadian market. Non-consolidated management fees for La Capitale General Insurance were down 0.2% in 2008.

Auto insurance

Auto insurance did exceptionally well in 2008, with both of our Quebec companies posting a profit. Combined premium volume was up 7.6% compared to 2007, totalling $306.7 million. Accident frequency was down, contributing to the profitability of this business line. As in 2007, we once again lowered our rates and passed the savings on to our clients.

In 2008, La Capitale continued to market *RV Solutions Insurance®*, its recreational vehicle (RV) insurance program for motorcycle, snowmobile, ATV, travel trailer, motorhome and boat owners. This top-notch program was launched in 2006, and has since experienced growing success in the Quebec RV market.

Automobile theft continues to be a major concern. Thefts have declined in recent years, with the frequency of losses due to auto theft falling by 15.2% over 2007. Still, such losses represent 13.6% of all auto insurance claims paid. As prevention campaigns have proven to be successful, we will continue to invest and take part in various programs of this kind in 2009, in cooperation with the *Société de l'assurance automobile du Québec* (SAAQ), Quebec's automobile insurance board, and the *Groupement des assureurs automobiles* (GAA), an organization of automobile insurers.

Home insurance

2008 was a difficult year for home insurance for all insurers, and La Capitale was no exception. However, despite a rough start to the year caused by extreme weather conditions, resulting in numerous claims and a large surplus of work for our employees, the situation improved considerably in the second half of the year in the absence of any catastrophic events. The losses generated by the home insurance sector were offset by our other lines of business.

A normal volume of claims was received for hail storms and water damage; however, the frequent and unusual climatic changes that have been occurring for a few years now are a major concern, and represent an ongoing challenge for all insurers. I am pleased to see that the property and casualty insurance industry in Quebec is becoming increasingly proactive, demonstrating a desire to combat the problem of changing weather conditions and to provide the general public with better access to home insurance.

Commercial insurance

For our Quebec-based companies, commercial insurance continued to grow rapidly in 2008 with a 21% increase in written premiums. Premium volume reached $59.6 million, which now represents over 10% of our overall sales. This line of business continues to grow and remain profitable thanks to the recognized skills and expertise we have developed in this market.

The customized products we design for our clients, combined with our outstanding service, ensure the loyalty of the groups we insure. We are continually developing new programs such as the one we introduced in 2008 for recreational vehicle dealers. This initiative is a logical extension of the *RV Solutions Insurance®* program offered to individual insurance clients.

We successfully continued the rollout of our surety bonding products and services. This line of business produced excellent results in 2008 with a 31.3% increase in written premiums and record profitability. The competent, dynamic surety team demonstrated continued innovation by introducing specialized programs to meet the needs of our clients.

Legal access insurance

Legal access insurance continues to be very popular with our clients, offering them full legal support from their insurer, if the need should arise, at a minimal cost. In 2008, nearly 14,000 case files were processed by the La Capitale team. This line of business is also very profitable.

Our assistance services

Beyond the financial compensation we provide for property damage, we also aim to ensure the well-being of our clients by helping them deal with challenges that affect their quality of life. It is with this in mind that we created our assistance services, which offer significant added value for our clients.

Through our various assistance services—from CAP Roadside Assistance under our auto insurance policies, to the referral service we provide under CAP Home Assistance or the legal advice we offer under CAP Legal Access Insurance—we give our clients the support and assistance they need, wherever they may be. In 2008, we logged 47,000 automobile service and assistance calls, a clear indication of the usefulness, effectiveness and popularity of our assistance services.

Maxi-Privilege

Since 2004, all La Capitale policyholders who are public service employees or retirees enjoy $5,000 of free coverage under the *Maxi-Privilege* accidental death insurance policy. This is our way of recognizing the support and contribution of the Mutual members of La Capitale Civil Service Insurer to our company. In 2008, over $35,000 was paid out in claims.

L'Unique General Insurance

L'Unique celebrated its 30th anniversary in 2008, a milestone that was marked by exceptional results. Following an 18.6% increase over 2007, sales approached the $100 million mark, and net income reached $4.5 million. The independent brokers who represent L'Unique appreciate its dynamic approach and recognized leadership, and the company's financial soundness ensures that it is well positioned to pursue rapid development.

In 2008, the synergy that has developed between La Capitale and L'Unique opened the door for L'Unique to market recreational vehicle insurance through its network of brokers. This type of insurance covers motorcycles, snowmobiles, ATVs, motorhomes and travel trailers, and is offered without any obligation to insure the principal vehicle. As a result, Quebec brokers who deal with L'Unique now have access to high-quality, competitive products that are well adapted to the needs and requirements specific to recreational vehicles.

Expansion into rest of Canada

On September 30, 2008, La Capitale General Insurance acquired Ontario-based York Fire & Casualty Insurance Company. With $100 million in annual sales, this company operates in Ontario and Alberta through a network of over 200 independent brokerage firms. We are proud to welcome York Fire & Casualty Insurance Company as a subsidiary of La Capitale General Insurance. This acquisition will help us access the Ontario market, which represents close to 47% of the market in Canada, and will also serve as a springboard for developing the Canadian market as a whole. The desire to move into markets beyond Quebec is not a new one for La Capitale General Insurance, and this acquisition is a perfect fit with our strategic orientations.

Distribution channels

Thanks to our diversified distribution channels, our clients can choose from a number of different service options.

At La Capitale, our products and services are distributed through call centres, a network of 22 branch offices and now the Internet, with the help of our comprehensive online quotation service. Our network of affiliated agencies now includes 175 agents throughout Quebec who offer personalized service to their clients in their respective territories.

At L'Unique, distribution takes place through a network of 250 independent brokerage firms, while York Fire & Casualty Insurance has over 200 independent brokerage firms in Ontario and Alberta.

In 2008, the distribution network for La Capitale General Insurance and its subsidiaries strengthened its position in Quebec and expanded significantly throughout Canada, positioning itself for some excellent opportunities in the future.

Continually innovating

Since its very beginnings, La Capitale has been both a pioneer and a leader in information technology. Our state-of-the-art computer systems are sophisticated and highly efficient, enabling us to serve our clients and manage our operations effectively. We made a number of upgrades to our systems in 2008, and embarked on a three-year plan that includes an $18 million investment in technology.

This investment will help us provide better support to our agents and brokers, both in Quebec and the rest of Canada. We are confident that this investment will allow us to remain on the leading edge of technology while continuing to offer innovative products and services.

As online shopping for goods and services continues to grow in popularity, we need to be able to meet the needs created by this new trend. The advent of Web 2.0 will open the door for interaction and even dialogue between companies and their clients, and this is the direction we are working towards at La Capitale.

Since December 2008, La Capitale has been able to send insurance contracts to its clients over the Internet using a portal known as C@P Direct. In addition to offering a user-friendly solution for our clients, this method saves numerous sheets of paper for every contract we send electronically. We are confident that many of our clients who share our concern for protecting our natural resources will appreciate and make use of this new service in 2009.

In keeping with our commitment to provide products and services adapted to the specific needs of all our clients, we began offering a variable term policy in 2008. This initiative is a first in Quebec, and will allow our insureds to choose a term of anywhere from 12 to 24 months for their policy, with no limitations.

In our ongoing desire to offer our clients value-added products such as identity theft protection, legal access insurance and zero-deductible coverage, we introduced the new "Young Family®" insurance program in February 2008. This program reduces home and auto insurance premiums for families with children under the age of 13. Knowing how expensive it can be to raise young children today, we are pleased to offer financial support to Quebecers who have chosen to start a family.

Our social involvement

In accordance with the values of our Mutual, of which we are a part, our companies and many of our employees invest both time and money to support a variety of social, economic and environmental organizations.

In 2008 we supported *Le Grand Chemin*, a foundation that helps young people deal with drug addiction, as well as the Canadian Cystic Fibrosis Foundation and a number of scholarship programs in the insurance field. We also teamed up with the Quebec *Ministère des Transports* and Bombardier Recreational Products Inc. (BRP) to run a huge province-wide safety campaign to promote safe driving habits on snowmobiles and ATVs.

Many of our employees are quite active within insurance organizations such as the CADD (Association of Property and Casualty Insurance Companies of Quebec), the IBC (Insurance Bureau of Canada) and the GAA *(Groupement des assureurs automobiles)*. We are extremely grateful to these individuals for their contribution to our industry.

Expertise, experience and commitment

Our employees are the first to agree that L'Unique and La Capitale are excellent companies to work for. Despite the challenging economic environment that has prevailed over the past year, we have not only guaranteed our employees' job security, we have even hired a considerable number of new recruits to help us bring our many ongoing projects to fruition. Including staff at our new subsidiary, York Fire & Casualty Insurance Company, we currently have more than 1,100 employees.

La Capitale has always believed in investing in its employees, which is why we promote from within in 91% of cases. Our employees constitute our most valuable asset, and as such, our success rests on their expertise, hard work and personal commitment. For this reason, we strive to offer them the best working conditions possible.

We encourage our employees to further their education, and we help them acquire new knowledge and skills. Our managers receive regular training to help them continually improve their people management skills.

We firmly believe that work/life balance is essential to maintaining a healthy quality of life, and we continually strive to find new ways to achieve this goal. In 2008, a number of staff members were transferred to other branches, at their request, in order to reduce travel time for getting to and from work. In the same vein, we will soon be setting up new branches on the outskirts of major centres. Lastly, we officially introduced telecommuting at La Capitale, allowing certain staff members to work from home. This initiative was very well received, and continues to support the smooth operation of the company.

In 2008, senior management travelled throughout the province meeting with employees in small groups. This initiative will continue in 2009, and will serve as an opportunity to keep employees informed of our achievements and goals, and to promote ongoing dialogue and attentiveness to their various needs and concerns.

Our future

Not only did we achieve our goals for 2008 at both La Capitale and L'Unique, we even surpassed many of them. We believe that our ongoing quest for excellence enabled us to serve our clients even more effectively.

We currently have a number of initiatives underway that will help us remain a leader in the Quebec property and casualty insurance market. Our three-year plan for information technology is one example which, although ambitious, is a challenge we are confident we can achieve.

Our "Young Family®" insurance program and the major advertising campaign that will accompany it will strengthen our relationship with young Quebec families, who make up a considerable part of our client base.

Through our various subsidiaries, we are now a multi-distribution insurer that offers its products and services in several Canadian provinces. This is a big step for La Capitale. Over the next few years, we hope to develop greater synergy among our property and casualty insurance companies in order to expand this distribution nationwide. We will continue to grow by developing innovative new products and continuing to offer first-rate service as we target increasingly larger markets.

We are optimistic about the future of our property and casualty insurance companies. We understand the magnitude of the challenges that lie ahead, but we are confident that we have the skills, the expertise, and the human, material and financial resources we need to be successful.

Teamwork is the watchword

Our clients are our reason for being, and their satisfaction is largely dependent on our employees and business partners, to whom we are extremely grateful. We would like to thank each and every one of them for their ongoing dedication and commitment to helping us provide our clients with exceptional service.

We would also like to thank our management team for their invaluable cooperation, support and expert advice. Our gratitude also extends to the members of the Board of Directors, who provide us with the support and confidence we need to achieve our objectives. We would also like to announce the retirement of Mr. Alphé Poiré, Chairman of the Board for La Capitale General Insurance since 2003, and to welcome his successor, Mr. Jean-Yves Dupéré.

The current year is shaping up to be just as exciting as 2008, and is already off to a good start as we continue in the spirit of offering our clients "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]

	2008	2007	2006	2005	2004
Assets	**$912,063**	$590,656	$523,413	$489,528	$440,444
Shareholders' equity	**184,140**	198,254	163,269	147,815	132,544
Gross premiums written[1]	**544,909**	472,452	435,024	410,772	328,153
Annualized gross written premiums[1]	**523,029**	463,517	430,200	411,409	328,983
Net income	**21,111**	33,273	22,342	21,444	26,473
Loss ratio	**68.6%**	63.8%	67.7%	68.8%	65.5%
Expense ratio	**29.2%**	28.4%	28.0%	27.2%	26.1%
Number of insurance policies in force	**912,675**	794,569	757,750	734,764	681,286

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

Sector Profile

La Capitale General Insurance

Since it was established in 1975, 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 840 employees, La Capitale General Insurance is a direct response 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, boats, motorhomes, travel trailers and stationary trailers)
- Home insurance
- Legal access insurance
- Professional liability insurance
- Insurance for private companies and the self-employed
  - Income replacement protection
  - Automobile dealerships
- Travel insurance
- Assistance programs
  - CAP Roadside Assistance
  - CAP Home Assistance
  - CAP Legal Assistance

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 stability and permanence of its operations. It continues to be independently managed and distributes its products through a network of more than 250 independent brokers. Both companies' intimate knowledge of the Quebec market is a key factor in their ability to offer innovative products and tools to their 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 130 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.

In 2008, L'Unique introduced recreational vehicle insurance to its line of products.

Products and services offered (Broker distribution)

- Auto insurance
- Recreational vehicle insurance (motorcycles, snowmobiles, ATVs and motorhomes)
- Home insurance
- Commercial insurance
- Legal access insurance
- Surety bonding
- Credit insurance
- Assistance programs
  - L'Unique Roadside Assistance
  - L'Unique Home Assistance

York Fire & Casualty Insurance Company

Established in 1955, York Fire was acquired by La Capitale General Insurance in September 2008. With nearly 160 employees at its head office in Mississauga, Ontario, York Fire is a personal lines home and auto insurer that also has a commercial lines component. Since its acquisition by La Capitale, it has continued to operate independently by offering its products and services through more than 200 independent brokerage firms in Ontario and Alberta.

York Fire has an excellent network of partner brokerage firms, and through this network we intend to pursue the company's development, primarily the personal lines component, without however neglecting the commercial lines component, by providing York Fire with solid tools, innovative products and access to a highly sophisticated computer system. These tools will give York Fire everything it needs to grow and prosper, following in the footsteps of L'Unique, which joined La Capitale in 2004.

Products and services offered (Broker distribution)

> Auto insurance
> Home insurance
> Commercial insurance

Officers
Property and Casualty Insurance Sector

Senior Management

John Strome, FCIP
President and Chief Operating Officer

Corporate Affairs

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

Corporate Actuarial

Marthe Lacroix, FCIA, FCAS
Vice-President

François Dumas, FCIA, FCAS
Vice-President – Insurance, Products, Standards and Underwriting

Finance

John Kirouac, CA
Vice-President

Johanne Gauthier, CGA
Senior Director

Claims

Marie-Claude Dulac, FCIP
Vice-President

Pierre Legault, CIP
Senior Director

Marketing and Communications

Pierre Dansereau, MBA
Vice-President

Régis Auclair, MBA
Senior Director

Yves Watier
Senior Director, Marketing

Strategic Operations

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

Human Resources and Organizational Development

Lucie Garneau, CA
Vice-President

Linda Gaboury, B.A., CHRP
Senior Director

Information Technology

Stéphane Dodier
Vice-President

Liette Labrie
Senior Director, Strategic Projects

Richard Gagné
Senior Director, Enterprise Architecture, Processes and Quality Control

Jean Boulé
Senior Director, Systems Development

Sales and Development

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

Marcel Leclerc
Senior Director, Affiliated Damage Insurance Agents Network

Kathleen Gendron, FCIP
Senior Director, Customer Service and Retention

Estelle Thériault
Senior Director, Sales – Groups and Associations

Michel Talbot, FCIP
Senior Director, Commercial Lines Insurance

Michel Duval
Senior Director, Business Development

L'Unique General Insurance

Senior Management

Jean Tardif, CA, MBA
President and Chief Operating Officer

Surety and Credit Insurance

Gaétan Boudreau, Eng. MBA
Vice-President

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

Sales and Development

Yves Gagnon, B.A., CIP
Vice-President

Commercial Insurance

Bruno Perrino, B.A.
Vice-President

Guy Ferland, FCIP
Senior Director

Claims

Richard Consigny, FCIP
Senior Director

Finance

André Boucher, CMA
Senior Director, Finance and Administrative Services

Information Technology

Michel Lévesque
Senior Director, Systems Development

York Fire & Casualty Insurance Company

Commercial Underwriting

Jim Cutler, FCIP, CRM
Vice-President

Personal Lines and Corporate Underwriting

Carolyn Andreacchi McGowan, B.A.S.
Senior Director

Business Development

Chris Weston, MBA
Senior Director

Finance

Katherine Evans, CA, CPA
Vice-President

Claims

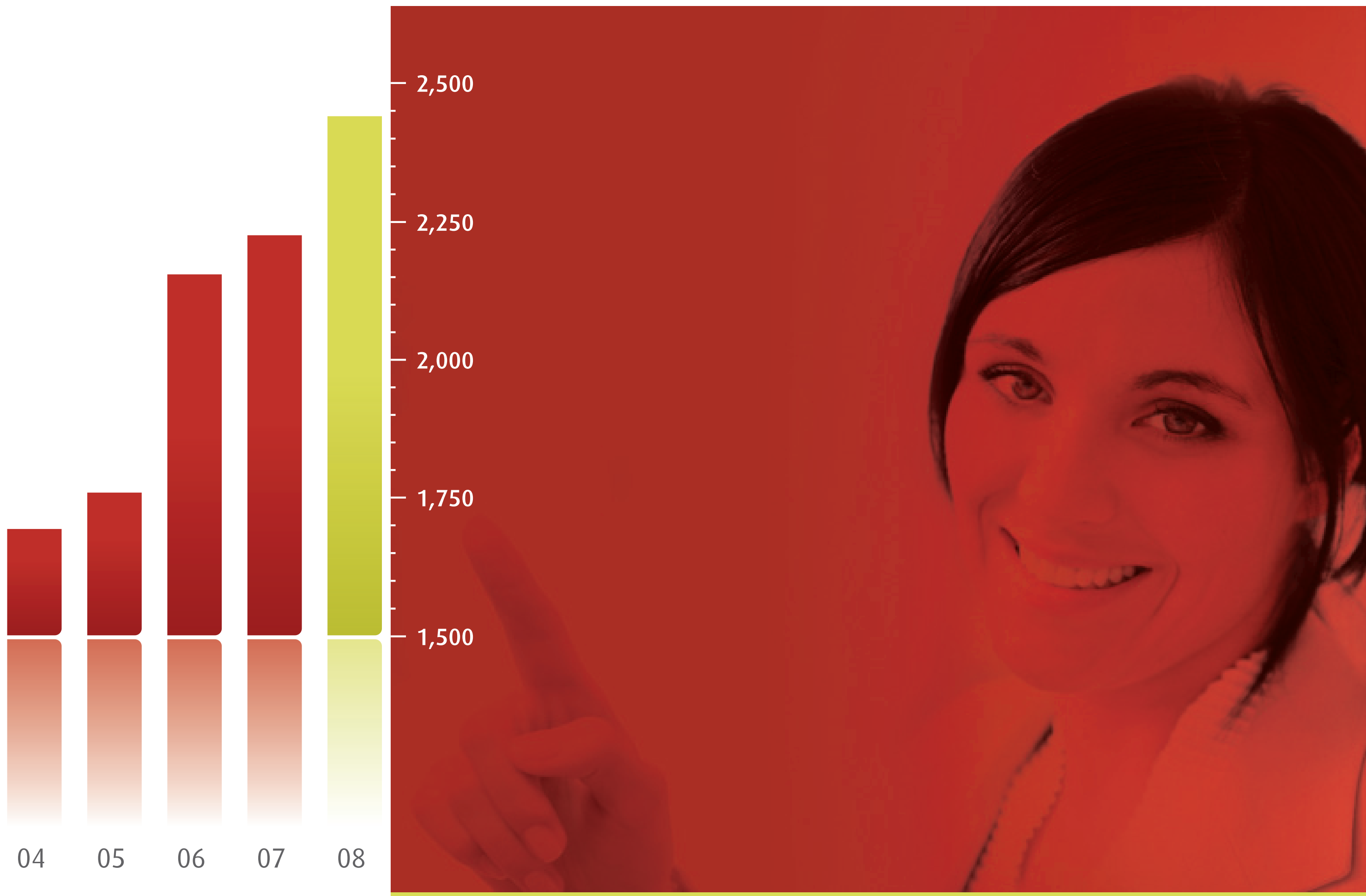
Steve Lewicki, B.E.S., CIP
Senior Director

Marketing

Nancy Covel, CIP, ABC
Senior Director

Operations

Lori Corrigan, B.A., CIP
Vice-President



Number of Employees

La Capitale Financial Group

Points of Service

Life and Health Insurance Sector

Property and Casualty Insurance Sector

La Capitale Financial Group

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

Life and Health Insurance Sector

La Capitale Civil Service Mutual

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

La Capitale Insurance and Financial Services

Head Office
Delta II Building
2875 Laurier Blvd
Suite 100
Quebec QC G1V 2M2
418 644-4200 or 1 800 463-4856

POINTS OF SERVICE

Quebec City
Delta II Building
2875 Laurier Blvd
Suite 100
Quebec QC G1V 2M2
418 644-4180 or 1 800 363-9683

Montreal
425 De Maisonneuve Blvd W
Suite 820
Montreal QC H3A 3G5
514 873-2402 or 1 888 899-4959

La Capitale Financial Services

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

Division Office
425 De Maisonneuve Blvd W
Suite 870
Montreal QC H3A 3G5
514 873-9368 or 1 866 279-9394

FINANCIAL CENTRES

East Regional Financial Centre
Delta I Building
2875 Laurier Blvd
Suite 650
Quebec QC G1V 2M2
418 644-0038 or 1 866 279-9396

Saguenay – North Shore Financial Centre
305 De l'Hôtel-de-Ville St.
Saguenay QC G7H 4W8
418 698-3686 or 1 800 713-8271

South-West Regional Financial Centre
5855 Taschereau Blvd
Suite 204
Brossard QC J4Z 1A5
514 864-4189 or 1 866 279-7384

Sherbrooke Financial Centre
2100 King St. W
Suite 020
Sherbrooke QC J1J 2E8
819 820-3585 or 1 800 713-8236

West Island Financial Centre
3333 Côte-Vertu Blvd
Suite 211
Saint-Laurent QC H4R 2N1
514 873-9369 or 1 866 576-4715

North-West Regional Financial Centre
3080 Le Carrefour Blvd
Suite 520
Laval QC H7T 2R5
514 873-9364 or 1 866 279-0489

Trois-Rivières Financial Centre
Le Trifluvien Building
4450 Des Forges Blvd
Suite 240
Trois-Rivières QC G8Y 1W5
514 873-9364 or 1 866 279-0489

Penncorp Life Insurance Company

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

REGIONAL BRANCH OFFICES

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

Atlantic Canada
632 Rocky Lake Drive
Unit 2
Bedford NS B4A 2T6
902 835-9203 or 1 800 835-9203

Alberta
A-16B
6120 2nd St. S.E.
Calgary AB T2H 2L8
403 252-7757 or 1 800 267-0192

London
4026 Meadowbrooke Drive
Unit 129
London ON N6L 1A4
519 652-0255 or 1 800 934-6128

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

Toronto
55 Superior Blvd
Mississauga ON L5T 2X9
905 696-8477 or 1 888 918-5045

Montreal
4949 Métropolitain Blvd E
Suite 140
Montreal QC H1R 1Z6
514 735-2058 or 1 866 735-2058

Quebec City
2875 Laurier Blvd
Suite 250
Quebec QC G1V 2M2
418 687-2058 or 1 800 463-4632

Saskatchewan
#5 - 2345 Avenue C North
Saskatoon SK S7L 5Z5
306 955-3000 or 1 800 955-3250

British Columbia
#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

Manitoba
2140 Pembina Hwy
Unit B
Winnipeg MB R3T 6A7
204 985-1580 or 1 800 670-1911

AGA Financial Group

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

La Capitale Financial Management

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

La Capitale MFQ Real Estate Management

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

La Capitale Financial Group (cont.)

Property and Casualty Insurance Sector

La Capitale General Insurance

Head Office
Hector-Fabre Building
525 René-Lévesque 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
Anjou QC H1M 2X6
514 906-1700

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

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

Boucherville
204 De Montarville Blvd
Suite 100
Boucherville QC J4B 6S2
514 906-1700

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

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

Drummondville
121 Hériot St.
Drummondville QC J2C 1J5
819 475-1799

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

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

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

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

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

Montreal
425 De Maisonneuve Blvd W, Suite 500
Montreal QC H3A 3G5
514 906-1700

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

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

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

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

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

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

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

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

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

L’Unique General Insurance

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

Montreal
425 De Maisonneuve Blvd W
Suite 750
Montreal QC H3A 3G5
514 768-0707 or 1 877 768-0707

York Fire & Casualty Insurance Company

Head Office
7120 Hurontario St.
Suite 400
Mississauga ON L5W OB2
905 677-9777 or 1 800 676-0967

For information about La Capitale,
please call 418 643-3884 or 1 800 463-5549,
or visit our website at www.lacapitale.com.

We are proud to abide by “green” principles
in our various business lines.

This annual report is printed on
acid-free and elemental chlorine-free cardstock
and paper manufactured with 100% post-consumer fibres
using wind-generated electricity.

100 %

Great care has been taken to reduce
the use of solvents by using vegetable-based inks
that are highly water soluble.

ECO-COMMITTEE

Please recycle this document after use.