



BUILDING ON PEOPLE

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## CONSOLIDATED FINANCIAL STATEMENTS

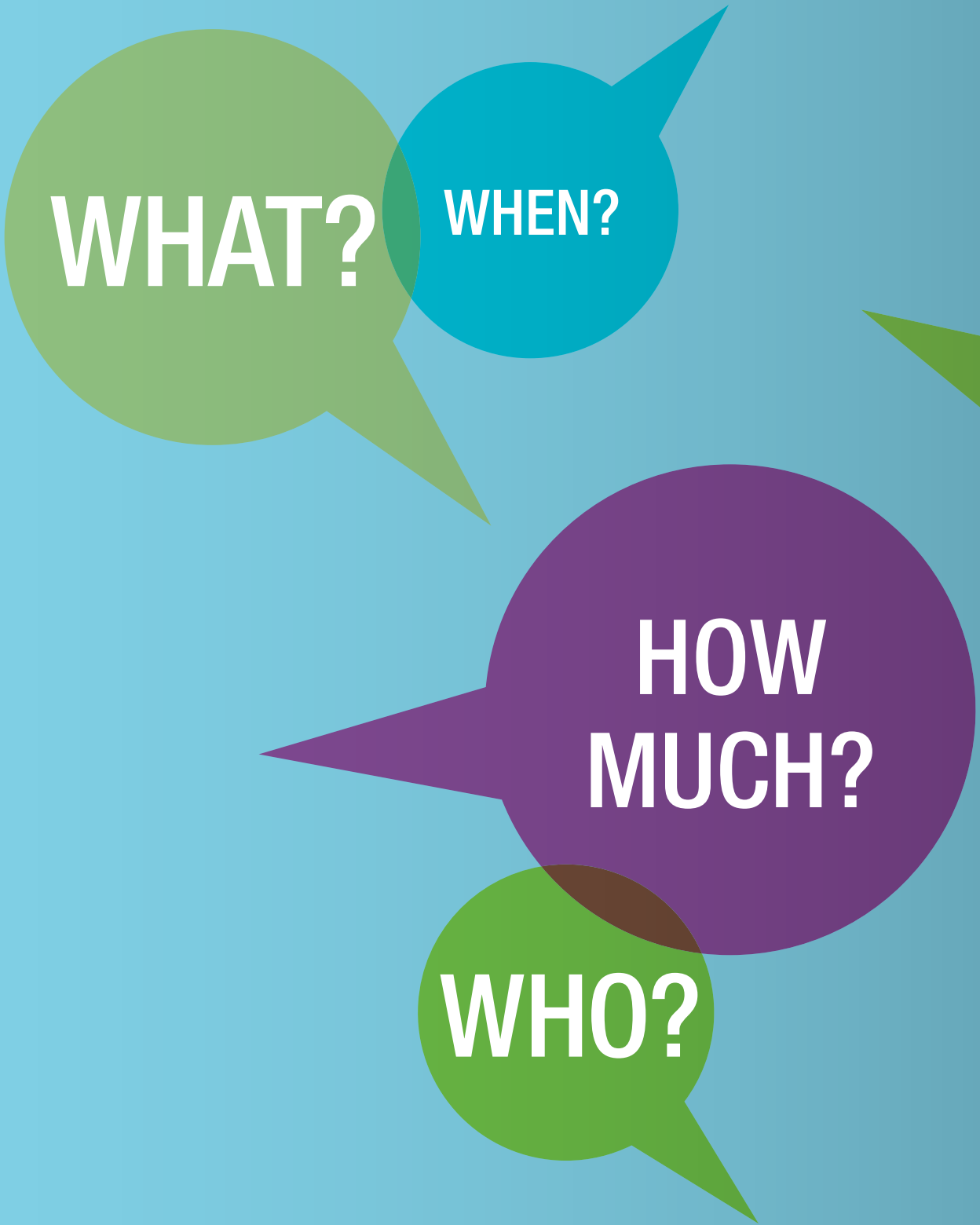
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**\$3.4 BILLION IN ASSETS, UP 11.8%  
FROM THE PREVIOUS YEAR.**

**NET INCOME OF \$50.5 MILLION,  
AN INCREASE OF 28%.**

**19.6% GROWTH IN MEMBERS' EQUITY  
TO A TOTAL OF \$524.7 MILLION.**

**\$12.2 MILLION PAID OUT  
IN PARTICIPATING DIVIDENDS.**

**BUILDING  
PRIDE**





## HUMAN ENDEAVOURS AND SOLIDARITY: A SOLID FOUNDATION

In 2009, La Capitale granted **some \$800,000 in financial assistance** to support various events and initiatives – mainly in the fields of health and social services, education, municipal concerns and the public service.



## **CONCRETE FOUNDATIONS FOR THE FUTURE**

In 2009, La Capitale maintained its commitment to sustainable development in several ways, notably by launching a project to redevelop its Head Office in Quebec City, inaugurating its new Delta 3 building and opening new offices in Mississauga, Ontario. All three buildings are candidates for LEED® certification.



# SUSTAINABLE DEVELOPMENT

## CAPITALIZING ON OUR STRENGTHS

Despite a difficult economic context, La Capitale maintains its growth with total income for 2009 reaching \$1.3 billion, **a 24.8% increase.**



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

# BUILDING ON PEOPLE

## INTERVIEW WITH THE CHAIRMAN AND CEO

“Since 1940, our objective has remained the same: to continually strive to better meet the needs and expectations of our Mutual members under the best possible conditions. La Capitale has a democratic structure with no shareholders to take into account. This enables us to put economic stability and sustainability ahead of maximizing profits. We uphold a long-term vision. We build on people. Promoting their well-being, growing their assets and improving their social environment are central to La Capitale’s mutualist values.”

**You took the helm of La Capitale a year ago. What have you taken away from your first year as the head of the company?**

**René Rouleau:** If I were to make a comparison, I'd say that La Capitale employees are as dedicated to customer service as those who work in health care, social services, education and other public and parapublic sectors.

Like the men and women who work in the public service, our employees devote themselves every day to providing quality service to their clients with courtesy and respect—two qualities that are essential when interacting with the people we serve.

Something else reassures me as well. Although I've only been in charge for a short time, I've seen the extent to which our employees adhere to the core mutualist values of mutual aid, solidarity and equity that set La Capitale apart. This vision provides a focus for our work and makes our organization more innovative without losing sight of the human aspect of our business.

Furthermore, I work every day with seasoned, competent and accessible managers who seek to provide the best possible work environment for their employees. They truly exemplify our business values of integrity, profitability and controlled growth.

Overall, my first year as Chairman of the Board and Chief Executive Officer of La Capitale has been a pleasure and full of positive experiences.

**2009 began on a pessimistic note. How did La Capitale respond to the difficult economic climate?**

**RR:** In January, at the height of uncertainty for the Quebec economy, we sent a clear message to all La Capitale employees and partners encouraging them to resist the pessimism they were encountering on a daily basis. The message was received and our Mutual quickly adopted a positive attitude. We also took specific steps that yielded excellent results.

First, we decided to focus our energy on protecting our clients' purchasing power and assets by keeping our rates highly competitive, continuing to offer secure financial services tailored to the needs of our Mutual members and striving to offer high-quality, easily accessible products.

We also promoted savings, which we consider to be the logical response in the current climate of uncertainty. For example, we offered new savings products, created TFSA-eligible savings vehicles and launched a pilot project for a high-interest savings account, the La Capitale Stow & Grow Account, which was a great success among our employees and members of the public service. Our RRSP campaign, which wrapped up in March 2009, was exemplary due to a highly attractive product offering and interest rate. All of these initiatives put La Capitale ahead of the pack and showcased its creativity and originality.

## “HAVING EMPLOYEES WHO ARE DEDICATED TO THE SUCCESS OF A COMPANY IS AN IMMEASURABLE ASSET. WE OWE OUR SUCCESS TO THE EXPERTISE OF OUR EMPLOYEES AND WE ARE VERY GRATEFUL TO THEM.”

To paint a portrait of the company's performance in 2009, here are a few facts and figures that show how financially sound we are: Total income for La Capitale and its subsidiaries reached \$1.3 billion, up 24.8% from the previous year, and the company held \$3.4 billion in assets. Members' equity grew to \$524.7 million, for a return of 19.6%, calculated on the basis of comprehensive income over equity. The Mutual posted net income of \$50.5 million, which was a 28% increase over the previous year.

These remarkable results in spite of the prevailing economic conditions in 2009 were made possible by the dedication and hard work of our employees, all of whom are part of the great La Capitale family.

### Do you believe that La Capitale's mutualist management structure has positively contributed to its strong financial position?

**RR:** Without a doubt! By definition, what makes our Mutual stand out from the competition is how we pursue both social and economic goals. Since 1940, our objective has remained the same: to continually strive to better meet the needs and expectations of our Mutual members under the best possible conditions. Our management team still applies our founding management principles: to provide excellent customer service, to seek profitability as a means of improving the lives of our members, to ensure the competence and satisfaction of our employees, and to meet the needs of our clients promptly and consistently.

La Capitale has a democratic structure with no shareholders to take into account. This enables us to put economic stability and sustainability ahead of maximizing profits. We uphold a long-term

vision. We build on people. Promoting their well-being, growing their assets and improving their social environment are central to La Capitale's mutualist values. We have reason to be proud of our mutual status. It served us well during the tough economic times we just went through. And everyone benefits from it!

### Both Mutual members and employees?

**RR:** In spite of the difficult economic climate, we have continued to build, protect and grow the assets of our Mutual members. They are the ones who gain the most from our management style. In 2010, La Capitale will celebrate its 70th anniversary. A lot has happened over the past seven decades. We've embraced the future on our own timeline. We've evolved and adopted new technology without ever taking for granted the relationship of trust between our Mutual members and their advisors, who are their point of contact with us. We intend to continue building on this model into the future.

Employees also benefit from this structure as we were not only able to protect existing jobs but also to hire approximately 100 new employees over the course of the year. At the end of 2009, we employed more than 2,700 people who are proud to work for an organization such as ours. Our employees are our strongest asset. That's not a cliché; it's the truth. Having employees who are dedicated to the success of a company is an immeasurable asset. We owe our success to the expertise of our employees and we are very grateful to them.

## “WE BUILT THE DELTA 3, THE AREA’S FIRST ‘GREEN’ OFFICE BUILDING.”

### How will La Capitale stay ahead in such a competitive market?

**RR:** La Capitale must now become a benchmark mutual company. We need to explain to people how a mutual like La Capitale has an edge over capital stock financial institutions. In order to do this, we will need to completely overhaul our brand image.

We emerged practically unscathed from the financial crisis, we are financially very stable and our operations are profitable and experiencing strong growth. We will be launching new life and health insurance products, investment and savings vehicles, and property and casualty insurance products. We have ambitious plans, in line with our means, which will allow us to assume a leadership position on the insurance market.

### Is the expansion of Head Office part of those plans?

**RR:** Over the last three years, we’ve invested heavily in real estate. We built the Delta 3 on Laurier Boulevard in Quebec City, the area’s first “green” office building and, as part of this same project, we modernized the existing Delta 1 and 2 buildings. We also opened a beautiful building in Mississauga that provides shared office space for our two companies in Ontario, PennCorp Life Insurance Company and York Fire & Casualty Insurance. Both buildings were designed with a view to achieving LEED®–CS Gold certification.

In 2009, we launched another large-scale project: the expansion of our Head Office on Quebec City’s Parliament Hill. Once completed, this building will cost over \$80 million and represent a significant investment for La Capitale. It will bring together all employees who are currently spread out among several buildings in Quebec City and will be an architectural gem. The building will be located near the Parliament building, the seat of Quebec’s government and the heart of its public service. Symbolically, this shows that La Capitale intends to remain close to its core clientele and is invested in continuing to provide it with excellent service. So, yes, this is an ambitious project. However, it reflects La Capitale’s desire to affirm itself as one of Quebec’s flagship companies.

### In 2009, a number of senior managers at La Capitale retired and more will be retiring soon. How do you plan on filling these positions?

**RR:** We took action even before these retirements were announced. Three years ago, we started challenging our mid-level managers to demonstrate their ability to strategically manage human resources. Then, with the assistance of experts in the field, we established a management profile conducive to the development and growth of our company.

Those who accepted the challenge benefited from customized professional development and an innovative mentorship program.

The program generated impressive results. In spite of the retirements of five key vice-presidents, our organization continued to excel as four of the five vacant positions were filled internally, which is a testament to the expertise of our management teams and our ability to develop the necessary resources to soundly run our company from within.

On the heels of this success, this plan will be reapplied in 2010-2011 as there will soon be another wave of retirements.

### **So the future is looking bright for La Capitale?**

**RR:** Yes. We remain both optimistic and realistic. Although our industry was not as heavily impacted as other sectors by the economic slowdown, we need to remain vigilant.

Quebec's traditional insurance market is reaching maturity. For La Capitale to rise above the rest, it must continue to be innovative. The relationship of trust we build with our clients will play a key role in this. Our relationship with our employees will be even more crucial as we look to the future. By increasing the retention rate of our employees, we will have a significant edge over the competition. A company's future success depends heavily on maintaining a satisfied and loyal team.

Finally, La Capitale's expansion in the rest of Canada will be key to our future development. However, we will need to be patient as truly exceptional acquisition opportunities are rare. We will stay abreast of any opportunities for growth in keeping with our mutualist management style and our careful investment strategy.



**OFFICERS OF LA CAPITALE FINANCIAL GROUP MEMBER COMPANIES** (left to right)

Jean Tardif  
*President and Chief Operating Officer  
L'Unique General Insurance*

John Strome  
*Outgoing President and  
Chief Operating Officer  
La Capitale General Insurance*

Constance Lemieux  
*President and Chief Operating Officer  
La Capitale General Insurance*

Martin Delage  
*President and Chief Operating Officer  
York Fire & Casualty Insurance  
Company*

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

Steven Ross  
*President and Chief Operating Officer  
Penncorp Life Insurance Company  
and Executive Vice-President,  
Individual Insurance and Annuities*

Mario Cusson  
*Executive Vice-President  
Group Insurance*

**SENIOR MANAGEMENT**  
**LA CAPITALE FINANCIAL GROUP**

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

Robert St-Denis  
*President and Chief Operating Officer*

Pierre Marc Bellavance, LL.M.  
*Corporate Secretary  
Vice-President, Legal Affairs*

Éric Eustache, Eng., M. Sc.  
*Vice-President,  
Technological Infrastructure*

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

Marie-Josée Guérette  
*Vice-President, Communications  
and Marketing*

John Kirouac, CA  
*Vice-President, Finance*

Marthe Lacroix, FCIA, FCAS  
*Vice-President, Internal Audit,  
Integration and Risk Measurement*

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

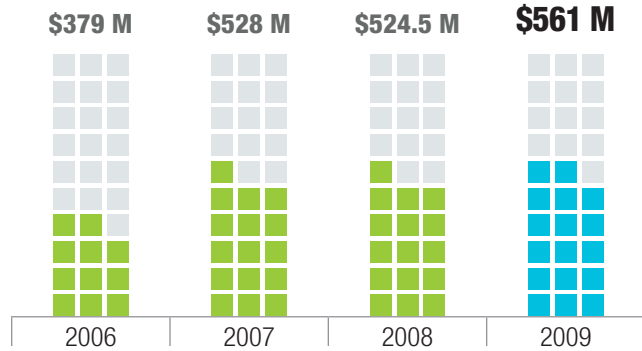
THE YEAR IN REVIEW

# OPERATING SECTORS OF THE GROUP

Although 2009 began under difficult economic conditions, La Capitale was able to stand out from the competition once again. Thanks to its mutualist management approach, its rigorous rules of governance and its sense of innovation, La Capitale had a very successful year, with insurance sales up, savings and investments in exemplary health, and exceptional activity in the real estate division.

## INSURANCE AND ANNUITY PREMIUMS

LIFE AND HEALTH INSURANCE (in millions of dollars)



### LIFE AND HEALTH INSURANCE

The Life and Health Insurance Sector comprises seven of La Capitale Financial Group’s 10 subsidiaries, including La Capitale Civil Service Insurer, La Capitale Financial Services, La Capitale Insurance and Financial Services, Penncorp Life Insurance Company, AGA Financial Group, our interest in Promutuel Life, and La Capitale MFQ Real Estate Management.

In 2009, these subsidiaries generated total income, including non-controlling interests, of \$40.4 million and the recovery of the stock markets enabled us to grow our assets to \$2.4 billion.

### INDIVIDUAL INSURANCE AND ANNUITIES

The individual insurance and annuities division generated significant growth in 2009 despite the negative economic climate at the start of the year. In keeping with our 2009-2011 strategic plan, we focused on four key objectives in 2009: enhancing operational efficiency, developing our distribution channels, improving our products and services and developing the public service market. At year-end, overall sales in premiums and deposits Canada-wide, including La Capitale and Penncorp, had grown by 11%, and individual insurance sales for La Capitale had increased by 12.8%.

With a view to achieving our first objective—operational efficiency—the individual insurance sector took measures to improve the speed and simplicity of our client interactions. In this regard, we implemented an Internet access assistance service and extended our website customer service business hours. This service is now also available on weekends. On the new business front, the turnaround time for issuing contracts was significantly reduced and is now shorter than the average time for the top 10 Canadian insurers.

We also achieved our second objective of developing our distribution networks. Penncorp Life Insurance Company, our member company in Ontario, opened six new regional branch offices, enabling us to increase awareness of La Capitale’s brand and products across Canada. We also added 86 new agents to our sales force, bringing the number of exclusive agents across Canada to 423, including 178 advisors who are solely dedicated to serving our Mutual members. In addition, our broker network grew significantly over the course of the year, totalling more than 1,500 at the end of 2009. We should also point out that over 50% of individual insurance sales are now made outside Quebec.

The sector also improved its products and services, in line with our third objective. We successfully marketed several new products. These included new critical illness insurance products and a new individual mortgage plan with flexible and affordable coverage for mortgage loans in the event of illness, accident or death.

La Capitale has always maintained close ties with public service employees. We continually strive to provide these clients with the personalized service they have come to expect. With this in mind, we developed and promoted exclusive products for them in 2009. These included the Best Buds program, which consists of free accident coverage for 24 months for children under age six whose parents are La Capitale Mutual members. This program was designed in recognition of the loyalty of our Mutual members. We also offered them a special interest rate on our investment products as well as capital guarantees of up to 115% on deposits at maturity. In particular, our 2009 RRSP campaign was an unparalleled success, bringing our business in force in terms of savings, investments and funds to \$836 million. In 2009, 83% of new sales in premiums and deposits in Quebec came from Mutual

members of the Quebec public service. In addition, La Capitale launched a bank account, the La Capitale Stow & Grow Account, which was first offered to our Mutual members. This is an online savings account with a maximized return and a highly competitive interest rate. A TFSA version of this account is also available.

By continuing to apply the business strategies we put into place in 2009, and offering our clients products and services adapted to their needs at each stage of their lives, 2010 will be highly promising for individual insurance and annuities.

#### PROMUTUEL LIFE

As for Promutuel Life, in which we hold a 50% interest, 2009 was also very profitable, with sales growth of approximately 9%. Since 2007, La Capitale distributes its life insurance products through a network of mutuals with approximately 160 points of service throughout Quebec. We are pleased with the results of our partnership with Promutuel Life and will continue to foster this promising business relationship.

## “BY CONTINUING TO APPLY THE BUSINESS STRATEGIES WE PUT INTO PLACE IN 2009, 2010 WILL BE VERY PROMISING FOR INDIVIDUAL INSURANCE AND ANNUITIES.”

### GROUP INSURANCE

Group insurance saw a significant rise in new sales in 2009, which were up 25% over the previous year. This increase brought our premiums in force to \$372 million at end-of-year.

Sales grew in every category. For group insurance, sales were up 21% in Quebec and 58% in the rest of Canada. Credit insurance sales jumped by 16%.

In the public and parapublic sectors, we added eight new colleges to our client list due to their affiliation with the *Fédération nationale des enseignantes et enseignants du Québec* (FNEEQ). We are particularly proud to count these groups among La Capitale's clients.

Over the course of the year, the Pan-Canadian market also experienced significant growth. This was the result of three years of hard work and the excellent partnerships with La Capitale Insurance and Financial Services has maintained with its distributors. At the end of 2009, we continued our focus in this area by adding two new partners. In 2010, we will be creating a team specialized in group insurance in our Mississauga office.

In a continuous effort to improve service quality and operational efficiency, the group insurance sector continued to develop its Espresso computer application. In 2009, we rolled out the administration modules and the policyholder portal. Three focus groups were involved in testing these new features.

We also developed our unique and innovative Red Carpet program, which spotlights brokers in selected markets and promotes personalized service in accordance with the particular needs of these key intermediaries.

Our subsidiary AGA Financial Group posted a decline in income of 6.1% in 2009, primarily owing to economic conditions and a decrease in premiums due to the return to the market of several groups in the municipal sector.

### MORTGAGE LOANS

In 2009, the Loans and Carte Capitale department was reorganized. Due to operational changes and reorganizations within the company, the department's activities were reduced. However, this did not prevent it from closing the year with a mortgage loan volume of \$80 million.

### INVESTMENTS

On the investments front, some of the challenges and opportunities we encountered in 2008 continued into 2009. Government agencies continued to apply extraordinary and experimental measures to stabilize the economy and restore confidence while the financial markets remained extremely volatile.

In line with our mutualist investment strategy, which favours stable, high-quality, diversified and transparent investments providing high current income, we capitalized on market opportunities by increasing the weighting of corporate bonds in all of our bond portfolios by approximately 13% and by significantly boosting our exposure to preferred shares.

We also continued to deploy our real estate investment strategy by completing construction of the Delta building, acquiring a building in Mississauga, Ontario, and beginning expansion of our Head Office in Quebec City. We should point out that real estate holdings represent added investment value for our long-term insurance commitments and provide protection against potential future inflation.

In addition, we improved our cashflow management by investing our available cash flow more quickly and by refining our methods for forecasting cash flow needs.

The recovery of the financial markets beginning in March 2009 allowed us to recover a large proportion of the losses we incurred in 2008.

The economic outlook is now more promising, which means that current market returns are lower than they were in 2009. We will therefore need to selectively diversify our investments, stay abreast of market signs and remain open to new high-quality, transparent investments with long-term potential.

We firmly believe that maintaining our investment strategy and supporting it with a structured, rigorous and cautious approach will continue to generate significant added value so that we can continue to offer attractive products to our clients and Mutual members.

#### REAL ESTATE

The 2009 financial year was an exceptional year for us on the real estate front. La Capitale MFQ Real Estate Management completed several construction projects, moves and reorganizations, and other projects were launched. All of these projects represent major investments that will make La Capitale even more financially solid.

The construction of the Delta 3 building, which began in 2007, was completed in 2009 and tenants were able to move into the new building in the fall. Our member companies occupy some 67,000 sq. ft. of the building. The Delta 1 and 2 buildings were also renovated in order to harmonize the three towers of the Delta complex. These additions added prestige to the real estate complex, which is strategically located in Sainte-Foy, the entry point to Quebec City and the heart of a highly desirable, busy commercial sector. The work was carried out within budget and on schedule. The design and construction of the Delta 3 building required an investment of close to \$50 million. It is the first “green” office building in Quebec City and is pending LEED®—CS Gold certification.

In the context of our pan-Canadian expansion, the first “green” building owned by La Capitale was acquired in Mississauga, Ontario. With a construction cost of \$17 million and a surface area of approximately 60,000 sq. ft., this LEED®–CS Gold certified building houses two member companies of La Capitale Financial Group: Penncorp Life Insurance Company and York Fire & Casualty Insurance Company. This first real estate investment outside Quebec has opened the door to future projects as we have also acquired the land adjacent to the new building.

In addition, after several years of planning, we began expansion of our Head Office on Quebec City’s Parliament Hill in the fall of 2009. The project will cost approximately \$80 million and, once completed, the building will be over 250,000 sq. ft., which is four times the current size of our Head Office. Delivery is scheduled for the spring of 2012 and the building will comply with strict sustainable development criteria with a view to earning LEED®–NC Gold certification.

#### LEGAL AFFAIRS

For Legal Affairs, 2009 presented the opportunity for La Capitale to begin developing a compliance program to be completed by April 1, 2011, the effective date of the Compliance Guideline. A compliance officer position was also created in order to ensure the compliance of our mutual fund and life and health insurance product distribution activities.

In addition, two policies were adopted by La Capitale’s Boards of Directors. The first policy addresses document management, encouraging a more reasonable use of documents across the organization while ensuring their integrity, authenticity and accessibility in accordance with the applicable legislation. The second policy deals with the assessment of the suitability and integrity of our directors and officers and identifies La Capitale’s Responsible Persons. It also establishes the required frequency of such assessments as well as the assessment procedure. Finally, several new operating licences were obtained, allowing the Property and Casualty Insurance Sector to strengthen its operations in other provinces.

## “THE 2009 FINANCIAL YEAR WAS AN EXCEPTIONAL YEAR FOR US ON THE REAL ESTATE FRONT.”

### TECHNOLOGICAL INFRASTRUCTURE

We consolidated our Technological Infrastructure department in 2009. When we created this department in 2008, its scope extended to the teams at La Capitale Civil Service Insurer and La Capitale General Insurance. In 2009, it expanded to cover the management of information systems at L'Unique General Insurance, York Fire & Casualty Insurance Company and Penncorp Life Insurance Company.

We completed several large-scale projects, including recording calls to our mortgage loan department, launching of the La Capitale Stow & Grow Account, premium collection, consolidating the company's Active Directory for all La Capitale employees, updating the infrastructures supporting Opus, the premium management program used by La Capitale General Insurance, centralizing the telecommunication network within the Group and, finally, installing and implementing IP telephone service at York and Penncorp.

In addition, the Information Assets Security department actively participated in implementing an information security awareness campaign for all La Capitale employees. This department produced guides for applying security measures during computer updates and carrying out online security tests, as well as instructions for online access. It also supervised several recovery and penetration tests. Finally, it participated in the implementation of security incident management as well as reviewing and updating the business continuity plan in line with the contingency plan.

For the IT support department, 2009 was a very active year. It relocated, reconnected and tested computers and telephones for more than 1,000 employees throughout La Capitale's various office buildings, in addition to moving York Fire and Penncorp employees to their new head office in Mississauga. It also set up and installed more than 650 computers for the Group and responded to some 30,000 technical support requests.

## “STARTING IN 2010, OUR RECENT DECISIONS AND INITIATIVES SHOULD REAP SIGNIFICANT REWARDS.”

### OUTLOOK

The future looks very bright for the Life and Health Insurance Sector. Starting in 2010, our recent decisions and initiatives in terms of technological investments and improvements should reap significant rewards in making future improvements to our customer service quality.

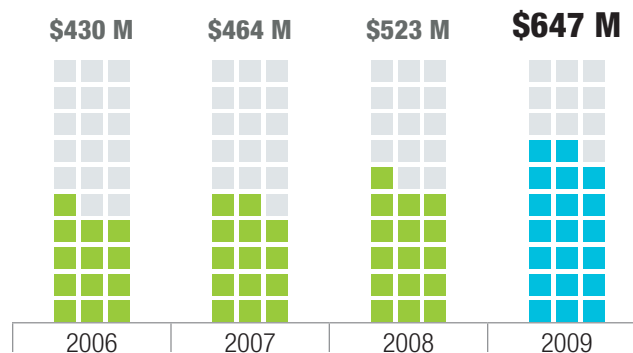
The sustained growth we have experienced in recent years should continue for individual insurance with the opening of three new regional branch offices in 2010. As for group insurance, we forecast approximately the same volume of sales in Quebec as in other provinces.

The 2009 test launch of our brand-new banking product, the La Capitale Stow & Grow Account, was very successful. The results we achieved convinced us that we can acquire market shares traditionally held by banking institutions. We will be launching a major marketing offensive for this product in 2010.

While we are aware of the need to invest heavily to maintain long-term growth, we are also conscious that any product we develop must also be profitable in the short term.

The impressive results we are seeing today are first and foremost due to the hard work of our employees, financial security advisors and management team. We thank them for the dedication, professionalism and unfailing support they show every day. We would also like to extend our sincere thanks to our the members of our Boards of Directors for their sound governance and support.

## ANNUALIZED WRITTEN PREMIUMS PROPERTY AND CASUALTY INSURANCE (in millions of dollars)



### PROPERTY AND CASUALTY INSURANCE

The Property and Casualty Insurance Sector, which includes La Capitale General Insurance, L'Unique General Insurance and York Fire & Casualty Insurance Company, had an exceptional year, achieving balanced growth and profitability while continuing to provide first-rate customer service and maintain employee motivation and commitment to success.

Consolidated net income for 2009 reached \$20.4 million, with a 22.1% return on equity, calculated on the basis of comprehensive income over equity. These are excellent results considering our strategic investment project for pan-Canadian expansion and our 2008-2011 investment plan for the development and implementation of integrated computer systems across all of our companies.

Like all companies, La Capitale was impacted by the stock market downturn in 2008. However, we resisted the pressure and maintained our course. Our long-term vision paid off and we were able to benefit from the recovery of the markets. Available-for-sale financial assets grew by nearly \$25 million, net of income taxes, in 2009. This not only demonstrates the high quality of our assets, it attests to the sound and prudent management and appropriate allocation of these assets.

Controlled growth, that is growth tempered with profitability, is one of La Capitale's core business values. And 2009 was no exception. Once more we can say "Mission accomplished." Our companies reported net growth of \$124 million, including close to \$50 million

in organic growth, reaching a total of \$647 million in annualized written premiums and \$680 million in written premiums. That's a 51% increase over 2006.

These results are remarkable given that average growth in the property and casualty insurance market has remained 2% for the last five years. Our pan-Canadian expansion and strong growth in the commercial insurance and surety line sectors have significantly contributed to these results.

Spreading our risk was a key priority for the Property and Casualty Insurance Sector and this long-term vision has already yielded very positive results.

It is worth noting that L'Unique General Insurance broke the \$100 million mark in premiums in 2009. By year-end of 2010, L'Unique will have doubled its sales since it was acquired by La Capitale, yet another sign of its profitability.

These results were achieved in a highly competitive market, one in which we are successfully affirming our presence. This is an impressive achievement given the difficult economic climate and enables us to look towards the future with confidence and optimism.

### BALANCING PROFITABILITY AND GROWTH

2009 was another profitable year for this sector.

**In Quebec**, the loss ratio improved significantly from 67.2% in 2008 to 60.5% in 2009. Our consolidated management fees were 29.5% in 2009, compared to 27.7% in 2008. This generated a improvement of some \$25 million in the pre-reinsurance combined operating profit for La Capitale and L'Unique.

Our expansion into **Ontario, Alberta and British Columbia** since acquiring York Fire & Casualty Insurance Company in the 4th quarter of 2008 gave us a foothold in these new markets.

Since 2007, we've observed a downturn in the property and casualty insurance market outside Quebec, particularly in auto insurance, which is government-regulated in other provinces. The systems are too rich and vulnerable to abuse; results for 2009 were down industry-wide.

As a concrete effort to improve the market, in November 2009, the Ontario government announced changes to its auto insurance plan to take effect in September 2010. These changes will reduce the impact of inflation on claims-related costs while ensuring access to auto insurance for consumers in the province. However, insurers will not see improvements in their results until the end of 2010.

Another determining factor in 2009 was the confirmation of the Supreme Court's ruling on the constitutionality of the cap on payments for minor bodily injuries in Alberta. This decision was well received by insurers whose premium rates and reserves would have been insufficient had the Court's ruling been overturned.

### AUTOMOBILE INSURANCE

The excellent results posted by auto insurance in Quebec enabled us to reduce premiums for our clients for the sixth straight year.

Gas prices, the economic climate and public and private prevention campaigns for speeding and drinking and driving all played key roles in reducing the frequency of accidents and will continue to do so in the future.

In spite of a continued reduction in the frequency of auto theft, it remains a concern for all of our companies. In fact, losses due to auto theft represent 12% of our total claims.

However, we believe auto thefts will continue to decline in the coming years due to the numerous awareness campaigns about this problem.

We would like to take this opportunity to highlight the efforts of the *Groupement des assureurs automobiles* (GAA) and the *Société d'assurance automobile du Québec* (SAAQ) in its program to authenticate rebuilt and imported vehicles which, when introduced, will offer added protection to Quebec consumers. This is an excellent anti-fraud tool.

The RV Solutions Insurance® program for owners of recreational vehicles such as motorcycles, snowmobiles, ATVs, motorhomes, trailers and boats is an ongoing success. We are among the top

direct insurers in this area and among the first in Quebec to insure these types of vehicles. Our products offer excellent coverage and our prevention campaigns are making positive inroads among RV users.

### HOME INSURANCE

In 2009, Quebec was largely spared from catastrophic events. Our performance was therefore the best in recent years and resulted in a combined operating profit for La Capitale and L'Unique.

Only a few events marked the year, namely thunderstorms in the Montreal area in July, a tornado in Mont-Laurier, Quebec in August and a few major fires. However, we always provide for these types of events in our budgets in order to be able to pay claims from our insureds, which is our primary role.

In spite of the absence of weather-related events in 2009, water damage remained the primary reason for claims and represented 43% of claims paid. Fire damage represented 33% of claims paid.

Climatic changes in recent years have resulted in much more frequent natural disasters. We are aware that not every year can be like 2009. That's why we continually strive to set fair premiums, while remaining competitive.

### COMMERCIAL INSURANCE AND SURETY LINES

Commercial insurance generated impressive growth of 25% across our three companies. Total premium volume increased by \$13 million in 2009 and we should break the \$100 million mark by the end of 2010, yet another sign of profitability.

In spite of the difficult economic climate, our surety lines division achieved remarkable results, posting 17.6% growth and a 21% operating profit. Our team's excellent service and recognized expertise are an advantage that is greatly appreciated by L'Unique and York Fire's network of partner brokerage firms.

Our commercial insurance and surety line sectors continue to be profitable. The groups we insure and our partners remain loyal. Given our brand recognition, expertise, and quality products and service, we are confident that we will see controlled growth tempered with profitability in these sectors in the coming years.

### LEGAL ACCESS INSURANCE

Legal access insurance continues to fill its primary role, which is to help our clients protect and defend their rights at a very affordable cost.

In 2009, La Capitale General Insurance processed some 13,000 cases, which clearly demonstrates that this product meets an important need for our loyal clients.

In order to better serve our clients' needs and meet increasing demand, in 2010, we will add certain types of family law coverage to our offering.

### ASSISTANCE SERVICES

Our various assistance services exemplify two of our mutualist values: mutual aid and solidarity. Our clients not only have a right to a financial settlement when they make a claim, they also deserve our help when they need it. Whether its legal, roadside or home assistance, our services are greatly appreciated by our clients. In 2009, our assistance centre answered some 30,000 calls and nearly 25,000 clients benefited from our roadside or home assistance service. This is tangible proof that the assistance services provided by La Capitale General Insurance and L'Unique General Insurance offer significant added value to our insurance products.

## “OUR CLIENTS NOT ONLY HAVE A RIGHT TO A FINANCIAL SETTLEMENT WHEN THEY MAKE A CLAIM, THEY ALSO DESERVE OUR HELP WHEN THEY NEED IT.”

### MAXI-PRIVILEGE

Since 2004, all La Capitale General Insurance clients who are Quebec public service employees have benefited from \$5,000 of free coverage under the Maxi-Privilege accidental death insurance program, qualifying them as Mutual members of La Capitale Civil Service Insurer. Since the program was launched, La Capitale has paid \$235,000 in claims to its Mutual member beneficiaries.

### PAN-CANADIAN EXPANSION

In the 4th quarter of 2008, we acquired York Fire & Casualty Insurance Company, which operates in Ontario, Alberta and British Columbia. Acquiring this company was a perfect fit for our strategic orientations and has helped us access the Ontario market, which represents 47% of the Canadian market, and will also serve as springboard for our expansion into the rest of Canada.

This acquisition was well received by the industry. York Fire employees were extremely supportive throughout the year during the reorganization process. They clearly demonstrated their expertise and cooperation. In the spring of 2009, Martin Delage took the helm as President of the company.

In addition, we were supported by York Fire's network of brokerage firms, enabling it to maintain its market position and increase profitability. The Insurance Brokers Association of Ontario (IBAO) and the Insurance Brokers Association of Canada (IBAC) provided ongoing guidance to York Fire to help ensure a smooth transition. We would like to thank them for their support.

York Fire will be a key player in our pan-Canadian expansion. To ensure our long-term sustainability, it is crucial that we diversify our activities geographically and by business line.

We are gradually integrating La Capitale's philosophy and approach at York Fire and are laying a solid financial foundation to make it a profitable company in the future. In 2010, we will implement Opus, our integrated computer system.

In 2009, we focused on setting this company, which underwrites some \$115 million in premiums, on the path to profitability, in spite of a negative market cycle. We developed a multi-phase action plan, which is now being implemented.

In 2009, York Fire's losses were already reduced by 30% and we expect the company to achieve profitability by 2011.

## “WE ARE PROUD TO REPORT THAT WE CREATED 60 NEW POSITIONS IN THE PROPERTY AND CASUALTY INSURANCE SECTOR IN QUEBEC.”

### DISTRIBUTION CHANNELS

In 2008, La Capitale General Insurance and its subsidiaries consolidated their respective distribution channels. In 2009, we already felt the effects of these changes. La Capitale's distribution channel, particularly its network of affiliated agents, performed extremely well.

Our distribution channel is modern and efficient. We serve a diverse clientele through our network of 22 regional branch offices, our online quotation system, and our network of affiliated agencies which includes 186 agents throughout Quebec.

At L'Unique, distribution takes place through a network of 250 brokers, while York Fire has 200 brokerage firms and some 350 points of sale in Ontario and Alberta.

La Capitale has always focused on providing excellent customer service. Our employees and sales force are well aware of this. We continually strive to provide them with the best possible support so they can serve their clients well. This is a philosophy that is shared by L'Unique and York Fire.

Our distribution channel enables us to reach our target clients. Among these clients, the public sector market remains a top priority. We increased our presence in this market and reached a penetration rate of over 22%. We will continue to focus our efforts on our owners, our Mutual members.

### TECHNOLOGICAL DEVELOPMENT

The success of a company is in large part due to the efficient and effective use of the tools it develops and makes available to its employees and distribution channels. Information technology is one of our most valuable tools. Since its inception, La Capitale General Insurance has been on the cutting edge in terms of information technology development and equipment. La Capitale uses high-performing computer systems that are continually updated so that it can meet new needs and future challenges.

In 2009, we pursued our technology investment plan, which was rolled out in 2008 and will extend to 2011.

Among the projects we completed was the development of a new infrastructure for our computer system designed to set us apart from the competition. It combines a number of features in a single system so that it can be used by multiple companies and distribution channels in multiple languages and across multiple territories. This will give us a clear advantage in the industry.

We also completed a new computer system for L'Unique auto insurance which is highly appreciated by our brokers. At La Capitale General Insurance, we implemented a financial module enabling us to harmonize financial and human resource management among all of La Capitale Financial Group's entities. We will implement the same module at L'Unique and York Fire in 2011.

Web access has become a top priority for La Capitale in recent years. We now offer our clients the option of requesting online quotations for many of our products via our website. Furthermore, our clients can access their files virtually through our online services. They can log on to securely view their insurance contracts and even carry out certain transactions.

#### PUTTING SAFETY FIRST

La Capitale has always been very aware of the importance of safety and prevention at all levels. La Capitale Financial Group has been an important partner of Quebec's *Ministère de la Sécurité publique* in promoting fire safety for close to 20 years. In addition, for the last two years, we have worked with the Quebec *Ministère des Transports* on a large-scale safety awareness campaign targeting snowmobilers and ATV riders. In 2009, we expanded our partnership and developed an awareness campaign with *Éduc'alcool* to discourage snowmobilers and ATV riders from drinking when practicing their favourite outdoor sport. These awareness campaigns will eventually be launched Canada-wide with York Fire.

#### EXPERTISE, EXPERIENCE AND COMMITMENT

We are keenly aware of the important contribution our employees bring to our companies. Our success rests on the quality of our human resources. We strive to be an employer of choice and work hard to provide a gratifying, balanced and productive work environment for our employees.

The economic climate in 2009 created much uncertainty. In the face of such instability and precarious conditions, many people in various sectors feared for their jobs. However, La Capitale and its member companies persevered and we are proud to report that not only did we keep our entire staff, we were able to create 60 new positions in the property and casualty insurance sector in Quebec.

Over the course of the year, our senior management team travelled throughout the province to meet with employees. This served as an opportunity to keep employees informed of our achievements and projects and to promote dialogue. This type of two-way communication is extremely beneficial for both management and employees. It provides a forum for La Capitale General Insurance to share its objectives with employees and to include them in initiatives aimed at achieving these goals. We firmly believe that our employees' satisfaction hinges on good communication.

La Capitale is recognized as an employer of choice, which enables us to attract competent and dynamic employees who will help build our future.

## OUTLOOK

One of La Capitale's strengths lies in its ability to clearly map out its activities for the short and medium term and the strategies needed to achieve success. We have clearly established our future projects and we have the means to accomplish them. Our financial stability year after year is one of our strongest assets.

The strategic direction for our three property and casualty insurance companies for 2010-2012 will focus on sustainable development and creating a culture of execution guided by our mission and values.

Communication plays a fundamental role in our strategic planning and performance measures are continually monitored to ensure that our companies are taking the right steps to maintain results.

In 2010, we will continue to roll out our distribution networks, particularly our affiliated agent network, which we intend to develop to maturity.

We will also further develop our e-business platform in order to meet future client needs online. Another priority in 2010 will be further developing our commercial insurance line in order to meet market demand.

We will focus our efforts on increasing our penetration rate of the public sector market and further exploit the market potential in the Greater Montreal area, which will enable us to accelerate growth for La Capitale General Insurance and L'Unique General Insurance in line with our objectives.

We will pursue the investment action plan for York Fire & Casualty Insurance Company and promote the growth and development of L'Unique General Insurance.

In early 2010, La Capitale launched a wide-scale advertising campaign with the slogan "Consider it done." As the slogan suggests, the messages used in the campaign centre on service quality, assistance, safety, simplicity, family and human values.

## “WE WILL FURTHER EXPLOIT MARKET POTENTIAL IN THE GREATER MONTREAL AREA, WHICH WILL ENABLE US TO ACCELERATE GROWTH.”

### TEAMWORK IS THE WATCHWORD

In 2009, we not only met our expectations and objectives, we exceeded them. Once again, it was thanks to our employees in all of our member companies that we were able to achieve these results. We are fortunate to be able to rely on their experience, motivation, expertise, confidence and dedication. We would like to take this opportunity to extend our thanks and recognition for their hard work.

We would also like to thank our management team for their invaluable cooperation and support. Our gratitude also extends to the members of our Boards of Directors for their support and confidence.

2010 is shaping up to be a promising year. Our entire group is equipped with the human, material and financial resources needed to achieve their goals, and we are confident that by year-end we will be able to say, “Consider it done”—well done!



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



John Strome  
*Outgoing President and  
Chief Operating Officer  
La Capitale General Insurance*

### PARTING WORDS

After working in the property and casualty insurance industry for 34 years, 25 of which I spent with La Capitale General Insurance, I will be retiring at the end of this financial year. My time here has left me with indelible memories. I'm proud of what our team has accomplished, while ever mindful of our key values and the importance of putting people first.

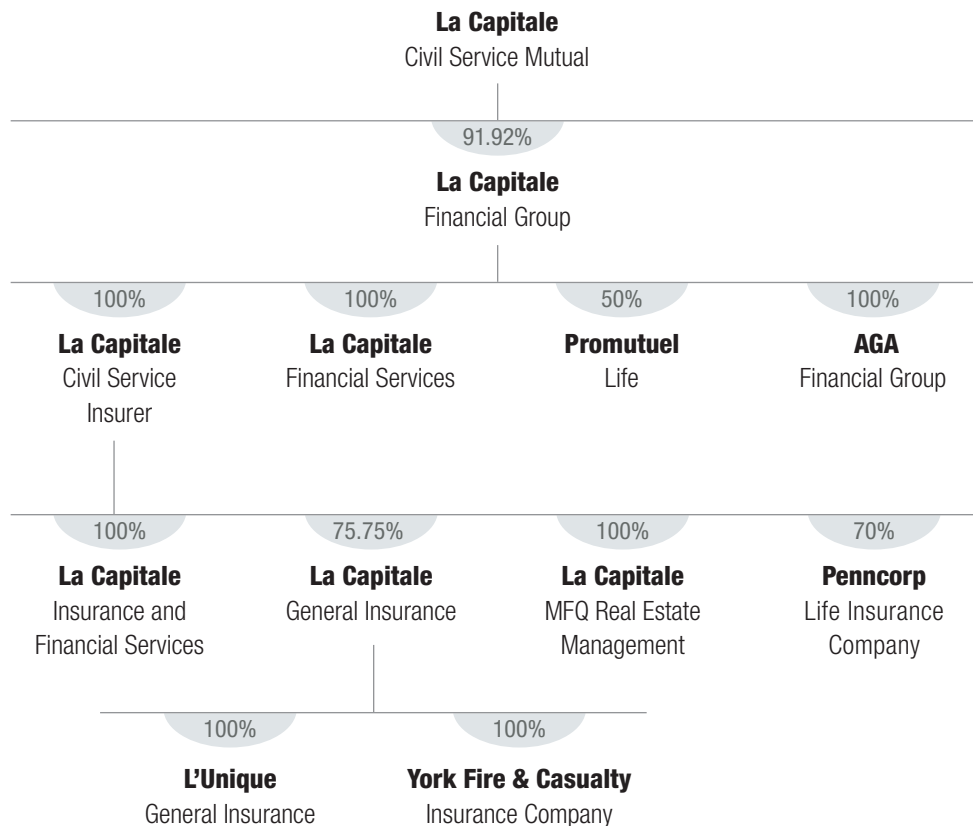
I'm leaving a financially sound company which has always distinguished itself through its innovation and competence. I would like to thank my employees, my colleagues, the members and chairs of the Boards of Directors and La Capitale Financial Group for the cooperation, support and confidence they have continually shown me over the years. I will always treasure my experience here and I wish La Capitale continued success long into the future.

John Strome



# LA CAPITALE CIVIL SERVICE MUTUAL AT A GLANCE

## CORPORATE STRUCTURE



## OUR MUTUALIST VALUES

- ▶ Democracy
- ▶ People first
- ▶ Mutual aid and solidarity
- ▶ Intergenerational financial balance
- ▶ Valuing the role of public administration employees

## OUR BUSINESS VALUES

- ▶ Integrity
- ▶ Profitability
- ▶ Service quality
- ▶ Controlled growth
- ▶ Employee satisfaction



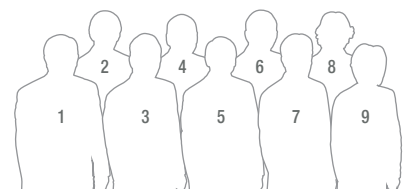
## MEMBERS OF THE BOARD OF DIRECTORS

LA CAPITALE CIVIL SERVICE MUTUAL

- 1** René Rouleau  
*Chairman*
- 2** Dominique Dubuc  
*Vice-Chairman*
- 3** Jean-Paul Beaulieu

- 4** Nikolas Ducharme
- 5** Richard Fiset
- 6** François Jutras

- 7** François Latreille
- 8** Danielle Poiré
- 9** Louise Potvin



# BUILDING

## TOMORROW'S LEADERS

Over the course of 2009, La Capitale experienced a wave of retirements, including five vice-presidents. Thanks to our succession plan, we were able to fill these key positions with competent and seasoned individuals, mostly from within the company.

## 2009 APPOINTMENTS



Marthe Lacroix, FCIA, FCAS  
*Vice-President, Internal Audit,  
Integration and Risk Measurement  
La Capitale Financial Group*



Éric Eustache, Eng., M.Sc.  
*Vice-President, Technological  
Infrastructure  
La Capitale Financial Group*



Pierre Marc Bellavance, LL.M.  
*Corporate Secretary and  
Vice-President, Legal Affairs  
La Capitale Financial Group*



Marie-Josée Guérette  
*Vice-President, Communications  
and Marketing  
La Capitale Financial Group*



Clément St-Laurent  
*Executive Vice-President and  
Chief Executive Officer  
AGA Financial Group*



Mario Cusson, CA, MBA  
*Executive Vice-President  
Group Insurance*



Constance Lemieux  
*President and Chief Operating Officer  
La Capitale General Insurance*



# BUILDING

## WITH INTEGRITY, EQUITY AND TRANSPARENCY

### GOVERNANCE

La Capitale's rules of corporate governance are a consolidation of 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 also serve to clarify the roles of the Board of Directors and its committees, delineating their respective responsibilities. These principles of governance entail a review of the Professional Code of Conduct and Ethics, which sets out the requirements and constraints that the Board directors, managers and employees of La Capitale and its subsidiaries must follow in the course of their professional activities.

### BOARD OF DIRECTORS

The members of the Board of Directors are selected to 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.

# BUILDING

## ON SOLID FOUNDATIONS

### RISK MANAGEMENT

The industry in which La Capitale does business is founded, first and foremost, on client trust. When thousands saw their trust in the industry shaken in a few short months by a series of financial scandals, La Capitale proved itself to be a strong, solid company that investors can rely on. By conducting its business with a firm commitment to ethics, integrity and competence, La Capitale continues to be able to meet the needs and expectations of its clients.

The business environment in which La Capitale operates is highly regulated, and the management framework set out by the supervisory authorities calls for companies to be held accountable. In this regard, La Capitale must demonstrate that its rules of governance, its risk management policy and its compliance with laws and regulations meet the requirements prescribed by the regulatory bodies. It also needs to ensure that its capitalization is in line with its risk exposure and will allow the company to fulfill its obligations to its insureds.

## LA CAPITALE'S SOUND RISK MANAGEMENT AND ANALYSIS PRACTICES PROVIDE OUR MUTUAL MEMBERS WITH FINANCIAL PEACE OF MIND.

### RISK MANAGEMENT RESPONSIBILITIES

The Board of Directors is responsible for ensuring that the risks assumed by La Capitale's member companies are in keeping with their risk tolerance level, and for ensuring that all members of the group share a common understanding of the impact of these risks. It does so by making sure management puts appropriate policies and frameworks in place for managing risk so it can obtain the information it needs to understand the risks, evaluate the risk tolerance level, adopt appropriate policies and receive periodic performance reports.

The Board of Directors relies on various individuals and committees to help it carry out these responsibilities effectively. The responsibility of monitoring the application of the risk management policy lies with the Audit Committee. The Internal Audit department reports on the quality of the processes and controls set up to manage risk. The Regulatory Compliance and Investment Committees and the Internal Audit, Integration and Risk Measurement department also help the Board carry out its mandate. Lastly, as part of the Dynamic Capital Adequacy Testing, the appointed actuaries for the different member companies produce a financial impact analysis each year based on various plausible adverse scenarios.

### INTEGRATED RISK MANAGEMENT

The new Internal Audit, Integration and Risk Measurement department was created in 2009 to help managers of La Capitale with the task of identifying risks for their department. Management buy-in to the risk management policy is fundamental to the success of this approach. The new department will help managers:

- ▶ Coordinate sound governance initiatives
- ▶ Establish a common, standardized framework
- ▶ Facilitate and coordinate risk identification procedures and follow-up
- ▶ Synthesize, explain and communicate information
- ▶ Implement the risk identification process in the group's various member companies to ensure an integrated, global vision throughout the group

Its role is also to facilitate the use of a common approach for all stakeholders who, in the course of their duties, deal with the concepts of risk management, regulatory compliance, internal audit and security of information assets.

## AN ONGOING PROCESS

Risk management is an ongoing process that must be carried out with complete transparency and simplicity. Its effectiveness depends on three main principles—identification, understanding and communication—in order to ensure a good balance between risk and return.

With this in mind, the managers and employees of La Capitale's member companies are being asked to change how they do things, with the help of the Internal Audit, Integration and Risk Measurement department, to incorporate measures for identifying risks, evaluating the impact of these risks, and finding ways to alleviate that impact.

Once the risks have been identified, they are grouped into broad categories and a number of risks are evaluated within each category, including:

- ▶ **Strategy risk**, which hinges on developing a strategic plan combined with realistic action plans to ensure its implementation
- ▶ **Product, insurance and business risk**, which pertains to knowledge of the markets, product design, pricing, distribution and marketing
- ▶ **Operational risk**, which relates to internal and external fraud, business practices, the quality of the business processes, outsourcing, and risk of damage to assets
- ▶ **Financial risk**, which involves asset/liability matching, the valuation assumptions used for policy liabilities, and credit, market, and liquidity risk
- ▶ **Reputation risk**

With the help of these categories, we are able to see how these risks are interrelated across the group's various member companies.

## CONCLUSION

La Capitale's sound risk management and analysis practices provide our Mutual members with financial peace of mind. In 2009, our disciplined management approach left us well positioned to capitalize on opportunities in the market. With a commitment to prudence, La Capitale has taken the necessary steps to ensure its longevity for the benefit of its Mutual members.



# BUILDING

## ON THE WEALTH OF OUR HUMAN CAPITAL

### EMPLOYEES

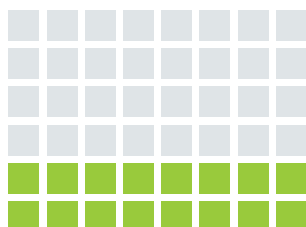
La Capitale's ability to achieve its goals rests on the energy, enthusiasm, competence and commitment of its employees. Their loyalty is solidified by the company's commitment to offering working conditions that promote respect, recognition and accountability. The Human Resources and Organizational Development department, as well as being an active business partner for all member companies of the Group, is responsible for ensuring that La Capitale is and continues to be an employer of choice.

In addition, the existence of ongoing, open dialogue between managers and employees ensures that employees can voice their comments and suggestions for management's consideration in its annual planning exercise. In this regard, a number of information meetings are held throughout the year, including lunches with the Chairman and CEO, welcome breakfasts for new employees and annual employee meetings, in order to share the company's strategic orientations.

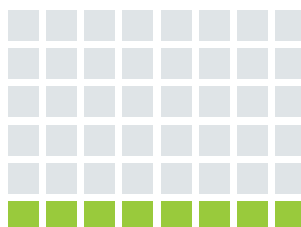
In 2009, the positive work environment at La Capitale contributed to the success of a number of initiatives centred around helping others and capitalizing on the skills of the some 2,700 people who make up the company's work force.

## LA CAPITALE EMPLOYEES

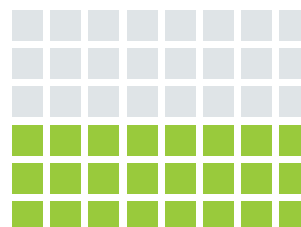
### LIFE AND HEALTH INSURANCE



**888**  
Salaried employees

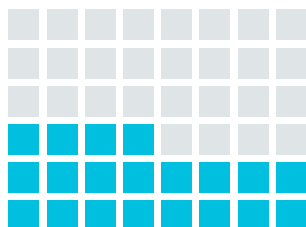


**410**  
Self-employed

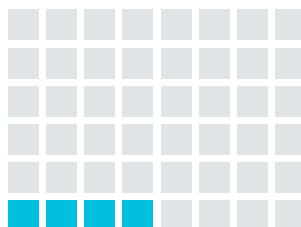


**1,298**  
Total work force  
*Life and Health Insurance*

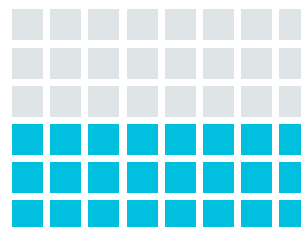
### PROPERTY AND CASUALTY INSURANCE



**1,091**  
Salaried employees

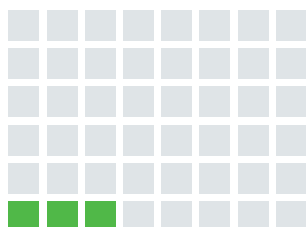


**186**  
Self-employed

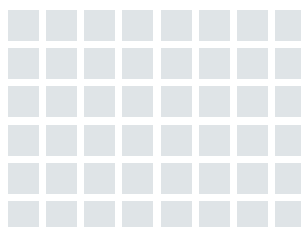


**1,277**  
Total work force  
*Property and Casualty Insurance*

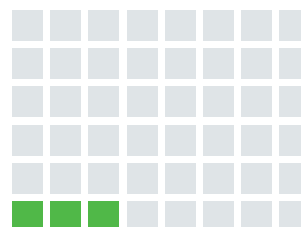
### SHARED SERVICES



**165**  
Salaried employees



—



**165**  
Total work force  
*Shared Services*

### LA CAPITALE FINANCIAL GROUP

**2,144**  
Salaried employees

**596**  
Self-employed

**2,740**  
Total work force  
*La Capitale Financial Group*

## RECRUITMENT

**118**

new hires

## EMPLOYEE PARTICIPATION IN FUND-RAISING CAMPAIGNS

**\$69,809**

United Way and Red Cross

## TRAINING AT LA CAPITALE

**2.4%**

of total payroll devoted to training, **1.4% more than** the legal requirement.

**245**

people took **English** classes.

**70**

people took **French** classes.

### INTEGRATION TRAINING

for all new employees, with a focus on mutualism.

### “SIMPLE IS KEY” ONLINE TRAINING PROGRAM ON INFORMATION SECURITY

to help all employees improve their information security habits.

### INTEGRATION PROGRAM

to help new managers follow a structured approach to facilitate their integration at La Capitale.

### EMPLOYEE RECOGNITION WORKSHOP

offered to all managers across the Group, and introduction of the Bravo! recognition program



# BUILDING

## ON SHARED VALUES

### COMMUNITY COMMITMENT

Over the years, La Capitale has invested time and money to promote and raise awareness of mutualism while continuing to support social economy organizations and initiatives. In 2009, the La Capitale Civil Service Mutual Foundation and the VALORAM Foundation were set up with the primary goal of centralizing La Capitale's various charitable contributions.

These two structures, which are under the management of the Group's Vice-President of Communications and Marketing, will help La Capitale fulfill its twofold desire to contribute to the well-being of the community and to value the role of public administration employees. The role of these foundations is to establish rules governing the allocation of donations and sponsorships. Although these two foundations were set up in 2009, they will only become operational in 2010.

### THE LA CAPITALE CIVIL SERVICE MUTUAL FOUNDATION

manages the community donations policy, with a focus on causes that promote quality of life for individuals, notably with regard to development in the health and education sectors. It assists local or national organizations that intervene directly with individuals whose material or psychological needs require support. This support may either be financial, or in the form of service and volunteer work.



### THE VALORAM FOUNDATION

manages donations and sponsorships that value the role of public administration employees and the development and promotion of mutualism. In a more general sense, it provides assistance for the start-up of cooperative and mutual entrepreneurial organizations, supporting initiatives that promote mutualism among young people and foster the development of democratic management skills. This support may either be financial, or in the form of volunteer work or training.



Before these two foundations were created, La Capitale donated almost \$800,000 to the community, associations, foundations, institutions, and groups and organizations from various communities associated with the public service, including education, health, social services and culture.

From a community standpoint, La Capitale continued to support 211 service, a call centre that provides prompt referrals to community resources.

In the education sector, a number of foundations received a financial contribution from La Capitale, including the *Fondation du Cégep de Sainte-Foy* college foundation, the *Fondation du Collège François-Xavier-Garneau* college foundation, and the *Fondation de l'Université Laval* university foundation.

In terms of cultural events, the company also sponsored or provided financial support to a number of events and activities, including Quebec City's International Festival of Military Bands for the fourth consecutive year.

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 2009.

La Capitale also made a number of donations to various organizations, including the *Conseil québécois de la coopération et de la mutualité (CQCM)*, Quebec's council on cooperation and mutualism, the *Fondation du centre hospitalier universitaire de Québec (CHUQ)* university hospital foundation, and the Young Explorers program, which encourages high school students to explore career options in the public service.

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.

# BUILDING

## A SUSTAINABLE FUTURE

### A VISION FOR THE FUTURE

The concept of sustainable development—and respect for the environment, from which it naturally ensues—is currently a topic of much discussion. Global warming has become a major issue requiring concrete action by individuals and organizations alike.

La Capitale is committed to addressing these major social concerns and is determined to be part of the global movement to promote sustainable development. With the help of its managers and employees, La Capitale introduced a number of new measures in 2009 to further enhance the progress already made in this regard.

## ECO-COMMITTEE PROMOTING ENVIRONMENTALLY-FRIENDLY BEHAVIOUR

Since its creation in 2007, the Eco-Committee's mandate has been to encourage all employees of La Capitale to adopt environmentally-friendly behaviour. The committee, which is made up of La Capitale employees, spared no effort in carrying out its mandate in 2009, producing some very noteworthy results.



### ECO-COMMITTEE

La Capitale, at the heart  
of sustainable development



- ▶ The use of paper forms was reduced by 20%.
- ▶ Printing fewer e-mails or printing them double-sided led to a 12% decrease in paper consumption, on top of the 15% decrease already seen in 2008.
- ▶ Other initiatives were continued during the year, including:
  - ▶ The use of teleconferencing to reduce travel between our Quebec City, Montreal and Mississauga offices.
  - ▶ Recycling of obsolete computer equipment, fluorescent light bulbs, plastics, paper, glass, metal, ink cartridges and, when possible, compostable materials.
  - ▶ Controlling the lighting, temperature and ventilation in our buildings outside of business hours.
  - ▶ Promoting the use of public transit and carpooling.



### **DÉFI CLIMAT AN ENERGY-DRIVEN INITIATIVE**

As part of the second *Défi Climat* climate awareness challenge organized by the cities of Montreal and Quebec City, 499 La Capitale employees from Montreal and 489 more from Quebec City committed to taking concrete steps to reduce greenhouse gases (GHG). Together, they helped reduce GHG emissions by 1.9 tonnes per person.

[www.deficlimat.qc.ca](http://www.deficlimat.qc.ca)

### **CALLING ALL CARPOOLERS**

In June 2009, La Capitale announced that it was teaming up with The Carpooling Network to give its some 2,700 employees throughout various parts of Canada the option to carpool to work. Employees can register on the Network's website to quickly and easily find carpooling partners.

This initiative was developed in response to a 2008 survey in which 630 people at La Capitale expressed an interest in carpooling.

[www.carpoolingnetwork.com](http://www.carpoolingnetwork.com)

### **5,100 TREES FOR 1,230 TONNES OF CO<sub>2</sub>**

The auto fleet for La Capitale Financial Group includes 171 vehicles that produce approximately 1,230 tonnes of CO<sub>2</sub>. In an effort to offset the emission of this greenhouse gas, La Capitale, with the help of SOCODEVI and its CO<sub>2</sub> calculation software, decided to plant 5,100 trees. Half of these trees will be planted in the Saguenay region of Quebec, and the other half in Guatemala. The cost of this initiative is \$10,200.

[www.socodevi.org](http://www.socodevi.org)

## “GREEN” BUILDINGS

Through its company La Capitale MFQ Real Estate Management, La Capitale Financial Group owns 10 buildings in Quebec and Ontario, and leases several others. Given La Capitale’s strong stand in favour of “green” buildings, the company aims to ensure that any new buildings it constructs or acquires are LEED®-certified (*Leadership in Energy and Environmental Design*), requiring them to meet strict environmental and sustainable development standards. 2009 was a very active year on the real estate front.

[www.cagbc.org](http://www.cagbc.org)

[ecochantier.lacapitale.com](http://ecochantier.lacapitale.com)

[www.lacapitale.com](http://www.lacapitale.com)



The Delta 3 building

### DELTA 3: FIRST “GREEN” OFFICE BUILDING IN QUEBEC CITY

Construction on the Delta 3 building, which began in 2007 in the thriving Sainte-Foy district of Quebec City, was completed in 2009 and the building was officially inaugurated on September 17, 2009. The building is in the process of obtaining LEED®-CS Gold certification, and has now been fully leased. All of its tenants, which include four restaurants and a pharmacy, are aiming to obtain LEED® certification for their interior design. La Capitale supports them in this initiative by providing the professional expertise required to obtain their certification, and by covering their program registration and certification costs.



**MISSISSAUGA:****A FIRST FOR LA CAPITALE OUTSIDE QUEBEC**

As part of its expansion outside Quebec, La Capitale inaugurated its first building on Ontario soil on October 22, 2009. Having obtained LEED® – CS Gold certification for meeting strict environmental standards for its construction, La Capitale hopes to obtain LEED® – CI Gold certification for its interior design as well. This building brings the employees of La Capitale's two Ontario subsidiaries—Penncorp Life Insurance Company and York Fire & Casualty Insurance Company—together under one roof.



The Head Office of Penncorp and York Fire in Mississauga

**BOMA BEST PROGRAM BY BOMA**

BOMA is a Canadian organization whose mission is to train, inform and represent building owners and managers in order to encourage efficient building management. It is also the creator of the leading-edge BOMA BEST environmental certification program (formerly called *Go Green*) for existing commercial buildings. La Capitale aims to ensure that all existing buildings it manages comply with this program's energy and environmental standards, and encourages its tenants to take responsibility for reducing the environmental impact of the buildings they occupy. [www.bomabest.com](http://www.bomabest.com)

**HEAD OFFICE EXPANSION HAS BEGUN!**

The Head Office expansion project that was announced a few years ago is now underway. Located on Quebec City's Parliament Hill, the new Head Office will be an architectural gem that blends in well with its surroundings in Old Quebec. Not only will this building meet the LEED® – NC Gold selection criteria, it will also provide better indoor air quality, greater thermal comfort and exceptional lighting, not to mention a spectacular view. Preparatory work for the building's construction began in the fall of 2009, including the demolition of surrounding buildings in accordance with sustainable development criteria. Occupation of the new building is planned for 2012.



La Capitale's new Head Office on Quebec City's Parliament Hill

## ECO-COMMITTEE BLOG A DIRECT LINK TO SUSTAINABLE DEVELOPMENT

With the launch of the Eco-Committee blog on La Capitale's intranet site in 2009, employees can now learn what the company is doing to promote sustainable development, both at work and at home.

This interactive tool is updated periodically and allows employees to share their impressions of current actions, suggest additional ones and read tips on how to protect the environment. The blog is also used to provide follow-up on Eco-Committee meetings.

Employees in other provinces are kept up to date on the company's "green" initiatives in English through a special intranet page.

**ÉCO-COMITÉ**

» Initiatives « écolo » dans certaines succursales

Soumis par Manon Llobé le 23 février, 2010 - 00:00.

Un des rôles de l'Éco-comité est d'informer le personnel afin que celui-ci devienne autonome et initiateur de démarches de développement durable dans son milieu, tant professionnel que personnel. Nous désirons donc vous faire part d'initiatives "écologiques" dans certains bureaux de l'assurance de dommages.

Les employés des bureaux suivants ont instauré un système « maison » de recyclage.

**Capsules**

» Vous devez vous connecter pour poster des commentaires. [En savoir plus](#)

» Gestion des matières résiduelles

Soumis par Danu Paradis le 13 novembre, 2009 - 10:09.

Près de 500 employés de La Capitale travaillent maintenant dans un édifice de hauts standards de développement durable : La Delta III, un édifice à bureaux reconnu par la certification LEED® (Leadership in Energy and Environmental Design). Rien de

Recherche

Neus pointer ma suggestion

Couverture  
Capsules  
Éco-actions  
Trucs et astuces  
Liens utiles  
Archives

FÉVRIER

D	L	M	M	J	V	S
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14	15	16	17	18	19	20
21	22	23	24	25	26	27
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Connexion

CONSOLIDATED FINANCIAL  
**STATEMENTS**

## RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS


The attached consolidated financial statements, which have been approved by the Board of Directors, are the responsibility of La Capitale Civil Service Mutual management. These financial statements have been prepared 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 Appointed Actuary, designated by the Board of Directors of every insurance company, is responsible for ensuring that the assumptions made and the methods used to calculate the policy liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary must issue an opinion on the adequacy of policy liabilities to meet all policyholder obligations of the Mutual at the balance sheet date.

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.

On behalf of management,



René Rouleau  
Chairman of the Board and Chief Executive Officer

Quebec City  
February 25, 2010

## AUDITORS' REPORT

### To the Members of La Capitale Civil Service Mutual,

We have audited the consolidated balance sheet of **La Capitale Civil Service Mutual (“the Mutual”)** as at December 31, 2009 and the consolidated statements of income, comprehensive income (loss), retained earnings and accumulated other comprehensive income (loss), 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, 2009, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Quebec City, Canada  
February 16, 2010

<sup>1</sup> CA auditor permit no.: 10367

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

[in thousands of dollars]

### ASSETS

	2009	2008
Investments <i>[note 5]</i>		
Bonds <i>[note 12]</i>	\$1,505,836	\$1,367,913
Mortgage loans receivable	476,256	484,554
Stocks	411,276	293,256
Real estate	203,537	151,987
Cash and cash equivalents	84,209	60,563
Policy loans	26,775	25,007
Other investments	25,398	29,268
	<b>\$2,733,287</b>	<b>\$2,412,548</b>
Other items		
Premiums receivable	\$316,250	\$264,260
Intangible assets <i>[notes 6 and 21]</i>	55,760	50,502
Other assets <i>[note 7]</i>	170,682	192,516
Future income taxes <i>[note 15]</i>	18,312	18,043
Goodwill <i>[notes 8 and 21]</i>	101,140	98,000
	<b>\$662,144</b>	<b>\$623,321</b>
<b>TOTAL ASSETS</b>	<b>\$3,395,431</b>	<b>\$3,035,869</b>

**LIABILITIES**

	2009	2008
Policy liabilities <i>[note 10]</i>		
Actuarial liabilities	\$1,736,963	\$1,596,109
Provisions for benefits incurred	24,031	20,491
Provisions for dividends and experience refunds	18,226	15,758
Policyholder amounts on deposit	46,303	37,444
	<b>\$1,825,523</b>	<b>\$1,669,802</b>
Other items		
Unearned premiums	\$409,140	\$345,441
Provision for claims and loss adjustment expenses <i>[note 11]</i>	265,945	268,996
Accrued liabilities	165,658	133,221
Deferred net gains	2,314	2,571
Other liabilities <i>[note 13]</i>	40,438	30,682
Future income taxes <i>[note 15]</i>	37,548	38,524
	<b>\$921,043</b>	<b>\$819,435</b>
Non-controlling interests	\$117,192	\$100,834
Subordinated debenture <i>[note 16]</i>	\$7,000	\$7,000
<b>MEMBERS' EQUITY</b>		
Retained earnings and accumulated other comprehensive income (loss) <i>[note 17]</i>	\$524,673	\$438,798
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$3,395,431</b>	<b>\$3,035,869</b>

Commitments *[note 25]*

Contingencies *[note 26]*

*The accompanying notes are an integral part of these 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 YEARS ENDED DECEMBER 31

[in thousands of dollars]

	2009	2008
<b>Revenues</b>		
Insurance and annuity premiums	\$1,147,342	\$1,005,795
Net investment income <i>[note 20]</i>	155,616	33,158
Fees, commissions and royalties	19,305	20,717
Other	1,971	1,051
	<b>\$1,324,234</b>	<b>\$1,060,721</b>
<b>Policy benefits and expenses</b>		
Benefits and claims incurred	\$748,990	\$678,190
Participating policyholder dividends	12,190	12,198
Experience refunds	7,790	4,812
Changes in actuarial liabilities <i>[note 10]</i>	140,854	(5,215)
	<b>\$909,824</b>	<b>\$689,985</b>
Commissions	68,590	74,081
Premium taxes	31,703	27,971
General expenses	238,116	185,167
Non-controlling interests	10,277	11,722
	<b>\$1,258,510</b>	<b>\$988,926</b>
Income before income taxes	<b>\$65,724</b>	<b>\$71,795</b>
Income taxes <i>[note 15]</i>	15,205	32,375
<b>Net income</b>	<b>\$50,519</b>	<b>\$39,420</b>

*The accompanying notes are an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31

[in thousands of dollars]

	2009	2008
Net income	<b>\$50,519</b>	\$39,420
Other comprehensive income, net of taxes		
Unrealized gains (losses) on available-for-sale financial assets, net of income taxes (recovery) of \$19,925 [2008: \$(22,060)]	<b>\$46,696</b>	\$(50,862)
Reclassification of realized gains to net income, net of income taxes (recovery) of \$(1,531) [2008: \$(2,415)]	<b>(3,621)</b>	(5,302)
Non-controlling interests	<b>(7,719)</b>	10,162
	<b>\$35,356</b>	\$(46,002)
<b>Comprehensive Income (Loss)</b>	<b>\$85,875</b>	\$(6,582)

*The accompanying notes are an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31

[in thousands of dollars]

	2009	2008
<b>Retained earnings</b>		
Balance, beginning of year	<b>\$470,169</b>	\$430,749
Net income	<b>50,519</b>	39,420
Balance, end of year	<b>\$520,688</b>	\$470,169
<b>Accumulated other comprehensive income (loss)</b>		
Balance, beginning of year	<b>\$(31,371)</b>	\$14,631
Other comprehensive income (loss), net of taxes	<b>35,356</b>	(46,002)
Balance, end of year	<b>\$3,985</b>	\$(31,371)
	<b>\$524,673</b>	\$438,798

*The accompanying notes are an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

[in thousands of dollars]

	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net income	\$50,519	\$39,420
Adjustments for:		
Changes in actuarial liabilities	140,854	(5,215)
Amortization of intangible assets	7,775	5,624
Amortization of other assets	8,303	7,598
Changes in deferred net gains	2,164	2,507
Changes in net discounts	(38,352)	(39,162)
Changes in fair value of held-for-trading investments	(44,856)	85,858
Realized gains and valuation allowance on available-for-sale investments	(4,149)	(7,367)
Future income taxes	(1,960)	(18,514)
Non-controlling interests	10,277	11,722
Other items included in net income	(11,832)	(421)
	\$118,743	\$82,050
Net change in other items related to operating activities	82,335	41,611
<b>Cash flows related to operating activities</b>	<b>\$201,078</b>	<b>\$123,661</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of stocks and bonds	\$(739,497)	\$(725,166)
Stock and bond sales and maturities	660,452	575,297
Issue of mortgage loans and advances	(194,818)	(175,922)
Maturities, sales and repayments of mortgage loans and advances and securitization	168,000	138,284
Purchase of real estate	(60,396)	(28,419)
Disposal of real estate	11,631	10,750
Additions to intangible assets	(11,780)	(9,249)
Net additions to property and equipment	(8,913)	(4,540)
Net acquisition of other investments and other assets	(457)	(9,987)
Business acquisition [note 21]	(16)	(96,393)
Cash acquired on acquisition of a subsidiary [note 21]	—	167,671
<b>Cash flows related to investing activities</b>	<b>\$(175,794)</b>	<b>\$(157,674)</b>
<b>FINANCING ACTIVITIES</b>		
Net change in bank loans	\$—	\$(15,000)
Repayment of balance of purchase price payable	—	(125)
Repayment of long-term debt	—	(71)
Change in non-controlling interests	(288)	7,549
Dividends paid to non-controlling shareholders	(1,350)	(3,695)
Issue of subordinated debenture	—	7,000
<b>Cash flows related to financing activities</b>	<b>\$(1,638)</b>	<b>\$(4,342)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$23,646</b>	<b>\$(38,355)</b>
Cash and cash equivalents, beginning of year	60,563	98,918
<b>Cash and cash equivalents, end of year</b>	<b>\$84,209</b>	<b>\$60,563</b>
<b>Supplementary information</b>		
Interest paid	\$524	\$1,234
Income taxes paid (recovered)	\$(17,165)	\$36,617

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

[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

#### Goodwill and intangible assets

On January 1, 2009, the Mutual adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook 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, including internally developed intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062. The adoption of this section had no impact on the recognition of goodwill and intangible assets of the Mutual.

#### Credit risk and fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee (“EIC”) issued EIC-173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities*, under which an entity’s own credit risk and the credit risk of the counterparty must be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The adoption of this EIC had no material impact on the values of interest rate swaps and retained interests.

#### Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, *Financial Instruments – Disclosures*. The amendments establish a three-level hierarchy for fair value measurements of financial instruments, based on the significance of the inputs used in the valuations. The amendments also provide for additional disclosures on the nature and extent of liquidity risks arising from financial instruments that the entity is exposed to. These amendments have no impact on how the Mutual determines fair value of financial instruments; however, they require more disclosures. Since the amendments concern disclosure requirements only, they had no impact on the Mutual’s results or financial position. These amendments take effect for the Mutual’s financial statements as at December 31, 2009.

#### Impairment and classification of financial assets

In July 2009, the CICA amended Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3025, *Impaired Loans*.

The distinction between debt securities and other debt instruments has been eliminated for classification purposes. As a result, debt securities that are not quoted on an active market may be designated as loans and receivables and valued at amortized cost. The loans and receivables that the Mutual intends to sell immediately or in the near term are classified as held-for-trading and the loans and receivables for which the Mutual may not substantially recover all of its initial investment for a reason other than credit deterioration are classified as available-for-sale.

Impairment of debt securities classified as loans and receivables are measured and recognized using the model described in Section 3025, *Impaired Loans*. The amendments require that impairment losses of debt instruments classified as available-for-sale be reversed if the fair value increases subsequently and the increase can be objectively related to an event occurring after the loss was recognized.

These amendments take effect for the Mutual’s financial statements as at December 31, 2009 and apply retroactively as of January 1, 2009. The adoption of these amendments had no impact on the Mutual as the financial instruments classified as loans and receivables comply with the new definition in the Section and no reclassifications have been made. Also, no impairment reversals relating to debt instruments available for sale were recognized.

### **Future accounting policy changes**

#### *Business combinations, consolidated financial statements and non-controlling interests*

In January 2009, the CICA issued three new sections to harmonize standards with IFRS: Section 1582, *Business Combinations*, which will replace Section 1581 of the same name, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*.

Section 1582, *Business Combinations*, establishes the accounting principles for the acquirer such as the measurement and recognition of identifiable assets acquired, liabilities assumed, non-controlling interests in the acquired business and the goodwill resulting from the business combination and the standardization of disclosures.

Section 1601, *Consolidated Financial Statements*, establishes standards for preparing consolidated financial statements following a business combination that involves the purchase of an equity interest by one company in another.

Section 1602, *Non-Controlling Interests*, establishes standards for the recognition and presentation of non-controlling interests in consolidated financial statements prepared subsequent to a business combination.

These sections apply to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, provided the entity adopts Sections 1601, 1602, and 1582 at the same time. The Mutual has assessed the impact of the adoption of these new standards on its financial statements and has decided against early adoption.

#### *International Financial Reporting Standards*

In 2008, the Accounting Standards Board 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 assessing the future impact of these new standards on its information systems and financial statements.

## **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 consolidated 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 made by management.

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.

### **Investments**

#### **Recognition**

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, which are classified as loans and receivables and recognized at amortized cost using the effective interest rate method. Policy liabilities are determined using the Canadian asset liability method and the changes in fair value of assets matching the policy liabilities are included directly in policy liabilities. Changes in fair value of assets matching the liabilities and changes in policy liabilities are thus charged directly to income, thereby avoiding discrepancy in accounting treatment.

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 (loss). 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 material or other than temporary, any loss recognized in accumulated other comprehensive income is reclassified to income. An impairment loss recorded in income may be reversed, in the case of a debt instrument, if its fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Financial instruments continue to be recognized at fair value even if an impairment loss has been recorded. Any subsequent declines in value for impaired financial instruments are tested again for impairment.

### 3) SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

#### **Investments (Cont'd)**

##### ***Recognition (Cont'd)***

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

The transaction costs of assets and liabilities classified as held-for-trading and available-for-sale are recognized in 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 indirectly observable market data.

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

The fair value of real estate is determined by valuations prepared 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 premiums receivable, investment income receivable, cash in trust, receivables from reinsurers, salvage and subrogation receivable and other receivables approximates their carrying amount due to their short-term maturities.

#### **Bonds**

##### ***Held for trading***

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

##### ***Available for sale***

Bonds available for sale are recorded at fair value. Unrealized gains and losses are recognized through comprehensive income (loss). When realized, gains and losses are reclassified to income.

##### **Mortgage loans receivable**

Mortgage loans are classified as loans and receivables and reported at amortized cost using the effective interest method. 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.

##### **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, accounting 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 recognized through income and included in net investment income.

## **Stocks**

### ***Held for trading***

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

### ***Available for sale***

Stocks available for sale are recorded at fair value. Unrealized gains and losses are recognized through comprehensive income (loss). When realized, gains and losses are reclassified to income.

## **Real estate**

Real estate held by the life and health insurance companies for investment and operational purposes are accounted for using the moving average of fair value method, whereby the carrying amount is adjusted every year by 10% of the difference between fair value and carrying amount. Realized gains and losses on the disposal of properties are deferred and amortized on a declining balance basis at an annual rate of 10%. Other than temporary declines in value of the entire real estate portfolio (determined net of deferred realized gains) are immediately recognized in income.

Properties acquired through mortgage foreclosure and held for resale are recorded at the lower of the loan balance and fair value, net of selling expenses. Realized gains and losses on the disposal of these 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, personal loans and real estate held for resale to provide for 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 potential credit losses.

## **Cash and cash equivalents**

Cash and cash equivalents 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 the 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.

### 3) SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

#### **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, employee future benefits, salvage and subrogation receivable and other receivables.

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

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%.

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.

#### **Impairment of amortizable long-lived assets**

Where significant circumstances or events indicate a possible impairment, the Mutual revalues the carrying amount of amortizable long-lived assets. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss representing the excess of net carrying amount over fair value is recognized in income for the year.

#### **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.

#### **Bank loans**

Bank loans are classified as other liabilities and recorded at cost. The fair value of bank loans approximates their carrying amount due to their short-term maturities.

#### **Accrued and other liabilities**

Accrued and other liabilities are classified as other liabilities and recorded at cost. Their fair value is deemed to be equal to their carrying amount due to their short-term maturities.

#### **Employee future benefits**

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

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

#### **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 enacted or 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.

#### **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 in 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.

#### **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.

#### **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. Derivative financial instruments are recognized at fair value and changes in fair value are recognized in income. 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. To benefit from a lower cost of funds in securitization transactions, the Mutual may combine securitization with interest rate swaps, which lowers risks for investors.

#### **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 exchange 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 Committees, 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 deficiencies 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 Mutual's financial stability is validated annually by dynamic capital adequacy testing (DCAT) conducted by the Appointed Actuary, which includes a formal opinion as to the Mutual's financial soundness.

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

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 yield spread risk between assets and liabilities is limited as the portfolios are managed according to 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 from market-linked insurance policies. As these liabilities are fully matched, lower management fees could, in such situations, increase the insurer's cost to guarantee capital. Furthermore, a market downturn has a direct impact on the value of marketable securities invested in the Mutual's surplus.

A 10% stock market downturn as at December 31, 2009 would result in a \$10,780 [\$9,398 in 2008] decrease in the Mutual's after-tax comprehensive income (loss). A 10% stock market upturn as at December 31, 2009 would have the opposite effect, resulting in a \$10,572 [\$9,032 in 2008] increase in the Mutual's after-tax comprehensive income (loss).

An immediate rise in interest rates would have an unfavourable short-term impact on surplus portfolios invested in bonds but would make it possible to match premium inflows at more attractive interest rates. A decrease in interest rates would have the opposite effect.

A 1% rise in interest rates as at December 31, 2009 would have a \$10,331 [\$9,293 in 2008] after-tax impact on the Mutual's comprehensive income (loss). A 1% decline in interest rates as at December 31, 2009 would have the opposite effect, resulting in a \$10,435 [\$9,425 in 2008] after-tax impact on the Mutual's comprehensive income (loss).

**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.

Given the performance of foreign currency matching and since the Mutual's foreign currency income and expenses are insignificant, foreign currency fluctuations had little impact on the Mutual's results.

**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 and consists in identifying, understanding and quantifying the risk of loss and taking 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. The Mutual considers counterparty default risk when measuring the fair value of derivative financial instruments. 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 minimum DBRS credit ratings of A on at least 99% of bonds and P2 on preferred shares to limit default concentration risk. Derivative product counterparties have minimum DBRS credit ratings of AA for reinsurance counterparties, and credit and credit quality 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 \$2,916,626 [\$2,600,839 in 2008].

**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 investment purposes, held subsequent to a loan default or pledged as collateral for a loan receivable. Real estate risk 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.

Changes in the real estate properties have no significant impact on the Mutual's results since the properties are mostly matched to the Mutual's business lines and the results are thereby 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 bonds 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

	2009						Total fair value
	Held-for-trading	Designated as held-for-trading	Available-for-sale	Loans and receivables	Other	Total carrying amount	
<b>Bonds</b>							
Government of Canada	\$—	\$3,266	\$188,868	\$—	\$—	\$192,134	\$192,134
Provincial governments	—	783,592	194,211	—	—	977,803	977,803
Municipalities, school boards and hospitals	—	6,000	9,019	—	—	15,019	15,019
Corporate	—	184,677	128,393	—	—	313,070	313,070
International	—	—	7,810	—	—	7,810	7,810
	\$—	\$977,535	\$528,301	\$—	\$—	\$1,505,836	\$1,505,836
<b>Mortgage loans receivable</b>							
Insured	\$—	\$—	\$—	\$274,862	\$—	\$274,862	\$285,108
Conventional	—	—	—	201,394	—	201,394	209,438
	\$—	\$—	\$—	\$476,256	\$—	\$476,256	\$494,546
<b>Stocks</b>							
Common shares and participating units	\$—	\$27,188	\$164,938	\$—	\$—	\$192,126	\$192,126
Preferred shares	—	38,101	58,607	—	—	96,708	96,708
Participating units in stock market indices	—	104,074	2,936	—	—	107,010	107,010
Participating units in foreign currency stock market indices	—	15,432	—	—	—	15,432	15,432
	\$—	\$184,795	\$226,481	\$—	\$—	\$411,276	\$411,276
<b>Real estate</b>							
Held-for-investment	\$—	\$—	\$—	\$—	\$198,500	\$198,500	\$230,156
Held-for-resale	—	—	—	—	5,037	5,037	5,037
	\$—	\$—	\$—	\$—	\$203,537	\$203,537	\$235,193
<b>Cash and cash equivalents</b>	\$84,209	\$—	\$—	\$—	\$—	\$84,209	\$84,209
<b>Policy loans</b>	\$—	\$—	\$—	\$26,775	\$—	\$26,775	\$26,775
<b>Other investments</b>							
Personal loans	\$—	\$—	\$—	\$16,224	\$—	\$16,224	\$16,148
Other loans	—	—	—	2,961	—	2,961	2,961
Other investments	—	—	2,689	—	3,524	6,213	6,213
	\$—	\$—	\$2,689	\$19,185	\$3,524	\$25,398	\$25,322
	\$84,209	\$1,162,330	\$757,471	\$522,216	\$207,061	\$2,733,287	\$2,783,157

	2008						Total fair value
	Held-for- trading	Designated as held-for-trading	Available- for-sale	Loans and receivables	Other	Total carrying amount	
<b>Bonds</b>							
Government of Canada	\$—	\$16,083	\$178,218	\$—	\$—	\$194,301	\$194,301
Provincial governments	—	790,114	216,688	—	—	1,006,802	1,006,802
Municipalities, school boards and hospitals	—	14,072	8,378	—	—	22,450	22,450
Corporate	—	72,579	71,305	—	—	143,884	143,884
International	—	—	476	—	—	476	476
	\$—	\$892,848	\$475,065	\$—	\$—	\$1,367,913	\$1,367,913
<b>Mortgage loans receivable</b>							
Insured	\$—	\$—	\$—	\$307,447	\$—	\$307,447	\$307,265
Conventional	—	—	—	177,107	—	177,107	179,339
	\$—	\$—	\$—	\$484,554	\$—	\$484,554	\$486,604
<b>Stocks</b>							
Common shares and participating units	\$—	\$14,668	\$138,308	\$—	\$—	\$152,976	\$152,976
Preferred shares	—	—	48,722	—	—	48,722	48,722
Participating units in stock market indices	—	74,945	2,221	—	—	77,166	77,166
Participating units in foreign currency stock market indices	—	14,392	—	—	—	14,392	14,392
	\$—	\$104,005	\$189,251	\$—	\$—	\$293,256	\$293,256
<b>Real estate</b>							
Held-for-investment	\$—	\$—	\$—	\$—	\$146,768	\$146,768	\$179,971
Held-for-resale	—	—	—	—	5,219	5,219	5,219
	\$—	\$—	\$—	\$—	\$151,987	\$151,987	\$185,190
<b>Cash and cash equivalents</b>	\$60,563	\$—	\$—	\$—	\$—	\$60,563	\$60,563
<b>Policy loans</b>	\$—	\$—	\$—	\$25,007	\$—	\$25,007	\$25,007
<b>Other investments</b>							
Personal loans	\$—	\$—	\$—	\$16,702	\$—	\$16,702	\$16,611
Other loans	—	—	—	2,805	—	2,805	2,805
Other investments	3,326	—	2,627	—	3,808	9,761	9,761
	\$3,326	\$—	\$2,627	\$19,507	\$3,808	\$29,268	\$29,177
	\$63,889	\$996,853	\$666,943	\$529,068	\$155,795	\$2,412,548	\$2,447,710

## 5) INVESTMENTS [CONT'D]

### Hierarchy of fair value measurements

The table below classifies the fair values of financial assets and financial liabilities according to a hierarchy, based on the significance of the inputs used in making the measurements. The fair value hierarchy comprises the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data

	2009			
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS</b>				
<b>Bonds</b>				
Government of Canada	\$—	\$192,134	\$—	\$192,134
Provincial governments	—	977,803	—	977,803
Municipalities, school boards and hospitals	—	15,019	—	15,019
Corporate	—	313,070	—	313,070
International	—	7,340	470	7,810
	\$—	\$1,505,366	\$470	\$1,505,836
<b>Stocks</b>				
Common shares and participating units	\$192,126	\$—	\$—	\$192,126
Preferred shares	96,688	—	20	96,708
Participating units in stock market indices	107,010	—	—	107,010
Participating units in foreign currency stock market indices	15,432	—	—	15,432
	\$411,256	\$—	\$20	\$411,276
<b>Cash and cash equivalents</b>	\$84,209	\$—	\$—	\$84,209
<b>Other assets</b>				
Cash in trust	\$2,373	\$—	\$—	\$2,373
Retained interests	—	—	10,657	10,657
	\$2,373	\$—	\$10,657	\$13,030
	\$497,838	\$1,505,366	\$11,147	\$2,014,351
<b>FINANCIAL LIABILITIES</b>				
<b>Other liabilities</b>				
Liabilities related to derivative financial instruments	\$—	\$1,003	\$7,341	\$8,344
Subordinated debenture	—	7,000	—	7,000
	\$—	\$8,003	\$7,341	\$15,344

### Changes in level 3 financial instruments measured at fair value

The table below reconciles opening and closing balances for level 3 fair value measurements.

	2009			
	International bonds	Preferred shares	Retained interests – Securitization	Liabilities related to derivative financial instruments
Balance, beginning of year	\$476	\$20	\$18,902	\$13,189
Gain and losses recognized in income	250	—	(11,523)	(5,848)
Issuances	—	—	3,278	—
Purchases	5	—	—	—
Sales	(261)	—	—	—
<b>Balance, end of year</b>	<b>\$470</b>	<b>\$20</b>	<b>\$10,657</b>	<b>\$7,341</b>

### Credit risk

#### Bonds by credit quality

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

	Fair value	
	2009	2008
<b>Credit rating</b>		
AAA	\$209,640	\$208,891
AA	310,566	295,437
A	976,801	863,109
BBB	7,887	—
B	472	—
Bond Fund	470	476
	<b>\$1,505,836</b>	<b>\$1,367,913</b>

The life and health insurance companies limit their corporate bond investments to 35% of their bond portfolio with a maximum per sector or issuer, based on the specific features of the Canadian market.

#### Mortgage loans by property class

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

	2009			2008		
	Carrying amount	Fair value	CMHC Guarantee	Carrying amount	Fair value	CMHC Guarantee
Residential	\$409,479	\$426,888	\$226,520	\$414,771	\$419,468	\$257,743
Other	66,777	67,658	48,342	69,783	67,136	49,704
	<b>\$476,256</b>	<b>\$494,546</b>	<b>\$274,862</b>	<b>\$484,554</b>	<b>\$486,604</b>	<b>\$307,447</b>

The carrying amount of mortgage loans secured by the Canada Mortgage and Housing Corporation (CMHC) represented 57.71% of the total carrying amount of the mortgage loan portfolio as at December 31, 2009 [63.45% in 2008].

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

## 5) INVESTMENTS [CONT'D]

### Credit risk (Cont'd)

#### Preferred shares by credit quality

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

Credit rating	Fair value	
	2009	2008
P1	\$70,129	\$37,173
P2	25,792	10,939
P3	787	610
	<b>\$96,708</b>	<b>\$48,722</b>

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.

### 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.

	2009			
	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	\$1,745	\$1,060	\$977	\$3,782
Conventional mortgage loans	612	—	—	612
Personal loans	26	—	68	94
	<b>\$2,383</b>	<b>\$1,060</b>	<b>\$1,045</b>	<b>\$4,488</b>

	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
	<b>\$2,424</b>	<b>\$431</b>	<b>\$1,825</b>	<b>\$4,680</b>

***Allowance for losses***

The changes made to the allowance for losses are as follows:

	2009				
	Bonds	Mortgage loans	Personal loans	Other	Total
Balance, beginning of year	\$557	\$148	\$97	\$11	\$813
Increase in allowance for losses	—	48	110	—	158
Decrease in allowance for losses	(273)	(152)	(97)	(11)	(533)
Balance, end of year	\$284	\$44	\$110	\$—	\$438

	2008				
	Bonds	Mortgage loans	Personal loans	Other	Total
Balance, beginning of year	\$207	\$49	\$117	\$3	\$376
Increase in allowance for losses	350	246	41	8	645
Decrease in allowance for losses	—	(147)	(61)	—	(208)
Balance, end of year	\$557	\$148	\$97	\$11	\$813

## 5) INVESTMENTS [CONT'D]

### Interest rate risk

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

### Carrying amount

	2009						2008
	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
<b>Bonds</b>							
Government of Canada	\$—	\$78,331	\$74,817	\$521	\$38,465	\$192,134	\$194,301
Provincial governments	—	20,961	84,434	204,584	667,824	977,803	1,006,802
Municipalities, school boards and hospitals	—	7,013	5,638	1,159	1,209	15,019	22,450
Corporate	—	8,683	80,111	126,356	97,920	313,070	143,884
International	470	1,769	—	—	5,571	7,810	476
	\$470	\$116,757	\$245,000	\$332,620	\$810,989	\$1,505,836	\$1,367,913
<b>Mortgage loans receivable</b>							
Insured	\$1,048	\$75,409	\$156,672	\$39,891	\$1,842	\$274,862	\$307,447
Conventional	24,171	51,735	115,376	10,036	76	201,394	177,107
	\$25,219	\$127,144	\$272,048	\$49,927	\$1,918	\$476,256	\$484,554
<b>Stocks</b>							
Common shares and participating units	\$192,126	\$—	\$—	\$—	\$—	\$192,126	\$152,976
Preferred shares	56,322	19,166	19,967	1,253	—	96,708	48,722
Participating units in stock market indices	107,010	—	—	—	—	107,010	77,166
Participating units in foreign currency stock market indices	15,432	—	—	—	—	15,432	14,392
	\$370,890	\$19,166	\$19,967	\$1,253	\$—	\$411,276	\$293,256
<b>Real estate</b>							
Held-for-investment	\$56,846	\$—	\$—	\$—	\$141,654	\$198,500	\$146,768
Held-for-resale	—	—	—	—	5,037	5,037	5,219
	\$56,846	\$—	\$—	\$—	\$146,691	\$203,537	\$151,987
<b>Cash and cash equivalents</b>	\$63,680	\$20,529	\$—	\$—	\$—	\$84,209	\$60,563
<b>Policy loans</b>	\$26,670	\$—	\$—	\$—	\$105	\$26,775	\$25,007
<b>Other investments</b>							
Personal loans	\$10,126	\$652	\$4,199	\$1,059	\$188	\$16,224	\$16,702
Other loans	—	33	847	2,081	—	2,961	2,805
Other investments	6,213	—	—	—	—	6,213	9,761
	\$16,339	\$685	\$5,046	\$3,140	\$188	\$25,398	\$29,268
	\$560,114	\$284,281	\$542,061	\$386,940	\$959,891	\$2,733,287	\$2,412,548

**Fair value**

	2009						2008
	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
<b>Bonds</b>							
Government of Canada	\$—	\$78,331	\$74,817	\$521	\$38,465	\$192,134	\$194,301
Provincial governments	—	20,961	84,434	204,584	667,824	977,803	1,006,802
Municipalities, school boards and hospitals	—	7,013	5,638	1,159	1,209	15,019	22,450
Corporate	—	8,683	80,111	126,356	97,920	313,070	143,884
International	470	1,769	—	—	5,571	7,810	476
	\$470	\$116,757	\$245,000	\$332,620	\$810,989	\$1,505,836	\$1,367,913
<b>Mortgage loans receivable</b>							
Insured	\$1,049	\$76,262	\$166,321	\$39,951	\$1,525	\$285,108	\$307,265
Conventional	24,180	52,299	122,676	10,202	81	209,438	179,339
	\$25,229	\$128,561	\$288,997	\$50,153	\$1,606	\$494,546	\$486,604
<b>Stocks</b>							
Common shares and participating units	\$192,126	\$—	\$—	\$—	\$—	\$192,126	\$152,976
Preferred shares	56,322	19,166	19,967	1,253	—	96,708	48,722
Participating units in stock market indices	107,010	—	—	—	—	107,010	77,166
Participating units in foreign currency stock market indices	15,432	—	—	—	—	15,432	14,392
	\$370,890	\$19,166	\$19,967	\$1,253	\$—	\$411,276	\$293,256
<b>Real estate</b>							
Held-for-investment	\$67,614	\$—	\$—	\$—	\$162,542	\$230,156	\$179,971
Held-for-resale	—	—	—	—	5,037	5,037	5,219
	\$67,614	\$—	\$—	\$—	\$167,579	\$235,193	\$185,190
<b>Cash and cash equivalents</b>	\$63,680	\$20,529	\$—	\$—	\$—	\$84,209	\$60,563
<b>Policy loans</b>	\$26,670	\$—	\$—	\$—	\$105	\$26,775	\$25,007
<b>Other investments</b>							
Personal loans	\$10,134	\$642	\$4,143	\$1,041	\$188	\$16,148	\$16,611
Other loans	—	33	847	2,081	—	2,961	2,805
Other investments	6,213	—	—	—	—	6,213	9,761
	\$16,347	\$675	\$4,990	\$3,122	\$188	\$25,322	\$29,177
	\$570,900	\$285,688	\$558,954	\$387,148	\$980,467	\$2,783,157	\$2,447,710

The effective interest rate for bonds ranged from 0.46% to 11.71% [from 0.79% to 12.65% in 2008], for mortgage loans from 1.99% to 10.63% [from 3.49% to 11.50% in 2008], and for policy loans from 4.69% to 5.05% [from 4.97% to 7.64% in 2008].

## 5) INVESTMENTS [CONT'D]

### 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. The asset custodian guarantees the replacement of loaned securities in the event of counterparty default. Moreover, collateral representing a minimum of 102% of the fair market value of the loaned securities is pledged by the borrower and held in escrow by the asset custodian 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. Accordingly, the Mutual benefits from two levels of protection in the event of default. As at December 31, 2009, the Mutual had loaned securities, which are included in investments, with a carrying amount of approximately \$137,479 [\$123,406 in 2008].

### Other investments

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

## 6) INTANGIBLE ASSETS

Intangible assets are detailed as follows:

	2009			
	Cost, beginning of year	Net additions	Accumulated amortization	Net carrying amount
<b>Indefinite life</b>				
Trademarks	\$3,239	\$—	\$—	\$3,239
<b>Finite life</b>				
Clients and distribution networks	\$42,642	\$127	\$(16,554)	\$26,215
Software	28,850	12,906	(15,450)	26,306
	\$71,492	\$13,033	\$(32,004)	\$52,521
	\$74,731	\$13,033	\$(32,004)	\$55,760
	2008			
	Cost, beginning of year	Net additions	Accumulated amortization	Net carrying amount
<b>Indefinite life</b>				
Trademarks	\$1,339	\$1,900	\$—	\$3,239
<b>Finite life</b>				
Clients and distribution networks	\$34,684	\$7,958	\$(12,590)	\$30,052
Software	19,461	9,389	(11,639)	17,211
	\$54,145	\$17,347	\$(24,229)	\$47,263
	\$55,484	\$19,247	\$(24,229)	\$50,502

The software line item includes an amount of \$18,267 [\$9,712 in 2008] for software under development. No amortization has been charged to income for software under development as it is not yet operational.

During the year, the Mutual recorded amortization charges totalling \$7,775 [\$5,624 in 2008] through income.

## 7) OTHER ASSETS

Other assets consist of the following:

	2009	2008
Property and equipment	<b>\$60,308</b>	\$59,055
Accumulated amortization	<b>(45,519)</b>	(47,276)
	<b>\$14,789</b>	\$11,779
Deferred charges	<b>\$64,200</b>	\$46,206
Accumulated amortization	<b>(10,302)</b>	(9,048)
	<b>\$53,898</b>	\$37,158
Income taxes receivable	<b>\$6,729</b>	\$42,508
Retained interests	<b>10,657</b>	18,902
Prepaid expenses	<b>7,348</b>	6,151
Investment income receivable	<b>7,865</b>	11,320
Cash in trust	<b>2,373</b>	849
Receivables from reinsurers	<b>16,678</b>	22,861
Employee future benefits	<b>10,768</b>	—
Salvage and subrogation receivable	<b>9,188</b>	9,503
Other receivables	<b>30,389</b>	31,485
	<b>\$101,995</b>	\$143,579
	<b>\$170,682</b>	\$192,516

Amortization of property and equipment and deferred charges for the year amounted to \$5,891 [\$4,975 in 2008] and \$2,412 [\$2,623 in 2008], respectively.

## 8) GOODWILL

Goodwill and changes in goodwill are allocated as follows:

	2009	2008
Balance, beginning of year	<b>\$98,000</b>	\$62,012
Acquisition of York Fire & Casualty Insurance Company <i>[note 21]</i>	<b>—</b>	37,664
Adjustment after final allocation of purchase price of York Fire & Casualty Insurance Company <i>[note 21]</i>	<b>3,140</b>	—
Disposal of La Capitale Participations inc. [4%] <i>[note 21]</i>	<b>—</b>	(1,676)
Balance, end of year	<b>\$101,140</b>	\$98,000

## 9) SECURITIZATION

During the year, the Mutual securitized residential mortgage loans totalling \$60,401 [\$97,382 in 2008] for net cash proceeds of \$60,186 [\$97,375 in 2008] and retained the rights to the excess spread on mortgage loans amounting to \$3,278 [\$6,004 in 2008].

This securitization transaction resulted in a gain before income taxes of \$537 [\$1,783 in 2008]. Total securitization transactions generated a gain of \$1,901 for the year [loss of \$2,235 in 2008].

### Key assumptions

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

	2009	2008
Prepayment rate	22.86%	20.40%
Excess spread	1.19%	1.18%
Discount rate	1.22%	1.31%

As of December 31, 2009, 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

	2009		2008	
	Assumption	Impact on fair value	Assumption	Impact on fair value
<b>Prepayment rate</b>				
Impact on fair value of a 10% adverse change	25.14%	\$(216)	22.40%	\$(442)
Impact on fair value of a 20% adverse change	27.43%	\$(430)	24.40%	\$(869)
<b>Excess spread (net of credit losses)</b>				
Impact on fair value of a 10% adverse change	1.07%	\$(999)	1.06%	\$(1,386)
Impact on fair value of a 20% adverse change	0.95%	\$(1,997)	0.95%	\$(2,772)
<b>Discount rate</b>				
Impact on fair value of a 10% adverse change	1.34%	\$(9)	1.44%	\$(13)
Impact on fair value of a 20% adverse change	1.46%	\$(18)	1.58%	\$(26)

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.

### Cash flows from securitization trusts

The following table summarizes cash flows from securitization trusts:

	Personal mortgage loans	
	2009	2008
Net proceeds from new securitization transactions	\$60,186	\$97,375
Cash flows from retained interests in securitization transactions	\$2,814	\$7,237

Securitized loans totalled \$402,703 [\$513,208 in 2008]. Of that amount, loans that are more than 90 days past due totalled \$3,600 [\$6,609 in 2008]. There were no credit losses in respect of these loans in 2008 and 2009.

## 10) 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:

Policy liabilities	2009				2008			
	Participating	Non-participating	Net total	Reinsurance ceded	Participating	Non-participating	Net total	Reinsurance ceded
<b>Individual</b>								
Life and health insurance	\$582,896	\$346,503	\$929,399	\$53,536	\$566,467	\$315,083	\$881,550	\$50,918
Annuities	1,951	630,459	632,410	—	2,116	564,953	567,069	—
<b>Group</b>								
Life and health insurance	—	261,735	261,735	57,959	—	219,344	219,344	56,206
Annuities	—	1,979	1,979	—	—	1,839	1,839	—
	\$584,847	\$1,240,676	\$1,825,523	\$111,495	\$568,583	\$1,101,219	\$1,669,802	\$107,124

Assets backing policy liabilities	2009				
	Individual		Group		Total
	Life and health insurance	Annuities	Life and health insurance	Annuities	
<b>Participating</b>					
Bonds	\$451,386	\$1,511	\$—	\$—	\$452,897
Mortgage loans receivable	6,063	39	—	—	6,102
Real estate	88,450	296	—	—	88,746
Stocks	9,611	32	—	—	9,643
Other	27,386	73	—	—	27,459
	\$582,896	\$1,951	\$—	\$—	\$584,847
<b>Non-participating</b>					
Bonds	\$309,692	\$106,716	\$105,499	\$960	\$522,867
Mortgage loans receivable	295	348,131	100,223	698	449,347
Real estate	20,667	3,689	68	—	24,424
Stocks	6,989	168,163	—	—	175,152
Other	8,860	3,760	55,945	321	68,886
	\$346,503	\$630,459	\$261,735	\$1,979	\$1,240,676
	\$929,399	\$632,410	\$261,735	\$1,979	\$1,825,523

## 10) POLICY LIABILITIES [CONT'D]

Assets backing policy liabilities	2008				
	Individual		Group		Total
	Life and health insurance	Annuities	Life and health insurance	Annuities	
<b>Participating</b>					
Bonds	\$424,735	\$1,565	\$—	\$—	\$426,300
Mortgage loans receivable	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
<b>Non-participating</b>					
Bonds	\$308,692	\$69,830	\$87,510	\$915	\$466,947
Mortgage loans receivable	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

The fair value of policy liabilities amounted to \$1,857,014 [\$1,697,300 in 2008] and was based on the fair value of assets backing such liabilities given the interrelated nature of 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 Appointed 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 industry experience.

For annuity mortality, the assumption is derived from the most recent industry data 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 companies' investment policy 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 weak.

In order to reflect interest rate risk, that is, the financial loss that may arise from fluctuations in interest rates, the companies match each group of assets to the policy 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.

An immediate 1% decline over the entire yield curve would result in a \$14,326 decrease in income before income taxes [\$11,332 in 2008]. A 1% rise over the entire yield curve would result in a \$14,188 increase in income before income taxes [\$11,173 in 2008].

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 set off 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. 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 analyses 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 individual life and health insurance companies as well as economic conditions.

#### Future income taxes

Actuarial liabilities include amounts reflecting the interest generating nature of the assets backing the future income tax liabilities recorded in the balance sheet. Actuarial liabilities as at December 31, 2009 were reduced by \$9,283 [\$7,500 in 2008] as a result of the impact of this discounting, which is carried out only for future income taxes related to policy liabilities.

#### Policy lapses

Assumptions regarding policy lapses are based on an analysis of the recent experience of the individual 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

	2009	2008
<b>Balance, beginning of year</b>	<b>\$1,596,109</b>	\$1,601,324
Normal changes	<b>\$152,383</b>	\$12,408
Other changes related to assumptions	<b>(11,529)</b>	(17,623)
	<b>\$140,854</b>	\$(5,215)
<b>Balance, end of year</b>	<b>\$1,736,963</b>	\$1,596,109

In 2009, the main changes made to actuarial assumptions concern morbidity, the interest rate and the valuation of certain additional guarantees.

## 10) POLICY LIABILITIES [CONT'D]

### 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 enabling them to share 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 impact of the various reinsurance agreements on premiums and actuarial liabilities is summarized as follows:

	2009	2008
<b>Insurance and annuity premiums</b>		
Direct premiums	<b>\$584,402</b>	\$548,990
Reinsurance ceded	<b>(23,996)</b>	(24,538)
	<b>\$560,406</b>	\$524,452

Actuarial liabilities are presented net of reinsured amounts of \$111,495 [\$107,124 in 2008] 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.

## 11) PROVISION FOR CLAIMS AND LOSS ADJUSTMENT EXPENSES

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

	2009				2008			
	Gross provision	Subrogations	Reinsurers' share	Net amount	Gross provision	Subrogations	Reinsurers' share	Net amount
Auto insurance	<b>\$195,698</b>	<b>\$2,508</b>	<b>\$7,450</b>	<b>\$185,740</b>	\$200,073	\$2,577	\$10,944	\$186,552
Property insurance	<b>70,587</b>	<b>6,773</b>	<b>5,539</b>	<b>58,275</b>	63,343	6,971	5,286	51,086
Other	<b>3,776</b>	<b>—</b>	<b>(3,293)</b>	<b>7,069</b>	6,919	—	590	6,329
<b>Total undiscounted</b>	<b>\$270,061</b>	<b>\$9,281</b>	<b>\$9,696</b>	<b>\$251,084</b>	\$270,335	\$9,548	\$16,820	\$243,967
<b>Discounted provision</b>	<b>\$265,945</b>	<b>\$9,188</b>	<b>\$9,209</b>	<b>\$247,548</b>	\$268,996	\$9,503	\$16,085	\$243,408
<b>Unearned premiums</b>	<b>\$409,140</b>	<b>\$—</b>	<b>\$2,297</b>	<b>\$406,843</b>	\$345,441	\$—	\$2,298	\$343,143

### b) Reinsurance ceded

In the normal course of business, 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 10.

## 12) CREDIT FACILITIES

As at December 31, 2009, the Mutual has lines of credit of \$14,225 [\$15,225 in 2008] mainly bearing interest at prime. The Mutual also has a \$20,000 demand bridge loan [\$40,000 in 2008] bearing interest at the bankers' acceptance rate plus 110 basis points or at prime plus 0.25%, depending on 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 and 2009.

## 13) OTHER LIABILITIES

Other liabilities consist of the following:

	2009	2008
Income taxes payable	\$19,566	\$4,602
Deposits for taxes	5,606	5,855
Amounts payable to reinsurers	4,549	4,127
Deposit in trust	2,373	849
Employee future benefits	—	2,059
Liabilities related to derivative financial instruments	8,344	13,190
	<b>\$40,438</b>	<b>\$30,682</b>

## 14) 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.

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

	Pension plans		Other employee benefits	
	2009	2008	2009	2008
<b>Accrued benefit obligation</b>				
Balance, beginning of year	\$160,724	\$208,568	\$8,812	\$9,028
Employee contributions	4,659	5,004	—	—
Current service costs	4,790	8,447	747	913
Transfers	676	18	—	—
Interest cost	12,215	11,612	722	624
Actuarial losses (gains)	37,847	(62,211)	1,899	(1,453)
Benefits paid	(8,329)	(10,714)	(957)	(300)
<b>Balance, end of year</b>	<b>\$212,582</b>	<b>\$160,724</b>	<b>\$11,223</b>	<b>\$8,812</b>

**14) EMPLOYEE FUTURE BENEFITS [CONT'D]**

The accrued benefit obligation is broken down as follows:

	Pension plans		Other employee benefits	
	2009	2008	2009	2008
Funded plans	\$208,275	\$154,895	\$—	\$—
Unfunded plans	4,307	5,829	11,223	8,812
	<b>\$212,582</b>	<b>\$160,724</b>	<b>\$11,223</b>	<b>\$8,812</b>
<b>Net assets</b>				
Fair value, beginning of year	\$158,445	\$198,009	\$—	\$—
Actual return on plan assets	25,440	(47,400)	—	—
Employer contributions	19,254	13,463	—	—
Employee contributions	5,623	5,069	—	—
Transfers	676	18	—	—
Benefits paid	(8,329)	(10,714)	—	—
<b>Fair value, end of year</b>	<b>\$201,109</b>	<b>\$158,445</b>	<b>\$—</b>	<b>\$—</b>
Funded status – Net deficit	<b>\$(11,473)</b>	<b>\$(2,279)</b>	<b>\$(11,223)</b>	<b>\$(8,812)</b>
Unamortized net actuarial loss	35,068	12,241	1,962	65
Unamortized past service costs	—	—	762	915
Unamortized transitional obligation (asset)	(3,935)	(4,568)	622	722
Accrued benefit asset (liability)	\$19,660	\$5,394	\$(7,877)	\$(7,110)
Provision for employee share	(1,015)	(343)	—	—
<b>Accrued benefit asset (liability), including provision for employee share</b>	<b>\$18,645</b>	<b>\$5,051</b>	<b>\$(7,877)</b>	<b>\$(7,110)</b>

Pension plan assets were measured as at December 31, 2009 and accrued benefit obligation was measured as at December 31, 2008 and projected to December 31, 2009.

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:

Asset class	Pension plans	
	2009	2008
Stocks	62%	59%
Bonds	37	39
Other	1	2
	<b>100%</b>	<b>100%</b>

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

	Pension plans		Other employee benefits	
	2009	2008	2009	2008
<b>To determine the accrued benefit obligation</b>				
Discount rate	6.50%	7.50%	6.50%	7.50%
Rate of increase in future compensation	3.50%	4.10%	—%	—%
<b>To determine the accrued benefit obligation</b>				
Discount rate	7.50%	5.55%	7.50%	5.55%
Expected rate of return on plan assets	6.50%	6.00%	—%	—%
Rate of increase in future compensation	3.50%	4.10%	—%	—%
	<b>2009</b>			
<b>Assumed health care cost trend rates</b>	<b>Other employee benefits</b>			
	<b>Drugs</b>	<b>Health</b>	<b>Dental</b>	<b>Other</b>
Initial health care cost trend rates	7.00%	3.00%	3.70%	5.00%
Rate towards which cost trend declines	3.00%	3.00%	3.00%	3.00%
Number of years required to stabilize rates	15	—	15	15
	<b>2008</b>			
<b>Assumed health care cost trend rates</b>	<b>Other employee benefits</b>			
	<b>Drugs</b>	<b>Health</b>	<b>Dental</b>	<b>Other</b>
Initial health care cost trend rates	11.50%	2.00%	3.00%	2.00%
Rate towards which cost trend declines	5.00%	2.00%	3.00%	2.00%
Number of years required to stabilize rates	7	—	—	—

#### 14) EMPLOYEE FUTURE BENEFITS [CONT'D]

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

	Pension plans		Other employee benefits	
	2009	2008	2009	2008
Current service costs	\$4,790	\$8,447	\$747	\$913
Interest	12,215	11,612	722	624
Actual return on plan assets	(25,440)	47,400	—	—
Actual actuarial losses (gains) on accrued benefit obligation	37,847	(62,211)	1,899	(1,453)
Expense before adjustments to recognize the long-term nature of costs	\$29,412	\$5,248	\$3,368	\$84
Adjustments to recognize the long-term nature of costs				
Difference between expected and actual return on plan assets	\$14,614	\$(60,568)	\$—	\$—
Difference between actual and recognized actuarial loss (gain)	(37,441)	62,204	(1,898)	1,671
Difference between recognized costs and required amortization	—	—	153	319
Amortization of transitional obligation (asset)	(633)	(521)	101	97
	\$(23,460)	\$1,115	\$(1,644)	\$2,087
Valuation allowance established for accrued benefit asset	\$(292)	\$243	\$—	\$—
<b>Net expense</b>	<b>\$5,660</b>	<b>\$6,606</b>	<b>\$1,724</b>	<b>\$2,171</b>

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, 2008	December 31, 2009
Employees	December 31, 2008	December 31, 2009
Senior management	December 31, 2008	December 31, 2009
Board members plan	December 31, 2008	December 31, 2009

#### 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 2009:

	Increase	Decrease
Total service costs and interest expense	\$175	\$(136)
Accrued benefit obligation	\$1,447	\$(1,158)

## 15) INCOME TAXES

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

	2009		2008	
Provision for income taxes based on the combined statutory federal and provincial rate	\$23,640	30.7%	\$26,010	31.1%
Change in income taxes resulting from the following:				
Non-deductible items (non-taxable)	(4,611)	(6.0)	3,501	4.2
Adjustment for an amendment to tax legislation	(5,646)	(7.3)	—	—
Future income taxes arising from a change in tax rate	(525)	(0.7)	1,223	1.5
Other	993	1.2	312	0.4
	\$13,851	17.9%	\$31,046	37.2%
Income taxes on investment income	1,354	1.8	1,329	1.6
Income taxes and effective rates	\$15,205	19.7%	\$32,375	38.8%

Income tax expense is broken down as follows:

	2009	2008
Current	\$17,165	\$50,889
Future	(1,960)	(18,514)
	\$15,205	\$32,375

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

	2009	2008
<b>Future income tax assets</b>		
Property, plant and equipment	\$446	\$1,250
Accrued liabilities	3,146	2,212
Employee future benefits	3,908	4,655
Provision for claims	3,774	3,859
Unused tax losses	12,061	11,206
Other	1,107	991
	\$24,442	\$24,173
Valuation allowance	(6,130)	(6,130)
	\$18,312	\$18,043
<b>Future income tax liabilities</b>		
Policy loans	\$7,244	\$6,731
Stocks	—	(6,724)
Bonds	26,281	37,102
Real estate	12,503	10,563
Actuarial liabilities	(31,850)	(36,408)
Intangible assets	7,636	7,799
Deferred net tax gains	15,480	21,365
Other	254	(1,904)
	\$37,548	\$38,524

## 16) SUBORDINATED DEBENTURE

	2009	2008
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	\$7,000

The interest expense in respect of the debenture totalled \$455 [\$115 in 2008].

The subordinated debenture represents an unsecured direct liability of the Mutual, ranking junior to policy liabilities and the other creditors of the Mutual. Repayment of the subordinated debenture in whole or in part is subject to approval by the Autorité des marchés financiers.

The fair value of the debenture classified under other financial liabilities is estimated using a valuation model based on financial instruments in the market with the same terms and conditions. This fair value may fluctuate depending on interest rates and credit risks associated with such financial instruments.

	2009	2008
Fair value	\$7,410	\$7,000

## 17) RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2009	2008
Equity capital	\$396,073	\$338,494
Participating policyholders' surplus	128,600	100,304
	<b>\$524,673</b>	<b>\$438,798</b>

## 18) 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 exceeds the required level of capital under regulatory authority guidelines. As at December 31, 2008 and 2009, 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:

	2009	2008
Subordinated debenture	\$7,000	\$7,000
Retained earnings and accumulated other comprehensive income (loss)	524,673	438,798
	<b>\$531,673</b>	<b>\$445,798</b>

In 2009, the items that resulted in an increase of capital are the changes in available-for-sale financial instruments and net income.

## 19) INTEREST IN A JOINT VENTURE

A subsidiary of the Mutual holds 50% of *Société Bon Pasteur* (s.e.n.c.), which 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:

	2009	2008
<b>BALANCE SHEET</b>		
Assets	<b>\$18,716</b>	\$18,982
Liabilities	<b>12,534</b>	13,107
<b>Net assets of the joint venture</b>	<b>\$6,182</b>	\$5,875
<b>STATEMENT OF INCOME</b>		
Revenues	<b>\$3,580</b>	\$3,580
Expenses	<b>3,117</b>	3,144
<b>Net income</b>	<b>\$463</b>	\$436
<b>STATEMENT OF CASH FLOWS</b>		
Cash flows related to operating activities	<b>\$750</b>	\$710
Cash flows related to investing activities	<b>\$(197)</b>	\$(16)
Cash flows related to financing activities	<b>\$(723)</b>	\$(682)

**20) NET INVESTMENT INCOME**

	2009					
	Held-for-trading	Designated as held-for-trading	Available-for-sale	Loans and receivables	Other	Total
Bonds						
Interest	\$—	\$48,413	\$15,914	\$—	\$—	\$64,327
Realized gains	—	—	8,379	—	—	8,379
Change in fair value	—	15,189	—	—	—	15,189
Valuation allowance	—	—	273	—	—	273
Mortgage loans receivable						
Interest	—	—	—	27,211	—	27,211
Realized gains	—	—	—	797	—	797
Stocks						
Dividends	—	5,443	10,046	—	—	15,489
Realized losses	—	—	(4,503)	—	—	(4,503)
Change in fair value	—	29,667	—	—	—	29,667
Real estate						
Rental income	—	—	—	—	6,781	6,781
Amortization of realized gains	—	—	—	—	257	257
Amortization of unrealized gains	—	—	—	—	1,109	1,109
Cash and cash equivalents						
Interest	3,030	—	—	—	—	3,030
Policy loans	—	—	—	1,405	—	1,405
Other investments						
Interest	—	105	170	425	(699)	1
Realized losses	—	—	—	—	—	—
Change in fair value	(1,268)	—	—	—	—	(1,268)
Other	—	—	—	—	(539)	(539)
	\$1,762	\$98,817	\$30,279	\$29,838	\$6,909	\$167,605
Investment expenses	—	4,303	1,088	4,893	1,705	11,989
	\$1,762	\$94,514	\$29,191	\$24,945	\$5,204	\$155,616

	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 receivable						
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

## 21) BUSINESS ACQUISITIONS

On September 30, 2008, a subsidiary of the Mutual paid \$96,393 in cash to acquire 100% of the common shares of York Fire & Casualty Insurance Company, a company operating in the Canadian property and casualty insurance industry.

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 final purchase price allocation is as follows, based on the fair value of net assets acquired:

<b>ASSETS ACQUIRED</b>	
Investments	\$40,386
Liquid assets	167,671
Future income tax assets	6,414
Goodwill	40,804
Intangible assets	8,800
Other assets	66,396
	<b>\$330,471</b>
<b>LIABILITIES ASSUMED</b>	
Unearned premiums	\$54,527
Claims and loss adjustment expenses	171,876
Amounts payable	5,761
Future income tax liabilities	1,914
	<b>\$234,078</b>
	<b>VALUE OF ASSETS ACQUIRED NET OF LIABILITIES ASSUMED "PURCHASE PRICE"</b>
	<b>\$96,393</b>

The final allocation of the purchase price resulted primarily in a \$16 increase in the price paid, consisting of a \$4,943 decrease in other assets, future income tax assets and investments and a \$1,819 decrease in claims and loss adjustment expenses and accounts payable, generating a \$3,140 increase in goodwill.

### 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 shares of Class G, Y and Z of La Capitale Participations inc. for a consideration of \$175.

## 22) 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 their position, which renders them eligible for the plan. The accumulated amounts are payable under terms that vary according to the participant's departure type (transfer, retirement, permanent disability, death or voluntary termination) over a maximum term of four years following the year of departure.

Plan expense for the year amounted to \$3,511 [\$905 in 2008].

### 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	
	2009	2008
<b>Notional amount by maturity</b>		
Under 1 year	\$374,053	\$415,620
From 1 to 5 years	501,981	652,034
	<b>\$876,034</b>	<b>\$1,067,654</b>
<b>Fair value of liabilities</b>	<b>\$8,356</b>	<b>\$9,864</b>

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) 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	
	2009	2008	2009	2008	2009	2008
<b>Revenues</b>						
Insurance and annuity premiums	\$560,987	\$524,524	\$586,355	\$481,271	\$1,147,342	\$1,005,795
Net investment income	130,959	14,667	24,657	18,491	155,616	33,158
Other	21,276	21,768	—	—	21,276	21,768
	<b>\$713,222</b>	<b>\$560,959</b>	<b>\$611,012</b>	<b>\$499,762</b>	<b>\$1,324,234</b>	<b>\$1,060,721</b>
<b>Policy benefits and expenses</b>						
Benefits and claims incurred	\$347,400	\$347,858	\$401,590	\$330,332	\$748,990	\$678,190
Changes in actuarial liabilities	140,854	(5,215)	—	—	140,854	(5,215)
Operating expenses	165,122	151,701	181,077	140,330	346,199	292,031
Participating policyholder dividends	12,190	12,198	—	—	12,190	12,198
Non-controlling interests	5,312	6,670	4,965	5,052	10,277	11,722
	<b>\$670,878</b>	<b>\$513,212</b>	<b>\$587,632</b>	<b>\$475,714</b>	<b>\$1,258,510</b>	<b>\$988,926</b>
<b>Income before income taxes</b>	<b>\$42,344</b>	<b>\$47,747</b>	<b>\$23,380</b>	<b>\$24,048</b>	<b>\$65,724</b>	<b>\$71,795</b>
Income taxes	7,277	24,386	7,928	7,989	15,205	32,375
<b>Net income</b>	<b>\$35,067</b>	<b>\$23,361</b>	<b>\$15,452</b>	<b>\$16,059</b>	<b>\$50,519</b>	<b>\$39,420</b>
<b>ASSETS</b>						
Investments	\$2,167,596	\$1,939,634	\$565,691	\$472,914	\$2,733,287	\$2,412,548
Intangible assets	26,687	23,395	29,073	27,107	55,760	50,502
Other assets	103,647	100,441	401,597	374,378	505,244	474,819
Goodwill	60,336	60,336	40,804	37,664	101,140	98,000
	<b>\$2,358,266</b>	<b>\$2,123,806</b>	<b>\$1,037,165</b>	<b>\$912,063</b>	<b>\$3,395,431</b>	<b>\$3,035,869</b>

## 25) COMMITMENTS

As at December 31, 2009, the Mutual is committed under lease and service contracts expiring at various dates through 2024 to make payments totalling \$32,688. Minimum payments for each of the next five years are as follows: \$6,535 in 2010, \$4,609 in 2011, \$3,404 in 2012, \$2,713 in 2013, and \$2,467 in 2014. In addition, commitments as at December 31, 2009 relating to the construction of the Mutual's new head office total \$2,400.

### 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.

Expiring in		
45 days	46 to 365 days	2011 and subsequent years
\$3,436	\$4,792	\$—

A subsidiary of the Mutual has entered into agreements with several Canadian life and health insurance companies relating to annuity contracts in order to be able to make fixed and periodic insurance claim settlements. Under these agreements, the Mutual's subsidiary has ceded its policy liabilities towards beneficiaries of annuity contracts; however, it remains exposed to credit risk to the extent the life and health insurance companies might not be able to meet their financial obligations to these beneficiaries. To reduce exposure to this credit risk, the Mutual's subsidiary has acquired annuity contracts of insurance companies with an excellent credit rating. The residual credit risk assumed by the subsidiary is the credit risk related to Canadian health and life insurance companies with which it does business. This residual credit risk is mitigated by the protection offered by ASSURIS to life and health insurance policyholders.

As at December 31, 2009, none of the insurance companies from which the Mutual's subsidiary had acquired annuity contracts were in default and accordingly, no provision for credit risk was recorded in the financial statements. A company's exposure to credit risk is evaluated as its total purchases of annuity contracts that are not provided for as a liability: this amount is \$14,362 [\$9,700 in 2008] over a maximum period of 41 years [41 years in 2008]. The Mutual's management considers the risk of financial default by the insurance companies with which it does business to be very low.

## 26) 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.

## 27) COMPARATIVE FIGURES

Certain 2008 comparative figures have been reclassified to conform to the presentation adopted in 2009.

# GROUP

## COMPANY PROFILES

COMPANY PROFILES OF

# LA CAPITALE FINANCIAL GROUP

## LIFE AND HEALTH INSURANCE SECTOR

### LA CAPITALE CIVIL SERVICE INSURER

La Capitale Civil Service Insurer has provided value-added financial products to ensure the economic well-being of Quebec's public administration employees for over 70 years. Clients benefit from the unique expertise La Capitale Civil Service Insurer has developed in terms of life and health insurance, savings and investments and mortgages and personal loans. 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

- ▶ Life insurance
- ▶ Disability insurance
- ▶ Critical illness insurance
- ▶ Long term care insurance
- ▶ Savings and investments
- ▶ Mortgage loans
- ▶ Payroll Deduction Privilege

### LA CAPITALE INSURANCE AND FINANCIAL SERVICES

Established in 1989, La Capitale Insurance and Financial Services is a 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
- ▶ Home care and assistance services
- ▶ Health insurance claims profile
- ▶ Workplace attendance management
- ▶ Online administrative services
- ▶ Health spending account
- ▶ CAP Medical Assistance

### PENNCORP LIFE INSURANCE COMPANY

With its Head Office in Mississauga, Ontario, PennCorp Life Insurance Company provides 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. PennCorp has a network of some 245 career agents with branch offices and field representatives in every province. In addition, PennCorp counts on an independent distribution channel across Canada.

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

#### PRODUCTS AND SERVICES OFFERED

- ▶ Short and long term disability insurance
- ▶ Long term care insurance
- ▶ Hospital care insurance
- ▶ Critical illness and cancer insurance
- ▶ Life insurance
- ▶ Annuities and savings products

### LA CAPITALE FINANCIAL SERVICES

La Capitale Financial Services is a financial services firm that offers insurance, investment and savings products to individuals working in the Quebec public service and is dedicated to providing them with the best financial protection available, thanks to its unique financial planning tools. The firm is represented by 178 financial service advisors who serve Quebec public service employees in their workplaces.

#### 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 evaluation
- ▶ Personalized financial planning
- ▶ "Building Your Future" sessions
- ▶ Mid-career sessions
- ▶ Retirement preparation sessions

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## 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.

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## AGA FINANCIAL GROUP

AGA Financial Group specializes in providing consulting and administration services for company insurance and pension plans. Renowned across Quebec for its group insurance claims management and payment practices, AGA Financial Group has some 110 employees, more than 2,500 clients and reports an annual premium volume of close to \$175 million.

[www.gfaga.com](http://www.gfaga.com)

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### PRODUCTS AND SERVICES OFFERED

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

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## LA CAPITALE MFQ REAL ESTATE MANAGEMENT

This subsidiary is responsible for implementing the Group's real estate strategy and managing its real estate holdings. With assets of some \$324 million in commercial mortgage loans, commercial and residential buildings, including offices and retirement homes, La Capitale MFQ Real Estate Management owns approximately 1.2 million sq. ft. of property and manages some 354 housing units in 10 buildings.

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### PRODUCTS AND SERVICES OFFERED

- ▶ Real estate management
- ▶ Commercial mortgage management
- ▶ Green buildings
- ▶ Quality rental management services

## 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\*

Pierre Marc Bellavance, LL.M  
*Corporate Secretary and  
Vice-President, Legal Affairs*

### Group Insurance

Mario Cusson, CA, MBA  
*Executive Vice-President*

Richard Fecteau, FSA, FCIA  
*Vice-President, Actuarial and  
Underwriting*

Jacques Tardif  
*Vice-President, Sales and Marketing*

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

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

Pierre J. Isabelle  
*Senior Director, Contract  
Management*

### Individual Insurance and Annuities

Steven Ross, C. Adm., F. PI.  
*Executive Vice-President*

Éric Marcoux, FSA, FCIA  
*Vice-President, Administration,  
Actuarial and Public Sector  
Development*

Eli Pichelli, MBA, CLU  
*Vice-President, Sales – Individual  
Insurance and Annuities*

Raymond Rivest,  
B.A., CLU, F. PI.  
*Vice-President, Sales – Quebec  
Brokerage Channel*

Sylvie Chartrand, RLU, F. PI.  
*Senior Director, Public Sector  
Development*

Michel Lafrance, FSA, FCIA  
*Senior Director, Actuarial  
and Marketing*

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

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

Frédéric Dancause, CLU, F. PI.  
*Regional Director, East  
Regional Financial Centre*

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

Pierre Maltais, B.B.A., RLU  
*Regional Director, Saguenay –  
North Shore Financial Centre*

### Communications and Marketing\*

Marie-Josée Guérette  
*Vice-President*

### Development of New Financial Sectors and Organizational Effectiveness

Linda Gagné, MBA  
*Senior Director, Loans and  
Carte Capitale Card*

### Finance\*

John Kirouac, CA  
*Vice-President*

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

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

Jean-Guy Larochelle, CGA  
*Senior Director, Material Resources*

Hélène Myrand, CA  
*Senior Director, Finance*

### Technological Infrastructure\*

Éric Eustache, Eng., M.Sc.  
*Vice-President*

Denys Gariépy  
*Senior Director, Strategic Projects*

### Investments\*

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

Christian Dufour, FSA, FCIA  
*Senior Director*

### Human Resources and Organizational Development\*

Lucie Garneau, CA  
*Vice-President*

Shirley Brown, B.A., CHRP  
*Senior Director*

### Internal Audit, Integration and Risk Measurement\*

Marthe Lacroix, FCIA, FCAS  
*Vice-President*

### Information Technology

Francine Landry  
*Vice-President*

Raymond St-Gelais  
*Senior Director, IT Development  
Individual Division*

### PENNCORP LIFE INSURANCE COMPANY

Steven Ross, C. Adm., F. PI.  
*President and  
Chief Operating Officer*

Scott Hunt  
*Vice-President, Administration  
and Customer Service*

Eli Pichelli, MBA, CLU  
*Vice-President, Sales – Individual  
Insurance and Annuities*

Stephen Cole  
*Regional Vice-President, Sales*

Neil Brown  
*Senior Director, Finance*

Cristine Ching  
*Senior Director, Shared Services*

Mark Turkiewicz  
*Senior Director, Claims*

### AGA FINANCIAL GROUP

Clément St-Laurent  
*Executive Vice-President  
and Chief Executive Officer*

\*Department attached to La Capitale Financial Group

## PROPERTY AND CASUALTY INSURANCE SECTOR

### LA CAPITALE GENERAL INSURANCE

La Capitale General Insurance is one of Quebec's leading home and auto insurance companies. It distributes its products directly through a network of 22 branch offices. 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 and legal 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 Legal Assistance

### L'UNIQUE GENERAL INSURANCE

L'Unique was acquired by La Capitale General Insurance in November 2004. It continues to be independently managed and distributes its products through a network of 250 independent brokers. L'Unique's Head Office is located in Quebec City and the company has a branch office in Montreal. In 2005, L'Unique acquired Orleans General Insurance Company, a company specialized in surety products. 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 surety products. L'Unique is renowned as the leading small business insurer in Quebec.

[www.lunique.qc.ca](http://www.lunique.qc.ca)

#### PRODUCTS AND SERVICES OFFERED (BROKER DISTRIBUTION)

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

### YORK FIRE & CASUALTY INSURANCE COMPANY

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.

[www.york-fire.com](http://www.york-fire.com)

#### PRODUCTS AND SERVICES OFFERED (BROKER DISTRIBUTION)

- ▶ Auto insurance
- ▶ Home insurance
- ▶ Commercial insurance

## OFFICERS – PROPERTY AND CASUALTY INSURANCE SECTOR

### LA CAPITALE GENERAL INSURANCE

#### Senior Management

Constance Lemieux  
*President and Chief Operating Officer*

#### Legal Affairs

Céline Daigle, LL.B.  
*Senior Director*

#### Actuarial, Insurance and Products

François Dumas, FCIA, FCAS  
*Vice-President*

Isabelle Périgny, FCIA, FCAS  
*Senior Director, Corporate Actuarial  
and Statistics*

#### Finance

John Kirouac, CA  
*Vice-President*

Johanne Gauthier, CGA  
*Senior Director*

#### Claims

Marie-Claude Dulac, FCIP  
*Vice-President*

Pierre Legault, CIP  
*Senior Director*

Robert E. Champagne, FCIP  
*Senior Director*

Hubert Auclair, LL.B.  
*Senior Director, Legal and  
Special Risks Sector*

#### Marketing and Communications

Pierre Dansereau, MBA  
*Vice-President*

Régis Auclair, MBA  
*Senior Director*

Martin Baron, M.P.A.  
*Senior Director, Client Contact  
Centre Performance  
Management Unit*

Yves Watier  
*Senior Director, Marketing*

#### 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*

Estelle Thériault  
*Senior Director, Sales – Groups  
and Associations*

Michel Talbot, FCIP  
*Senior Director, Commercial  
Insurance*

Michel Duval  
*Senior Director, Business  
Development*

### L'UNIQUE GENERAL INSURANCE

#### Senior Management

Jean Tardif, CA, MBA  
*President and  
Chief Operating Officer*

#### Surety Lines

Gaétan Boudreau, Eng., MBA  
*Vice-President*

Jean-Eudes Boudreau, MBA  
*Senior Director, Sales and  
Development – Surety Lines*

#### 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 Administration*

#### Information Technology

Michel Lévesque  
*Senior Director, Systems  
Development*

### YORK FIRE & CASUALTY INSURANCE COMPANY

#### Senior Management

Martin Delage, B.A., CHRP  
*President and  
Chief Operating Officer*

#### Operations

Dave Smiley, CA, FCIP  
*Vice-President*

Jim Cutler, FCIP, CRM  
*Senior Director, Commercial Lines*

Carolyn Andreacchi McGowan,  
B.A.S.

*Senior Director, Personal Lines  
and Corporate Underwriting*

Chris Weston, MBA  
*Senior Director, Business  
Development*

Nancy Covell, CIP, ABC  
*Senior Director, Marketing*

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

#### Finance

Katherine Evans, CA, CPA  
*Vice-President*

#### Surety Lines

Neville Harriman,  
B.A., FIIC, ARM  
*Senior Director*

#### Legal Services and Legal Counsel

Mark H. Fonseca, B.A., LL.B.  
*Senior Director*

## POINTS OF SERVICE OF 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 INSURER

##### 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 3 Building  
2875 Laurier Blvd  
Suite 400  
Quebec QC G1V 2M2  
418 644-4200  
or 1 800 463-4856

##### Points of Service

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###### Quebec City

Delta 3 Building  
2875 Laurier Blvd  
Suite 400  
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

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###### East Regional

**Financial Centre**  
Delta 1 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

##### 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  
819 374-3539  
or 1 866 279-0489

#### PENNCORP LIFE INSURANCE COMPANY

##### Head Office

7150 Derrycrest Drive  
Mississauga ON L5W 0E5  
905 795-2300  
or 1 800 268-2835

##### Regional Branch Offices

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###### Barrie

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

###### Recruiting and Development

89 Galaxy Blvd  
Suite 21  
Toronto ON M9W 6A4  
416 213-9506  
or 1 877 665-8660

###### 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

**British Columbia**

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

**Forest City**

1255 Commissioners Rd W  
 Suite 231  
 London ON N6K 3N5  
 519 641-4441  
 or 1 877 641-4441

**Golden Horseshoe**

1260 Eglinton Ave.  
 Suite 6  
 Mississauga ON L4W 1K8  
 905 602-7176  
 or 1 888 444-4749

**Laval**

1 Holiday Ave., East Tower  
 Suite 501  
 Pointe-Claire QC H9R 5N3  
 514 707-2732

**London**

4026 Meadowbrooke Drive  
 Unit 129  
 London ON N6L 1C7  
 519 652-0255  
 or 1 800 934-6128

**Manitoba**

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

**Montérégie**

7005 Taschereau Blvd  
 Suite 170  
 Brossard QC J4Z 1A7  
 514 820-7818

**Montreal**

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

**Ottawa**

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

**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

**Thunder Bay**

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

**Toronto**

7150 Derrycrest Drive  
 Mississauga ON L5W 0E5  
 905 696-8477  
 or 1 888 918-5045

**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**

Delta 1 Building  
 2875 Laurier Blvd  
 Suite 700  
 Quebec QC G1V 2M2  
 418 658-3188  
 or 1 877 330-3357

**LA CAPITALE  
 MFQ REAL ESTATE  
 MANAGEMENT****Head Office**

625 Saint-Amable St.  
 Quebec QC G1R 2G2  
 418 643-3884  
 or 1 800 463-5549

## 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 Saint-Louis St. W  
Suite 208  
Blainville QC J7C 1B8  
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

##### Longueuil

Place Agropur  
101 Roland-Therrien Blvd  
Suite 260  
Longueuil QC J4H 4B9  
514 906-1700

##### Montreal

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

##### Pointe-Claire

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

##### Quebec City

Delta 3 Building  
2875 Laurier Blvd  
Suite 400  
Quebec QC G1V 2M2  
418 266-1700

##### Rimouski

287 Pierre-Saindon St.  
Suite 505  
Rimouski QC G5L 9A7  
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

802 De Quen Ave.  
Suite 206  
Sept-Îles QC G4R 2S2  
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**

7150 Derrycrest Drive  
Mississauga ON L5W 0E5  
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](http://www.lacapitale.com).



### **ECO-COMMITTEE**

La Capitale is proud to abide by “green”  
principles in its various business lines.



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