MESSAGE FROM THE CHAIR OF THE BOARD AND THE 2020 FINANCIAL STATEMENTS

La Capitale
Civil Service Mutual

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Message from the Chair of the Board

The work to bring about the union of equals between La Capitale and SSQ Insurance, which was announced in a press conference in January 2020, was a fundamental component of 2020 for La Capitale Civil Service Mutual. At the same time, the Board of Directors continued its work with respect to mutualism and governance.

Union of equals

On March 3, 2020, at an extraordinary meeting, delegates unanimously adopted the new private bill respecting the incorporation of La Capitale Civil Service Mutual that was ratified by the National Assembly on June 5, 2020. The act made it possible for La Capitale and SSQ Insurance to combine operations in July under the name Beneva.

We also confirmed SSQ Mutual's insureds as members of La Capitale Civil Service Mutual. SSQ Mutual did the same for La Capitale's insureds.

The union of equals was confirmed on July 1 and employees of both companies immediately began working together to bring about this union. I cannot understate the phenomenal work done by the executive management team and all La Capitale and SSQ Insurance employees who, having to work together virtually, got the union of equals on track while maintaining high quality customer service during a global pandemic.

Work done by the Board of Directors

While working on various aspects of the union, our directors continued with their usual responsibilities as well as being ever more proactive on our members' behalf.

While promoting mutualist values and remaining consistent with Beneva's mission, the board is developing democratic practices and means to maintain a bond with its members. This work is also feeding into the current thinking on the projected fusion of La Capitale Civil Service Mutual and SSQ Mutual.

The Mutual's community involvement

The company, through its foundation and its donations policy, is very active in the community. Remember that the funds donated by the La Capitale Foundation are in addition to other charitable work it does. Over the last year, we have donated nearly two million dollars to the community.

La Capitale Civil Service Mutual actively participates in the *Conseil québécois de la coopération et de la mutualité*. The CQCM represents the interests of its members on a national scale as a member of Co-operatives and Mutuals Canada.

Furthermore, La Capitale Civil Service Mutual has been providing technical and financial support to SOCODEVI projects since 1992. The Mutual participates in the growth of developing nations by helping their citizens take their health, insurance and financial needs in hand, through mutualism and cooperation.

La Capitale Civil Service Mutual financial results

The financial results of La Capitale Civil Service Mutual represent the percentage of its holdings in La Capitale Financial Group Inc., in addition to the results of its own operations. The results of the first half of the year reflect the underlying participation of La Capitale Financial Group Inc. in La Capitale Civil Service Insurer Inc. and its subsidiaries. Those of the second half of the year reflect its underlying participation in Beneva Inc., created by the union of SSQ, Life Insurance Company Inc. and La Capitale Civil Service Insurer Inc. and their respective subsidiaries.

The consolidated net income of La Capitale Civil Service Mutual for the year that ended on December 31, 2020, is $234.9 million, of which $218.9 million is attributable to its members.

As at December 31, 2020, the consolidated equity is $1.277 billion, of which $1.237 billion is attributable to its members, which is 22.3% more than last year.

The Mutual is pleased with the results, which were obtained while balancing the interests of its members, the company's sound financial position and expectations for reasonable returns.

Acknowledgements

In closing, I would like to give a warm thank you to our members and clients for their trust. They are our top priority every day and the cornerstone of our success.

I want to thank all our employees and managers for their dedication to the company's success as well as our partners for their trust and loyalty.

I also want to tip my hat to our directors whose leadership and contribution will ensure our company's development and sustainability for many years to come.

Sincerely,

Jean St-Gelais
Chair of the Board

La Capitale
Civil Service Mutual

2020 CONSOLIDATED FINANCIAL STATEMENTS

Independent auditor's report

To the Members of
La Capitale Civil Service Mutual

Opinion

We have audited the consolidated financial statements of **La Capitale Civil Service Mutual** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of income, comprehensive income, changes in equity and table of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP [1]

Quebec, Canada

April 26, 2021

1. CPA auditor, CA, Public Accountancy Permit No. A109180

Consolidated statement of financial position

AS AT DECEMBER 31 [in thousands of Canadian dollars]

	2020	2019
	$	$
ASSETS		
Investments *[note 6]*	**4,488**	6,984,906
Investment in a joint venture *[note 5]*	**1,270,305**	—
Premiums receivable	**—**	783,757
Reinsurance assets	**—**	322,943
Income taxes receivable	**47**	1,904
Other financial assets *[note 9]*	**—**	69,475
Other assets *[note 9]*	**68**	83,463
Deferred tax assets *[note 10]*	**1,073**	42,632
Property and equipment *[note 11]*	**225**	148,520
Intangible assets *[note 12]*	**—**	189,124
Employee future benefits *[note 15]*	**1,134**	—
Goodwill *[note 12]*	**2,223**	108,352
TOTAL ASSETS	**1,279,563**	8,735,076

On behalf of the Board of Directors,

Jean St-Gelais, Chair of the Board

Jacques Cotton, Vice-Chair of the Board

AS AT DECEMBER 31 [in thousands of Canadian dollars]

	2020	2019
	$	$
LIABILITIES		
Life and health insurance contract liabilities *[note 13]*	**—**	5,586,665
Property and casualty insurance contract liabilities *[note 13]*	**—**	1,240,158
	—	6,826,823
Other financial liabilities *[note 14]*	**2,301**	368,959
Other liabilities *[note 14]*	**—**	4,226
Income taxes payable	**1**	21,341
Deferred tax liabilities [*note 10]*	**—**	15,696
Employee future benefits *[note 15]*	**205**	139,323
Long-term debt	**—**	13,436
Subordinated debenture	**—**	149,552
	2,507	7,539,356
EQUITY		
Retained earnings attributable to members	**1,205,967**	1,008,748
Accumulated other comprehensive income attributable to members	**31,064**	2,856
	1,237,031	1,011,604
Participating policyholders' account	**—**	800
Non-controlling interests	**40,025**	183,316
	1,277,056	1,195,720
TOTAL LIABILITIES AND EQUITY	**1,279,563**	8,735,076

Commitments and contingencies *[note 19]*

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

Consolidated statement of income

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	2020	2019
	$	$
Revenues		
Premiums	1,570,612	2,823,854
Premiums ceded to reinsurers	(50,255)	(106,131)
Net premiums	1,520,357	2,717,723
Investment income *[note 6]*		
Interest and other investment income	101,369	319,900
Change in fair value of financial assets designated at fair value through profit or loss	81,717	351,191
	183,086	671,091
Gain on contribution of a business to the joint venture *[note 4]*	101,233	—
Share of the joint venture's net income *[note 5]*	92,649	—
Fees and other revenues *[note 20]*	13,114	59,290
Total revenues	1,910,439	3,448,104
Policy benefits, claims and expenses		
Gross benefits and claims	854,159	1,746,047
Benefits and claims ceded to reinsurers	(38,646)	(61,623)
	815,513	1,684,424
Participating policyholder dividends	7,201	13,374
Experience rating refund	5,138	18,554
Changes in actuarial liabilities	477,475	927,072
Changes in reinsurance assets	(13,909)	(23,448)
Net benefits and claims	1,291,418	2,619,976
General expenses *[note 18]*	213,495	376,342
Commissions	104,821	186,546
Premium taxes	37,905	72,401
Investment management costs	11,645	35,081
Finance costs	6,407	12,025
Total policy benefits, claims and expenses	1,665,691	3,302,371
Income before income taxes	244,748	145,733
Income taxes *[note 10]*	9,807	19,878
NET INCOME	234,941	125,855
Attributable to members of the Mutual	218,892	93,073
Attributable to participating policyholders	165	9,102
Attributable to non-controlling interests	15,884	23,680
	234,941	125,855

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

Consolidated statement of comprehensive income

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	2020	2019
	$	$
Net income	**234,941**	125,855
Other comprehensive income		
Items that will be reclassified subsequently to net income		
Net unrealized gains (losses) for the year on available-for-sale financial assets	**(18,640)**	52,186
Income taxes	**4,929**	(13,937)
	(13,711)	38,249
Reclassification of net realized losses (gains) to net income	**16,478**	(14,912)
Income taxes	**(4,371)**	3,972
	12,107	(10,940)
Net realized gain on contribution to the joint venture, reclassified to net income [note 4]	**(3,077)**	—
Share of net unrelalized gains for the year on available-for-sale financial assets of the joint venture, net of the joint venture's income taxes *[note 5]*	**32,071**	—
	27,390	27,309
Items that will not be reclassified subsequently to net income		
Remeasurement of the net defined benefit liability *[note 15]*	**(24,935)**	(11,725)
Income taxes	**6,611**	3,115
	(18,324)	(8,610)
Share of remeasurement of the net defined benefit liability of the joint venture, net of the joint venture's income taxes *[note 5]*	**(6,486)**	—
	(24,810)	(8,610)
Total other comprehensive income	**2,580**	18,699
COMPREHENSIVE INCOME	**237,521**	144,554
Attributable to members of the Mutual	**224,058**	108,800
Attributable to participating policyholders	**165**	9,102
Attributable to non-controlling interests	**13,298**	26,652
	237,521	144,554

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

Consolidated statement of changes in equity

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	Retained earnings attributable to members $	Accumulated other comprehensive income (loss) attributable to members[1] $	Total retained earnings and accumulated other comprehensive income (loss) attributable to members $	Total participating policyholders' account $	Non-controlling interests $	Total equity $
Balance as at January 1, 2019	913,958	(20,030)	893,928	841	165,397	1,060,166
Net income	93,073	—	93,073	9,102	23,680	125,855
Other comprehensive income, net of income taxes[2]	—	22,886	22,886	—	4,423	27,309
Remeasurement of the net defined benefit liability	(7,159)	—	(7,159)	—	(1,451)	(8,610)
Total comprehensive income	85,914	22,886	108,800	9,102	26,652	144,554
Dividends paid to non-controlling interests	—	—	—	—	(5,210)	(5,210)
Transfer from participating policyholders to members	8,848	—	8,848	(9,143)	295	—
Changes in non-controlling interests	—	—	—	—	(3,790)	(3,790)
Other	28	—	28	—	(28)	—
	8,876	—	8,876	(9,143)	(8,733)	(9,000)
Balance as at December 31, 2019	1,008,748	2,856	1,011,604	800	183,316	1,195,720
Balance as at January 1, 2020	**1,008,748**	**2,856**	**1,011,604**	**800**	**183,316**	**1,195,720**
Net income	**218,892**	**—**	**218,892**	**165**	**15,884**	**234,941**
Other comprehensive income, net of income taxes[2]	**—**	**27,809**	**27,809**	**—**	**(419)**	**27,390**
Remeasurement of the net defined benefit liability	**(22,643)**	**—**	**(22,643)**	**—**	**(2,167)**	**(24,810)**
Total comprehensive income	**196,249**	**27,809**	**224,058**	**165**	**13,298**	**237,521**
Repurchase of non-controlling interests *[note 16]*	**3,758**	**—**	**3,758**	**—**	**(158,999)**	**(155,241)**
Issuance of non-controlling interests *[note 16]*	**—**	**—**	**—**	**—**	**6,064**	**6,064**
Transfer from participating policyholders to members	**368**	**—**	**368**	**(368)**	**—**	**—**
Transfer to participating policyholders of a subsidiary of the joint venture *[note 5]*	**(2,724)**	**—**	**(2,724)**	**—**	**(88)**	**(2,812)**
Contribution to the joint venture *[note 4]*	**—**	**—**	**—**	**(597)**	**(3,456)**	**(4,053)**
Net changes in non-controlling interests	**(432)**	**399**	**(33)**	**—**	**(110)**	**(143)**
	970	**399**	**1,369**	**(965)**	**(156,589)**	**(156,185)**
Balance as at December 31, 2020	**1,205,967**	**31,064**	**1,237,031**	**—**	**40,025**	**1,277,056**

1. Accumulated other comprehensive income (loss) comprises unrealized net gains (losses) on available-for-sale financial assets and the share of net unrealized gains (losses) for the year on available-for-sale financial assets of the subsidiaries and the joint venture.
2. These amounts exclude the amount of the remeasurement of the net defined benefit liability of the Mutual and the share of the joint venture recycled through retained earnings.

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

Consolidated statement of cash flows

FOR THE YEAR ENDED DECEMBER 31 [in thousands of Canadian dollars]

	2020	2019
	$	$
OPERATING ACTIVITIES		
Net income	**234,941**	125,855
Items not affecting cash and cash equivalents:		
Changes in actuarial liabilities	**477,475**	927,072
Changes in gross unearned premiums	**71,833**	93,814
Changes in reinsurance assets	**(3,447)**	(50,112)
Changes in net discounts on investments	**(10,407)**	(33,548)
Gain on contribution of a business to the joint venture	**(101,233)**	—
Share of the joint venture's net income	**(92,649)**	—
Gains on investments	**(78,197)**	(411,672)
Deferred taxes (recovery)	**189**	(9,573)
Amortization of deferred premium acquisition costs	**68,297**	121,105
Net employee future benefit expense	**21,321**	32,855
Depreciation of property and equipment and amortization and write-off of intangible assets	**17,649**	28,498
Other items included in net income	**198**	2,376
	605,970	826,670
Net change in other items related to operating activities	**(194,393)**	(151,911)
Cash flows related to operating activities	**411,577**	674,759
INVESTING ACTIVITIES		
Cash and cash equivalents contributed to the joint venture	**(282,219)**	—
Acquisition of a subsidiary *[note 20]*	**—**	(5,728)
Acquisition of additional share capital in a subsidiary *[note 20]*	**(200)**	—
Acquisitions, issuances and advances related to investments	**(1,806,752)**	(2,554,252)
Disposals and repayments related to investments	**1,709,299**	1,992,849
Net additions to property and equipment and intangible assets	**(10,394)**	(20,191)
Initial capital subscription in the joint venture	**(1)**	—
Cash flows related to investing activities	**(390,267)**	(587,322)
FINANCING ACTIVITIES		
Payments of lease liabilities	**(1,950)**	(3,217)
Repayment of long-term debt	**(311)**	(574)
Changes in non-controlling interests	**(110)**	(3,790)
Repurchase of non-controlling interests	**(149,973)**	(6,696)
Issuance of non-controlling interests	**796**	1,486
Interest paid on long-term debt	**(3,879)**	(7,777)
Cash flows related to financing activities	**(155,427)**	(20,568)
Increase (decrease) in cash and cash equivalents	**(134,117)**	66,869
Cash and cash equivalents, beginning of year	**138,605**	71,736
Cash and cash equivalents, end of year[1]	**4,488**	138,605
1. Consisting of:		
Cash	**4,488**	104,263
Cash equivalents	**—**	34,536
Bank overdraft *[note 14]*	**—**	(194)
	4,488	138,605
Supplementary information on cash flows		
Interest received	**31,393**	53,988
Interest paid on lease liabilities	**419**	491
Dividends and distributions received	**119,814**	119,178
Taxes paid (recovered)	**31,810**	(1,510)

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

Notes to consolidated financial statements

DECEMBER 31, 2020 [in thousands of Canadian dollars]

1. INCORPORATING STATUTE AND NATURE OF OPERATIONS

La Capitale Civil Service Mutual ("the Mutual"), incorporated under the Act respecting the Quebec Civil Servants Mutual, is a mutual management corporation.

It operates mainly in Canada through its subsidiary La Capitale Financial Group Inc. and an investment in a joint venture owned by its subsidiary, namely an investment in Beneva Inc. The joint venture and its subsidiaries operate mainly as designers, marketers and distributors of products, including individual life and health insurance, savings and loans, group insurance, automobile and home insurance, commercial insurance and surety lines. Up to July 1, 2020, its operations were mainly performed through the Mutual's subsidiaries.

Until July 1, 2020, the financial results of subsidiaries are presented on a consolidated basis. Subsequently, the financial results relating to the investment in the joint venture are presented according to the equity method.

The Mutual is headquartered at 625 Jacques-Parizeau St, Quebec City, Quebec, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Mutual have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and set out in the CPA Canada Handbook – Accounting.

These consolidated financial statements were approved for issue by the Board of Directors of the Mutual on April 26, 2021.

The Mutual presents its consolidated statement of financial position in order of liquidity with each item comprising both current and non-current balances, if applicable.

The significant 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 as at December 31, 2020. The subsidiaries are entities controlled by the Mutual. The Mutual controls a subsidiary only and only if it has:

— Power over the subsidiary (i.e., has existing rights that give it the current ability to direct the activities);

— Exposure, or rights, to variable returns from its involvement with the subsidiary;

— The ability to use its power over the subsidiary to affect the amount of its returns.

Consolidation of the financial statements of a subsidiary begins from the date the Mutual obtains control of the subsidiary and ceases when the Mutual loses control of the subsidiary.

The Mutual's consolidated financial statements have been prepared using consistent accounting policies for similar transactions and events occurring in similar circumstances. Intragroup balances and revenues and expenses arising from intragroup transactions are eliminated in the preparation of the consolidated financial statements.

The acquisition of a subsidiary is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the acquirer, liabilities incurred by the acquirer from the business's former owners and the equity instruments issued by the acquirer. Acquisition-related costs are recognized in net income and presented under general expenses.

These financial statements include the financial statements of La Capitale Civil Service Mutual and its subsidiary [its subsidiaries until July 1, 2020] listed below. The following table also shows the related joint venture and its own subsidiaries since July 1, 2020, and other related entities. The direct parent company's percentage of ownership of voting shares for each subsidiary and related joint venture is detailed under "% interest."

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Basis of consolidation [Cont'd]

	% interest		Location of main place of business	Description
	2020	2019		
Subsidiary				
La Capitale Financial Group Inc.	**96.7**	96.7	Quebec City, Canada	Holding company
Related joint venture				
Beneva Inc. (investment owned by La Capitale Financial Group inc.)*	**51.1**	—	Quebec City, Canada	Holding company
Related joint venture's subsidiaries (subsidiaries of La Capitale Financial Group Inc. until July 1, 2020)				
La Capitale Civil Service Insurer Inc.	**100.0**	100.0	Quebec City, Canada	Life and health insurance company
3602214 Canada inc. (merged with La Capitale Civil Service Insurer Inc. on July 1, 2020)	**—**	70.0	Quebec City, Canada	Holding company
La Capitale Financial Security Insurance Company	**100.0**	100.0	Mississauga, Canada	Life and health insurance company
Développement informatique CSF inc. (merged with La Capitale Civil Service Insurer Inc. on July 1, 2020)	**—**	100.0	Quebec City, Canada	IT development and system improvement services
La Capitale MFQ Real Estate Management Inc.	**100.0**	100.0	Quebec City, Canada	Real estate management company
La Capitale Participations inc. (merged with La Capitale Civil Service Insurer Inc. on July 1, 2020)	**—**	78.7	Quebec City, Canada	Holding company
La Capitale General Insurance Inc.	**100.0**	100.0	Quebec City, Canada	Property and casualty insurance company
L'Unique General Insurance Inc.	**100.0**	100.0	Quebec City, Canada	Property and casualty insurance company
Ledor Assurances inc. (merged with La Capitale General Insurance Inc. on July 1, 2020)	**—**	100.0	Quebec City, Canada	Property and casualty insurance company
Unica Insurance inc.	**100.0**	100.0	Mississauga, Canada	Property and casualty insurance company
Développement informatique Unicap inc.	**100.0**	100.0	Quebec City, Canada	IT development and system improvement services
Développement informatique ClicAssure inc.	**100.0**	100.0	Quebec City, Canada	IT system operation services
La Capitale Financial Services Inc. (wholly-owned subsidiary of La Capitale Financial Group inc. until July 1, 2020)	**100.0**	100.0	Quebec City, Canada	Distribution firm
Immo-Beauport S.E.C.	**70.0**	70.0	Quebec City, Canada	Real estate management company
SécuriGlobe inc.	**100.0**	100.0	Brossard, Canada	Travel insurance product distributor
SSQ, Life Insurance Company Inc.*	**100.0**	—	Quebec City, Canada	Life and health and property and casualty insurance company
SSQ Distribution inc.*	**100.0**	—	Quebec City, Canada	Distribution firm
SSQ Realty Inc.*	**100.0**	—	Quebec City, Canada	Real estate management company
Other related entities	**—**	—		
SSQ Mutual*	**—**	—	Quebec City, Canada	Life and health and property and casualty mutual
SSQ, Financial Corporation Inc.*	**—**	—	Quebec City, Canada	Holding company

* Since July 1, 2020

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Basis of consolidation [Cont'd]

Non-controlling interests represent the share in the subsidiaries' equity not held by the Mutual and are presented separately from equity attributable to members and participating policyholders' account in total equity. The shares of net and comprehensive income attributable to holders of non-controlling interests are included in total net income and total comprehensive income, respectively.

Investments

Investments considered as financial instruments are classified as follows according to their characteristics and the purpose for which they were acquired by the Mutual:

— Assets held-for-trading and assets designated at fair value through profit or loss with changes in fair value recognized in income;

— Assets available-for-sale recognized at fair value with changes in fair value recognized in accumulated other comprehensive income;

— Loans and receivables recognized at amortized cost using the effective interest rate method.

Financial instruments are recorded at fair value when initially recognized. Subsequent remeasurements will depend on the category in which financial instruments were initially classified.

The Mutual uses settlement date accounting for regular-way purchases and sales of financial assets. Under this method, any gains or losses between the transaction and settlement dates are recognized in income for assets designated at fair value through profit or loss and in other comprehensive income for available-for-sale assets.

Transaction costs of assets classified as held-for-trading and designated at fair value through profit or loss are recognized in income. Transaction costs of assets classified as available-for-sale are capitalized to the cost of the financial instruments. Transaction costs of assets classified as loans and receivables are capitalized and amortized using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents classified as held-for-trading consist of cash, short-term deposits and bankers' acceptances, and are accounted for at fair value. Short-term deposits and bankers' acceptances are classified as cash equivalents when the period between the acquisition date and maturity is less than three months.

Bonds, stocks, mutual funds, investments in limited partnerships and other investment (other)

The Mutual has elected to designate bonds, stocks, mutual funds and investments in limited partnerships backing life and health insurance contract liabilities at fair value through profit or loss. These bonds, stocks, mutual funds and investments in limited partnerships are recorded at fair value. Life and health insurance contract liabilities are determined using the Canadian Asset Liability Method, and the changes in fair value of assets backing the life and health insurance contract liabilities are included directly in life and health insurance contract liabilities. Changes in fair value of assets designated at fair value through profit or loss backing the liabilities and changes in life and health insurance contract liabilities are charged directly to income, thereby avoiding an accounting mismatch. Realized and unrealized gains and losses are recognized through income under "Interest and other investment income" and "Changes in fair value of financial assets designated as at fair value through profit or loss," respectively. Interest, dividend and distribution income is recognized under "Interest and other investment income."

Bonds, stocks, mutual funds, investments in limited partnerships and other investment (other) that are not used to cover life and health insurance contract liabilities are classified as available-for-sale.

Bonds, stocks, mutual funds, investments in limited partnerships and other investment (other) classified as available-for-sale are recorded at fair value. Unrealized gains and losses are recognized in other comprehensive income except when there is objective evidence of impairment, in which case the impairment loss is recognized in income. Gains and losses realized on disposal are reclassified to income under "Interest and other investment income." Interest, dividend and distribution income are recognized under "Interest and other investment income."

At each reporting date, financial instruments classified as available-for-sale are tested for impairment and, when there is evidence of impairment, generally a decline in value considered significant or prolonged, any loss recognized in accumulated other comprehensive income is reclassified to income. An impairment loss recorded in the statement of income may be reversed through profit or loss, 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. Impairment losses related to equity instruments may not be reversed through the statement of income. 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 recognized in income.

Fair values for bonds and stocks are determined with reference to bid prices observed in active market 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. Fair values of mutual funds are determined according to values published by the fund. If no value is available, the mutual funds' underlying instruments are measured using the fair value method based on discounted future cash flows. Fair value is determined using valuation techniques that factor in the discount rate particular to this type of investment and discounted cash flows, and are based on indirectly observable market data.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

Mortgage loans

Mortgage loans are classified as loans and receivables and reported at amortized cost using the effective interest rate method, less any allowance for losses. Commissions paid and other mortgage acquisition costs incurred are recognized and presented under mortgage loans. 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 rate method. Realized gains and losses on disposal of these securities and interest income are recognized through income under "Interest and other investment income."

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

Mortgage loan securitization

The Mutual periodically securitizes pools of insured mortgage loans that meet the criteria of the National Housing Act ("NHA") program of the Canada Mortgage and Housing Corporation ("CMHC"), through a trust set up for this purpose. As part of these securitization transactions and as required by the NHA's Mortgage-Backed Securities Program ("NHA MBS"), the Mutual transfers substantially all the risks and rewards related to the mortgage loans ceded to a third party and complies with the criteria of derecognizing ceded mortgage 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 servicing expenses, 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, servicing expenses 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 investment income.

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

Investment properties

Investment properties are real estate assets that are held for rental income and for capital appreciation.

Investment properties are accounted for at the transaction price on acquisition and subsequently recognized at fair value. The fair values of investment properties are determined by valuations prepared by chartered appraisers or by Mutual personnel and are revised annually. Rental income and realized and unrealized gains and losses on investment properties are recognized through income under "Interest and other investment income."

Investments in a joint venture and associates

The investment in 50%-owned joint venture Société Bon Pasteur (s.e.n.c.) is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates are investment in entities over which the Mutual exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not as having control or joint control of those policies.

The criteria forming the basis for the principles used to determine significant influence or joint control are similar to those used to determine control over subsidiaries.

The investments in a joint venture and in associates are accounted for using the equity method.

Note receivable from an associate

Note receivable from an associate is classified as loans and receivable and recognized at amortized cost. Its fair value is determined by discounting future cash flows using market interest rates for notes with similar terms and conditions.

Other investments

Other investments include personal loans, other loans, properties held for resale and derivative financial instruments.

Personal loans and other loans are classified as loans and receivables and recognized at amortized cost using the effective interest rate method. The fair value of these personal and other loans is determined by discounting future cash flows using market interest rates for loans with similar terms and conditions.

Properties held for resale are measured at the lower of fair value less costs to sell and the carrying value of underlying mortgage loans at foreclosure date. When the fair value of a property held for resale is less than the carrying value of underlying mortgage loans, less costs to sell, at the foreclosure date, losses are immediately recognized through income. Realized gains and losses on the disposal of such real estate are recognized through income for the year.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

Other investments [Cont'd]

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 being securitized and certain insurance products. The Mutual also uses derivative financial instruments to manage foreign currency exposure.

Derivative financial instruments are classified as held-for-trading and recognized at fair value, and changes in fair value are recognized in income. Derivative financial instruments with a positive fair value are included in other investments, whereas derivative financial instruments with a negative fair value are included in other financial liabilities.

Loan impairment provisions

At each reporting date, the Mutual performs impairment tests on mortgage loans, personal loans and other loans. Evidence of impairment arises when there is reasonable doubt as to the timely collection of the principal or interest on a loan or if a payment is over 90 days past due under the agreement. Impairment of a loan is determined based on the net recoverable amount of the loan. An allowance is created for the difference between this amount and the carrying amount. The Mutual determines the net recoverable amount of the loan by discounting cash flows at the effective interest rate inherent in the loan. This allowance is charged immediately to income. Furthermore, interest on impaired assets is no longer accrued.

Reinsurance

Reinsurance ceded

In the normal course of business, the Mutual enters into reinsurance agreements with other insurers and reinsurers to limit its exposure to risk. Ceding insurance to a reinsurer does not relieve the Mutual of its obligations to its insureds. It remains accountable to its insureds for the amount reinsured in the event that a reinsurer would default on its reinsurance cession obligations under the reinsurance treaties.

Reinsurance assets represent balances due from insurance companies with respect to liabilities relating to ceded insurance contracts. Amounts recoverable are estimated based on actuarial liabilities and provisions for claims related to the underlying insurance contracts in accordance with reinsurance agreements.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently if an indication of impairment arises during the reporting year. An impairment loss is recognized when there is objective evidence that the Mutual may not receive all outstanding amounts due under the terms of the agreement and that the unrecoverable amount can be estimated reliably.

Ceded premiums and ceded benefits and claims are reported in the consolidated statement of income. Reinsurance assets are presented as a separate item in the consolidated statement of financial position.

Reinsurance assumed

Assumed reinsurance contracts are entered into by the Mutual to acquire a portion of the risk and pay compensation as a percentage of losses on contracts written by other insurers. The Mutual assumes the reinsurance risk in the normal course of business relating to life and health and property and casualty insurance contracts. The premiums and benefits or claims under assumed reinsurance contracts are recognized as revenues or expenses as if they were direct business, taking into account the nature of the reinsurance business. Premiums and benefits or claims are reported on a gross basis for reinsurance assumed. Liabilities under assumed reinsurance contracts are included in insurance contract liabilities. Reinsurance liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Income taxes

The Mutual uses the asset and liability method of accounting for income taxes. Income tax expense (recovery) comprises current tax expense (recovery) and deferred tax expense (recovery). Income taxes are recognized through profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities are based on income before income taxes in the current year, adjusted for items that are not taxable or not deductible. Current income tax assets and liabilities are calculated based on income tax laws and rates enacted or substantively enacted as at the reporting date. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recorded based on all temporary differences between the financial statement carrying amount and the corresponding tax basis. These deferred income tax assets and liabilities are calculated using enacted or substantively enacted tax rates at the reporting date that are expected to be in effect when the assets are realized or the liabilities settled in future years. Deferred tax assets are recognized only if management deems it probable that deferred tax assets will be realized.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Other financial assets and other assets

Other financial assets consist of assets held-for-trading and loans and receivables. Assets held-for-trading consist of retained interests in securitized loans and cash in trust which are reported at fair value. Loans and receivables consist of investment income receivable, due from reinsurers in the life and health insurance and property and casualty insurance segments, other receivables and balance of sale receivable, which are recorded at amortized cost using the effective interest rate method.

Other assets consist of deferred premium acquisition costs of property and casualty insurance segment, prepaid expenses and tax credits receivable. Deferred premium acquisition costs include commissions and taxes on premiums and are recorded at amortized cost over the term of the relevant insurance contract 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. Prepaid expenses are recognized at cost.

Investment in a joint venture

The investment in a joint venture, Beneva Inc., is an arrangement whereby the parties having joint control over the entity retain rights over the joint venture's net assets. Joint control is the contractually agreed sharing of control of an entity, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Criteria used to determine significant influence or common control are similar to those used to determine control over subsidiaries.

The investment in a joint venture is initially recorded at faire value and subsequently under the equity method.

Property and equipment

Property and equipment comprise land, own-use properties, furniture and other, computer hardware and leasehold improvements. Property and equipment are recorded at cost, net of accumulated depreciation and impairment losses, and are depreciated on a straight-line basis over their estimated useful life.

Realized gains and losses on disposal of property and equipment are recognized through income for the year.

Class	Method	Useful life
Own-use properties	Straight-line	20 years to 100 years
Furniture and other	Straight-line	10 years
Computer hardware	Straight-line	3 years and 5 years
Leasehold improvements	Straight-line	Lease term

Depreciation methods used, useful lives and the residual value of property and equipment are reviewed annually. Any changes are recognized prospectively.

Depreciation is recognized under general expenses in the consolidated statement of income.

Right-of-use assets

Property and equipment also include right-of-use assets recorded as part of lease contracts for which the Mutual is a lessee. Right-of-use assets include office and branches, and vehicles. They are recognized at cost, which could be adjusted to reflect revaluation of related lease liability, net of accumulated depreciation and impairment. They are depreciated using straight-line method on a period that does not exceed lease contract duration or useful life of underlying asset.

Right-of-use assets are depreciated on the following basis:

Class	Method	Useful life
Offices and branches	Straight-line	1 year to 15 years
Vehicles	Straight-line	1 year to 4 years

The Mutual does not recognize right-of-use asset or related lease liability for short-term lease contracts, which are contracts ending in 12 months or less, and for lease contracts involving low-value underlying assets.

Intangible assets

Intangible assets consist of indefinite-life intangible assets, namely trademarks, and finite-life intangible assets, namely the client base, distribution networks and software, and software under development. Intangible assets are accounted for at cost at the acquisition date. Internally developed software and software under development are recorded at the lower of incurred development costs and future economic benefits. Software is amortized when implemented.

Indefinite-life intangible assets are not amortized.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Intangible assets [Cont'd]

Finite-life intangible assets are amortized on a straight-line basis as follows:

	Useful life
Client base and distribution networks	30 months to 18 years
Software	3 years to 30 years

Amortization methods used, useful lives and the residual value of intangible assets are reviewed annually. Any changes are recognized prospectively.

Amortization is recognized under general expenses in the consolidated statement of income.

Impairment of property, equipment and intangible assets

Where significant circumstances or events indicate a possible impairment, the management of the Mutual remeasures the carrying amount of property and equipment and intangible assets through impairment tests. Intangible assets with indefinite useful lives and development software are tested for impairment annually. An impairment loss is recorded once the asset's carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit represents the higher of its fair value less costs to sell and its value in use, which corresponds to the value of total discounted cash flows generated by the asset or cash-generating unit.

Government assistance

The Mutual receives government assistance in the form of tax credits. These amounts are recognized when there is reasonable assurance that the Mutual will comply with the conditions attached to these credits and the amounts will be received. The Mutual uses the cost reduction method to account for these amounts, under which credits are recorded as a reduction to general expenses or the eligible assets to which they apply. These credits are amortized according to the same method and rates as the eligible assets to which they apply.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the estimated fair value of their net identifiable assets. Goodwill is initially measured and subsequently at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least once a year for each cash-generating unit ("CGU") or group of CGUs or when events or changes in circumstances indicate that its carrying amount may not be recoverable. A CGU is the smallest group of assets that generates largely independent cash inflows and corresponds either to an operating segment or to a lower level. Any impairment of goodwill is measured by comparing the recoverable amounts of a CGU or a group of CGUs with its carrying amount and is recognized in income. Impairment losses may not be reversed subsequently.

The recoverable amount of a CGU is defined as the higher of its estimated fair value less costs of disposal and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Insurance contract liabilities

Classification of contracts

The contracts issued by the Mutual are classified as insurance contracts, investment contracts or service contracts. Contracts under which the Mutual accepts significant insurance risk from policyholders are classified as insurance contracts. A contract is considered as transferring significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario. Contracts under which the Mutual does not accept significant insurance risk are classified as investment contracts or service contracts.

Investment contracts are contracts that transfer financial risk but not significant insurance risk. Service contracts are contracts under which the Mutual offers administrative services. Financial risk is the risk of a possible future change in one or more of the following elements: specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Almost all contracts issued by the Mutual are classified as insurance contracts. Other service contracts are recorded as fees and other income in the consolidated statement of income.

Certain insurance contracts contain discretionary participation features under which policyholders are entitled to receive additional benefits.

Under the *Quebec Insurers Act*, in the normal course of its business, a life and health insurance company set up as a joint stock corporation may allocate a portion of overall earnings attributable to participating policyholders as retained earnings attributable to members. This annual transfer is presented in the consolidated statement of changes in equity.

The unpaid balance of experience rating refunds is included in life and health insurance contract liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Insurance contract liabilities [Cont'd]

Life and health insurance contract liabilities

Life and health insurance contract liabilities comprise gross actuarial liabilities, provisions for benefits incurred, provisions for experience rating refunds, and policyholder amounts on deposit.

Gross insurance contract liabilities represent the amount that secures current policy commitments. These liabilities are determined using the Canadian Asset Liability Method ("CALM"), which is the actuarial practice prescribed by the Canadian Institute of Actuaries ("CIA").

CALM involves projecting asset and liability cash flows for each business segment. Net cash flows are invested in new assets, if positive, or assets are sold or borrowed against to meet cash needs in accordance with the assumptions of each scenario. Reinvestment strategies are based on investment policies for each segment and the reinvestment returns are from the interest rates scenarios. The insurance contract liabilities are at least as great as the liabilities determined under the worst of the interest rates scenarios tested.

This method meets the minimum requirements of the liability adequacy test, i.e. it uses current estimates of all contractual cash flows, related cash flows, and the total inadequacy is recognized in the statement of income.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and the provision for claims and loss adjustment expenses.

Unearned premiums are calculated on a pro rata basis, based on the unexpired portion of the premiums written. At the end of each reporting period, a liability adequacy test is performed to ensure the adequacy of unearned premiums. A premium deficiency results when unearned premiums are considered insufficient to cover the estimated future costs for the unexpired portion of the insurance contracts written. A premium deficiency is recognized immediately as a reduction of deferred premium acquisition costs to the extent that the aggregate amount of unearned premiums and the expected investment income is considered inadequate to cover all the deferred premium acquisition costs and related claims and insurance expenses. If the premium deficiency exceeds the unamortized deferred policy acquisition costs, a liability is recognized with regard to the excess deficiency.

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. Claims and loss adjustment expenses are charged to income as incurred until contract expiry, whether through settlement or termination.

The provision for claims and loss adjustment expenses is estimated on a gross basis without taking into account recoveries from reinsurers, but net of subrogations, as well as net of recoveries from reinsurers. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice. This estimate is based on the assumption that future changes in claims will be comparable to the historical experience. The analysis also includes assumptions regarding future claims, the average claim cost, inflation and other relevant factors. Provisions for internal and external loss adjustment expenses are estimated based on the historical relationship between these expenses and claims. If past experience is not applicable to current claims, either due to changes in practices or a new line of business, additional assumptions must be made to take into account three major variables or values: future claims, reinsurance recoveries and future investment income.

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.

Groupement des assureurs automobiles and Facility Association

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the Groupement des assureurs automobiles ("GAA") in Quebec or the Facility Association ("FA") in other provinces and territories. In addition, insurers can choose to cede certain risks to the GAA or FA administered Risk Sharing Pool ("RSP"). The risks associated with GAA or FA insurance contracts and contracts ceded by insurance companies to the RSP are aggregated and shared by the Canadian property and casualty insurers in proportion to market share and volume of business ceded to the RSP. The Mutual applies the same accounting policies to RSP insurance it assumes as it does to insurance contracts issued by the Mutual directly to policyholders.

Other financial liabilities and other liabilities

Other financial liabilities include liabilities held-for-trading and other liabilities. Liabilities held-for-trading include bank overdraft, derivative financial instruments and deposits in trust which are recognized at fair value. Other liabilities include accrued liabilities, other amounts on deposit, loyalty, stabilization and development funds, deposits for taxes, due to reinsurers in the life and health insurance and property and casualty insurance segments, accrued interest on subordinated debenture, lease liabilities and other, which are recorded at amortized cost using the effective interest rate method.

Loyalty, stabilization and development funds are provisions for amounts deposited in the Mutual. They are related to agreements with business partners. Deposits become payable based on the achievement of criteria that are specific to each agreement.

Lease liabilities are financial liabilities related to right-of-use assets recorded following lease contracts for which the Mutual is a lessee. They are initially recognized at present value of lease payments not yet paid. These payments include all lease payments that are fixed in substance. Service components, non-lease components and variable fees included in lease contract are not included and are recorded as general expenses in consolidated statement of income when incurred. Lease payments are discounted using a specific rate for each contract. After initial recognition, lease liabilities are accreted to reflect interest and deducted for payments made. Lease liabilities are remeasured, if necessary, to reflect modifications made to lease payments or lease contracts.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Employee future benefits

The Mutual offers defined benefit and defined contribution pension plans and post-employment benefits to its employees. The Mutual has set up a master trust for the purpose of managing almost all investments of the defined benefit pension plans of the La Capitale group. Participating units in the master trust are attributed periodically to the plans, based on contributions net of benefits and expenses net of other items reducing net assets. The cost of pension benefits under defined benefit plans and of other post-employment benefits earned by employees is determined according to actuarial calculations using the projected unit credit method and management's most likely assumptions of salary escalation, the retirement age of employees, expected health care costs and mortality rates. Plan obligations are discounted based on current market interest rates, and plan assets are recorded at fair value. The difference between the defined benefit pension plan assets and the obligation in respect of defined benefit pension plans is recognized under "Employee future benefits" in the consolidated statement of financial position.

The cost of benefits is recognized under general expenses in the consolidated statement of income.

Remeasurement of the net defined benefit liability is accounted for in the year in which it occurs through other comprehensive income.

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

Long-term debt

Long-term debt is classified as other liabilities and recorded at amortized cost using the effective interest rate method. Interest on long term debt is recognized through income under "Finance costs."

The fair value of the long-term debt is estimated using a valuation model based on market prices for instruments with similar terms. This fair value may fluctuate depending on interest rates and credit risks associated with such financial instrument.

Subordinated debenture

Subordinated debenture is a direct, unsecured claim of the Mutual which is subordinated to those of the policyholders and other creditors of the Mutual.

It is classified as other financial liability and recorded at amortized cost using the effective interest rate method. Interest on subordinated debenture is recognized through income under "Finance costs."

The fair value of subordinated debenture is estimated using a valuation model based on market prices for instruments with similar terms. This fair value may fluctuate depending on interest rates and credit risks associated with such financial instrument.

Revenue recognition

Revenues are recognized when it is likely that economic benefits will flow to the Mutual and these benefits can be measured reliably. Revenues are measured at the fair value of the consideration received or receivable.

Premiums

Gross life and health insurance and annuity premiums are recorded as revenues when they fall due under existing policies. Net premiums include assumed premiums, net of premiums ceded to reinsurers. Upon the recognition of premiums, actuarial liabilities are calculated and recognized under "Life and health insurance contract liabilities" in the consolidated statement of financial position to match benefits and expenses with revenues.

Gross written premiums for property and casualty insurance are recorded as revenues over the term of each policy on a pro rata basis. The portion of unearned premiums as at the reporting date is reported under "Property and casualty insurance contract liabilities" in the consolidated statement of financial position. For certain products, unearned premiums are adjusted to take into account changes in the associated risks.

Premiums receivable are classified as loans and receivables and measured at amortized cost using the effective interest rate method.

Investment income

Dividend and distribution income is recognized when the right to receive payment is established. Interest income from bonds and loans are calculated using the effective interest rate method. Rental income from investment properties are recognized on a straight-line basis over the lease term.

Fees and other income

Fees and other income comprise mainly brokerage fees, management fees, and other income and recognized on an accrual basis as services are rendered. They also include gain on purchase of a subsidiary.

Securities lending

The Mutual engages in the lending of securities, namely stocks and bonds from its investment portfolio. These transactions are collateralized by securities received from counterparties and guaranteed by the asset custodian. The loaned securities are not derecognized since the Mutual retains the risks and rewards related to these securities. Income generated from securities lending is reported under investment income in the statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Foreign currency translation

The Canadian dollar is the Mutual's functional currency. Transactions in foreign currencies carried out by the Mutual are translated at the exchange rate in effect on the transaction date. At each reporting date, monetary items are translated at the rates in effect at year-end while non-monetary items are translated at historical exchange rates. Translation gains and losses are included in income for the year.

Changes in future accounting policies

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

The Mutual will apply these standards in future fiscal years.

IFRS 9 – *Financial Instruments*

In July 2014, the IASB issued IFRS 9, Financial Instruments, which makes the following changes to the recognition of financial instruments:

- The classification and measurement approach for financial assets reflects the business model with which they are managed and their cash flow characteristics.
- Impairment is based on the expected credit loss model.
- Hedge accounting takes into account the entity's risk management practices.

In September 2016, the IASB published "*Applying IFRS 9, Financial Instruments and IFRS 4, Insurance Contracts*". The purpose of the amendments contained in this publication is to align accounting treatments of IFRS 9 to those included in the current IFRS 4 standard for entities that issue insurance contracts. These changes offer the option to reclassify certain amounts of income and expenses related to designated financial instruments from net income to comprehensive income (the "overlay approach"). They also offer an optional temporary exemption allowing entities whose predominant activity is issuing insurance contracts to defer the application of IFRS 9 until the fiscal year beginning on January 1, 2023 (the "deferral approach").

The Mutual qualified for the deferral approach until July 1, 2020. Up to this date, the percentage of the total carrying amount of its insurance-related liabilities relative to the total carrying amount of all its liabilities was greater than 80% and the Mutual did not carry on a significant non-insurance business activity. Accordingly, the Mutual elected for this exemption.

Since July 1, 2020, the Mutual no longer qualifies for the deferral approach. Therefore, the Mutual will apply IFRS 9 retrospectively without restatement of comparative figures as of January 1, 2021. The Mutual will choose the transitory measure to defer the application of the IFRS 9 measurement and recognition requirement to its investment in the joint venture, since the joint venture and its subsidiaries qualify for the deferral approach. Consequently, and based on the nature of financial instruments held by the Mutual, adoption of IFRS 9 will not have any significant impact on its financial position. Changes in presentation and disclosure of financial instruments will however be made in the Mutual's 2021 financial statements.

IFRS 17 – *Insurance contracts*

In May 2017, the IASB issued IFRS 17, Insurance contracts. This comprehensive new standard for insurance contracts (including reinsurance) covers recognition and measurement, presentation and disclosure. While the current IFRS 4 is largely based on local measurement practices, IFRS 17 introduces a new general measurement model that aims to provide more useful and consistent financial information on insurance contracts. This general measurement model is set out in various forms covering all relevant aspects of the accounting of insurance contracts. IFRS 17 will be effective retrospectively for reporting periods beginning on or after January 1, 2023. The Mutual is currently assessing the impact of this new standard on its investment in the joint venture reported on its consolidated financial statements.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these consolidated financial statements, management is required to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from management's best estimates.

Judgments

In the process of applying the accounting policies, management has made the following judgments that had the most significant effects on the amounts recognized in the consolidated financial statements:

Initial recognition at fair value of investment in the joint venture

The initial contribution to the joint venture Beneva Inc. has been recognized as a contribution of businesses at fair value to form a joint venture. The main categories of assets acquired and liabilities assumed by Beneva Inc. from each of the contributed entities as at July 1, 2020, namely SSQ, Life Insurance Company Inc. and La Capitale Civil Service Insurer Inc., were recorded at fair value in the accounting records of Beneva Inc. The Mutual's investment in Beneva Inc. upon initial contribution was equal to its share of equity attributable to shareholders of Beneva Inc. as at that date.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS [Cont'd]

Estimates and assumptions

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

Income taxes

The computation of current and deferred tax expense (recovery) is based on several factors including the interpretation of tax regulations in the jurisdictions in question, assessments regarding the recovery of deferred tax assets and how the assets and liabilities are expected to be recovered. The recovery of deferred tax assets depends, among other factors, on projected future taxable income from the Mutual's operations and the tax planning strategies developed. The Mutual establishes a provision for income tax it considers reasonable and which is based on the weighted estimate of the possible results from the adopted tax positions. When establishing the provision, the Mutual takes into consideration previous adjustments made by tax authorities, interpretation bulletins and recent rulings rendered in the relevant jurisdictions.

4. COMBINATION IN THE FORM OF A JOINT VENTURE

On July 1, 2020, SSQ, La Capitale Financial Group Inc. and SSQ, Financial Corporation Inc. combined their respective wholly owned subsidiaries into the joint venture Beneva Inc. As of this date, Beneva Inc. holds all the voting and participating shares of insurers La Capitale Civil Service Insurer Inc. ("CCSI") and SSQ, Life Insurance Company Inc. ("SSQ Life"). The business combination was carried out in accordance with the combination agreement signed by the parties involved on January 28, 2020 and after obtaining the required approvals from the competent authorities.

The aim of this combination is to create the largest mutual insurance company in Canada, resulting from the combination of two equal parties in the form of a joint venture via Beneva Inc.. Beneva Inc.'s ultimate owners include the mutual management companies SSQ Mutual and La Capitale Civil Service Mutual.

The combination was accounted for as a contribution of a business at fair value to form a joint venture, which represents a significant management judgment. The main categories of assets acquired and liabilities assumed by Beneva Inc. from each of the contributed businesses and subsidiaries as at July 1, 2020, and their respective fair values at that date, are as follows:

	Carrying amount before the combination date	Fair value at the combination date		
Main categories	CCSI	CCSI	SSQ Life	Total
	In millions of $	In millions of $	In millions of $	In millions of $
Assets				
Investments, including a total of $606.8 in cash and cash equivalents	7,282.0	7,282.0	5,587.6	12,869.6
Premiums receivable	851.2	851.2	317.5	1,168.7
Reinsurance assets	326.4	326.4	2,420.2	2,746.6
Current tax assets	17.5	17.5	—	17.5
Other assets	164.1	164.1	200.3	364.4
Deferred tax assets	41.7	41.7	58.4	100.1
Property and equipment	165.8	165.8	192.8	358.6
Intangible assets	185.2	274.7	279.0	553.7
Investments related to segregated funds	—	—	5,076.4	5,076.4
	9,033.9	9,123.4	14,132.2	23,255.6
Liabilities				
Life and health insurance contract liabilities	6,092.3	6,092.3	6,748.2	12,840.5
Property and casualty insurance contract liabilities	1,316.7	1,316.7	349.6	1,666.3
Current tax liabilities	13.3	13.3	3.2	16.5
Other liabilities	307.9	307.9	531.8	839.7
Employee future benefits	175.7	175.7	193.7	369.4
Deferred tax liabilities	10.4	33.0	68.6	101.6
Long-term debt	13.3	13.3	—	13.3
Subordinated debt	149.6	153.8	152.7	306.5
Segregated fund insurance contract liabilities	—	—	1,743.6	1,743.6
Segregated fund investment contract liabilities	—	—	3,332.8	3,332.8
	8,079.2	8,106.0	13,124.2	21,230.2
Excess of assets acquired over liabilities assumed	954.7	1,017.4	1,008.0	2,025.4
Goodwill	106.1	141.5	100.2	241.7
Total	1,060.8	1,158.9	1,108.2	2,267.1

4. COMBINATION IN THE FORM OF A JOINT VENTURE [Cont'd]

The consideration paid in share capital by Beneva Inc. to La Capitale Financial Group Inc. and to SSQ, Financial Corporation Inc. on July 1, 2020 was as follows:

	Consideration paid in share capital					
	Number of Class A shares, without par value	Percentage of voting rights	Carrying amount	Number of Class B shares, without par value	Percentage of interest in the entity	Carrying amount[1]
		%	$		%	$
Entities making a contribution						
La Capitale Financial Group Inc.	**500**	**50.0**	**1**	**1,158,935,000**	**51.1**	**1,158,935**
SSQ, Financial Corporation Inc.	**500**	**50.0**	**1**	**1,108,185,000**	**48.9**	**1,108,185**
Total	**1,000**	**100.0**	**2**	**2,267,120,000**	**100.0**	**2,267,120**

1. Carrying amount of $1,158,935 includes $1,154,882 attributed to the shareholder La Capitale Financial Group Inc., $597 attributable to participating policyholders and $3,456 attributable to non-controlling interests.

In the Mutual's consolidated financial statements, the combination results in a disposal and derecognition of assets and liabilities contributed by CCSI and its subsidiaries into Beneva Inc., and the recognition of an investment in the joint venture. The difference between the carrying amount of assets and liabilities of CCSI and its subsidiaries of $1,060,779 as at July 1, 2020, and the contribution of the shareholder La Capitale Financial Group Inc. into Beneva Inc. as at this date at a fair value of $1,154,882, amounting to a total of $94,103, was added to the classification of net realized gains of $3,077 related to the assets of CCSI and its subsidiaries and to the gain associated with the derecognition of participating policyholders' accounts and non-controlling interests of $4,053, and were recognized as a gain on the contribution of businesses to the joint venture of $101,233 in the consolidated statement of income.

5. INVESTMENT IN THE JOINT VENTURE

Following the combination, the Mutual owns an interest of 51.1% through its ownership of 1,158,935,000 Class B shares, without par value, and 50% voting rights through its 500 Class A shares, without par value, in Beneva Inc. These shares were initially subscribed for $1.

	$
Contribution on July 1, 2020, at fair value, and initial subscription	**1,154,883**
Share of the joint venture's net income	**92,649**
Share of net unrelalized gains for the year on available-for-sale financial assets of the joint venture	**32,071**
Share of remeasurement of the net defined benefit liability of the joint venture	**(6,486)**
Transfer to participating policyholders of a subsidiary of the joint venture	**(2,812)**
Balance as at December 31, 2020	**1,270,305**

5. INVESTMENT IN THE JOINT VENTURE [Cont'd]

The following table shows summary financial information of the joint venture as reported in its financial statements:

	2020
	Beneva Inc. in millions of $
Consolidated Statement of Financial Position	
Investments (including $925,7 of cash and cash equivalents)	**14,304,3**
Investments related to segregated funds	**5,392.7**
Other assets	**5,337.5**
Total assets	**25,034.5**
Insurance contract liabilities	**15,129.3**
Segregated fund insurance and investment contract liabilities	**5,392.7**
Other liabilities	**2,019.6**
Total liabilities	**22,541.6**
Total equity	**2,492.9**
Consolidated Statement of Net Income and Comprehensive Income (for six months of operations)	
Net premium revenues	**2,661.1**
Investment income and other revenues	**572.1**
Total revenues	**3,233.2**
Total policy benfits, claims and expenses	**(2,981.7)**
Experience rating refunds and participating policyholder dividends	**(21.8)**
Income taxes	**(53.8)**
Net income	**175.9**
Other comprehensive income	**50.1**
Comprehensive income	**226.0**

6. INVESTMENTS AND INVESTMENT INCOME

Investments

The following tables provide information on the carrying amount and fair value of the Mutual's investments.

Carrying amount and fair value of investments

	2020						
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total carrying amount $	Total fair value $
Cash and cash equivalents	**4,488**	**—**	**—**	**—**	**—**	**4,488**	**4,488**

Mortgage loans

On February 1, 2020, investments in mortgage loans and other financial assets consisting of retained interests in securitized loan were disposed of. Net effect of disposal of mortgage loans and retained interests in securitized loan was disclosed as a net realized gain of $6,710 on mortgage loans and recorded in investment income.

6. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investments [Cont'd]

Carrying amount and fair value of investments [Cont'd]

	2019						
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total carrying amount $	Total fair value $
Cash and cash equivalents	138,799	—	—	—	—	138,799	138,799
Bonds							
Government of Canada*	—	1,469	157,317	—	—	158,786	158,786
Provincial governments*	—	1,349,110	269,086	—	—	1,618,196	1,618,196
Municipalities, school boards and hospitals*	—	9,713	17,357	—	—	27,070	27,070
Corporate*	—	590,141	305,918	—	—	896,059	896,059
	—	1,950,433	749,678	—	—	2,700,111	2,700,111
Stocks							
Common shares	—	23,763	139,260	—	—	163,023	163,023
Preferred shares	—	201,668	140,328	—	—	341,996	341,996
	—	225,431	279,588	—	—	505,019	505,019
Mutual funds							
Bonds	—	72,248	136,265	—	—	208,513	208,513
Stocks	—	874,742	47,806	—	—	922,548	922,548
Loans	—	23,331	47,618	—	—	70,949	70,949
Diversified	—	1,374,019	—	—	—	1,374,019	1,374,019
	—	2,344,340	231,689	—	—	2,576,029	2,576,029
Mortgage loans							
Insured*	—	—	—	124,500	—	124,500	124,404
Conventional*	—	—	—	342,467	—	342,467	343,886
	—	—	—	466,967	—	466,967	468,290
Policy loans	—	—	—	44,062	—	44,062	44,062
Investment properties							
Held for invesment	—	—	—	—	56,925	56,925	56,925
Investments in a joint venture and associates							
Investments	—	—	—	—	41,374	41,374	
Note receivable from an associate*	—	—	—	5,000	—	5,000	4,992
	—	—	—	5,000	41,374	46,374	
Investments in limited partnerships	—	207,017	124,751	—	—	331,768	331,768
Other investments							
Personal loans*	—	—	—	22,804	—	22,804	21,613
Other loans	—	—	—	86,629	—	86,629	87,494
Properties held for resale	—	—	—	—	1,084	1,084	1,084
Derivative financial instruments	6,034	—	—	—	—	6,034	6,034
Other	—	—	2,301	—	—	2,301	2,301
	6,034	—	2,301	109,433	1,084	118,852	118,526
	144,833	4,727,221	1,388,007	625,462	99,383	6,984,906	

* These are financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

6. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investment income

	2020					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	1,721	—	—	—	—	1,721
Bonds						
Interest	—	33,707	8,576	—	—	42,283
Net realized gains	—	—	3,825	—	—	3,825
Change in fair value	—	158,110	—	—	—	158,110
Stocks						
Dividends	—	6,563	5,876	—	—	12,439
Net realized losses	—	—	(17,751)	—	—	(17,751)
Change in fair value	—	(30,027)	—	—	—	(30,027)
Mutual funds						
Distribution income	—	30,059	1,895	—	—	31,954
Net realized losses	—	—	(2,552)	—	—	(2,552)
Change in fair value	—	(47,835)	—	—	—	(47,835)
Mortgage loans						
Interest	—	—	—	1,663	—	1,663
Net realized gains		—	—	6,710	—	6,710
Policy loans						
Interest	—	—	—	1,419	—	1,419
Investment properties						
Rental income	—	—	—	—	1,606	1,606
Change in fair value	—	—	—	—	3	3
Investments in a joint venture and associates	—	—	—	—	2,208	2,208
Investments in limited partnerships						
Distribution income	—	6,191	3,128	—	—	9,319
Change in fair value	—	1,469	—	—	—	1,469
Other investments						
Interest	—	—	—	2,025	338	2,363
Net realized losses	(3,057)	—	—	—	—	(3,057)
Change in fair value	7,216	—	—	—	—	7,216
	5,880	158,237	2,997	11,817	4,155	183,086
SUMMARY						
Interest	1,721	33,707	8,576	5,107	338	49,449
Dividends	—	6,563	5,876	—	—	12,439
Distribution income	—	36,250	5,023	—	—	41,273
Rental income	—	—	—	—	1,606	1,606
Share of income of the joint venture and associates	—	—	—	—	2,208	2,208
Net realized gains (losses)	(3,057)	—	(16,478)	6,710	—	(12,825)
Change in fair value	7,216	—	—	—	3	7,219
Interest and other investment income	5,880	76,520	2,997	11,817	4,155	101,369
Change in fair value of financial assets designated at fair value through profit or loss	—	81,717	—	—	—	81,717
	5,880	158,237	2,997	11,817	4,155	183,086

6. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investment income [Cont'd]

	2019					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	2,228	—	—	—	—	2,228
Bonds						
Interest	—	61,445	17,094	—	—	78,539
Net realized gains	—	—	4,559	—	—	4,559
Change in fair value	—	147,194	—	—	—	147,194
Stocks						
Dividends	—	11,085	11,980	—	—	23,065
Net realized gains	—	—	8,588	—	—	8,588
Change in fair value	—	4,364	—	—	—	4,364
Mutual funds						
Distribution income	—	89,311	8,681	—	—	97,992
Net realized gains	—	—	1,763	—	—	1,763
Change in fair value	—	193,611	—	—	—	193,611
Mortgage loans						
Interest	—	—	—	15,626	—	15,626
Policy loans						
Interest	—	—	—	2,830	—	2,830
Investment properties						
Rental income	—	—	—	—	20,711	20,711
Change in fair value	—	—	—	—	29,763	29,763
Investments in a joint venture and associates	—	—	—	—	3,379	3,379
Investments in limited partnerships						
Distribution income	—	8,696	5,196	—	—	13,892
Change in fair value	—	6,022	—	—	—	6,022
Other investments						
Interest	—	—	—	4,128	327	4,455
Net realized gains	8,202	—	2	—	—	8,204
Change in fair value	4,306	—	—	—	—	4,306
	14,736	521,728	57,863	22,584	54,180	671,091
SUMMARY						
Interest	2,228	61,445	17,094	22,584	327	103,678
Dividends	—	11,085	11,980	—	—	23,065
Distribution income	—	98,007	13,877	—	—	111,884
Rental income	—	—	—	—	20,711	20,711
Share of income of the joint venture and associates	—	—	—	—	3,379	3,379
Net realized gains	8,202	—	14,912	—	—	23,114
Change in fair value	4,306	—	—	—	29,763	34,069
Interest and other investment income	14,736	170,537	57,863	22,584	54,180	319,900
Change in fair value of financial assets designated at fair value through profit or loss	—	351,191	—	—	—	351,191
	14,736	521,728	57,863	22,584	54,180	671,091

7. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES

Fair value hierarchy

The following tables classify fair value measurements of financial assets and financial liabilities using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has 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.

For assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements, the Mutual determines whether the date of the transfer from one level to another is the date of the change in circumstances that triggered the transfer. No transfer occurred during fiscal year ended December 31, 2020 [2019: none].

Assets and liabilities measured at fair value

	2020			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Cash and cash equivalents	**4,488**	**—**	**—**	**4,488**

	2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Cash and cash equivalents	104,263	34,536	—	138,799
Bonds				
Government of Canada	—	158,786	—	158,786
Provincial governments	—	1,618,196	—	1,618,196
Municipalities, school boards and hospitals	—	27,070	—	27,070
Corporate	—	804,543	91,516	896,059
	—	2,608,595	91,516	2,700,111
Stocks				
Common shares	163,023	—	—	163,023
Preferred shares	341,846	—	150	341,996
	504,869	—	150	505,019
Mutual funds				
Bonds	—	208,513	—	208,513
Stocks	922,548	—	—	922,548
Loans	—	70,949	—	70,949
Diversified	—	1,374,019	—	1,374,019
	922,548	1,653,481	—	2,576,029
Investment properties	—	—	56,925	56,925
Investments in limited partnerships	—	—	331,768	331,768
Other investments				
Derivative financial instruments	—	6,034	—	6,034
Other	—	—	2,301	2,301
	—	6,034	2,301	8,335
Other financial assets				
Retained interests – Securitization	—	—	4,642	4,642
LIABILITIES				
Other financial liabilities				
Bank overdraft	194	—	—	194
Derivative financial instruments	—	2,488	—	2,488
	194	2,488	—	2,682

7. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES [Cont'd]

Valuation techniques for Level 2 or 3 assets measured at fair value

The Vice-Presidency, Investments determines the fair value measurement policies and procedures and analyses the changes that occur for the assets classified in Level 2 or 3 of the hierarchy. In addition, the Vice-Presidency, Investments selects an appropriate valuation model, as well as the inputs for each of those investments.

Bonds

Bonds are valued using market prices based on the average of bid prices quoted by Canada's top twelve brokers. The bid price is then compared to another external pricing source. The external source uses the latest quoted market or closing price. Where there is a spread between the two sourced prices, a comparison is made with a further source specialized in market financial information to determine the price that is most representative of fair value.

Where quoted prices are not available, fair value is estimated using a valuation method based on discounted future cash flows using market-based interest rate from for securities with a similar risk profile. Significant input to this method is the discount rate, which includes risk-free interest rate and also credit and liquidity premiums.

Changes in Level 3 assets measured at fair value

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

	Bonds $	Investment properties $	Investments in limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2020	**91,516**	**56,925**	**331,768**	**4,642**
Losses recognized in income	**—**	**—**	**—**	**(4,642)**
Purchases or capital expenditure	**32,344**	**—**	**64,612**	**—**
Disposals	**(424)**	**—**	**—**	**—**
Transfer from investment properties to property and equipment – own-use properties	**—**	**(18,732)**	**—**	**—**
Change in fair value through profit or loss	**4,306**	**3**	**881**	**—**
Unrealized gains recognized in other comprehensive income	**774**	**—**	**176**	**—**
Contribution to the joint venture	**(128,516)**	**(38,196)**	**(397,437)**	**—**
Balance as at December 31, 2020	**—**	**—**	**—**	**—**

	Bonds $	Investment properties $	Investments in limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2019	19,029	160,405	275,100	4,882
Losses recognized in income	—	—	—	(2,378)
Issuances	—	—	—	2,138
Purchases or capital expenditure	79,375	10,792	49,343	—
Disposals and transfer	(7,077)	(144,035)	—	—
Change in fair value through profit or loss	204	29,763	6,022	—
Unrealized gains (losses) recognized in other comprehensive income	(15)	—	1,303	—
Balance as at December 31, 2019	91,516	56,925	331,768	4,642

8. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS

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 periodically.

The Mutual has adopted control policies and procedures to manage risks related to financial instruments. An investment policy was approved by the Board of Directors to provide a framework for investment decision making. The control procedures arising from this policy ensure sound management of investment risks.

The Board of Directors is responsible for establishing the Mutual's risk tolerance level and implementing the policies required to monitor and ascertain the risk it assumes. The Board of Directors is also responsible for governance.

The most significant risks related to financial instruments that the Mutual must manage are market risk, credit risk, concentration risk and liquidity risk.

Market risk

Market risk is defined as the risk that fluctuations in market prices of financial instruments arising from stock market, interest rate or foreign currency 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.

Interest rate risk

An immediate rise in interest rates would have an unfavourable short-term impact on surplus portfolios invested in bonds. A decrease in interest rates would have the opposite effect.

Investments in bonds are nil as at December 31, 2020.

The following tables indicate the maturity dates and weighted average effective interest rate of the Mutual's investments as at December 31, 2019.

		Fixed rate					2019	
	Variable rate $	Maturing in under 1 year $	Maturing in 1 to 5 years $	Maturing in 6 to 10 years $	Maturing in over 10 years $	No specific maturity $	Total carrying amount $	Weighted average effective interest rate %
Bonds								
Government of Canada	—	7,967	126,499	6,325	17,995	—	158,786	1.8
Provincial governments	1,028	34,813	256,465	181,063	1,144,827	—	1,618,196	2.7
Municipalities, school boards and hospitals	—	5,644	10,536	6,199	4,691	—	27,070	2.4
Corporate	4,209	9,046	320,676	108,405	453,723	—	896,059	3.1
	5,237	57,470	714,176	301,992	1,621,236	—	2,700,111	2.8
Stocks								
Preferred shares	849	55,959	186,029	4,002	—	95,157	341,996	5.7
Mortgage loans								
Insured	—	41,296	77,890	3,395	1,919	—	124,500	3.2
Conventional	28,895	72,106	236,184	5,282	—	—	342,467	3.3
	28,895	113,402	314,074	8,677	1,919	—	466,967	3.3
Policy loans	—	—	—	—	—	44,062	44,062	6.5
Note receivable from an associate	—	—	—	—	—	5,000	5,000	9.0
Other investments								
Personal loans	12,242	1,318	2,275	6,969	—	—	22,804	5.5
Other loans	—	14,346	62,661	1,432	7,500	690	86,629	3.5
	12,242	15,664	64,936	8,401	7,500	690	109,433	3.9
	47,223	242,495	1,279,215	323,072	1,630,655	144,909	3,667,569	3.2

Foreign exchange risk

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

The Mutual's foreign currency revenues and expenses are insignificant; changes in value of foreign currency have very little impacts on the Mutual's net income.

8. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS [Cont'd]

Credit risk

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 maximum credit risk exposure for its financial instruments is equal to the carrying amount of cash and cash equivalents of $4,488 [2019: $4,915,753 including the carrying amount of cash and cash equivalents, bonds, term preferred shares, mortgage loans, policy loans, note receivable from an associate, other investments, premiums receivable, reinsurance assets and other receivables included in other financial assets].

The following table provides information on the credit quality of bonds.

Bonds by credit quality

	Carrying amount			
	2020		2019	
Credit rating	$	%	$	%
AAA	—	—	159,688	5.9
AA	—	—	1,733,611	64.2
A	—	—	505,570	18.7
BBB	—	—	192,526	7.1
BB	—	—	1,483	0.1
Not rated	—	—	107,233	4.0
	—	—	2,700,111	100.0

Liquidity risk

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

The Mutual's maximum liquidity risk exposure for its financial instruments is detailed by contractual maturity as follows:

	Under 1 year $	Total $
Other financial liabilities	2,302	2,302

9. OTHER FINANCIAL ASSETS AND OTHER ASSETS

	2020 $	2019 $
Other financial assets		
Held-for-trading		
Retained interests – Securitization	—	4,642
Cash in trust	—	2,591
	—	7,233
Loans and receivables		
Investment income receivable	—	14,229
Due from reinsurers – Life and health insurance segment	—	11,860
Due from reinsurers – Property and casualty insurance segment	—	3,336
Other receivables	—	32,388
Balance of sale receivable	—	429
	—	62,242
	—	69,475
Other assets		
Deferred premium acquisition costs	—	66,093
Prepaid expenses	**68**	15,014
Tax credits receivable	—	2,356
	68	83,463

9. OTHER FINANCIAL ASSETS AND OTHER ASSETS [Cont'd]

Deferred premium acquisition costs

	2020	2019
	$	$
Balance as at January 1	**66,093**	55,167
Addition	**73,474**	132,031
Amortization	**(68,297)**	(121,105)
Contribution to the joint venture	**(71,270)**	—
Balance as at December 31	**—**	66,093

10. INCOME TAXES

	2020	2019
	$	$
Income tax expense as reported in the consolidated statement of income:		
Current taxes	**9,618**	29,451
Deferred taxes (recovery)	**189**	(9,573)
	9,807	19,878

	2020	2019
	$	$
Income tax expense reported in the consolidated statement of income attributable to:		
Members or the Mutual	**5,715**	13,089
Participating policyholders	**1,360**	2,318
Non-controlling interests	**2,732**	4,471
	9,807	19,878

	2020	2019
	$	$
Income tax (recovery) reported in other comprehensive income:		
Current taxes (recovery)	**(1,506)**	6,222
Deferred taxes (recovery)	**(5,663)**	628
	(7,169)	6,850

	2020	2019
	$	$
Income tax (recovery) reported in other comprehensive income attributable to:		
Members of the Mutual	**(5,984)**	5,956
Non-controlling interests	**(1,185)**	894
	(7,169)	6,850

10. INCOME TAXES [Cont'd]

Income tax expense differs from the expense that would be determined under applicable legislation in Canada for the following reasons:

	2020		2019	
	$	%	$	%
Income before income taxes	**244,748**	**—**	145,733	—
Income tax expense based on statutory rates	**64,858**	**26.5**	38,765	26.6
Increase (deacrease) in income taxes resulting from:				
Non-taxable items	**(55,971)**	**(22.9)**	(20,407)	(14.0)
Prior-year adjustment	**13**	**—**	(50)	—
Effect of the acquisition of a subsidiary *[note 20]*	**—**	**—**	5,447	3.7
Recognition of deferred tax assets relating to prior tax attributes of a subsidiary	**—**	**—**	(4,457)	(3.1)
Effect of substantively enacted income tax rate	**—**	**—**	(640)	(0.4)
Other	**327**	**0.1**	—	—
	9,227	**3.7**	18,658	12.8
Income taxes on investment income	**580**	**0.3**	1,220	0.8
Income taxes and effective rates	**9,807**	**4.0**	19,878	13.6

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

	2020	2019
	$	$
Deferred tax assets		
Actuarial liabilities	**—**	58,081
Provision for claims and loss adjustment expenses	**—**	6,953
Other liabilities	**523**	9,071
Employee future benefits	**68**	38,654
Unused tax losses	**736**	4,407
Other	**43**	7,300
	1,370	124,466
Deferred tax liabilities		
Policy loans	**—**	11,667
Employee future benefits	**255**	—
Investment properties	**—**	3,903
Investment in a joint venture	**—**	5,189
Property and equipment	**42**	16,200
Intangible assets	**—**	41,728
Other investments	**—**	14,665
Deferred net tax gains	**—**	2,378
Other	**—**	1,800
	297	97,530
Net deferred tax assets	**1,073**	26,936
Reported as:		
Deferred tax assets	**1,073**	42,632
Deferred tax liabilities	**—**	15,696

11. PROPERTY AND EQUIPMENT

						Right-of-use assets		
	Land $	Own-use properties $	Furniture and other $	Computer hardware $	Leasehold improvements $	Offices and branches $	Vehicles $	Total $
Cost								
Balance as at January 1, 2019	11,378	128,238	24,997	60,589	9,947	—	—	235,149
Effect of initial application of IFRS 16	—	—	—	—	—	7,024	2,654	9,678
Effect of the acquisition of subsidiaries *[note 20]*	118	2,521	382	632	252	934	—	4,839
Purchases	—	25	(5)	5,643	460	6,639	2,109	14,871
Disposals	(1,358)	(5,997)	(2,001)	(1,166)	(332)	—	—	(10,854)
Balance as at December 31, 2019	10,138	124,787	23,373	65,698	10,327	14,597	4,763	253,683
Purchases	**—**	**—**	**19**	**2,562**	**524**	**1,217**	**748**	**5,070**
Transfer from investment properties	**—**	**18,732**	**—**	**—**	**—**	**—**	**—**	**18,732**
Disposals	**—**	**—**	**(443)**	**(363)**	**(51)**	**(15)**	**(49)**	**(921)**
Contribution to the joint venture	**(10,138)**	**(143,519)**	**(22,076)**	**(67,897)**	**(10,800)**	**(15,799)**	**(5,462)**	**(275,691)**
Balance as at December 31, 2020	**—**	**—**	**873**	**—**	**—**	**—**	**—**	**873**
Accumulated depreciation								
Balance as at January 1, 2019		16,341	19,689	54,381	6,159	—	—	96,570
Depreciation		2,533	930	4,798	831	1,817	1,615	12,524
Disposals		(1,801)	(1,221)	(668)	(241)	—	—	(3,931)
Balance as at December 31, 2019		17,073	19,398	58,511	6,749	1,817	1,615	105,163
Depreciation		**1,319**	**454**	**2,088**	**414**	**1,173**	**935**	**6,383**
Disposals		**—**	**(432)**	**(357)**	**(51)**	**(15)**	**(49)**	**(904)**
Contribution to the joint venture		**(18,392)**	**(18,772)**	**(60,242)**	**(7,112)**	**(2,975)**	**(2,501)**	**(109,994)**
Balance as at December 31, 2020		**—**	**648**	**—**	**—**	**—**	**—**	**648**
Net carrying amount								
December 31, 2020	**—**	**—**	**225**	**—**	**—**	**—**	**—**	**225**
December 31, 2019	10,138	107,714	3,975	7,187	3,578	12,780	3,148	148,520

12. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

Intangible assets are detailed as follows:

	Indefinite useful life	Finite useful life				
	Trademarks $	Clients and distribution networks $	Purchased software $	Internally developed software $	Software under development $	Total $
Cost						
Balance as at January 1, 2019	17,187	35,912	44,449	157,306	30,910	285,764
Effect of the acquisition of subsidiaries *[note 20]*	370	2,264	426	20		3,080
Purchases	—	31	374	232	20,361	20,998
Disposals	—	—	—	(673)	—	(673)
Transfer from software under development to software	—	—	7,263	24,229	(31,492)	—
Tax credits	—	—	(131)	124	—	(7)
Balance as at December 31, 2019	17,557	38,207	52,381	181,238	19,779	309,162
Purchases	**—**	**—**	**41**	**—**	**7,265**	**7,306**
Disposals	**—**	**(1,400)**	**—**	**(33)**	**—**	**(1,433)**
Transfer from software under development to software	**—**	**—**	**—**	**2,016**	**(2,016)**	**—**
Write-off	**(1,900)**	**—**	**—**	**—**	**—**	**(1,900)**
Contribution to the joint venture	**(15,657)**	**(36,807)**	**(52,422)**	**(183,221)**	**(25,028)**	**(313,135)**
Balance as at December 31, 2020	**—**	**—**	**—**	**—**	**—**	**—**
Accumulated amortization						
Balance as at January 1, 2019		33,597	30,411	40,729	—	104,737
Amortization		840	5,787	9,448	—	16,075
Disposals		—	—	(673)	—	(673)
Tax credits		—	—	(101)	—	(101)
Balance as at December 31, 2019		34,437	36,198	49,403	—	120,038
Amortization		**533**	**2,594**	**6,290**	**—**	**9,417**
Disposals		**(1,400)**	**—**	**(33)**	**—**	**(1,433)**
Tax credits		**—**	**—**	**(51)**	**—**	**(51)**
Contribution to the joint venture		**(33,570)**	**(38,792)**	**(55,609)**	**—**	**(127,971)**
Balance as at December 31, 2020		**—**	**—**	**—**	**—**	**—**
Net carrying amount						
December 31, 2020	**—**	**—**	**—**	**—**	**—**	**—**
December 31, 2019	17,557	3,770	16,183	131,835	19,779	189,124

Goodwill

	2020	2019
	$	$
Balance as at January 1	**108,352**	108,352
Contribution to the joint venture	**(106,129)**	—
Balance as at December 31	**2,223**	108,352

13. INSURANCE CONTRACT LIABILITIES

Life and health insurance

The components of life and health insurance contract liabilities are detailed as follows:

	2020 $	2019 $
Gross actuarial liabilities	—	5,355,483
Provisions for benefits incurred	—	60,019
Provisions for experience rating refunds	—	31,673
Policyholder amounts on deposit	—	139,490
	—	5,586,665

As at December 31, 2019, life and health insurance contract liabilities and the assets backing such liabilities were summarized as follows:

	2019				
Life and health insurance contract liabilities	Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	907,271	890,627	1,797,898	154,156	1,643,742
Annuities	376	2,897,131	2,897,507	—	2,897,507
Group					
Life and health insurance	—	881,544	881,544	125,934	755,610
Annuities	—	9,716	9,716	—	9,716
	907,647	4,679,018	5,586,665	280,090	5,306,575

Assumptions

In calculating life and health insurance contract liabilities, the assumptions were determined using the Appointed Actuary's best estimates at the time of valuation as to contract terms regarding numerous variables, such as mortality, morbidity, investment return, contract management expenses, deferred tax expense, policy lapses and participating policyholder dividends. Assumptions are periodically reviewed and reflect the most recent experience, as well as current life and health insurance company data. In certain cases, industry data are used. The Appointed Actuary then factors margins for adverse deviations into these best estimates that take into account the uncertainty in determining best estimates.

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

Mortality

Mortality is the occurrence of death in a given population. It is a key assumption used in life insurance and certain types of annuities.

For life insurance mortality, the assumption stems from a combination of the most recent experience of the life and health insurance companies and recent industry experience published by the Canadian Institute of Actuaries. For individual life insurance, the assumption differs based on the risk of tobacco use, classification at selection, as well as the age of insureds.

For annuity mortality, the assumption is derived from the most recent industry data published by the Canadian Institute of Actuaries adjusted to reflect the business of the life and health insurance companies. Moreover, the assumption used incorporates an improvement with regard to the current mortality level.

Morbidity

Morbidity refers to the occurrence of accidents or illnesses among the risks insured.

The morbidity assumption is based on industry tables, which are modified to reflect the recent experience of the life and health insurance companies. The assumptions are different based on the geographical region, the duration since the onset of disability, age and sex.

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

Assumptions [Cont'd]

Return on investments

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

No assets backing life and health insurance contract liabilities are classified as available-for-sale: for accounting purposes, this matches investment income to changes in actuarial liabilities recognized in the statement of income. As for life and health insurance contract liabilities other than actuarial liabilities, the accounting mismatch is low.

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

The companies manage credit risk through detailed credit and underwriting policies, 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.

Contract maintenance expenses

Contract maintenance expenses are determined using internal cost allocation analysis of the individual life and health insurance companies, based on the actual or budgeted general expenses for the following fiscal year. These expenses are indexed for future years.

Deferred taxes

Actuarial liabilities include amounts reflecting the interest generating nature of the assets backing the deferred tax liabilities recorded in the consolidated statement of financial position.

Policy lapses

Policyholders may allow their policies to lapse prior to the end of the contractual coverage period by not paying the premiums or by surrendering their policy for the cash surrender value, as the case may be.

Assumptions regarding policy lapses are based on an analysis of the recent experience of life and health insurance companies for each business line.

Participating policyholder dividends

Actuarial liabilities include amounts relating to 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 life and health insurance contract 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 life and health insurance contract liabilities are adequate to cover future policy benefit payments.

The Canadian Institute of Actuaries prescribes minimum standards for determining the margin in the interest rate assumption. The margins in 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 regarding each assumption.

Property and casualty insurance

The assets backing property and casualty insurance policy liabilities are detailed as follows:

	2020	2019
	$	$
Unearned premiums	—	859,392
Provision for claims and loss adjustment expenses	—	380,766
	—	1,240,158

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Unearned premiums

The following table details unearned premiums per business line.

	2020				
	Direct unearned premiums $	Reinsurance assumed $	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	**854,315**	**5,077**	**859,392**	**9,928**	**849,464**
Premiums written during the year	**684,055**	**47**	**684,102**	**19,782**	**664,320**
Premiums earned during the year	**(610,526)**	**(1,602)**	**(612,128)**	**(22,747)**	**(589,381)**
Contribution to the joint venture	**(927,844)**	**(3,522)**	**(931,366)**	**(6,963)**	**(924,403)**
Balance, end of year	**—**	**—**	**—**	**—**	**—**

	2019				
	Direct unearned premiums $	Reinsurance assumed $	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	755,895	9,683	765,578	2,636	762,942
Effect of the acquisition of a subsidiary *[note 20]*	38,845	—	38,845	7,130	31,715
Premiums written during the year	1,203,750	(224)	1,203,526	45,798	1,157,728
Premiums earned during the year	(1,144,175)	(4,382)	(1,148,557)	(45,636)	(1,102,921)
Balance, end of year	854,315	5,077	859,392	9,928	849,464

Changes in provision for claims and loss adjustment expenses

The following table summarizes the changes in the provision for claims and loss adjustment expenses of the Mutual for the year.

	2020				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	**379,882**	**884**	**380,766**	**32,925**	**347,841**
Current year claims	**350,013**	**1,034**	**351,046**	**8,030**	**343,016**
Prior year favourable claims development	**(3,473)**	**(410)**	**(3,882)**	**1,324**	**(5,206)**
Increase (decrease) due to changes in discount rate	**651**	**4**	**655**	**41**	**614**
Total claims incurred	**347,191**	**628**	**347,819**	**9,395**	**338,424**
Claims paid	**342,066**	**1,141**	**343,207**	**16,892**	**326,315**
Contribution to the joint venture	**(385,007)**	**(371)**	**(385,378)**	**(25,428)**	**(359,950)**
Balance, end of year	**—**	**—**	**—**	**—**	**—**

	2019				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	355,900	1,359	357,259	13,553	343,706
Effect of the acquisition of a subsidiary *[note 20]*	39,241	—	39,241	15,449	23,792
Current year claims	778,193	6,328	784,521	25,835	758,686
Prior year favourable claims development	(399)	(3,218)	(3,617)	1,916	(5,533)
Increase (decrease) due to changes in discount rate	744	6	750	(426)	1,176
Total claims incurred	778,538	3,116	781,654	27,325	754,329
Claims paid	793,797	3,591	797,388	23,402	773,986
Balance, end of year	379,882	884	380,766	32,925	347,841

14. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES

	2020	2019
	$	$
Other financial liabilities		
Held-for-trading		
Bank overdraft	—	194
Derivative financial instruments	—	2,488
Deposits in trust	—	2,591
	—	5,273
Other liabilities		
Accrued liabilities	**2,250**	187,023
Other amounts on deposit	—	109,183
Loyalty, stabilization and development funds	—	34,660
Due to reinsurers – Life and health insurance segment	—	8,538
Due to reinsurers – Property and casualty insurance segment	—	2,823
Accrued interest on subordinated debenture	—	297
Lease liabilities	—	16,143
Other	**51**	5,019
	2,301	363,686
	2,301	368,959
Other liabilities		
Stock appreciation rights plan payable and other incentive plan	—	191
Deferred revenues	—	4,035
	—	4,226

15. EMPLOYEE FUTURE BENEFITS

Description of pension plans and other future benefits

The Mutual has one defined benefit plans providing pension benefits to most of its employees [five plans until July 1, 2020]. The Mutual also provides additional defined benefit plans for certain members of senior management.

The defined benefit plans are based on years of service and use final average earnings or annually indexed pension credits. Pension benefits are generally increased based on the consumer price index up to a maximum of 3% each year. Generally, employees contribute a set percentage of their annual salary to the pension plans. The employer contributes the balance required to fund pension plan obligations, as determined by actuarial valuations. These plans are funded. The additional plans are unfunded.

The Mutual also offers other future benefits. These other future benefits include life insurance plans and celebration costs and retirements. These plans are unfunded.

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Description of pension plans and other future benefits [Cont'd]

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

	Pension plans		Other future benefits	
	2020	2019	2020	2019
	$	$	$	$
Change in fair value of plan assets				
Fair value, beginning of year	**744,532**	615,696	**—**	—
Effect of the acquisition of a subsidiary *[note 20]*	**—**	22,069	**—**	—
Actual return on plan assets	**4,773**	99,440	**—**	—
Employer contributions	**9,923**	17,390	**833**	516
Employee contributions	**6,677**	12,547	**—**	—
Transfers	**98**	65	**—**	—
Benefits paid	**(12,845)**	(22,675)	**(833)**	(516)
Contribution to the joint venture	**(747,928)**	—	**—**	—
Fair value of assets, end of year	**5,230**	744,532	**—**	—
Change in defined benefit obligation				
Balance, beginning of year	**872,682**	708,692	**11,173**	9,567
Effect of the acquisition of a subsidiary *[note 20]*	**—**	31,994	**—**	—
Employee contributions	**6,677**	12,547	**—**	—
Current service costs	**18,431**	27,595	**500**	915
Transfers	**98**	65	**—**	—
Financial cost	**13,759**	27,700	**188**	385
Actuarial losses (gains) arising from plan experience	**1,093**	(1,263)	**(10)**	222
Actuarial losses arising from changes in financial and demographic assumptions	**16,777**	88,027	**291**	600
Benefits paid	**(12,845)**	(22,675)	**(833)**	(516)
Contribution to the joint venture	**(912,576)**	—	**(11,104)**	—
Balance of obligation, end of year	**4,096**	872,682	**205**	11,173
Net defined benefit liability (asset)	**(1,134)**	128,150	**205**	11,173

Pension plan assets were measured as at December 31, 2020 and accrued defined benefit obligations were measured as at December 31, 2019 and projected to December 31, 2020.

Capitalization situation

Capitalization situation related to the balance of defined benefit obligation is as follows:

	Pension plans		Other future benefits	
	2020	2019	2020	2019
	$	$	$	$
Funded plans	**3,947**	856,698	**—**	—
Unfunded plans	**149**	15,984	**205**	11,173
	4,096	872,682	**205**	11,173

The dates of the most recent and the next required actuarial valuations for funding purposes are December 31, 2017 and December 31, 2020, respectively. The Mutual does not expect to contribute to the defined benefit pension plans during the upcoming fiscal year.

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Net expense

The Mutual's net expense in respect of employee pension plans and other employee future benefits is included under general expenses in the consolidated statement of income and is as follows:

	Pension plans		Other future benefits	
	2020	2019	2020	2019
	$	$	$	$
Current service costs	**18,431**	27,595	**500**	915
Net interest on net defined benefit obligation	**2,147**	3,877	**188**	385
Administrative costs	**55**	83	**—**	—
Net expense	**20,633**	31,555	**688**	1,300

To this net expense is added the expense of the exercise of the defined contribution plans which totalled $481 [2019: $1,343].

Remeasurement of net defined benefit liability

Remeasurement of net defined benefit liability included under comprehensive income is as follows:

	Pension plans		Other future benefits	
	2020	2019	2020	2019
	$	$	$	$
Remeasurement of net defined benefit liability				
Return on plan assets, excluding amounts included in net interest	**(6,784)**	75,861	**—**	—
Actuarial gains (losses) arising from plan experience	**(1,093)**	1,263	**10**	(222)
Actuarial losses arising from changes in financial and demographic assumptions	**(16,777)**	(88,027)	**(291)**	(600)
Balance of remeasurement of net defined benefit liability	**(24,654)**	(10,903)	**(281)**	(822)

Supplementary information on pension plan assets

The following table shows the allocation of assets at fair value by main asset class:

	Pension plans	
	2020	2019
	%	%
Asset classes		
Stocks	**—**	4.1
Bonds	**14.7**	13.8
Mutual funds		
Stocks	**31.3**	34.7
Bonds	**18.7**	17.6
Loans	**2.0**	2.4
Others	**7.2**	7.2
Investments in private companies	**25.2**	19.7
Other	**0.9**	0.5
	100.0	100.0

Stocks are quoted in an active market and are classified Level 1. Fair values of bonds are determined using market bid prices and are classified Level 2. The stocks' mutual funds are quoted in an active market and are classified Level 1, and the bonds' mutual funds, loans' mutual funds and others are measured on observable inputs and are classified Level 2. The investments in private companies are not quoted in an active market and are measured at fair value using the discounted future cash flow method and are classified Level 3.

The pension plan investment policy calls for a portfolio structure diversified by investment category and economic sector. Pension plan assets do not include securities of the Mutual and its subsidiaries.

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Actuarial assumptions

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

	Pension plans		Other future benefits	
	2020	2019	2020	2019
	%	%	%	%
To determine defined benefit obligation				
Discount rate	**2.7**	3.1	**2.7**	3.1
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3
To determine defined benefit expense				
Discount rate	**3.1**	3.8	**3.1**	3.8
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3

	2020			2019		
	Other future benefits			Other future benefits		
Assumed health care cost trend rates	Drugs %	Health %	Dental %	Drugs %	Health %	Dental %
Initial health care cost trend rates	**6.0**	**5.0**	**3.5**	6.0	5.0	3.5
Cost trend rates tend towards	**3.5**	**3.5**	**3.5**	3.5	3.5	3.5

	Pension plans	
	2020	2019
	Years	Years
Human life expectancy		
Male	**87**	87
Female	**89**	89

Canadian mortality rates used are those published in 2014 by the Canadian Institute of Actuaries following its Canadian pensioner mortality study.

The weighted average duration of the defined benefit obligation is 23 years [2019: 22 years] for the pension plans and 9 years [2019: 9 years] for other future benefits.

Sensitivity analysis

The following tables summarize the sensitivity analysis for each of the significant actuarial assumptions used to calculate defined benefit obligation. Sensitivity analysis were determined using a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in significant assumptions arising at the end of the reporting period.

	2020				2019			
Assumptions:	Discount rate		Rate of increase in future compensation		Discount rate		Rate of increase in future compensation	
Sensitivity level:	1% increase $	1% decrease $	1% increase $	1% decrease $	1% increase $	1% decrease $	1% increase $	1% decrease $
	(414)	**494**	**65**	**(60)**	(157,207)	214,307	65,407	(52,193)

	2020				2019			
Assumptions:	Health care cost trend rate		Human life expectancy		Health care cost trend rate		Human life expectancy	
Sensitivity level:	1% increase $	1% decrease $	1year increase $	1year decrease $	1% increase $	1% decrease $	1year increase $	1year decrease $
	18	**(16)**	**200**	**(196)**	716	(592)	19,726	(19,950)

16. NON-CONTROLLING INTERESTS

Repurchase of non-controlling interests

On July 1, 2020, La Capitale Civil Service Insurer Inc. repurchased non-controlling interests in La Capitale Participations Inc. and in 3602214 Canada Inc. for a total consideration of $146,470, comprising $141,200 in cash and $5,270 in share capital. An excess of $3,758 of the non-controlling interests' carrying value on the repurchase date over the consideration paid was recognized in retained earnings attributable to members in the consolidated statement of changes in equity.

La Capitale Civil Service Insurer Inc. also repurchased, in the first half of 2020, non-controlling interests in La Capitale Participations Inc. for $1,398 in cash [2019: $1,095 during the year].

During the year, the Mutual repurchased 203,940 Class E, Y, and Z shares [2019: 122,952 shares] of La Capitale Financial Group Inc. as part of the employee share purchase plan for a consideration of $7,373 in cash [2019: $3,881].

Issuance of non-controlling interests

During the year, La Capitale Financial Group Inc. issued 22,069 Class E shares [2019: 46,405 shares] for a consideration of $796 in cash [2019: $1,486] as part of the employee share purchase plan. Those shares are subject to an automatic offer to sell to the Mutual no later than on December 31 preceding the tenth anniversary date of their issuance.

On July 1, 2020, La Capitale Financial Group Inc. repurchased the non-controlling interests in La Capitale Participations Inc. ("CAPI"), formerly a subsidiary of La Capitale Civil Service Insurer Inc., for a total consideration of $5,270, including 53,441 Class Y shares valued at $1,956, 90,463 Class Z shares valued at $9, and $2 paid in cash, with the balance amount of $3,303 attributed to the contributed surplus of La Capitale Financial Group Inc. Consequently, an amount of $5,268 was attributed to the Mutual's non-controlling interests.

Percentage holdings of non-controlling interests

The following tables provide financial information on subsidiaries in which the non-controlling interests have significant holdings.

	Location of principal place of business	2020	2019
		%	%
Subsidiary			
La Capitale Financial Group Inc.	Quebec City, Canada	**3.3**	3.3
La Capitale Participations inc.	Quebec City, Canada	**—**	21.3
3602214 Canada Inc.	Mississauga, Canada	**—**	30.0

Cumulative balances of significant non-controlling interests

	2020	2019
	$	$
La Capitale Financial Group Inc.	**40,025**	34,069
La Capitale Participations inc.	**—**	106,168
3602214 Canada Inc.	**—**	39,698
	40,025	179,935

Net income attributable to significant non-controlling interests

	2020	2019
	$	$
La Capitale Financial Group Inc.	**7,137**	3,105
La Capitale Participations inc.	**10,462**	16,916
3602214 Canada Inc.	**(1,897)**	2,459
	15,702	22,480

The following tables provide summarized financial information of the subsidiary La Capitale Financial Group Inc.. This information is based on amounts before the elimination of intercompany accounts and transactions.

	2020	2019
	La Capitale Financial Group Inc. $	La Capitale Financial Group Inc. $
Revenues	**230,814**	96,606
Net income	**230,630**	96,161
Other comprehensive income	**5,265**	16,185
Comprehensive income	**235,895**	112,346
Dividends paid to non-controlling interests	**—**	177

16. NON-CONTROLLING INTERESTS [Cont'd]

	2020 La Capitale Financial Group Inc. $	2019 La Capitale Financial Group Inc. $
Total assets	**1,275,364**	1,044,150
Total liabilities	**2,239**	2,300
Equity	**1,273,125**	1,041,850
Attributable to members of the Mutual	**1,233,100**	1,007,781
Attributable to non-controlling interests	**40,025**	34,069

	2020 La Capitale Financial Group Inc. $	2019 La Capitale Financial Group Inc. $
Cash flows		
Operating activities	**304**	(931)
Investing activities	**9,375**	5,086
Financing activities	**(7,004)**	(3,713)
Net increase in cash and cash equivalents	**2,675**	442

17. CAPITAL MANAGEMENT

The Mutual's capital management objectives are to ensure capital preservation, development, and growth.

Equity

The following shows the details of equity accounts:

	2020 $	2019 $
Retained earnings attributable to members	**1,205,967**	1,008,748
Accumulated other comprehensive income attributable to members	**31,064**	2,856
	1,237,031	1,011,604
Participating policyholders' account	**—**	800
Non-controlling interests	**40,025**	183,316
	1,277,056	1,195,720

In 2020, items resulting primarily in a net increase in equity consisted of net income, net unrealized gains on available-for-sale financial assets including the related share in the joint venture, remeasurement of net defined benefit liability including the related share in the joint venture, transfer of participating policyholders' account to a subsidiary of the joint venture, repurchase and issuance of non-controlling interests, and the effect of contribution to the joint venture.

18. GENERAL EXPENSES

General expenses by nature

	2020 $	2019 $
Salaries and employee benefits	**166,619**	293,305
Depreciation of property and equipment *[note 11]*	**6,383**	12,524
Amortization and write-off of intangible assets and others *[note 12]*	**11,266**	15,974
Fees, rent and other	**29,227**	54,539
	213,495	376,342

19. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2020, the Mutual is committed under agreements with charities to pay a total amount of $1,463 [2019: $2,974]. The minimum payments for the next four fiscal years amount to $922 in 2021, $341 in 2022, $190 in 2023 and $10 in 2024.

Contingencies

The Mutual is involved in certain legal claims arising in the normal course of business. Management believes that the Mutual has set aside sufficient provisions to cover potential losses in relation to such lawsuits.

20. ACQUISITION OF SUBSIDIARIES

Ledor assurances inc.

The Mutual acquired Ledor Assurances Inc. and its subsidiaries ("Ledor") on June 12, 2019 through its own subsidiary La Capitale General Insurance Inc. The Mutual was able to acquire Ledor under a mutual agreement initiated by the Board of Directors of Groupe Ledor inc., mutuelle d'assurance. The agreement received general approval by members of Groupe Ledor inc., mutuelle d'assurance. On June 12, 2019, Groupe Ledor inc., mutuelle d'assurance was transformed into a capital stock insurance company. Ledor has undertaken to repurchase outstanding qualification shares at their issuance price of $5 each. Ledor issued 10 of its new Class A shares to La Capitale General Insurance Inc. for a consideration of $1 in cash, making La Capitale General Insurance Inc. the sole owner of all outstanding voting and participating share capital of Ledor. La Capitale Civil Service Insurer Inc. undertook to issue, free of charge and without further formality, a $5,000 accidental death insurance policy to each policyholder of Ledor, qualifying them automatically as members of the Mutual.

The following table presents final amounts recorded, at fair value, for the main categories of identifiable assets acquired and liabilities assumed:

	$
Assets	
Investments	**57,708**
Premiums receivable	**26,313**
Reinsurance assets	
Unearned premiums	**7,130**
Provision for claims and loss adjustment expenses	**15,449**
Property and equipment	**4,454**
Intangible assets	**1,330**
Other assets	**5,847**
	118,231
Liabilities	
Insurance contract liabilities	
Unearned premiums	**38,845**
Provision for claims and loss adjustment expenses	**39,241**
Employee future benefits	**9,925**
Other liabilities	**9,944**
	97,955
Excess of assets acquired over liabilities assumed	**20,276**

This excess of assets acquired over liabilities assumed is recorded as a gain on purchase, presented as fees and other revenues in consolidated income for the year ended December 31, 2019. Current income tax expense of $5,447 resulting from the transaction is also presented in consolidated income under the income taxes line item.

The following table presents the results attributable to the new subsidiary Ledor since acquisition date to year-end, included in consolidated income of the Mutual for the year ended December 31, 2019:

	From June 12, 2019 to Decembre 31, 2019 $
Total revenues	**33,942**
Net income, including gain on purchase	**21,545**

20. ACQUISITION OF SUBSIDIARIES [Cont'd]

Escapade Assurances Voyages Inc.

On January 1, 2019, the Mutual acquired through its own subsidiary SecuriGlobe Inc. all issued and outstanding shares of Escapade assurances voyages Inc. ("Escapade"), a travel insurance product distributor, for an acquisition amount of $7,646 subject to various price adjustment terms. Thereby, SecuriGlobe Inc. acquired a 51% interest in Escapade's subsidiary, Escapade Travel Insurance Ltd. ("Tripwise"), another distributor.

The following table presents final amounts recorded, at fair value, for the main categories of identifiable assets acquired and liabilities assumed:

	$
Assets	
Financial assets and other assets	**809**
Property and equipment	**124**
Intangible assets	**1,750**
	2,683
Liabilities	
Accounts payable	**331**
Deferred tax liabilities	**346**
Note payable, non-interest bearing, of a face value of $150 and payable in December 2020	**140**
	817
Excess of assets acquired over liabilities assumed	**1,866**
Goodwill arising from business combination	**5,780**
Consideration transferred	**7,646**

This excess of assets acquired over liabilities assumed is presented under goodwill in the consolidated statement of financial position as at December 31, 2019.

The consideration was settled on January 3, 2019 in cash, net of the $370 amount due from the seller as at December 31, 2018. A portion equal to 10% of the purchase amount remains under escrow due mainly to various price adjustment terms.

On June 1, 2020, the Mutual, through its subsidiary Escapade, purchased the remaining 49% interest in Tripwise owned by third parties for $200 in cash. Following this transaction, the Mutual aquired 100% interest in the issued and paid-up share capital of Tripwise, through its subsidiary Escapade.

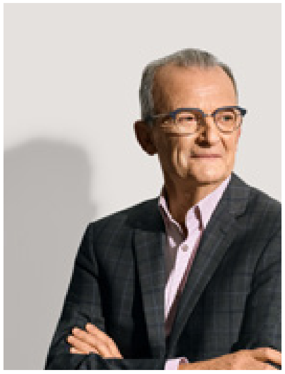
On July 1, 2020, SecuriGlobe Inc. and its subsidiaries were merged.

21. IMPACTS RELATED TO THE COVID-19 PANDEMIC

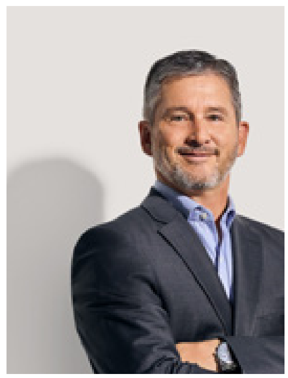
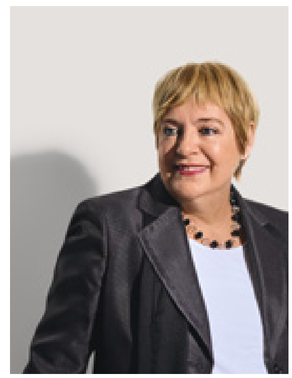
As of March 2020, the outbreak of the 2019 coronavirus disease ("COVID 19") was considered a global pandemic by the World Health Organization. To contain the pandemic, governments took several measures to reduce the spread of the virus, including travel and non-essential travel restrictions, border closures, cancellations of major cultural and sports events, population lockdown measures and closures of nonessential businesses. These measures have had a significant adverse impact on the global economy and financial markets. To mitigate the negative effects on the economy and financial markets and ensure a measure of stability, governments and central banks have introduced a range of programs to help populations and businesses, and various fiscal and monetary measures. The Mutual implemented significant health safety measures to protect employees while carrying on its everyday business.

The pandemic has given rise to a high degree of uncertainty as to future developments, making it impossible to reliably assess its duration and total impact on the Mutual's future financial results, including on the returns from its investments in the joint venture. The estimates and assumptions used by the Mutual take into account the uncertainty related to the COVID 19 pandemic. Actual results could differ from these estimates and assumptions.

Board of Directors




From left to right

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Jean St-Gelais, Chair of the Board

Vice-Chair
Jacques Cotton, Vice-Chair of the Board

Directors
Hubert Bolduc, President, Investissement Québec International
Olga Farman, Managing Partner—Quebec City office, Norton Rose Fullbright
Carl Gauthier, President and Chief Executive Officer, Revenu Québec
Carole Imbeault, Corporate Director
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