2014 Annual Report

La Capitale
Civil Service Mutual

Build Prote

PEOPLE FIRST

To take care first and foremost of the well-being of our people by demonstrating respect and empathy and by embracing practices based on our fundamental principles of equality, fairness and democracy.

INTEGRITY AND TRANSPARENCY

Being committed to providing Mutual members, clients and employees with a company that demonstrates sound governance and management by applying strict standards of integrity and ethics at all levels and by exhibiting transparency in our management approach.

CUSTOMER-CENTRIC MINDSET

Offering attentive service at all times, characterized by a commitment to the client, an ongoing desire to provide appropriate information and advice, and financial solutions tailored to what clients feel is essential to their financial security.

ct Value

Guided by the values of mutualism on which it was founded, La Capitale works with people by providing access to personalized products and services in order to **build**, **protect** and **value** what they feel counts for their individual and collective financial security.

CORPORATE LONGEVITY

Ensuring profitable growth of the organization through the dynamic and prudent use of its financial capacities to foster business continuity and provide an enriched legacy for future generations.

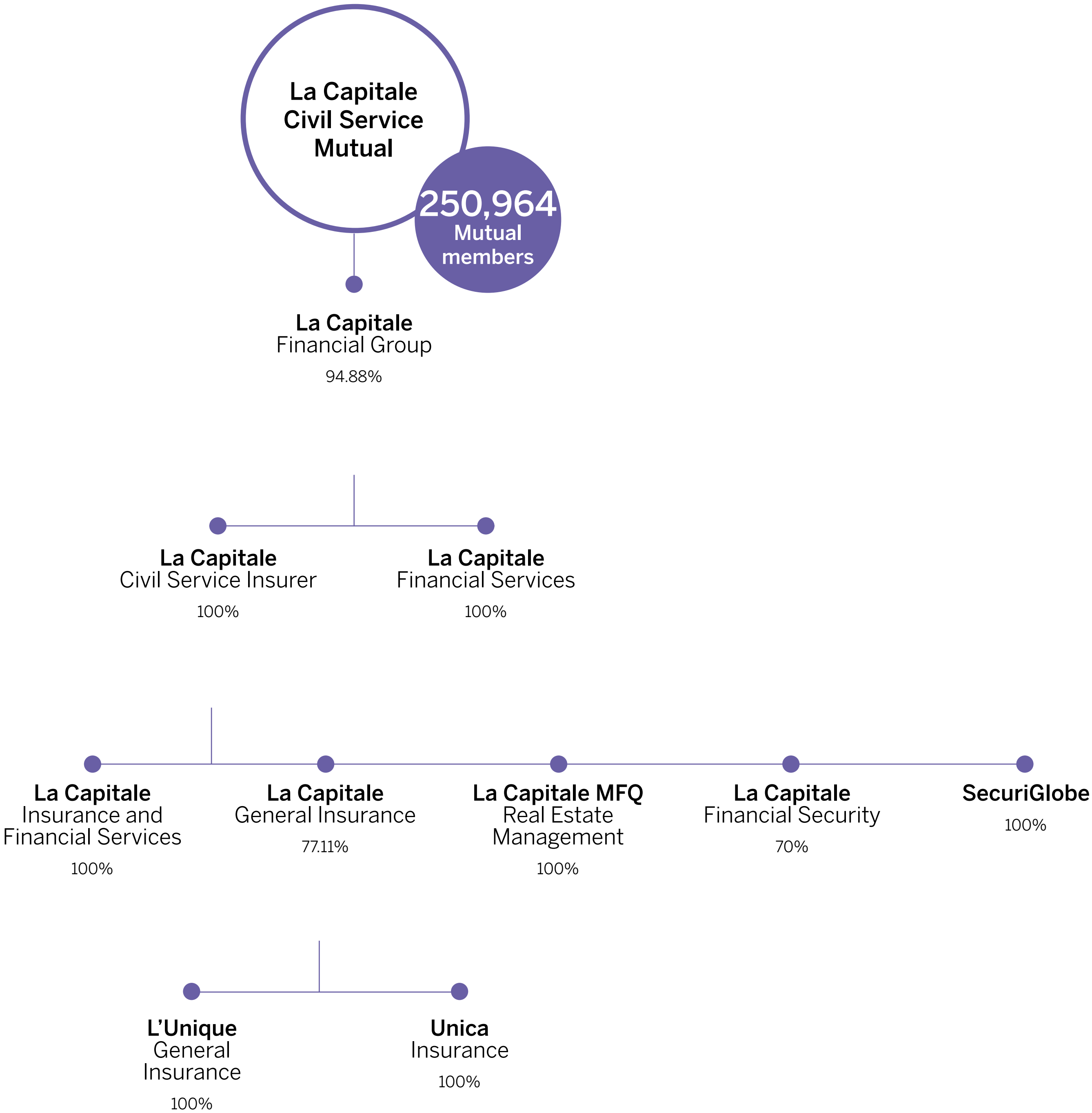
ENGAGEMENT AND SOCIAL RESPONSIBILITY

Integrating and promoting the values of mutual aid and solidarity on which mutualism is based, supporting community or humanitarian activity and promoting sustainable development.

VALUING THE ROLE OF QUEBEC PUBLIC SERVICE EMPLOYEES

Highlighting the value and contributions of public service employees, who play an active role in the social, cultural and economic development of Quebec.

Organizational Chart



2014 Key facts and figures

Consolidated information

Assets	$5.5B
Total income	$2.2B
Equity	$874.6M
Net income	$73.1M
Return on equity	8.9%
Dividends paid to policyholders	$12.1M

Number of Mutual members	250,964
Donations to the community from the Foundation	$1.1M
Contracts and certificates in force	1,819,882
Number of employees	2,560

- Aon Hewitt's Best Employers list for 2014

LIFE AND HEALTH INSURANCE AND FINANCIAL SERVICES

Consolidated premium income	$993.6M up 9.7%
Net income	$36.0M
Sales (individual premiums and deposits)	$294.9M up 31.5%
Savings and investments portfolio	$1.2B up 21.6%
Group insurance premiums in force	$621.2M up 6.8%

- **495** financial information sessions given to some **7,600** public service employees
- Acquisition of SecuriGlobe
- New travel insurance product – SOLIS

PROPERTY AND CASUALTY INSURANCE

Consolidated premium income	$859.8M up 5.8%
Consolidated net profit	$37.1M
Gross written premium volume for La Capitale General Insurance	$557.7M up 2.6%
Gross written premium volume for L'Unique General Insurance	$187.4M up 11.8%
Gross written premium volume for Unica Insurance	$114.7M up 13.2%

- More than 40,000 families with Airmedic protection
- More than 222,000 vehicles covered by La Capitale's Roadside Assistance Program

Board of Directors

René **ROULEAU**
Chairman

Dominique **DUBUC**[1*, 2*]
Vice-Chairman

Alain **BRIÈRE**[1]

Danielle **CHEVRETTE**[3]

Nikolas **DUCHARME**[3]

Richard **FISET**

Josée **GERMAIN**

François **LATREILLE**[2]

Marie-Josée **LINTEAU**[2, 3*]

José **GARCEAU**[3]

Louise **POTVIN**[1]

1. Human Resources and Corporate Management Committee
2. Risk Management Committee
3. Mutualism, Governance and Ethics Committee

* Committee Chair

Governance

At the close of 2013, we reviewed the framework for La Capitale's governance management, which comprises its governance policies, guidelines and rules. The governance policy and the Code of Ethics are key elements of the management framework. The governance policy confirms the roles of the board of directors and its committees and defines their respective responsibilities. The Code of Ethics dictates the personal and professional standards of conduct that apply at La Capitale.

With the goal of continuing to benefit from the best governance practices, the Board of Directors created an enterprise risk management committee to have an overall view of risks that can have a crosscutting impact on all La Capitale subsidiaries. Specifically in 2014, we introduced a management framework and policies for risk simulation, financial crime and sound commercial practices. We also adopted a policy on the independence of supervisory functions which was integrated into the governance management framework.

Board of Directors

The diverse range of competencies held by the members of the Board of Directors, who come from various sectors of the public administration, allows us to better understand the challenges in the industry and how La Capitale can move forward. The principal role of the Board of Directors is to establish the mission and strategic orientations of La Capitale and appoint the Chief Executive Officer. It supervises management of the Mutual and monitors the implementation and upholding of the governance policy. It directs management of commercial and socio-economic activities as well as internal affairs in the best interests of La Capitale and its mutual members in the short, medium and long term. To this end, it ensures that senior management manages La Capitale's activities in accordance with the orientations it adopts. Finally, the Board of Directors encourages La Capitale and its employees to continue their tremendous social involvement based on mutualist values, particularly through its Foundation.

Members of the Board of Directors

The Board of Directors defines specific mandates for its committees. These committees are made up exclusively of directors, save for the Nominations Committee which is composed of mutualists who are not on the Board of Directors. The committees make periodic reports to the Board of Directors on the status of their mandates.

Human Resources and Corporate Management Committee

The Human Resources and Corporate Management Committee supervises and enforces La Capitale's human resources and corporate management polices. It ensures that all governance rules applying to management and employees are in compliance with best practices.

Mutualism, Governance and Ethics Committee

This committee was formed to assist the Mutual's Board of Directors in carrying out its mutual, governance and ethics responsibilities. It is also responsible for supervising the process for evaluating boards of directors and their members, applying the governance management framework and seeing that board of director members demonstrate probity and competency.

Corporate Risk Management Committee

The goal of the Corporate Risk Management Committee is to allow the Board of Directors of La Capitale Capitale Civil Service Mutual to have an overall view of the types of risk with a crosscutting impact on all subsidiaries of La Capitale.

Audit Committees

In accordance with the pertinent legislation, audit committees exist within each La Capitale insurance company. The Audit Committee's mandate is to allow the Board of Directors to carry out its responsibility on behalf of mutual members and shareholders to monitor the process of disclosing financial results, internal quality control systems, company risk evaluation, technological systems security and compliance with the laws and regulations of the insurance industry. The Audit Committee is also responsible for the internal and external audits of La Capitale.

Professional Ethics or Review Committee

In accordance with the pertinent legislation, a professional ethics or review committee is formed within each La Capitale insurance company. The mandate of this committee is to ensure that directors, officers and staff are in compliance with the Code of Ethics and that transactions between related persons are conducted in accordance with it, as well as applicable legislation and regulations.

Nomination Committee

The Nomination Committee verifies that the nomination procedure has been followed and that candidates nominated as a director of La Capitale Capitale Civil Service Mutual are eligible. It confirms or rejects nominations and submits a report to the general assembly. It is also responsible for ruling in the event eligibility is contested by candidates or their representatives.

In conclusion

The entire governance structure implemented by La Capitale demonstrates a willingness to define and apply high-level governance, while pursuing a continuous performance improvement goal. This structure is in harmony with La Capitale's mutualist values while meeting with regulatory requirements. Thanks to its governance management framework, La Capitale guarantees its longevity and arms itself with the necessary measures to ensure its directors, officers and staff conduct themselves according to the best interests of its mutual members and other clients.

La Capitale's governance structure meets the highest standards with regard to integrity, equity and transparency. The regular updating of the management framework ensures that La Capitale's governance is always in accordance with best practices.

MESSAGE TO MUTUAL MEMBERS

An economic force dedicated to serving its community

René **ROULEAU**

Chairman of the Board
and Chief Executive Officer

In 2014, La Capitale was one year from the end of its five-year strategic plan. We are realizing the ambitious goals we had set for ourselves, in particular those with regard to profitability, growth and a customer-centric mindset. Some of them, we have already even exceeded. We are gratified to note that our business model is still as effective. Year after year, it allows us to attain significant operating efficiencies and strengthen our market position.

Our progress is even more significant this year, because it was achieved in spite of a difficult economic climate which was again marked by persistently low interest rates, market instability and stricter regulatory requirements. More than ever before, we must put our creativity, caution and thoroughness into play in order to come out on top.

Being founded first and foremost on its commitment toward its mutual members, free from the quarterly expectations of shareholders and focused on human priorities, our Mutual is able to plan its business strategies from a different perspective. Not precipitously, using a prudent yet innovative management approach, La Capitale develops and generates wealth, creating quality employment, among other things, and generating substantial economic benefits for its community through its activities.

It is worth reminding ourselves that La Capitale grew from the desire of a group of government employees to join forces in order to be able to give their loved ones financial security, which could not be guaranteed by their very precarious working conditions at the time. This “together we’re stronger” mentality enabled La Capitale to become an economic force.

Today, the employees of the Quebec government’s different departments, public and parapublic organizations, municipal employees, police officers and firefighters, and those who work in the health, social services and education sectors can rely on La Capitale for help in planning their financial security and growing their savings. Many of them can enjoy the benefit of receiving financial advice directly in their workplace, thanks to our 165 financial security advisors who are assigned to public institutions throughout Quebec. They can, at any time, take advantage of a range of exclusive benefits and promotions which enable them to save on Life, Health and Property and Casualty insurance, as well as financial services which are offered to them. Among other things, they have access to premium reductions, preferred interest rates on savings and investment products, and free financial education sessions. Many of them also have the option of paying for La Capitale products and services by payroll deduction. This advantage enables our clients to better plan their personal or family budget. Retired public service employees also have access to a range of exclusive benefits.

Overview of results

Our performance during the last year truly reflects the vitality and the soundness of our organization. The Mutual cleared a net consolidated income of $73.1 million, which is an increase of 12.1%. That is among our best results in the past decade! Total equity was $874.6 million, which represents an 8.9% return on equity, a slight increase over 2013. $12.1 million in dividends was paid to policyholders. Our total consolidated income, which consists of the premiums, investment income and other amounts received, rose by 26.6% to reach $2.2 billion. Lastly, our assets passed the $5 billion threshold and reached $5.5 billion, which represents a 12.7% increase.

The presidents and chief operating officers of our two business sectors provide a breakdown of their respective activities over 2014 in the pages that follow.

Investments

With respect to investments, the current financial environment is presenting continuously mounting challenges. In fact, the return on government securities has never been so low. In view of the situation, La Capitale has adjusted its strategy to prioritize corporate securities, loans of different types, real estate and infrastructures. The new investments must adequately meet the profitability and matching requirements of our business sectors. We are also ensuring that the available funds will be deployed in the most attractive investments considering the risk involved, the diversification benefit and the capitalization requirements.

To ensure better tracking of our investments, during the course of the year, we developed indicators that show the overall level of the main investment risks with regard to the different portfolios and companies. These indicators enable us to synthesize the risk trend, monitor developments based on industry or peer benchmarks, and rapidly verify the impact on the overall risk as funds were invested. Given the increased diversification required due to low interest rates, these indicators have proven to be strong, prudential and very useful.

At the end of the last fiscal year, the consolidated investment income from Life and Health Insurance and Financial Services and Property and Casualty Insurance was $427.4 million, a significant contribution to the profitability of La Capitale Civil Service Mutual. In general, La Capitale's portfolio totalled more than $4.2 billion, which represents a 15.2% increase.

Real Estate

In July of 2014, La Capitale officially received LEED®-NC Gold certification for the expansion of its head office, located at 625 Saint-Amable St on Quebec City's Parliament Hill. La Capitale is the first – and, currently, the only – property owner in Quebec City to have two LEED® Gold certified buildings, the other being the Delta 3 building on Laurier Blvd, which obtained its certification in March 2011.

LEED® certification is achieved through independent review of design, construction, operation and maintenance practices, and it is recognized by the Canada Green Building Council.

We would like to add that six Delta 3 tenants have also received LEED®-CI certification for their interior design. As an environmentally responsible corporate citizen, La Capitale supported its tenants in their endeavours in this regard.

With respect to real estate transactions, we wish to mention the sale of the Au Cœur du Bourg seniors residence, which La Capitale had owned for 14 years.

Technological Infrastructure

La Capitale strives to provide quick, efficient and highly secure service to its clients. And to do so, it needs an effective technological infrastructure that can be relied upon. For this reason, we purchased an IT service management system in 2014. The implementation of this system will, in the long term, enable us to ensure the integrity of infrastructure components, optimize required capacity and improve risk and information security management.

A dedicated operational security team was moreover created in 2014. This team is equipped with a set of specialized tools that enable it to prevent, detect and respond to any attempt to intrude into our systems.

Lastly, the major portion of the workstation modernization project, the essential goal of which was to upgrade computers with obsolete operating systems, was completed in 2014. The remainder will be carried out in 2015.

Risk management and information assets security

In 2014, as well as adopting various measures for the self-assessment of risk in the member companies of the Group, the Risk Management department also continued to implement policies and procedures required by regulatory authorities' guidelines, specifically with regard to integrated risk management, capital adequacy and the formation of a financial crime committee. In addition, senior management participated in crisis simulation exercises for events that might impact business continuity in order to improve the manner in which such events would be handled.

In 2014, La Capitale also moved forward with the implementation of its action plan with respect to information assets security. In this regard, activities aimed at increasing awareness among directors, senior managers, managers and employees have been carried out. New guidelines have also been prepared and distributed. A computer systems recovery drill was also conducted during the year.

Corporate Affairs

Corporate Affairs consists of Legal Affairs, Internal Audit, Regulatory Compliance, Public Relations, Communications and Marketing, and Digital Strategies.

In 2014, Legal Affairs devoted its activities to operations associated with the acquisition of SecuriGlobe. A lot of work was also dedicated to modernizing the complaints policy.

Internal Audit was also called upon a number of times during the year to monitor major projects and processes involving our computer systems and operations. Involving Internal Audit provides assurance to our organization with regard to the level of mastery of its operations and, with feedback from Internal Audit, contributes to the creation of added value and an improvement of the organization's activities.

The compliance monitoring function is responsible for ensuring that all the mechanisms required under the Regulatory Compliance Management Program have been put in place in order to prevent or, if necessary, address any risk of non-compliance involving La Capitale and its member companies. If need be, it will notify senior management and the Board of Directors. During the year, the team continued its work by holding regulatory requirement training sessions for managers. It also collaborated with the managers to evaluate the situation in each sector and requested action plans, where necessary.

In the early part of the year, the Communications and Marketing team contributed to the launch of La Capitale Financial Security's new brand image and to the launch of various marketing campaigns developed by the business sectors. It also commenced work aimed at integrating corporate social responsibility (CSR) principles in our next strategic plan. La Capitale also benefited from its expertise through the design of the new image of the VIVA workplace health and wellness program and the development of our employer brand by Human Resources. The Translation team, which is associated with Communications, accomplished a tremendous number of ad-hoc projects, as well as a number of larger ones, particularly with regard to commercial insurance.

The entry into force of Canada's Anti-Spam Legislation on July 1, 2014 involved a great deal of work for Digital Strategies. That legislation requires all companies wishing to use electronic mail, SMS, social media or instant messaging to send commercial or promotional information to first obtain the recipient's implied or express consent. La Capitale instituted adequate standards and procedures and made the necessary adjustments to its information systems and operational and commercial processes.

Digital Strategies also completed a project involving update decentralization of the *lacapitale.com* website to enable us to more quickly provide relevant information to our clients. In October, it also launched reCap, the English version of our blog and, through various measures, promoted the use of our Agora intranet. The implementation of this tool earned us a spot on the list of finalists at the 2014 OCTAS awards, which recognizes the best IT accomplishments in Quebec.

Human Resources

Maintaining our company's attractiveness in all of its business lines is a primary objective at La Capitale. Given the intense competition that exists between insurance companies, particularly in Quebec City where the majority of Quebec insurance head offices are based, it is becoming more and more difficult to attract qualified candidates. Imagination and quick thinking is required in order to achieve this. With this in mind, the Human Resources team organized 43 recruitment events in different regions of Quebec, highlighting the fact that we were on Aon Hewitt's Best Employers list for 2014.

We want to deliver exceptional service to our clients and invest in the potential of our employees, so developing competencies is important to us. During 2014, we invested more than 3% of payroll in employee training.

La Capitale places great importance on its employees' social involvement. In 2014, 46% of our staff members joined forces to support humanitarian causes, by organizing various activities to benefit their community. In a similar vein, our workplace fundraising campaign raised a record level of donations that were then distributed among three organizations we have supported for several years: the United Way, the Red Cross and *Partenaire Santé Québec*.

A people-first attitude is one of La Capitale's core values. "The bottom line is you!" That is the slogan we adopted to support our recruitment campaigns, and it demonstrates just how important our employees are to us. Our organization has moreover implemented various recognition programs to commend employees on achieving specific objectives. In total, 202 people have been nominated under the programs, and 39 of them have received awards.

Beyond the implementation of these programs, other actions have been carried out, such as the creation of a network of management "ambassadors," who facilitate workshops in order to gain a better understanding of the recognition needs of work teams. In only three months, 10 workshops have been held, with 164 company participants.

A solid commitment to the community

As a mutual company with mutual aid and solidarity as its founding values, La Capitale gives back a portion of its earnings to the community each year. In 2014, the La Capitale Financial Group Foundation paid out $1.1 million to more than 190 community organizations devoted to enhancing the quality of life of our fellow citizens. The organizations it supported include the *Fondation du Centre de réadaptation en dépendance de Montréal*, the Roméo Dallaire Foundation, the *Fondation Sourdine* and *Villa Pierrot*. Since its creation in 2010, the La Capitale Financial Group Foundation has reinvested approximately $6.1 million in the community.

Because of La Capitale's close ties with public service employees, the Foundation is also committed to promoting the role of Quebec public and parapublic sector employees. To this end, it provided support for a number of events that were held to recognize the contribution made by employees of institutions and associations linked to the Quebec public service. A few examples would include the financial assistance it provided for *Journées de la persévérance scolaire* organized by the *Conférence régionale des élus* in the Quebec City area, the *Gala des Prix Excellence du conseil d'administration du Centre hospitalier universitaire de Sherbrooke*, the *Bourses de leadership et développement durable* from *l'Université Laval*, the *Fondation Hôpital Charles-Lemoyne* scholarships and the *Gala reconnaissance de l'excellence du Centre jeunesse de Montréal – Institut universitaire*.

La Capitale also invests in various sponsorships and activities that position the company as a friendly and approachable player in the community. These partnerships enable the company to not only increase awareness of its brand but also distinguish itself in the cultural landscape in Quebec.

75 years of service to our Mutual members and clients

2015 will mark the 75th anniversary of our organization. In November 1940, members of the association of civil employees of Quebec decided to set up a mutual funeral benefit fund in order to help themselves and their family members move beyond the shadow of financial insecurity.

During the year, we will hold a number of activities to highlight our seven decades of service to our Mutual members and clients. These activities will give us an opportunity to say a big *Thank you!* to everyone who has contributed to the phenomenal growth of our organization.

Looking ahead to the future

Ensuring our company's longevity presents its share of challenges, particularly in the current economic context, so we must be innovative and use our imagination. Our ability to adapt to change and our profound conviction that our business model constitutes a modern solution for controlled growth that nevertheless enables us to look to the future with confidence. Our people-centred approach will be what drives our future actions. We abide by this principle every single day, making sure we put the people we serve at the heart of the decisions we make and ensuring we serve them the same way we would like to be served.

Given the increasing use of technology to access our products and services, we will continue to invest in technology development in order to be able to continue to make life easier for our clients. The major IT projects that are currently underway and spread over several years will enable us to innovate in terms of customer relations, e-commerce and mobile access, so that our clients can access our entire range of products and services from anywhere at any time.

Board of Directors

I would also like to extend a warm welcome to José Garceau, Quebec City's Deputy Director General of Social, Cultural and Economic Development, who joined our Mutual's Board of Directors this past April. We are happy to be able to bring her skills into the boardroom to enhance the work we do. I would moreover like to take this opportunity to thank each and every one of our board members for their contribution and steadfast support.

Acknowledgements

In 2014, La Capitale maintained its performance both in terms of finances and involvement in social and/or community causes. These accomplishments are due to the ongoing efforts of our staff. Dedication, enthusiasm and know-how are qualities that bind employees together and result in our being able to achieve our goals. My heartfelt thanks go out to each and every one of these persons who generously devote themselves to their work every day.

I would also like to thank our Mutual members for their unfailing loyalty. This trust perpetuates our commitment to act in their best interests and contributes to ensuring our Mutual's longevity.

THE YEAR IN REVIEW

Life and Health Insurance and Financial Services Sector

President and Chief Operating Officer,
Life and Health Insurance and Financial Services

2014 was yet another successful year for the Life and Health Insurance and Financial Services sector. Our companies in this sector generated a 9.7% increase in premium income, for a total of $993.6 million. The sector reported a net income of $36 million in spite of persistently low interest rates, the retroactive tax on life insurance premiums and a greater number of disability insurance claimants. These three factors negatively impacted our net income by approximately $32 million.

Individual Insurance and Financial Services

The 2014 results for Individual Insurance and Financial Services were highly satisfactory. New sales of insurance premiums and deposits were up 31.5%, for a total of $294.9 million. This amount can be broken down into $275.1 million in savings products and $19.8 million in insurance.

Savings and Investments

The Savings and Investments sector continued to generate impressive growth with a portfolio of inforce premiums up 21.6% over the previous year. The RRSP campaign, which saw an increase in sales of close to 50% at the beginning of the year, was largely responsible for this performance, setting a new record at La Capitale.

Our 32 investment accounts are consistently growing in popularity with our clients as they discover the sheer range of options available. At the end of the 2014 fiscal year, we rolled out the *Evolution GIC*, a brand-new savings product that gives our clients the option to extend the term of their guaranteed interest certificate by a year on the anniversary date. Benefits include automatic adjustments to follow evolving interest rates, as well as a unique loyalty bonus.

What's more, it was another successful year for the La Capitale Stow & Grow account, a high-interest online savings account, which saw a 33.4% increase in amounts on deposit. Every year, there are new players who enter the market to offer this type of product. In spite of the fierce competition, the La Capitale Stow & Grow account remains very popular with savers, particularly those who work in the Quebec public service, who represent more than half of our account holders.

Individual Life and Health Insurance

Our efforts to maintain our competitive market position and stay the course on our growth strategy made it possible to reach our targets and end 2014 on a high note. Inforce premium volume reached $179.9 million, with the sector posting a 2.9 % increase in sales despite interest rates remaining flat.

This climate is clearly not stopping us from being innovative and bringing attractive products to market. For instance, we made the most of last year to boost our credit insurance products and roll out improvements to our Best Doctors coverage, as well as our total loss of autonomy benefit, which is now included with all of our life insurance products.

During the year, we launched the La Capitale Client Promotion, which offers $100 cashback to clients who are Quebec public service employees—or $50 cashback to clients not in the public service—when they take out a new life or health insurance product with La Capitale. This promotion has been very popular with clients.

We also offered our Mutual members who hold an *Advantage 100* policy the option to top up their coverage in order to avoid or delay the expected decrease in the amount of their insurance once they reach age 70. This initiative generated an exceptional acceptance rate of 27.3%, proving that our offer was able to meet a need felt by our Mutual members.

Mortgage Loans

Our mortgage loans business line wrapped up 2014 with some solid results despite a slowdown in real-estate transactions. The year ended with a 9.5% increase in our loan portfolio, which now represents $823.2 million. Furthermore, there was a significant rise in the number of mortgage financing advisors serving our clients in the public service.

Public Administration and Public Service

On the eve of its 75th anniversary, La Capitale has never been more dedicated to serving the needs of its original client base—people who work in the Quebec public administration and public service. We provide a wide range of products and services to these valued clients, offer them exclusive benefits and support them in their goal of maintaining financial stability.

In addition to bonus interest rates and preferred rates, to name but two of the benefits, our clients can also take advantage of financial education sessions tailored to the needs they may experience at various stages in their lives. In 2014, some 7,600 public administration employees took part in 495 of these sessions. Following these information sessions, 3,334 participants asked to meet with a financial security advisor.

We implemented a more stringent selection process for La Capitale Financial Services advisors—our network dedicated to serving people who work in the public service—which enabled us to boost the productivity of our 165 advisors as well as promoting retention. This means public service employees can count on a team of professionals with ever-increasing expertise.

With Bill 10 slated for implementation, La Capitale has championed an initiative to support employees and managers in the health and social services system who will be affected by this change in legislation. Our seasoned advisors will be on hand to examine their financial situation and help them make informed decisions.

Rest of Canada

Development continued on our Pillar series products, which are distributed through our brokerage channel and come with a range of benefits tailored to the needs of our business partners.

Moreover, we must highlight the remarkable performance in 2014 of the 232 agents in our subsidiary La Capitale Financial Security, formerly Penncorp Life Insurance Company. New business premiums and deposits grew to reach $16.1 million, a 15.4% increase over 2013.

Group Insurance

Our group insurance business continued to grow in 2014, with net inforce premiums up 6.8% to $621.2 million. This growth is mainly due to a 19% increase in new business volume and a remarkable rate of client retention. The loyalty of our major groups in the public sector, as well as the agreement we signed with the *Union des municipalités du Québec* Estrie-Montérégie group, which represents 85 separate group insurance plans, were significant factors in the performance of the Group Insurance sector last year.

The credit insurance niche maintained its steady growth, bringing in $52.6 million in written premiums—an increase in volume of 7.4% over the previous year.

These results take into account new business and inforce business under SOLIS, the new individual travel insurance product we launched in the fall. This product was introduced following our acquisition in June 2014 of SecuriGlobe, Canada's largest independent travel insurance distributor. SOLIS was a remarkably popular product as soon as we brought it to market in September and it remains a firm favourite among clients.

Our Group Insurance sector remains actively involved in health promotion, and has now made its VIVA program available outside our traditional market. Plan administrators can now sign on to the program even if their group insurance is not with La Capitale. A new website was also rolled out to improve the client experience for those already familiar with this popular program.

Efficiency and Customer Service

In 2014, La Capitale continued to pursue its primary objective of enhancing its operational efficiency in order to be more productive and constantly improve service to clients. The programs and committees we have implemented in recent years continued to generate interest among employees, who suggested 401 innovative ideas for customer service. No less than 386 of these suggestions were retained, and a third of them have already been put into practice.

Similarly, we would like to highlight that 85 employees in the Life and Health Insurance and Financial Services sector were recognized by their peers through our staff recognition program to reward excellence in customer service. By the end of the program, eight winners were chosen and rewarded for their efforts.

Customer Service through Technology

Our major modernization projects remain ongoing, and are still on track and under budget.

For example, in Group Insurance, a block of inforce business was migrated to our new technology platform. This will give our clients access to a broader range of services, including our online portals for plan members and administrators. The availability of this new platform is one of the key factors that contributed to the increase in new group insurance business generated in 2014.

Another leap forward in technology came with the launch of the La Capitale mobile app in July 2014. This new tool, which is quick and easy to use, was welcomed by users right from day one and its popularity continues to grow.

We also introduced a new online service which enables our partner brokers to fill out investment and savings instructions directly with a client. We are proud to say this is a first in the industry.

All of these cutting-edge developments will enable this business line to be even more efficient and effective as it continues to improve service to clients.

Last, but certainly not least, in this list of innovations was the launch of a vast initiative to modernize our Individual Insurance computer systems. Spread over several years, this project will involve significant investment by the time it is complete.

Changes in Management

During the year, there were a number of changes in senior management within our sector. Mr. Éric Marcoux was appointed Vice-President of Corporate Actuarial, stepping into Ms. France Déziel's shoes, whose retirement is imminent. I would like to express my heartfelt thanks and appreciation to Ms. Déziel for her loyal and valuable service to La Capitale and wish Mr. Marcoux the greatest success in his new duties.

Furthermore, Mr. Christian Dufour was appointed Executive Vice-President of Individual Insurance and Financial Services. Mr. Dufour has held a range of management positions within the company since he joined La Capitale in 1995.

I would also like to extend a warm welcome to Mr. Jean Guay, our new Executive Vice-President of Group Insurance. With some thirty years of group insurance experience under his belt, Mr. Guay has a wealth of expertise on many levels and is sure to make a significant contribution to the continued growth of this business line at La Capitale.

Outlook for 2015

2014 was a year of many accomplishments. We were able to consolidate our enviable position in the life and health insurance and financial services industry through the attention we pay to all of our clients, the close ties we maintain with our business partners and distributors, and the strong connection we nurture with our clients in the Quebec public service. La Capitale's Life and Health Insurance and Financial Services sector has been the fastest-growing player in the Canadian market over the last six years. We are currently the twelfth largest life and health insurer in the country, and we should climb to number ten in the foreseeable future.

To reach this ambitious goal, we will have a number of challenges to face throughout the next year. Setting the wheels in motion to modernize our computer systems is one of these challenges. Likewise, we will continue to develop and deploy mobile e-commerce tools to make our products and services even more accessible and make life easier for all of our clients and business partners, wherever they may be. We will also strive to maximize our existing programs and initiatives to ensure we deliver a unique customer experience to each and every one of our current and future clients in consideration of their individual needs. In La Capitale, our clients will find the ally they have been looking for and the listening ear that will help them to build, protect and value what they feel counts for their financial security.

Developing a diversified offering of products and services is a must if we are to keep a competitive edge. To this end, we will show our clients and Mutual members that they are at the forefront of everything we do. We will continue to design products tailored to their needs and offer them exclusive benefits. All of this will be made possible by our multi-channel distribution networks, which we will continue to improve and expand across the country.

In closing, let us draw attention to our ongoing efforts to ensure our employees can enjoy a stimulating employment experience in an environment where their well-being and recognition are made a priority. These factors are the key to retaining a qualified and motivated workforce. For this reason, we will consolidate the programs that were recently implemented to recognize our employees' spirit of innovation and quality customer service.

Agility + Commitment = Motivation

Over the course of the year, hundreds of people at La Capitale worked hard to reach and exceed the targets we set in the Life and Health Insurance and Financial Services sector. We would like to thank these men and women who are the very fabric our business is made of for putting their exceptional qualities to work for the benefit of our clients. We also thank our business partners, whose cooperation is such a valuable and indispensable factor in us being able to reach our ambitious goals. Finally, I would like to express my deepest gratitude to the members of the various boards of directors of the companies that make up our sector. It is largely thanks to their expert guidance and daily support that we were able to achieve such enviable results this past year.

THE YEAR IN REVIEW

Property and Casualty Insurance Sector

Constance **LEMIEUX**

President and Chief Operating Officer
Property and Casualty Insurance

We believe that a service company owes its success to maintaining balance as three apexes of an equilateral triangle: client and distribution-partner experience, corporate sustainability (which includes growth and profitability) and the team, i.e. all the employees and managers on whom the company relies for the provision of service. We make decisions and act with this perspective in mind. Doing so enables us to achieve strong results.

Despite a very difficult start to the year, due to climatic conditions, the Property and Casualty Insurance sector, which includes La Capitale General Insurance, L'Unique General Insurance and Unica Insurance, ended 2014 with a net income of $37.1 million generating a 13.1% return on equity. Moreover, a very significant increase in the gross written premium volume was recognized, i.e. 5.8% of which 13.3% was in commercial insurance, reaching $859.8 million.

Growth

La Capitale General Insurance achieved 2.6% growth, of which 11.1% was in commercial insurance, and posted a gross written premium volume of $557.7 million.

Commercial insurance is the focus of distinct planning. We have invested in this sector over the past few years, in terms of both tools and methods, in order to understand the needs of small businesses and serve them well. The definite progress we have made reflects these efforts.

La Capitale also still has a strong presence in the Leisure Vehicle segment. It is worth noting that its 12.5% growth exceeds the targets. This strong increase is attributable in particular to boat insurance, with the acquisition of Direct Marine in the fall of 2013, and to greater market visibility, which has generated increased demand for these products. The leisure vehicle results are included in the home and automobile business categories.

As all Mutuals do, we put people first. We are pleased to report that, again in 2014, an independent study has confirmed that we distinguish ourselves by the outstanding client experience that we offer. We have added other types of instruments for measuring, more frequently, satisfaction with regard to claims, which allow us to react promptly in the event of dissatisfaction. As well, we are continuing with our service excellence initiative, which provides training and coaching tools to all the employees in these sectors. Our goal is to ensure that our clients have a pleasant and enjoyable experience, with respect to the person with whom they are speaking and the distribution channel they prefer to use.

Along these lines, we carry out reviews of various processes annually. Doing so enables us to achieve greater effectiveness and efficiency. In addition to replacing some of our peripheral systems, we have embarked on an extensive project to replace our billing system in the perspective of improving customer service.

In addition to refining our insurance offering, we have expanded eligibility for free Airmedic coverage for clients with boat and secondary residence insurance, as well as a home or auto insurance product. As a result, more than 40,000 families have access to this emergency medical transportation service when required. La Capitale is the only property and casualty insurer to offer this protection on a complimentary basis or at a reduced cost.

For its part, L'Unique General Insurance had a gross written premium volume which represented an 11.8% increase, exceeding its targets. Personal Lines insurance experienced a 14.6% increase. We note that L'Unique expanded its product offerings to include boat insurance following the acquisition of Direct Marine's brokerage operations. In spite of a voluntary slowdown, related to the plan to improve profitability, commercial insurance nevertheless posted a 11% increase. Surety Bonds decreased by 4.7%. That sector's decision to concentrate on its business activities within Quebec led to the sale of the portfolio outside Quebec, which largely accounts for the decrease. Moreover, a survey conducted among brokers dealing with L'Unique confirms that they appreciate the company's close ties with its brokers and reflects their very high level of satisfaction with the services they receive.

Unica Insurance experienced a 13.2% increase in its gross written premium volume. Of that figure, 18.9% was in commercial insurance, reaching $114.7 million and exceeding expectations, despite a 6.3% decrease in auto insurance rates in compliance with the Ontario government's objective to see a reduction in premiums. Unica is successfully moving forward with its expansion initiatives, particularly in the commercial insurance market, which now makes up more than 30.9% of its volume and for which it has solid expertise. Unica is also involved in a process review aimed at making it easier for brokers to do business with the company. Last but not least, according to a recent survey that the Insurance Brokers Association of Ontario conducted among its members, Unica is considered to be one of the best companies in the industry, and most brokers would like to increase their business volume with Unica. This survey is conducted every two years. The company has made remarkable progress since 2010. What's more, the quality of Unica's Claims customer service was confirmed by a survey of the company's clients.

Profitability

Beyond the positive or negative repercussions of climatic conditions and the investment performance, the Property and Casualty sector's results in 2014 stems from structuring projects with regard to underwriting, pricing, cost reduction and claims management, in a context of growth.

Automobile insurance

An operating profit of $7.6 million was generated in Quebec. This 15.6% shortfall is attributable to a slight decrease in the average premium and an increase in the average claim cost.

Many of our insureds benefit from Cap Roadside Assistance, a definite plus in case of breakdown.

Home insurance

This sector achieved an operating profit of $10.1 million in Quebec, a 68.3% increase. An increase in average costs due to major fires and a higher rate of water damage claims was offset by a lower rate of all other types of claims. Water damage is the reason for more than half of all home insurance claims, and fire is responsible for nearly a third.

In situations such as these, the psychological support service that we offer all our insureds helps them cope with sometimes very difficult situations.

Legal Access insurance

This year's operating profit was equivalent to that of last year, at $0.43 million. This product is very useful in various situations of everyday life, such as the purchase of a new home with hidden defects. It enables clients to receive professional assistance and cover legal costs, which could strain household budgets when they do not actually prevent access to justice.

Commercial Insurance and Surety Lines

This sector recorded a $1.3 million operating deficit, which is much lower than last year's deficit. This result is mainly due to a few major losses associated with a closed surety bonds division. However, the standard activities of this business line generated a profit of $0.9 million. Moreover, the plan to improve profitability enabled L'Unique to reduce the commercial insurance loss ratio by 16.8 points in comparison to last year.

Public administration and public service

More than 214,000 Quebec public administration and public service employees have a La Capitale product, and our progress in this market is in line with our objectives. We currently offer them a range of benefits such as a customized pricing, an additional discount when they use payroll deduction, or specific benefits for certain groups. Some major agreements have moreover been renewed with a number of them. We also offer promotions to clients who are Quebec public administration and public service employees and who have another type of La Capitale product.

That said, we have embarked on various initiatives that will enable us to gain a better understanding of specific needs in the municipal, health and education sectors, as well as in the government department and agencies. We want to do an even better job at tailoring our offering to match their needs and providing access to services aligned with their day-to-day life.

It is our pleasure to contribute to the well-being of these people who, as often observed, are committed to providing excellent services to the community.

Outlook for 2015

With regard to the client experience, in addition to conducting surveys which allow for prompt intervention by all the sectors that interact with clients, we will develop a new phase for our program that will enable us to stand out even more.

We will also redouble our efforts to inform our clients on the best ways to prevent losses because, even if they have adequate coverage, a loss is always associated with unpleasant and, in some cases, dramatic consequences.

We will continue with our initiatives aimed at communicating more frequently with our clients. We will also implement a number of changes to the correspondence we send our clients, in order to ensure clarity and facilitate comprehension. We will continue to optimize our branch network and will implement a new boutique branch concept.

The enrichment of our e-Commerce vision, based on various platforms and functionalities that have the potential to enhance and expand our current offering, is also included in our objectives.

As far as sustainability is concerned, the structuring projects will continue to have positive repercussions on profitability, and new benchmarking studies will be carried out to ensure that we are maintaining our competitiveness.

As we do every year, we will review various processes and apply improvements, particularly with regard to claims.

From a perspective of profitable growth, we will move forward with certain initiatives and commence new ones with regard to commercial insurance and surety bonds.

We will continue to support the team through a number of endeavours such as the Distinction program. This program, launched in the spring of 2014, receives suggestions from colleagues or clients and provides recognition to people who distinguish themselves in terms of client and distribution-partner experience, initiative or teamwork. The reaction to this program is already very positive. As well, managers will receive access to a complete training program, to facilitate their advancement in their career. We will also move forward with our various initiatives aimed at tapping into the expertise and creativity of all our employees.

Lastly, during 2015, a number of teams will participate in workshops aimed at developing the 2016-2020 strategic plan.

Thank you

On the eve of our Mutual's 75th anniversary, we pause to look back over the ground we have covered and say *Thanks!* to our founders, and to everyone who has worked to build our company, some of whom are still very involved in that process. We also want to thank our mutual members and clients who, through their support and feedback, have enabled our company to grow, our distribution partners, who have played a key role in our growth and development, and, lastly, all our employees without whom none of this would have been possible.

La Capitale Civil Service Mutual

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

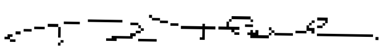
The consolidated financial statements of **La Capitale Civil Service Mutual** (the "Mutual") have been approved by the Board of Directors of the Mutual. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and contain certain amounts based on management's best estimates and judgment within reasonable limits of materiality. In management's opinion, the significant accounting policies are appropriate and present fairly, in all material respects, the Mutual's financial position and the results of its operations.

In discharging its responsibilities with regard to the financial statements, management maintains internal control systems that provide reasonable assurance that transactions are authorized, proper financial records are maintained and assets are safeguarded. These control systems are strengthened by the work of the internal auditors who conduct a periodic review of all of the key lines of business of the Mutual.

The Appointed Actuary, designated by the Board of Directors of every insurance company under the Insurance Act (Québec), is responsible for ensuring that the assumptions made and the methods used to calculate insurance contract liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary must issue an opinion on the adequacy of insurance contract liabilities to meet all policyholder obligations of the Mutual at the balance sheet date.

The independent auditors, Ernst & Young LLP, appointed by the members, are responsible for carrying out an independent audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards and reporting on the fairness of the presentation of the consolidated financial statements of the Mutual.

On behalf of management,



René Rouleau
Chairman of the Board and Chief Executive Officer

Québec City, February 24, 2015

INDEPENDENT AUDITORS' REPORT

To the Members of
La Capitale Civil Service Mutual

We have audited the accompanying consolidated financial statements of **La Capitale Civil Service Mutual** (the "Mutual"), which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **La Capitale Civil Service Mutual** as at December 31, 2014, and of its financial performance and its cash flows for the year ended December 31, 2014 in accordance with International Financial Reporting Standards.

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

Québec City, Canada
February 24, 2015

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31 [in thousands of Canadian dollars]

ASSETS

	2014 $	2013 $
Investments *[note 4]*		
Cash and cash equivalents	**109,697**	104,114
Bonds	**1,713,234**	1,702,280
Stocks	**648,788**	641,245
Mutual funds	**815,167**	355,181
Mortgage loans	**549,154**	514,527
Policy loans	**34,619**	32,954
Investment properties	**161,996**	177,482
Other investments	**170,262**	121,597
	4,202,917	3,649,380
Premiums receivable	**525,432**	481,911
Reinsurance assets *[note 5]*	**235,307**	200,886
Income taxes receivable	**16,291**	57,878
Other financial assets *[note 6]*	**85,780**	94,226
Other assets *[note 6]*	**67,930**	64,863
Deferred taxes *[note 7]*	**27,259**	26,452
Property and equipment *[note 8]*	**148,058**	151,966
Intangible assets *[note 9]*	**112,796**	81,461
Goodwill *[note 9]*	**102,572**	92,733
TOTAL ASSETS	**5,524,342**	4,901,756

On behalf of the Board of Directors,

René Rouleau, Chairman of the Board

Dominique Dubuc, Vice-Chairman of the Board

AS AT DECEMBER 31

LIABILITIES

	2014 $	2013 $
Life and health insurance contract liabilities *[note 11]*	**3,263,364**	2,769,624
Property and casualty insurance contract liabilities *[note 12]*	**959,220**	918,785
	4,222,584	3,688,409
Other financial liabilities *[note 13]*	**274,083**	259,274
Other liabilities *[note 13]*	**12,162**	12,941
Income taxes payable	**8,866**	1,604
Deferred taxes *[note 7]*	**16,728**	23,901
Employee future benefits *[note 14]*	**92,345**	52,331
Long-term debt *[note 15]*	**22,986**	23,328
	4,649,754	4,061,788
EQUITY		
Retained earnings attributable to members	**706,378**	660,113
Accumulated other comprehensive income attributable to members	**13,376**	18,693
	719,754	678,806
Participating policyholders' account	**2,688**	14,114
Non-controlling interests	**152,146**	147,048
	874,588	839,968
TOTAL LIABILITIES AND EQUITY	**5,524,342**	4,901,756

Commitments and contingencies *[note 20]*

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]

	2014 $	2013 $
Revenues		
Gross premiums *[note 22]*	**1,826,201**	1,687,117
Premiums ceded to reinsurers	**(84,416)**	(76,644)
Net premiums	**1,741,785**	1,610,473
Investment income *[note 18]*		
Interest and other investment income	**220,662**	192,142
Change in fair value of financial assets designated at fair value through profit or loss	**206,765**	(92,909)
	427,427	99,233
Fees and other revenues	**9,155**	11,646
Total revenues	**2,178,367**	1,721,352
Policy benefits, claims and expenses		
Gross benefits and claims	**1,098,731**	1,051,345
Benefits and claims ceded to reinsurers *[note 5]*	**(27,018)**	(55,526)
	1,071,713	995,819
Participating policyholder dividends	**12,078**	12,638
Experience rating refunds	**23,218**	19,635
Changes in actuarial liabilities	**470,479**	89,961
Changes in reinsurance assets	**(47,243)**	(19,229)
Net benefits and claims	**1,530,245**	1,098,824
General expenses *[note 19]*	**282,001**	280,878
Commissions	**199,586**	195,547
Premium taxes	**43,114**	41,119
Investment management costs	**31,057**	26,948
Finance costs	**3,374**	3,031
Total policy benefits, claims and expenses	**2,089,377**	1,646,347
Income before income taxes	**88,990**	75,005
Income taxes *[note 7]*	**15,898**	9,784
NET INCOME	**73,092**	65,221
Attributable to members of the Mutual	**52,223**	39,874
Attributable to participating policyholders	**5,353**	14,728
Attributable to non-controlling interests	**15,516**	10,619
	73,092	65,221

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]

	2014 $	2013 $
Net income	**73,092**	65,221
Other comprehensive income, net of income taxes		
Items that will be reclassified subsequently to net income		
Unrealized net gains for the year on available-for-sale financial assets, net of income taxes of $8,492 [2013: $4,904]	**23,113**	13,364
Reclassification of realized net gains to net income, net of income taxes of $(10,568) [2013: $(7,251)]	**(28,816)**	(19,774)
	(5,703)	(6,410)
Item that will not be reclassified subsequently to net income		
Actuarial (losses) gains on employee future benefits, net of income taxes of $(9,682) [2013: $8,405]	**(26,348)**	22,847
	(32,051)	16,437
COMPREHENSIVE INCOME	**41,041**	81,658
Attributable to members of the Mutual	**25,508**	52,451
Attributable to participating policyholders	**4,864**	17,803
Attributable to non-controlling interests	**10,669**	11,404
	41,041	81,658

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[1] $	Other comprehensive income (loss) attributable to members[4] $	Total retained earnings and accumulated other comprehensive income (loss) attributable to members $	Retained earnings attributable to participating policyholders $	Accumulated other comprehensive income (loss) attributable to participating policyholders[4] $	Total participating policyholders' account $	Non-controlling interests $	Total equity $
Balance as at January 1, 2013	484,696	23,213	507,909	115,911	(1,154)	114,757	144,678	767,344
Net income	39,874	—	39,874	14,728	—	14,728	10,619	65,221
Other comprehensive income (loss), net of income taxes[3]	—	(5,281)	(5,281)	—	1,776	1,776	(2,905)	(6,410)
Net actuarial gains on employee future benefits	17,858	—	17,858	1,299	—	1,299	3,690	22,847
Total comprehensive income (loss)	57,732	(5,281)	52,451	16,027	1,776	17,803	11,404	81,658
Dividends paid to non-controlling interests	—	—	—	—	—	—	(5,761)	(5,761)
Transfer from participating policyholders to members[2]	109,674	761	110,435	(117,630)	(816)	(118,446)	8,011	—
Gain on changes in equity	8,011	—	8,011	—	—	—	(8,011)	—
Changes in non-controlling interests	—	—	—	—	—	—	(3,273)	(3,273)
	117,685	761	118,446	(117,630)	(816)	(118,446)	(9,034)	(9,034)
Balance as at December 31, 2013	660,113	18,693	678,806	14,308	(194)	14,114	147,048	839,968
Balance as at January 1, 2014	**660,113**	**18,693**	**678,806**	**14,308**	**(194)**	**14,114**	**147,048**	**839,968**
Net income	**52,223**	**—**	**52,223**	**5,353**	**—**	**5,353**	**15,516**	**73,092**
Other comprehensive income (loss), net of income taxes[3]	**—**	**(5,481)**	**(5,481)**	**—**	**486**	**486**	**(708)**	**(5,703)**
Net actuarial losses on employee future benefits	**(21,234)**	**—**	**(21,234)**	**(975)**	**—**	**(975)**	**(4,139)**	**(26,348)**
Total comprehensive income (loss)	**30,989**	**(5,481)**	**25,508**	**4,378**	**486**	**4,864**	**10,669**	**41,041**
Dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(2,488)**	**(2,488)**
Transfer from participating policyholders to members[2]	**15,276**	**164**	**15,440**	**(16,117)**	**(173)**	**(16,290)**	**850**	**—**
Changes in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(3,933)**	**(3,933)**
	15,276	**164**	**15,440**	**(16,117)**	**(173)**	**(16,290)**	**(5,571)**	**(6,421)**
Balance as at December 31, 2014	**706,378**	**13,376**	**719,754**	**2,569**	**119**	**2,688**	**152,146**	**874,588**

1. During fiscal years 2013 and 2014, the Mutual allocated no funds to the optional reserve for earthquakes under retained earnings. The reserve totalled $9,151 [2013: $9,151].
2. During fiscal year 2013, a subsidiary of the Mutual adopted a participating fund surplus management policy. The Mutual transfers a portion of the accumulated surplus from the participating fund to the shareholder's account, thereby affecting the members' account in accordance with the provisions of sections 66.1.1 to 66.1.3 et seq. of the Act respecting insurance (CQLR c. A-32).
3. These amounts exclude net actuarial gains and losses on employee future benefits recycled through retained earnings.
4. Accumulated other comprehensive income (loss) comprises unrealized net gains on available-for-sale financial assets.

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]

	2014 $	2013 $
OPERATING ACTIVITIES		
Net income	**73,092**	65,221
Items not affecting cash and cash equivalents:		
Changes in actuarial liabilities	**470,479**	89,961
Changes in gross unearned premiums	**52,716**	59,634
Changes in reinsurance assets	**(34,421)**	(21,687)
Changes in net discounts on investments	**(38,172)**	(34,867)
(Gains) losses on investments	**(250,038)**	68,259
Deferred taxes	**1,253**	4,252
Amortization of deferred premium acquisition costs	**94,677**	91,214
Net employee future benefit expense	**20,544**	22,059
Amortization of property and equipment and intangible assets	**16,034**	15,382
Other items included in net income	**1,202**	1,198
	407,366	360,626
Net change in other items related to operating activities	**(71,648)**	(178,193)
Cash flows related to operating activities	**335,718**	182,433
INVESTING ACTIVITIES		
Acquisitions, issuances and advances related to investments	**(2,451,141)**	(1,435,111)
Disposals and repayments related to investments	**2,182,131**	1,306,917
Net additions to property and equipment and intangible assets	**(53,342)**	(25,122)
Cash flows related to investing activities	**(322,352)**	(153,316)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(342)**	(317)
Changes in non-controlling interests	**(3,933)**	(2,741)
Dividends paid to non-controlling interests	**(2,488)**	(5,761)
Interest paid	**(1,502)**	(1,334)
Cash flows related to financing activities	**(8,265)**	(10,153)
Net increase in cash and cash equivalents	**5,101**	18,964
Cash and cash equivalents, beginning of year	**96,260**	77,296
Cash and cash equivalents, end of year[1]	**101,361**	96,260
1. **Consisting of:**		
Cash	**38,132**	57,128
Cash equivalents	**71,565**	46,986
Bank overdraft *[note 13]*	**(8,336)**	(7,854)
	101,361	96,260
Supplementary information on cash flows		
Interest received	**62,595**	62,179
Dividends received and distributions received	**48,895**	43,941
Taxes recovered (paid)	**36,729**	(59,377)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

[in thousands of Canadian dollars]

1) INCORPORATING STATUTE AND NATURE OF OPERATIONS

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

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

The Mutual is headquartered at 625 Saint-Amable Street, Québec City, Québec, Canada.

2) SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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.

These consolidated financial statements were approved for issue by the Board of Directors of the Mutual on February 24, 2015.

Basis of preparation

The consolidated financial statements have been prepared on a historic cost basis except for investment properties, financial instruments held-for-trading, financial instruments designated at fair value through profit or loss and available-for-sale financial instruments that have been measured at fair value.

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.

Consolidation

The consolidated financial statements include the accounts of the Mutual and those of its subsidiaries as at December 31, 2014. 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 shall begin from the date the Mutual obtains control of the subsidiary and cease when the Mutual loses control of the subsidiary.

The Mutual's consolidated financial statements have been prepared using uniform accounting policies for like transactions and events in similar circumstances.

The assets, liabilities, equity, income, expenses, cash flows and intragroup gains and losses arising from transactions between group companies have been fully eliminated.

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 the subsidiaries listed below:

	% interest			
	2014	2013	Location of principal place of business	Description
Subsidiary				
La Capitale Financial Group Inc.	**94.9**	94.4	Québec City, Canada	Holding company
La Capitale Financial Services Inc.	**100.0**	100.0	Québec City, Canada	Distribution firm
La Capitale Civil Service Insurer Inc.	**100.0**	100.0	Québec City, Canada	Life and health insurance company
La Capitale Insurance and Financial Services Inc.	**100.0**	100.0	Québec City, Canada	Life and health insurance company
La Capitale MFQ Real Estate Management Inc.	**100.0**	100.0	Québec City, Canada	Real estate management company
3602214 Canada Inc.	**70.0**	70.0	Mississauga, Canada	Holding company
La Capitale Financial Security Insurance Company	**100.0**	100.0	Mississauga, Canada	Life and health insurance company
La Capitale Participations inc.	**77.1**	77.1	Québec City, Canada	Holding company
La Capitale General Insurance Inc.	**100.0**	100.0	Québec City, Canada	Property and casualty insurance company
L'Unique General Insurance Inc.	**100.0**	100.0	Québec 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	Québec City, Canada	IT development and system improvement services
SecuriGlobe inc.	**100.0**	—	Brossard, Canada	Travel insurance product distributor
Immo-Beauport S.E.C.	**70.0**	70.0	Québec City, Canada	Real estate management company

Non-controlling interests

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

Percentage holdings of non-controlling interests

	Location of principal place of business	2014 %	2013 %
Subsidiary			
La Capitale Financial Group Inc.	Québec City, Canada	**5.1**	5.6
La Capitale Participations inc.	Québec City, Canada	**22.9**	22.9
3602214 Canada Inc.	Mississauga, Canada	**30.0**	30.0

Cumulative balances of significant non-controlling interests

	2014 $	2013 $
La Capitale Financial Group Inc.	**38,714**	40,471
La Capitale Participations inc.	**73,390**	68,318
3602214 Canada Inc.	**37,814**	36,127
	149,918	144,916

Net income attributable to significant non-controlling interests

	2014 $	2013 $
La Capitale Financial Group Inc.	**2,876**	2,895
La Capitale Participations inc.	**8,484**	3,582
3602214 Canada Inc.	**3,916**	3,891
	15,276	10,368

2) SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Non-controlling interests [Cont'd]

The following tables provide summarized financial information of these subsidiaries. This information is based on amounts before the elimination of intercompany accounts and transactions.

	2014		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Revenues	**57,243**	**857,821**	**150,502**
Net income	**55,098**	**37,089**	**13,053**
Other comprehensive loss	**(28,177)**	**(12,792)**	**(1,512)**
Comprehensive income	**26,921**	**24,297**	**11,541**
Dividends paid to non-controlling interests	**264**	**449**	**1,774**

	2013		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Revenues	43,301	799,467	88,023
Net income	42,799	15,642	12,970
Other comprehensive income (loss)	13,539	(32)	(1,228)
Comprehensive income	56,338	15,610	11,742
Dividends paid to non-controlling interests	241	3,788	1,729

	2014		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Total assets	**760,049**	**1,489,673**	**533,635**
Total liabilities	**4,022**	**1,167,829**	**407,586**
Equity	**756,027**	**321,844**	**126,049**
Attributable to members of the Mutual	**717,313**	**248,454**	**88,235**
Attributable to non-controlling interests	**38,714**	**73,390**	**37,814**

	2013		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Total assets	721,070	1,420,197	490,442
Total liabilities	4,265	1,120,690	370,018
Equity	716,805	299,507	120,424
Attributable to members of the Mutual	676,334	231,189	84,297
Attributable to non-controlling interests	40,471	68,318	36,127

	2014		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Cash flows			
Operating activities	**1,163**	**66,925**	**13,641**
Investing activities	**2,698**	**(44,647)**	**(10,136)**
Financing activities	**(3,989)**	**(4,874)**	**(5,916)**
Net increase (decrease) in cash and cash equivalents	**(128)**	**17,404**	**(2,411)**

	2013		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Cash flows			
Operating activities	(1,256)	1,689	(12,025)
Investing activities	1,719	24,558	19,312
Financing activities	(1,785)	(19,455)	(5,762)
Net increase (decrease) in cash and cash equivalents	(1,322)	6,792	1,525

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 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 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 and mutual funds

The Mutual has elected to designate bonds, stocks and mutual funds backing life and health insurance contract liabilities at fair value through profit or loss. These bonds, stocks and mutual funds 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. Bonds, stocks and mutual funds that are not used to cover life and health insurance contract liabilities are classified as available-for-sale.

Bonds, stocks and mutual funds 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.

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 for ownership interests 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.

Mortgage loans

Mortgage loans are classified as loans and receivables and reported at amortized cost using the effective interest 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 method. Realized gains and losses on disposal of these securities are recognized through 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.

2) SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

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 property is real estate that is held to earn rent or for capital appreciation.

Investment properties are accounted for 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. Realized and unrealized gains and losses on investment properties are recognized through income.

Other investments

Other investments include personal loans, other loans, properties held for resale, investments in joint ventures and associates, investments in private companies, investments in limited partnerships and derivative financial instruments. Personal loans and other loans are classified as loans and receivables and recognized at amortized cost using the effective interest 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.

Property held for resale is 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.

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.

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 in associates are accounted for using the equity method.

Investments in private companies are recognized at cost, as no active market exists, making it difficult to determine a reliable fair value. The Mutual determines whether there is objective evidence that the investments in the private companies and associates are impaired at the end of each reporting period. Impairment losses on investments in private companies are recognized when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment losses are measured based on the discounted value of expected future cash flows at the effective interest rates inherent in the loans.

The investments in limited partnerships are accounted for at fair value. Fair value is determined using valuation techniques that factor in the interest rate particular to this type of investment and discounted cash flows, and are based on indirectly observable market data.

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.

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.

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 should 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 in accounting for income taxes. Income tax expense (recovery) comprises current taxes and deferred taxes (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 income tax is based on income before income taxes in the current year, adjusted for items that are not taxable or not deductible. Current income tax is 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 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.

Other financial assets and other assets

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

Other assets consist of deferred premium acquisition costs, 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 and tax credits receivable are recognized at cost.

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 amortization and impairment losses, and are amortized 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.

2) SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property and equipment [cont'd]

Property and equipment are amortized on the following basis:

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

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

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

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. 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.

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

	Useful life
Client base and distribution networks	30 months–18 years
Software	3 years, 5 years and 15 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 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.

Government assistance

The Mutual receives government assistance in the form of tax credits for scientific research and experimental development. 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. After initial recognition, goodwill is measured 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 flows and corresponds either to an operating segment or to a lower level. Any impairment of goodwill is identified 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 to sell 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.

Classification of insurance 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. Investment contracts can be reclassified as insurance contracts if insurance risk becomes significant.

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

Under the Insurance Act (Québec), in the normal course of its business, a life and health insurance company set up as a joint stock corporation may, within a predetermined limit, 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.

Life and health insurance contract liabilities

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

Actuarial liabilities represent the amount that secures current policy commitments. These actuarial 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 underlying scenarios. The insurance contract liabilities are at least as great as the liabilities determined under the worst of the 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 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

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 addition, insurers can choose to cede certain risks to the GAA-administered Risk Sharing Pool ("RSP"). Risks associated with GAA insurance contracts and contracts ceded to the RSP are shared by the 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 those insurance contracts as it does to insurance contracts issued by the Mutual directly to policyholders.

2) SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Other financial liabilities and other liabilities

Other financial liabilities include accrued liabilities, other amounts on deposit, the loyalty, stabilization and development fund, bank overdraft, deposits for taxes, due to reinsurers in the life and health insurance and property and casualty insurance segments, deposits in trust, and liabilities related to derivative and other financial instruments, which are classified as other liabilities and recorded at cost, except for bank overdraft and liabilities related to derivative financial instruments which are classified as held-for-trading and recognized at fair value.

Other liabilities include amounts payable under the stock appreciation rights plan recorded at fair value and deferred revenues recognized at cost. The Mutual offers a stock appreciation rights plan to certain officers. The stock appreciation rights plan is valued using the Black-Scholes model, which is based mainly on the risk-free interest rate, the expected return volatility on La Capitale Financial Group Inc. stock and the average expected life of stock appreciation rights.

Stock appreciation rights plan expense is charged to income for the year when the return on shares is earned under the plan of La Capitale Financial Group Inc. and is recognized under general expenses in the statement of income.

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

Net actuarial gains or losses are accounted for in the year in which they occur through other comprehensive income.

For defined contribution plans, 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 plans are charged to income.

Long-term debt

Long-term debt includes a subordinated debenture and a loan secured by an immovable hypothec. Long-term debt is classified as other liabilities and recorded at amortized cost using the effective interest method.

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. 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. Net premiums include assumed premiums, net of premiums ceded to reinsurers.

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.

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 method. Rental income from investment properties are recognized on a straight-line basis over the lease term. Dividend and distribution income, interest income from bonds and loans, and rental income from investment properties are reported under interest and other investment income in the consolidated statement of income.

Fees and other revenues

Fees and other income comprise mainly management fees, rental income from own-use properties and other income and recognized as services are rendered.

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 uses derivative financial instruments.

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.

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 accounting policies

The Mutual adopted the following standards as at January 1, 2014:

IAS 36 – *Impairment of assets*

In May 2013, the IASB issued an amendment "Recoverable Amount Disclosures for Non-Financial Assets," which requires additional disclosure on the recoverable amount of impaired assets, if such amount is based on fair value less costs of disposal. The amendment also requires disclosure of the discount rate used to determine, using a discounting technique, the recoverable amount of an impaired asset, whether such amount is based on fair value less costs of disposal or value in use. The adoption of this amendment had no impact on the consolidated financial statements of the Mutual.

IFRIC 21 – *Levies*

In May 2013, the IASB published IFRIC 21, which clarifies the timing of the recognition of a liability to pay a levy. The activity that triggers payment, defined in legislation as the obligating event, determines the point in time at which the liability for payment of the levy is recognized. The adoption of this interpretation had no impact on the consolidated financial statements of the Mutual.

Future accounting policy changes

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

The Mutual will apply these standards in future fiscal years.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which constitutes a single standard for the recognition of revenue from all contracts with customers, except for insurance contracts, lease contracts and financial instruments. This new standard sets out a single, five-step model for recognizing revenues. The provisions of this standard shall apply retrospectively for fiscal years beginning on or after January 1, 2017. The Mutual is currently assessing the impact of this standard on its consolidated financial statements.

IAS 16 – *Property, Plan and Equipment and IAS 38 – Intangible Assets*

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets. Entitled Clarification of acceptable methods of depreciation and amortization, this amendment clarifies that revenue-based methods should not be used to calculate depreciation and amortization. The amortization of recognized assets must reflect a pattern of consumption of the assets rather than the economic benefits from the assets. The provisions of this standard shall apply retrospectively for fiscal years beginning on or after January 1, 2016. The adoption of this amendment will have no impact on the consolidated financial statements of the Mutual.

IFRS 11 – Joint Arrangements

In May 2014, the IASB issued an amendment to IFRS 11, Joint Arrangements, entitled Accounting for Acquisitions of Interests in Joint Operations. The amendment clarifies that an acquisition of an interest in a joint operation that is a business should be accounted for and disclosed as a business combination in accordance with IFRS 3, Business Combinations. The provisions of this standard shall apply retrospectively for fiscal years beginning on or after January 1, 2016. The Mutual is currently assessing the impact of this amendment on its consolidated financial statements.

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 shall reflect the business model with which they are managed and their cash flow characteristics;
- Impairment shall be based on the expected credit loss model;
- Hedge accounting shall take into account the entity's risk management practices.

The provisions of this standard shall apply retrospectively for fiscal years beginning on or after January 1, 2018. The Mutual is currently assessing the impact of this standard 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 Mutual's accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements:

Loan securitization

The Mutual securitizes pools of mortgage loans periodically by selling them to trusts. Judgment is required to determine whether these transfers meet the conditions for the derecognition of the financial assets in question. For instance, since the Mutual retains a portion of the future interest paid by the borrower whose mortgage loan has been sold, it must assess to what extent the contractual rights over the cash flows, the risks and rewards of ownership and control over the financial asset have been substantially transferred to a third party.

Classification of properties

The Mutual classifies its properties as investment properties when the proportion of own-use is considered insignificant. This is determined by comparing the rental space occupied for the Mutual's own purposes with the total rental space. The Mutual classifies properties as own-use properties when the rental space used for its own purposes is significant and then applies the appropriate accounting policies.

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 financial statements:

Fair value of financial instruments

For Level 3 financial instruments, the fair values of financial assets reported on the consolidated statement of financial position cannot be derived from markets considered active. They are determined using a variety of valuation techniques based on the use of discounted cash flow models. Since observable market data is not available, judgment is required to establish liquidity risk, credit risk and the degree of volatility. The main techniques for determining fair value are described in note 22.

Fair value of investment properties

The Mutual accounts for its investment properties at fair value and recognizes any changes in fair value through the statement of income. The Mutual relies on fair value measurements prepared by chartered appraisers or Mutual personnel as at the reporting date, i.e. December 31. They use valuation techniques based on discounted future cash flows from rental space, taking into account the lack of comparative market data for comparable properties.

The fair value of investment properties is very sensitive to the rate of return and to the overall discount rate. The main assumptions made to determine the fair value of investment properties are described in note 4.

Impairment of financial instruments

Equity and fixed-income securities available-for-sale are recognized at fair market value with changes in fair value recognized in accumulated other comprehensive income. Securities are reviewed on a regular basis and any fair value decrement is transferred out of accumulated other comprehensive income and recorded in income when it is deemed probable that the Mutual will not be able to collect all amounts due according to the contractual terms of a fixed income security or when fair value of an equity security has declined significantly below cost or for a prolonged period of time. During the year, unrealized losses on available-for-sale financial assets amounting to $3,851 were reclassified from the statement of comprehensive income to the statement of income.

Provisions for impairment of mortgage loans and loans are recorded with losses reported in income when there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. No loans were impaired during the year.

The Mutual exercises judgment to assess whether impairment exists and determine fair values and recoverable amounts. The important issues to be considered include economic factors, new developments affecting companies and specific sectors, and particular aspects affecting certain borrowers and issuers.

Impairment of intangible assets and goodwill

Intangible assets with indefinite lives, software under development and goodwill are tested for impairment annually or when there are indications of potential impairment. Impairment tests consist in comparing the carrying amount of the asset or CGU in question with its recoverable amount. To determine the value in use of an asset or a CGU, several assumptions must be made, including the estimation of future cash flows that the Mutual expects to receive and the discount rate.

Future cash flows are determined by making financial projections over five-year periods, excluding any significant restructuring to the investment project that could influence the performance of the asset or the CGU being tested for impairment.

The determined recoverable amount is sensitive to the discount rate used for the discounted cash flow model and to the extrapolated growth rate.

The main assumptions used in impairment testing for goodwill and trademarks are described in note 9.

The carrying amounts for indefinite-life intangible assets, software under development and goodwill were, respectively, $12,639 [2013: $3,239], $53,075 [2013: $48,250] and $102,572 [2013: $92,733].

Income taxes

The computation of current and deferred taxes 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 the expected future earnings 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.

Life and health insurance contract liabilities

The establishment of actuarial liabilities, the related reinsurers' share, the provisions for benefits incurred and the provisions for experience rating refunds depends on various actuarial assumptions including the mortality rate, morbidity rate, investment return, contract management costs, deferred taxes, policy lapses, participating policyholder dividends and the margins for adverse deviation. These assumptions are described in note 11.

Property and casualty insurance contract liabilities

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. These assumptions are described in note 12.

Employee future benefits

The defined benefit obligation and expense is calculated using several demographic and financial actuarial assumptions. The main assumptions include the discount rate, rate of increase in future compensation, growth rate of retiree health care costs and mortality rate. These assumptions are described in note 14.

4) 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

	2014						
	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	109,697	—	—	—	—	109,697	109,697
Bonds							
Government of Canada	—	—	23,262	—	—	23,262	23,262
Provincial governments	—	1,035,661	102,818	—	—	1,138,479	1,138,479
Municipalities, school boards and hospitals	—	7,818	20,989	—	—	28,807	28,807
Corporate	—	338,844	183,842	—	—	522,686	522,686
	—	1,382,323	330,911	—	—	1,713,234	1,713,234
Stocks							
Common shares	—	93,196	231,500	—	—	324,696	324,696
Preferred shares	—	193,753	130,339	—	—	324,092	324,092
	—	286,949	361,839	—	—	648,788	648,788
Mutual funds							
Bonds	—	23,562	217,766	—	—	241,328	241,328
Stocks	—	171,434	50,139	—	—	221,573	221,573
Diversified	—	255,210	—	—	—	255,210	255,210
Other	—	11,924	85,132	—	—	97,056	97,056
	—	462,130	353,037	—	—	815,167	815,167
Mortgage loans							
Insured	—	—	—	182,836	—	182,836	185,244
Conventional	—	—	—	366,318	—	366,318	370,003
	—	—	—	549,154	—	549,154	555,247
Policy loans	—	—	—	34,619	—	34,619	34,619
Investment properties							
Held for investment	—	—	—	—	161,996	161,996	161,996
Other investments							
Personal loans	—	—	—	19,949	—	19,949	19,576
Other loans	—	—	—	51,809	—	51,809	52,440
Properties held for resale	—	—	—	—	642	642	642
Investments in a joint venture and associates	—	—	—	—	22,351	22,351	
Investments in private companies	—	—	—	—	520	520	
Investments in limited partnerships	—	50,124	24,795	—	—	74,919	74,919
Derivative financial instruments	72	—	—	—	—	72	72
	72	50,124	24,795	71,758	23,513	170,262	
	109,769	2,181,526	1,070,582	655,531	185,509	4,202,917	

	2013						
	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	104,114	—	—	—	—	104,114	104,114
Bonds							
Government of Canada	—	—	105,711	—	—	105,711	105,711
Provincial governments	—	870,774	225,150	—	—	1,095,924	1,095,924
Municipalities, school boards and hospitals	—	6,558	3,743	—	—	10,301	10,301
Corporate	—	323,702	158,867	—	—	482,569	482,569
International	—	—	7,775	—	—	7,775	7,775
	—	1,201,034	501,246	—	—	1,702,280	1,702,280
Stocks							
Common shares	—	91,378	203,170	—	—	294,548	294,548
Preferred shares	—	212,587	134,110	—	—	346,697	346,697
	—	303,965	337,280	—	—	641,245	641,245
Mutual funds							
Stocks	—	271,120	84,061	—	—	355,181	355,181
Mortgage loans							
Insured	—	—	—	198,242	—	198,242	202,835
Conventional	—	—	—	316,285	—	316,285	321,011
	—	—	—	514,527	—	514,527	523,846
Policy loans	—	—	—	32,954	—	32,954	32,954
Investment properties							
Held for investment	—	—	—	—	177,482	177,482	177,482
Other investments							
Personal loans	—	—	—	16,840	—	16,840	16,619
Other loans	—	—	—	34,754	—	34,754	34,765
Properties held for resale	—	—	—	—	1,722	1,722	1,722
Investments in a joint venture and associates	—	—	—	—	20,777	20,777	
Investments in private companies	—	—	—	—	520	520	
Investments in limited partnerships	—	24,233	16,806	—	5,945	46,984	46,984
	—	24,233	16,806	51,594	28,964	121,597	
	104,114	1,800,352	939,393	599,075	206,446	3,649,380	

4) INVESTMENTS [Cont'd]

Credit and concentration risks

The Mutual's management sets limits for each portfolio to ensure that the investment portfolios are diversified by asset class. Management monitors the actual positions and exposures for credit and concentration risks.

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

Bonds by credit quality

	Fair value			
	2014		2013	
Credit rating	$	%	$	%
AAA	**65,165**	**3.8**	115,925	6.8
AA	**353,510**	**20.6**	366,206	21.5
A	**1,233,734**	**72.0**	1,156,401	67.9
BBB	**60,825**	**3.6**	63,748	3.8
	1,713,234	**100.0**	1,702,280	100.0

The following tables show the breakdown of the corporate bond portfolio by sector.

Corporate bonds by sector

	2014			
	Designated at fair value through profit or loss $	Available-for-sale $	Total $	% of total
Energy	**27,742**	**4,992**	**32,734**	**6.2**
Industrials	**30,398**	**2,523**	**32,921**	**6.3**
Consumer staples and discretionary	**9,203**	**5,908**	**15,111**	**2.9**
Health care	**17,257**	**3,869**	**21,126**	**4.0**
Financials	**107,622**	**124,794**	**232,416**	**44.5**
Technology	**9,332**	**15**	**9,347**	**1.8**
Communications	**35,929**	**8,504**	**44,433**	**8.5**
Utilities	**101,361**	**4,706**	**106,067**	**20.3**
Other	**—**	**28,531**	**28,531**	**5.5**
	338,844	**183,842**	**522,686**	**100.0**

	2013			
	Designated at fair value through profit or loss $	Available-for-sale $	Total $	% of total
Energy	24,038	7,605	31,643	6.6
Industrials	35,394	8,694	44,088	9.1
Consumer staples and discretionary	7,164	4,894	12,058	2.5
Health care	15,579	2,216	17,795	3.7
Financials	113,738	103,805	217,543	45.1
Technology	6,090	163	6,253	1.3
Communications	36,904	11,604	48,508	10.0
Utilities	84,795	13,665	98,460	20.4
Other	—	6,221	6,221	1.3
	323,702	158,867	482,569	100.0

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

The following table discloses information regarding the quality of preferred shares.

Preferred shares by credit quality

	Fair value			
	2014		2013	
Credit rating	$	%	$	%
P1	**43,298**	**13.4**	42,745	12.3
P2	**280,794**	**86.6**	299,275	86.3
P3	**—**	**—**	4,677	1.4
	324,092	**100.0**	346,697	100.0

The life and health insurance companies mainly limit their investment in a company or group of related companies to 10% of all the corporate bonds, common shares and preferred shares. Mutual funds are excluded from this limit.

The property and casualty insurance companies limit their investments in the form of corporate bonds, preferred shares, common shares and mutual funds to $10,000 per issue, and a single issuer cannot represent more than 10% of all corporate bonds, preferred shares, common shares and mutual funds held.

The following table shows the breakdown of the stock portfolio by sector.

Stocks by sector

	2014			
	Common shares $	Preferred shares $	Total $	% of total
Energy	**89,958**	**40,473**	**130,431**	**20.0**
Materials	**28,500**	**—**	**28,500**	**4.3**
Industrials	**15,701**	**—**	**15,701**	**2.4**
Consumer staples and discretionary	**18,970**	**—**	**18,970**	**2.9**
Health care	**4,318**	**—**	**4,318**	**0.8**
Financials	**130,766**	**268,022**	**398,788**	**61.5**
Technology	**2,027**	**—**	**2,027**	**0.3**
Communications	**27,598**	**—**	**27,598**	**4.3**
Utilities	**6,858**	**15,597**	**22,455**	**3.5**
	324,696	**324,092**	**648,788**	**100.0**

	2013			
	Common shares $	Preferred shares $	Total $	% of total
Energy	88,946	35,685	124,631	19.4
Materials	30,074	—	30,074	4.7
Industrials	11,765	—	11,765	1.8
Consumer staples and discretionary	14,697	—	14,697	2.3
Health care	3,629	—	3,629	0.7
Financials	114,901	298,331	413,232	64.4
Technology	2,015	—	2,015	0.3
Communications	23,631	—	23,631	3.7
Utilities	4,890	12,681	17,571	2.7
	294,548	346,697	641,245	100.0

4) INVESTMENTS [Cont'd]

Credit and concentration risks [Cont'd]

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

Mortgage loans by property class

	2014			2013		
	Carrying amount $	Fair value $	CMHC secured $	Carrying amount $	Fair value $	CMHC secured $
Residential	**500,853**	**506,962**	**165,827**	461,825	470,470	165,785
Other	**48,301**	**48,285**	**17,009**	52,702	53,376	32,457
	549,154	**555,247**	**182,836**	514,527	523,846	198,242

The carrying amount of mortgage loans secured by the Canada Mortgage and Housing Corporation ("CMHC") represented 33.3% [2013: 38.5%] of the total carrying amount of the mortgage loan portfolio as at December 31, 2014.

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

Doubtful accounts

A loan is deemed impaired when the counterparty has failed to make a payment by the contractual due date. Doubtful accounts not impaired are detailed in the following tables.

	2014			
	30-59 days in arrears $	60-89 days in arrears $	90 days or more in arrears or in foreclosure $	Total $
Insured mortgage loans	**411**	**1,062**	**196**	**1,669**
Conventional mortgage loans	**953**	**319**	**149**	**1,421**
Personal loans	**17**	**75**	**40**	**132**
	1,381	**1,456**	**385**	**3,222**

	2013			
	30-59 days in arrears $	60-89 days in arrears $	90 days or more in arrears or in foreclosure $	Total $
Insured mortgage loans	433	168	1,429	2,030
Conventional mortgage loans	1,468	73	154	1,695
Personal loans	8	2	24	34
	1,909	243	1,607	3,759

Interest rate risk

The following tables indicate the maturity dates and overall average effective interest rate of the Mutual's investments.

Carrying amount

		Fixed rate					2014	
	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 $	Overall average effective interest rate %
Bonds								
Government of Canada	600	14,000	4,964	2,654	1,044	—	23,262	1.1
Provincial governments	—	8,924	91,701	247,079	790,775	—	1,138,479	2.9
Municipalities, school boards and hospitals	—	2,204	17,418	1,367	7,818	—	28,807	2.4
Corporate	141	14,565	139,033	78,357	290,590	—	522,686	3.2
	741	39,693	253,116	329,457	1,090,227	—	1,713,234	3.0
Stocks								
Preferred shares	4,408	109,361	136,324	11,526	—	62,473	324,092	4.5
Mortgage loans								
Insured	209	55,694	125,742	1,191	—	—	182,836	3.5
Conventional	36,085	86,834	232,247	11,152	—	—	366,318	3.4
	36,294	142,528	357,989	12,343	—	—	549,154	3.4
Policy loans	—	—	—	—	—	34,619	34,619	6.0
Other investments								
Personal loans	14,408	976	2,075	2,490	—	—	19,949	4.7
Other loans	609	8,260	36,507	3,934	1,969	530	51,809	3.3
	15,017	9,236	38,582	6,424	1,969	530	71,758	3.7
	56,460	300,818	786,011	359,750	1,092,196	97,622	2,692,857	3.3

		Fixed rate					2013	
	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 $	Overall average effective interest rate %
Bonds								
Government of Canada	—	13,515	52,129	18,136	21,931	—	105,711	1.8
Provincial governments	—	11,420	102,879	318,276	663,349	—	1,095,924	5.1
Municipalities, school boards and hospitals	—	160	1,890	1,700	6,551	—	10,301	4.0
Corporate	—	3,820	105,939	101,218	271,592	—	482,569	4.5
International	—	—	1,797	2,132	3,846	—	7,775	3.6
	—	28,915	264,634	441,462	967,269	—	1,702,280	4.7
Stocks								
Preferred shares	—	110,846	96,858	11,867	—	127,126	346,697	5.2
Mortgage loans								
Insured	200	56,023	138,327	2,230	1,462	—	198,242	3.9
Conventional	34,543	62,484	206,230	13,028	—	—	316,285	3.7
	34,743	118,507	344,557	15,258	1,462	—	514,527	3.8
Policy loans	—	—	—	—	—	32,954	32,954	6.0
Other investments								
Personal loans	14,401	215	1,018	1,206	—	—	16,840	4.3
Other loans	345	22	16,499	11,452	5,866	570	34,754	3.6
	14,746	237	17,517	12,658	5,866	570	51,594	3.9
	49,489	258,505	723,566	481,245	974,597	160,650	2,648,052	4.6

4) INVESTMENTS [Cont'd]

Securities lending

The Mutual engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. The asset custodian guarantees the replacement of loaned securities in the event of counterparty default. Moreover, collateral representing a minimum of 102% of the fair value of the loaned securities is pledged by the borrower and held in escrow by the asset custodian until the underlying securities have been returned to the Mutual. The fair value of loaned securities is monitored on a daily basis with additional collateral obtained or refunded as market values fluctuate. Accordingly, the Mutual benefits from two levels of protection in the event of default. As at December 31, 2014, the Mutual had loaned securities, which are included in investments, with a carrying amount of $121,849 [2013: $199,662].

Investment properties

	2014 $	2013 $
Balance as at January 1	**177,482**	180,512
Subsequent capital expenditures	**1,803**	880
Disposals	**(16,971)**	(40)
Change in fair value	**(318)**	(3,870)
Balance as at December 31	**161,996**	177,482

Investment properties are recorded at fair value as determined by independent external appraisers or Mutual personnel.

The fair value of investment properties was not determined using observable market inputs given the specific features of the properties and the lack of comparable data. To determine fair value, the Mutual used a valuation model applicable to the industry. The main assumptions used are as follows:

	2014	2013
Rate of return	**7.25% – 9.50%**	7.25% – 9.50%
Overall discount rate	**6.25% – 10.50%**	6.25% – 10.50%
Weighted average vacancy rate	**5.41%**	6.23%

Rental income from investment properties in the amount of $26,319 [2013: $25,635] is reported under investment income. The direct operating costs of investment properties generating rental income amounted to $16,542 for the year [2013: $14,750] and are reported under investment management fees.

Under an emphyteutic lease right to an investment property granted by a third party, the property will be surrendered without compensation to the third party at the end of the emphyteutic lease period, in December 2050. The asset related to the emphyteutic lease right had a carrying amount of $17,620 [2013: $17,845].

Other investments

Investments in a joint venture and associates

The Mutual has a 50% interest in joint venture Société Bon Pasteur s.e.n.c. whose principal place of business is located in Québec City. This joint venture manages two commercial and residential rental buildings.

Investments in associates consist of private placements in property and casualty insurance brokers.

The Mutual's net assets and share of net income in the joint venture and associates are disclosed below.

	2014 $	2013 $
Allocation of net assets		
Joint venture	**16,945**	15,871
Associates	**5,406**	4,906
	22,351	20,777
Allocation of the share of		
Net income of the joint venture	**1,350**	1,346
Net income of the associates	**587**	230
	1,937	1,576

On August 6, 1990, Société Bon Pasteur s.e.n.c. acquired emphyteutic lease rights, expiring on May 31, 2082, from a partner in respect of a real estate complex. As at December 31, 2014, annual lease payments amounted to $80 [2013: $80], payable until May 31, 2022. Subsequently, annual lease payments will be adjusted based on the value of the land at the time and the average yield of Québec long-term savings bonds. The total commitment for the 2015–2022 period is $593 [2014–2022: $673].

The fiscal year of the joint venture ends on December 31.

5) REINSURANCE ASSETS

To reduce the risk related to insurance claims and benefits, the insurance companies have entered into reinsurance agreements for policies whose insured and coverage amounts exceed certain maximums as well as reinsurance agreements enabling them to share certain risks with reinsurers on a pro rata basis. The insurance and reinsurance companies share insurance risks among themselves.

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

Reinsurance assets	2014 $	2013 $
Life and health insurance *[note 11]*	**218,429**	171,186
Property and casualty insurance *[note 12]*	**16,878**	29,700
	235,307	200,886

The following table shows the effect of external ceded reinsurance on the statement of income.

	Life and health insurance		Property and casualty insurance		Total	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Reduction in insurance and premiums acquired	**(55,583)**	(50,514)	**(28,908)**	(25,952)	**(84,491)**	(76,466)
Reduction (increase) in benefits and claims incurred	**29,994**	26,718	**(2,976)**	28,808	**27,018**	55,526
Changes in actuarial liabilities	**47,243**	19,229	**—**	—	**47,243**	19,229
Reduction in commissions	**11,872**	10,492	**2,159**	2,034	**14,031**	12,526
Favourable (unfavourable) effect before income taxes	**33,526**	5,925	**(29,725)**	4,890	**3,801**	10,815

Property and casualty reinsurance

The companies carried out reinsurance transactions in respect of new policies issued and policies renewed in fiscal 2014 and 2013, as well as the related claims incurred.

The following table shows the companies' net retentions and coverage limits by nature of risk.

	2014 $	2013 $
Single risk losses		
Net retentions:		
Property:		
– Personal insurance	**2,000**	2,250
– Commercial insurance	**2,000**	1,500
Civil liability	**2,250**	2,250
Multiple risk losses and catastrophes		
Net retentions	**7,500**	5,000
Coverage limits	**350,000**	350,000

6) OTHER FINANCIAL ASSETS AND OTHER ASSETS

	2014 $	2013 $
Other financial assets		
Retained interests – securitization *[note 10]*	**3,909**	3,679
Investment income receivable	**13,588**	11,738
Cash in trust	**3,840**	622
Due from reinsurers – life and health insurance segment	**13,777**	7,788
Due from reinsurers – property and casualty insurance segment	**8,950**	19,042
Subrogation *[note 12]*	**21,829**	23,016
Other receivables	**16,884**	24,078
Balance of sale price receivable	**3,003**	4,263
	85,780	94,226
Other assets		
Deferred premium acquisition costs	**52,193**	46,865
Prepaid expenses	**11,012**	17,998
Tax credits receivable	**4,725**	—
	67,930	64,863

Deferred premium acquisition costs

	2014 $	2013 $
Balance as at January 1	**46,865**	47,828
Addition	**100,005**	90,251
Amortization	**(94,677)**	(91,214)
Balance as at December 31	**52,193**	46,865

7) INCOME TAXES

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

	2014		2013	
	$	%	$	%
Income before income taxes	**88,990**		75,005	
Provision for income taxes based on the combined statutory federal and provincial rate	**23,938**	**26.9**	20,177	26.9
Change in income taxes resulting from the following:				
Non-taxable items	**(10,241)**	**(11.5)**	(9,360)	(12.5)
Prior year income tax expense (recovery)	**1,689**	**1.9**	(260)	(0.3)
Rate differential on loss carryback	**—**	**—**	(3,182)	(4.2)
Deferred tax adjustment related to the valuation method	**—**	**—**	1,695	2.2
Reversal of temporary differences related to an asset transfer	**(560)**	**(0.6)**	—	—
Unrecognized tax loss applied against current taxes	**(258)**	**(0.3)**	—	—
Other	**(4)**	**—**	(717)	(1.0)
	14,564	**16.4**	8,353	11.1
Income taxes on investment income	**1,334**	**1.5**	1,431	1.9
Income taxes and effective rates	**15,898**	**17.9**	9,784	13.0

The income tax expense reported in the statement of income is calculated as follows:

	2014 $	2013 $
Current	**14,645**	5,532
Deferred	**1,253**	4,252
	15,898	9,784

	2014 $	2013 $
Income tax expense reported in the statement of income attributable to:		
Members of the Mutual	**6,075**	(1,059)
Participating policyholders	**6,244**	10,138
Non-controlling interests	**3,579**	705
	15,898	9,784

	2014 $	2013 $
Total income tax expense (recovery) reported in other comprehensive income		
Current taxes (recovery)	**(2,525)**	(2,270)
Deferred taxes (recovery)	**(9,233)**	8,328
	(11,758)	6,058

	2014 $	2013 $
Income tax expense (recovery) reported in other comprehensive income attributable to:		
Members of the Mutual	**(10,339)**	5,063
Participating policyholders	**(180)**	1,132
Non-controlling interests	**(1,239)**	(137)
	(11,758)	6,058

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

	2014 $	2013 $
Deferred tax asset		
Actuarial liabilities	**25,566**	21,249
Provision for claims and loss adjustment expenses	**3,749**	3,725
Other liabilities	**9,706**	12,352
Employee future benefits	**25,946**	14,473
Unused tax losses	**2,528**	3,673
Other	**3,118**	4,556
	70,613	60,028
Deferred tax liability		
Policy loans	**9,285**	8,847
Investment properties	**14,051**	14,876
Investment in a joint venture	**3,773**	3,592
Intangible assets	**11,203**	9,809
Deferred net tax gains	**8,000**	9,163
Other	**13,770**	11,190
	60,082	57,477
Deferred net tax asset	**10,531**	2,551
Reported as:		
Deferred tax asset	**27,259**	26,452
Deferred tax liability	**16,728**	23,901

The Mutual has accumulated tax losses from the operations of a subsidiary amounting to $15,391 that can be used to offset future taxes payable. The accumulated tax losses will expire between 2019 and 2033.

The deferred income tax asset related to the recovery of tax losses has not been accounted for by the Mutual as it is not probable that the subsidiary will have future taxable income against which the accumulated tax losses can be used.

8) PROPERTY AND EQUIPMENT

Cost

	Land $	Own-use properties $	Furniture and other $	Computer hardware $	Leasehold improvements $	Total $
Balance as at January 1, 2013	11,397	130,409	22,832	43,118	8,971	216,727
Purchases	(19)	(2,542)	1,386	3,976	124	2,925
Disposals	—	(760)	(892)	(869)	(3,148)	(5,669)
Balance as at December 31, 2013	11,378	127,107	23,326	46,225	5,947	213,983
Purchases	**—**	**165**	**530**	**2,974**	**565**	**4,234**
Disposals	**—**	**—**	**(794)**	**(567)**	**(246)**	**(1,607)**
Balance as at December 31, 2014	**11,378**	**127,272**	**23,062**	**48,632**	**6,266**	**216,610**

Accumulated amortization

	Land $	Own-use properties $	Furniture and other $	Computer hardware $	Leasehold improvements $	Total $
Balance as at January 1, 2013		2,409	15,500	34,983	6,362	59,254
Amortization		2,335	926	4,187	646	8,094
Disposals		(760)	(742)	(809)	(3,020)	(5,331)
Balance as at December 31, 2013		3,984	15,684	38,361	3,988	62,017
Amortization		**2,428**	**952**	**3,998**	**589**	**7,967**
Disposals		**—**	**(620)**	**(567)**	**(245)**	**(1,432)**
Balance as at December 31, 2014		**6,412**	**16,016**	**41,792**	**4,332**	**68,552**

Net carrying amount

	Land $	Own-use properties $	Furniture and other $	Computer hardware $	Leasehold improvements $	Total $
December 31, 2014	**11,378**	**120,860**	**7,046**	**6,840**	**1,934**	**148,058**
December 31, 2013	11,378	123,123	7,642	7,864	1,959	151,966

9) INTANGIBLE ASSETS AND GOODWILL

Intangible assets

Intangible assets are detailed as follows:

Cost

	Indefinite useful life	Finite useful life				
	Trademarks $	Clients and distribution networks $	Purchased software $	Internally developed software $	Software under development $	Total $
Balance as at January 1, 2013	3,239	45,037	21,937	24,320	32,673	127,206
Purchases	—	1,722	1,952	733	9,897	14,304
Internally developed software	—	—	—	—	8,074	8,074
Disposals	—	(9,904)	(366)	(32)	—	(10,302)
Transfer of software under development to purchased and internally developed software	—	—	960	1,434	(2,394)	—
Balance as at December 31, 2013	3,239	36,855	24,483	26,455	48,250	139,282
Purchases	**9,400**	**3,000**	**4,170**	**281**	**12,123**	**28,974**
Internally developed software	**—**	**—**	**—**	**—**	**10,428**	**10,428**
Disposals	**—**	**—**	**—**	**(153)**	**—**	**(153)**
Transfer of software under development to purchased and internally developed software	**—**	**—**	**4,857**	**12,869**	**(17,726)**	**—**
Balance as at December 31, 2014	**12,639**	**39,855**	**33,510**	**39,452**	**53,075**	**178,531**

Accumulated amortization

	Indefinite useful life	Finite useful life				
	Trademarks $	Clients and distribution networks $	Purchased software $	Internally developed software $	Software under development $	Total $
Balance as at January 1, 2013	—	31,879	11,869	15,117	—	58,865
Amortization	—	3,980	1,897	1,411	—	7,288
Disposals	—	(8,025)	(277)	(30)	—	(8,332)
Balance as at December 31, 2013	—	27,834	13,489	16,498	—	57,821
Amortization	**—**	**3,554**	**2,604**	**1,909**	**—**	**8,067**
Disposals	**—**	**—**	**—**	**(153)**	**—**	**(153)**
Balance as at December 31, 2014	**—**	**31,388**	**16,093**	**18,254**	**—**	**65,735**

Net carrying amount

	Trademarks $	Clients and distribution networks $	Purchased software $	Internally developed software $	Software under development $	Total $
December 31, 2014	**12,639**	**8,467**	**17,417**	**21,198**	**53,075**	**112,796**
December 31, 2013	3,239	9,021	10,994	9,957	48,250	81,461

Goodwill

The carrying amount of goodwill is allocated as follows:

	2014 $	2013 $
Balance as at January 1	**92,733**	101,140
Disposal following business disposition	**—**	(8,407)
Business acquisition	**9,839**	—
Balance as at December 31	**102,572**	92,733

Impairment test

The Mutual tests goodwill and trademarks for impairment annually. Testing was performed on September 30, 2014.

The following table shows the goodwill and trademarks by CGU and the significant asset valuation assumptions used.

			Assumptions	
	Goodwill $	Trademarks $	Pre-tax discount rate %	Terminal value growth rate %
Life and health insurance				
December 31, 2014	**57,315**	**10,739**	**13.3**	**4.0**
December 31, 2013	47,476	1,339	12.2	4.0
Property and casualty insurance				
December 31, 2014	**45,257**	**1,900**	**12.5**	**4.0**
December 31, 2013	45,257	1,900	12.6	4.0
Total				
December 31, 2014	**102,572**	**12,639**		
December 31, 2013	92,733	3,239		

The recoverable amount of each CGU is based on value in use. The Mutual has used an actuarial valuation method for impairment testing purposes. Under this method, the value is determined using results expected to be realized in the future. Future results are derived from the budgets and a financial plan approved by management covering a five-year period. Management has based its projects on an in-depth analysis of markets and projects under implementation in each CGU. Accordingly, this value reflects the economic value of the potential earnings of each CGU under certain assumptions. The main assumptions used are terminal value growth rate and the pre-tax discount rate. The model also relies on other assumptions such as the revenue growth rate, the inflation rate for expenses, new product marketing, operational synergies. As the impairment tests indicated that the recoverable amounts of the CGUs exceeded their carrying amounts, no impairment loss on goodwill or intangible assets was recognized for the year ended December 31, 2014.

Furthermore, management believes that a 1% change in a key assumption used to determine a recoverable amount would have no impact on the impairment of goodwill and trademarks.

10) SECURITIZATION

During the year, the Mutual securitized residential mortgage loans. The following table shows aggregate balances related to securitization.

	2014 $	2013 $
Retained interests reported within other assets		
NHA MBS	**3,909**	3,679
Securitized and derecognized mortgage loans		
NHA MBS	**280,236**	242,444
Derecognized mortgage bonds in trust		
NHA MBS	**279,936**	242,202
Mortgage loans over 90 days past due secured by CMHC		
NHA MBS	**600**	—

Securitization transactions

	2014 NHA MBS $	2013 NHA MBS $
Proceeds from new securitization transactions	**94,825**	111,585
Discounts related to transactions	**(222)**	(151)
Net proceeds	**94,603**	111,434
Pre-tax gains	**644**	337
Cash flows from retained interests in securitization operations and related financial instruments	**2,491**	2,512
Net results from all securitization operations	**1,446**	640

Key assumptions

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

	2014 %	2013 %
Prepayment rate	**22.0**	22.7
Excess spread	**1.4**	1.5
Discount rate	**2.0**	1.6

As at December 31, 2014, the sensitivity of the current fair value of retained interests to 10% and 20% adverse changes in the key assumptions was as follows:

Sensitivity of key assumptions to adverse changes

	2014		2013	
	Assumption %	Impact on fair value $	Assumption %	Impact on fair value $
Prepayment rate				
Impact on fair value of 10% adverse change	**24.2**	**(149)**	24.9	(153)
Impact on fair value of 20% adverse change	**26.4**	**(294)**	27.2	(300)
Excess spread (net of credit losses)				
Impact on fair value of 10% adverse change	**1.2**	**(419)**	1.3	(393)
Impact on fair value of 20% adverse change	**1.1**	**(769)**	1.2	(720)
Discount rate				
Impact on fair value of 10% adverse change	**2.2**	**(13)**	1.7	(10)
Impact on fair value of 20% adverse change	**2.4**	**(27)**	1.9	(21)

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

11) LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

The Boards of Directors name the Appointed Actuary, who is responsible for the valuation of life and health insurance contract liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries and for expressing an opinion regarding their adequacy to meet all policyholder obligations at the statement of financial position date. In addition, the Appointed Actuary is required each year to prepare a report for the Boards of Directors on the capital adequacy of the life and health insurance companies.

The assets backing life and health insurance policy liabilities are detailed as follows:

	2014 $	2013 $
Actuarial liabilities	**3,113,320**	2,642,841
Provisions for benefits incurred	**43,568**	38,326
Provisions for experience rating refunds	**24,787**	22,495
Policyholder amounts on deposit	**81,689**	65,962
	3,263,364	2,769,624

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

	2014				
Life and health insurance contract liabilities	Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	**774,925**	**717,734**	**1,492,659**	**120,098**	**1,372,561**
Annuities	**1,132**	**1,152,285**	**1,153,417**	**—**	**1,153,417**
Group					
Life and health insurance	**—**	**612,209**	**612,209**	**98,331**	**513,878**
Annuities	**—**	**5,079**	**5,079**	**—**	**5,079**
	776,057	**2,487,307**	**3,263,364**	**218,429**	**3,044,935**

	2013				
	Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	684,743	608,590	1,293,333	90,731	1,202,602
Annuities	1,180	945,157	946,337	—	946,337
Group					
Life and health insurance	—	525,362	525,362	80,455	444,907
Annuities	—	4,592	4,592	—	4,592
	685,923	2,083,701	2,769,624	171,186	2,598,438

11) LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES [Cont'd]

	2014				
	Individual		Group		
Assets backing life and health insurance contract liabilities	Life and health insurance $	Annuities $	Life and health insurance $	Annuities $	Total $
Participating					
Bonds	578,779	838	—	—	579,617
Mutual funds	8,031	12	—	—	8,043
Policy loans	31,494	46	—	—	31,540
Investment properties	68,983	99	—	—	69,082
Own-use properties and land	86,188	125	—	—	86,313
Other	8,352	12	—	—	8,364
	781,827	1,132	—	—	782,959
Non-participating					
Bonds	457,136	133,971	162,598	1,613	755,318
Stocks	24,060	194,203	68,012	674	286,949
Mutual funds	1,779	440,529	11,663	116	454,087
Mortgage loans	1,739	300,690	139,430	1,383	443,242
Policy loans	2,922	—	—	—	2,922
Investment properties	37,185	14,917	—	—	52,102
Own-use properties and land	8,745	86	—	—	8,831
Other	57,168	67,889	132,175	1,293	258,525
	590,734	1,152,285	513,878	5,079	2,261,976
	1,372,561	1,153,417	513,878	5,079	3,044,935
Reinsurance ceded	120,098	—	98,331	—	218,429
Total before reinsurance ceded	1,492,659	1,153,417	612,209	5,079	3,263,364

	2013				
	Individual		Group		
	Life and health insurance $	Annuities $	Life and health insurance $	Annuities $	Total $
Participating					
Bonds	464,856	778	—	—	465,634
Mutual funds	16,526	29	—	—	16,555
Policy loans	30,071	53	—	—	30,124
Investment properties	84,820	151	—	—	84,971
Own-use properties and land	87,681	155	—	—	87,836
Other	7,895	14	—	—	7,909
	691,849	1,180	—	—	693,029
Non-participating					
Bonds	423,967	129,111	125,412	1,283	679,773
Stocks	24,419	214,121	63,917	654	303,111
Mutual funds	3,735	246,871	—	—	250,606
Mortgage loans	404	279,855	137,570	1,408	419,237
Policy loans	2,680	—	—	—	2,680
Investment properties	37,316	14,686	—	—	52,002
Own-use properties and land	9,035	90	—	—	9,125
Other	9,197	60,423	118,008	1,247	188,875
	510,753	945,157	444,907	4,592	1,905,409
	1,202,602	946,337	444,907	4,592	2,598,438
Reinsurance ceded	90,731	—	80,455	—	171,186
Total before reinsurance ceded	1,293,333	946,337	525,362	4,592	2,769,624

The estimated fair value of the assets backing liabilities before reinsurance ceded was $3,050,484 [2013: $2,605,001].

ASSUMPTIONS

In computing 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 taxes, 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 risks incurred by the life and health insurance companies to determine the final assumptions used. Those that prove most likely depending on various possibilities are used.

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.

A 2% increase in mortality for all insureds of the life and health insurance companies would result in an increase in life and health insurance contract liabilities and a decrease in net income of the life and health insurance companies amounting to $3,503 [2013: $3,000]. A 2% reduction in mortality for all insureds of the life and health insurance companies would result in a decrease in life and health insurance contract liabilities and an increase in net income of the life and health insurance companies amounting to $3,500 [2013: $2,964].

Morbidity

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

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

A 5% increase in the incidence of morbidity and a decrease in termination rates would result in an increase in life and health insurance contract liabilities and a decrease in net income for the life and health insurance companies amounting to $34,178 [2013: $24,001]. A 5% decrease in the incidence of morbidity and an increase in termination rates would result in an decrease in life and health insurance contract liabilities and an increase in net income for the life and health insurance companies amounting to $30,375 [2013: $21,390].

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. Given the economic outlook as at December 31, 2014, the yield curve by duration of Canadian Treasury bills ranges from 0.9% to 2.3% [2013: 0.9% to 3.3%].

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.

An immediate 1% decline over the entire yield curve would result in a $32,820 [2013: $22,511] decrease in net income. An immediate 1% rise over the entire yield curve would result in a $32,482 [2013: $22,566] increase in net income.

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 to inflation for future years.

A 5% increase in contract management expenses would result in a $9,032 [2013: $7,057] decrease in net income.

11) LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES [Cont'd]

ASSUMPTIONS [Cont'd]

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. Actuarial liabilities as at December 31, 2014 were reduced by $10,499 [2013: $11,000] as a result of the impact of this discounting, which is carried out only for deferred tax liabilities related to life and health insurance contract liabilities.

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.

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

A 10% deterioration in policy lapse assumptions would result in a $23,489 [2013: $16,962] decrease in net income.

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.

CHANGES IN NET ACTUARIAL LIABILITIES

	2014 $	2013 $
Balance, beginning of year	**2,471,655**	2,400,923
Change due		
To the passing of time	**39,943**	76,034
To new business	**212,034**	149,892
To changes in assumptions and policies	**171,259**	(155,194)
	423,236	70,732
Balance, end of year	**2,894,891**	2,471,655
Gross actuarial provisions	**3,113,320**	2,642,841
Reinsurance assets *[note 5]*	**218,429**	171,186
Net actuarial liabilities	**2,894,891**	2,471,655

The key changes made to actuarial assumptions are detailed as follows:

	2014 $	2013 $
Mortality	**(5,527)**	(6,661)
Return on investments	**159,665**	(157,743)
Methods and other	**17,121**	9,210
	171,259	(155,194)

In 2014, the main changes made to actuarial assumptions and methods concern economic assumptions, including the change in fair value of assets.

12) PROPERTY AND CASUALTY INSURANCE CONTRACT LIABILITIES

Actuarial liabilities are established to reflect estimated total property and casualty insurance contract liabilities as at the consolidated statement of financial position date, including claims incurred but not reported. The ultimate cost of these liabilities will vary from the best estimate for a variety of reasons, including obtaining additional information with respect to the facts and circumstances of the claims incurred. There was no premium deficiency as at the consolidated statement of financial position date.

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

	2014 $	2013 $
Unearned premiums	**645,791**	593,075
Provision for claims and loss adjustment expenses	**313,429**	325,710
	959,220	918,785

Unearned premiums

The following table details unearned premiums per business line.

	2014		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Personal insurance			
Automobile:			
Civil liability	**144,488**	**—**	**144,488**
Accident	**15,272**	**—**	**15,272**
Other	**223,402**	**—**	**223,402**
Property and civil liability	**174,003**	**—**	**174,003**
Other	**3,777**	**—**	**3,777**
	560,942	**—**	**560,942**
Commercial insurance			
Automobile:			
Civil liability	**8,650**	**—**	**8,650**
Accident	**1,636**	**—**	**1,636**
Other	**7,087**	**—**	**7,087**
Property and civil liability	**61,560**	**2,105**	**59,455**
Other	**5,916**	**1,832**	**4,084**
	84,849	**3,937**	**80,912**
Balance, end of year	**645,791**	**3,937**	**641,854**

	2013		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Personal insurance			
Automobile:			
Civil liability	134,086	—	134,086
Accident	15,623	—	15,623
Other	207,047	—	207,047
Property and civil liability	153,337	—	153,337
Other	3,589	—	3,589
	513,682	—	513,682
Commercial insurance			
Automobile:			
Civil liability	7,679	—	7,679
Accident	1,533	—	1,533
Other	6,113	—	6,113
Property and civil liability	50,507	1,742	48,765
Other	13,561	2,270	11,291
	79,393	4,012	75,381
Balance, end of year	593,075	4,012	589,063

12) PROPERTY AND CASUALTY INSURANCE CONTRACT LIABILITIES [Cont'd]

Changes in unearned premiums

	2014		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	**593,075**	**4,012**	**589,063**
Premiums written during the year	**885,365**	**28,833**	**856,532**
Premiums earned during the year	**(832,649)**	**(28,908)**	**(803,741)**
Balance, end of year	**645,791**	**3,937**	**641,854**

	2013		
	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	533,441	3,833	529,608
Premiums written during the year	840,802	26,131	814,671
Premiums earned during the year	(781,168)	(25,952)	(755,216)
Balance, end of year	593,075	4,012	589,063

Provision for claims and loss adjustment expenses

The provision for claims and loss adjustment expenses is detailed as follows:

Provision for claims and loss adjustment expenses	2014 $	2013 $
Gross provision for claims and loss adjustment expenses	**291,600**	302,694
Subrogation *[note 6]*	**21,829**	23,016
	313,429	325,710

The following table details the gross provision for claims including assumed reinsurance, net provision for claims and loss adjustment expenses (net of subrogation) by business line.

	2014		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Personal insurance			
Automobile:			
Civil liability	**86,133**	**511**	**85,622**
Accident	**42,236**	**1,814**	**40,422**
Other	**24,927**	**—**	**24,927**
Property and civil liability	**55,032**	**136**	**54,896**
Other	**1,807**	**—**	**1,807**
	210,135	**2,461**	**207,674**
Commercial insurance			
Automobile:			
Civil liability	**12,512**	**—**	**12,512**
Accident	**4,185**	**—**	**4,185**
Other	**867**	**34**	**833**
Property and civil liability	**50,677**	**756**	**49,921**
Other	**13,224**	**9,690**	**3,534**
	81,465	**10,480**	**70,985**
Balance, end of year	**291,600**	**12,941**	**278,659**

	2013		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Personal insurance			
Automobile:			
Civil liability	92,848	1,916	90,932
Accident	46,683	4,236	42,447
Other	25,613	1	25,612
Property and civil liability	56,566	4,640	51,926
Other	2,060	—	2,060
	223,770	10,793	212,977
Commercial insurance			
Automobile:			
Civil liability	10,859	—	10,859
Accident	4,163	—	4,163
Other	686	36	650
Property and civil liability	42,928	549	42,379
Other	20,288	14,310	5,978
	78,924	14,895	64,029
Balance, end of year	302,694	25,688	277,006

Reinsurance assets are detailed as follows:

Reinsurance ceded	**2014 $**	2013 $
Unearned premiums	**3,937**	4,012
Provision for claims and loss adjustment expenses	**12,941**	25,688
	16,878	29,700

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 property and casualty insurance companies for the year.

	2014		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	**302,694**	**25,688**	**277,006**
Current year claims	**474,938**	**4,628**	**470,310**
Prior year unfavourable (favourable) claims development	**37,045**	**(7,850)**	**44,895**
Increase due to changes in discount rate	**947**	**246**	**701**
Total claims incurred	**512,930**	**(2,976)**	**515,906**
Claims paid	**524,024**	**9,771**	**514,253**
Balance, end of year	**291,600**	**12,941**	**278,659**

12) PROPERTY AND CASUALTY INSURANCE CONTRACT LIABILITIES [Cont'd]

Changes in provision for claims and loss adjustment expenses [Cont'd]

	2013		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	285,072	23,409	261,663
Current year claims	490,934	12,100	478,834
Prior year unfavourable claims development	26,419	16,414	10,005
(Decrease) increase due to changes in discount rate	(15)	294	(309)
Total claims incurred	517,338	28,808	488,530
Claims paid	499,716	26,529	473,187
Balance, end of year	302,694	25,688	277,006

Effect of time value of money and provision for adverse deviation

The following table shows the effect of the time value of money and the provision for adverse deviation on the carrying amount of the net provision for claims and loss adjustment expenses.

	2014		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Undiscounted value	**282,308**	**13,003**	**269,305**
Effect of time value of money using a rate of 3.9%	**(15,724)**	**(693)**	**(15,031)**
Provision for adverse deviations	**25,016**	**631**	**24,385**
Carrying amount	**291,600**	**12,941**	**278,659**

	2013		
	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Undiscounted value	294,347	25,996	268,351
Effect of time value of money using a rate of 4.0%	(16,435)	(1,309)	(15,126)
Provision for adverse deviations	24,782	1,001	23,781
Carrying amount	302,694	25,688	277,006

Since the time value of money is considered when determining the provision for claims and loss adjustment expenses, an increase or decrease in the discount rate would result in a decrease or increase in the provision for claims and loss adjustment expenses, respectively. A 1% decrease in the discount rate would have a $4,142 impact [2013: $4,552] on the fair value of the provision for claims and loss adjustment expenses and on net income as at December 31, 2014.

The following table shows estimated cumulative gross claims and loss settlement expenses incurred in the past eight accident years and the subsequent changes during the years, as well as current cumulative payments. The estimates of the initial provision are assessed to determine whether there is an excess or deficiency.

Gross claims development

	Accident year								
	2007 and prior $	2008[1] $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	Total $
Estimated amount of undiscounted claims and loss adjustment expenses before external reinsurance, net of subrogation									
At end of accident year	278,151	477,996	365,529	407,719	401,862	398,892	467,411	473,611	
Revised estimates									
1 year later	277,213	498,322	373,300	395,484	399,260	402,347	458,654		
2 years later	277,380	505,753	377,671	398,419	401,496	404,537			
3 years later	274,936	512,732	377,504	398,215	400,785				
4 years later	276,641	514,065	378,256	400,069					
5 years later	279,481	515,822	377,985						
6 years later	278,728	515,766							
7 years later	277,961								
Current estimates	**277,961**	**515,766**	**377,985**	**400,069**	**400,785**	**404,537**	**458,654**	**473,611**	**3,309,368**
Claims paid during prior periods									
At end of accident year	213,714	269,616	263,633	267,904	287,935	289,669	331,715	345,019	
1 year later	256,549	381,338	335,066	348,650	357,135	372,029	418,536		
2 years later	262,629	420,852	351,431	360,306	367,731	380,485			
3 years later	266,330	452,368	359,332	371,719	376,492				
4 years later	268,547	473,464	366,448	381,556					
5 years later	269,311	487,779	370,273						
6 years later	270,355	499,795							
7 years later	274,315								
Current cumulative payments	**274,315**	**499,795**	**370,273**	**381,556**	**376,492**	**380,485**	**418,536**	**345,019**	**3,046,471**
Undiscounted provision for claims and loss adjustment expenses before external reinsurance	**3,646**	**15,971**	**7,712**	**18,513**	**24,293**	**24,052**	**40,118**	**128,592**	**262,897**
Provision for internal expenses and risk pooling arrangement									19,411
Effect of time value of money and provision for adverse deviation									9,292
Gross provision for claims and loss adjustment expenses									**291,600**

Excess (insufficiency) of initial provision relative to re-estimated final cost as at December 31, 2014

Amount	190	(37,770)	(12,456)	7,650	1,077	(5,645)	8,757	
Percentage	0.1%	(7.9)%	(3.4)%	1.9%	0.3%	(1.4)%	1.9%	

The amounts relating to Unica Insurance Inc. are included as of its acquisition by La Capitale General Insurance Inc. on September 30, 2008.

1. The operations of Unica Insurance Inc. were integrated into a subsidiary of the Mutual in September 2008. The total liability for net claims include an amount of $174,677 for all accident years related to Unica Insurance Inc.

12) PROPERTY AND CASUALTY INSURANCE CONTRACT LIABILITIES [Cont'd]

The following table shows estimated cumulative net claims and loss settlement expenses incurred in the past eight accident years and the subsequent changes during the years, as well as current cumulative payments. The estimates of the initial provision are assessed to determine whether there is an excess or deficiency.

Net claims development

	Accident year								
	2007 and prior $	2008[1] $	2009 $	2010 $	2011 $	2012 $	2013 $	2014 $	Total $
Estimated amount of undiscounted claims and loss adjustment expenses after external reinsurance									
At end of accident year	273,853	464,245	363,222	397,328	390,459	381,790	449,581	468,986	
Revised estimates									
1 year later	273,043	483,402	366,331	383,993	385,332	374,527	445,903		
2 years later	273,227	489,671	368,745	386,572	388,418	377,833			
3 years later	270,705	497,703	367,242	385,922	389,086				
4 years later	272,477	500,668	367,651	387,703					
5 years later	272,459	501,986	368,688						
6 years later	271,943	502,698							
7 years later	271,937								
Current estimates	**271,937**	**502,698**	**368,688**	**387,703**	**389,086**	**377,833**	**445,903**	**468,986**	**3,212,834**
Claims paid during prior periods									
At end of accident year	212,644	264,422	259,014	265,656	283,078	280,553	324,488	343,580	
1 year later	255,729	370,686	327,561	339,322	347,473	346,699	409,774		
2 years later	261,820	409,055	342,001	350,193	358,057	354,676			
3 years later	265,418	440,752	351,228	360,923	366,714				
4 years later	267,608	461,678	357,988	371,035					
5 years later	268,402	475,458	361,335						
6 years later	268,153	487,301							
7 years later	268,389								
Current cumulative payments	**268,389**	**487,301**	**361,335**	**371,035**	**366,714**	**354,676**	**409,774**	**343,580**	**2,962,804**
Undiscounted provision for claims and loss adjustment expenses after external reinsurance	**3,548**	**15,397**	**7,353**	**16,668**	**22,372**	**23,157**	**36,129**	**125,406**	**250,030**
Provision for internal expenses and risk pooling arrangement									19,275
Effect of time value of money and provision for adverse deviation									9,354
Net provision for claims and loss adjustment expenses									**278,659**
Excess (insufficiency) of initial provision relative to re-estimated final cost as at December 31, 2014									
Amount	1,916	(38,453)	(5,466)	9,625	1,373	3,957	3,678		
Percentage	0.7%	(8.3)%	(1.5)%	2.4%	0.4%	1.0%	0.8%		

The amounts relating to Unica Insurance Inc. are included as of its acquisition by La Capitale General Insurance Inc. on September 30, 2008.

1. The operations of Unica Insurance Inc. were integrated into a subsidiary of the Mutual in September 2008. The total liability for net claims include an amount of $166,766 for all accident years related to Unica Insurance Inc.

13) OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES

	2014 $	2013 $
Other financial liabilities		
Accrued liabilities	**114,706**	118,991
Other amounts on deposit	**85,515**	66,809
Loyalty, stabilization and development fund	**39,523**	51,643
Bank overdraft	**8,336**	7,854
Deposits for taxes	**3,959**	4,117
Due to reinsurers – life and health insurance segment	**14,941**	8,327
Due to reinsurers – property and casualty insurance segment	**1,127**	542
Deposits in trust	**3,840**	622
Liabilities related to derivative financial instruments *[note 17]*	**—**	277
Other	**2,136**	92
	274,083	259,274
Other liabilities		
Stock appreciation rights plan payable	**10,919**	11,830
Deferred revenues	**1,243**	1,111
	12,162	12,941

The Mutual offers a stock appreciation rights plan to certain officers. Under this plan, participants are entitled to receive cash compensation based on the increase in value of the shares of La Capitale Financial Group Inc. relative to the initial value as defined under the plan. The rights must be exercised when participants leave the position, which renders them eligible for the plan. The accumulated amounts are payable under terms that vary according to the participant's departure type (transfer, retirement, permanent disability, death or voluntary termination) over a maximum term of four years following the year of departure or at the end of the quarter following departure.

Plan expense for the year amounted to $1,376 [2013: $2,255].

The fair value of stock appreciation rights is estimated at the grant dates using the Black-Scholes method. The model uses the following key assumptions:

	2014	2013
Risk-free interest rate	**1.7%**	2.5%
Expected volatility of dividend yield	**6.4%**	6.6%
Average expected life of rights	**7.6 years**	8.4 years

14) EMPLOYEE FUTURE BENEFITS

The Mutual has four defined benefit plans providing pension benefits to most of its employees as well as defined contribution plans.

The defined benefit plans are based on years of service and use final average earnings or annually indexed pension credits. Pension benefits are increased based on the consumer price index up to a maximum of 3% each year. 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 Mutual has additional unfunded plans for senior management.

The defined contribution plans were set up in 2002 and 2011. Current-year expense for these plans totalled $1,207 [2013: $1,009].

Other future benefits include retirees' contributory health insurance plans for which employee contributions are adjusted annually, life insurance plans and celebration costs and retirements. These plans are unfunded.

14) EMPLOYEE FUTURE BENEFITS [Cont'd]

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

	Pension plans		Other future benefits	
	2014 $	2013 $	2014 $	2013 $
Defined benefit obligation				
Balance, beginning of year	**405,028**	379,754	**20,300**	18,350
Employee contributions	**10,185**	9,430	**—**	—
Current service costs	**16,189**	16,453	**1,719**	1,675
Transfers	**473**	—	**—**	—
Financial cost	**19,634**	17,422	**1,074**	893
Actuarial (gains) losses arising from plan experience	**(2,217)**	4,231	**(3)**	17
Actuarial losses arising from changes in demographic assumptions	**5,109**	24,171	**48**	955
Actuarial losses (gains) arising from changes in financial assumptions	**76,026**	(33,434)	**2,796**	(1,246)
Benefits paid	**(10,443)**	(12,999)	**(322)**	(344)
Impact of changes in assumptions	**(14)**	—	**—**	—
Balance, end of year	**519,970**	405,028	**25,612**	20,300

The defined benefit obligation is detailed as follows:

	Pension plans		Other future benefits	
	2014 $	2013 $	2014 $	2013 $
Funded plans	**509,939**	397,207	**—**	—
Unfunded plans	**10,031**	7,821	**25,612**	20,300
	519,970	405,028	**25,612**	20,300

	Pension plans		Other future benefits	
	2014 $	2013 $	2014 $	2013 $
Net assets				
Fair value, beginning of year	**373,176**	308,871	**—**	—
Actual return on plan assets	**63,716**	39,780	**—**	—
Employer contributions	**16,239**	28,094	**322**	344
Employee contributions	**10,185**	9,430	**—**	—
Transfers	**473**	—	**—**	—
Benefits paid	**(10,443)**	(12,999)	**(322)**	(344)
Fair value, end of year	**453,346**	373,176	**—**	—

	Pension plans		Other future benefits	
	2014 $	2013 $	2014 $	2013 $
Funded status – deficit	**66,624**	31,852	**25,612**	20,300
Impact on asset value	**109**	179	**—**	—
Net defined benefit liability	**66,733**	32,031	**25,612**	20,300

Pension plan assets were measured as at December 31, 2014 and accrued defined benefit obligations were measured as at December 31, 2013 and projected to December 31, 2014.

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

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

	Pension plans	
	2014 %	2013 %
Asset classes		
Stocks	**2.7**	3.0
Bonds	**34.5**	30.7
Mutual funds	**52.4**	62.8
Investment in a private company	**9.8**	2.6
Other	**0.6**	0.9
	100.0	100.0

Stocks are quoted in an active market and are classified as Level 1. Fair values of bonds are determined using market bid prices and are classified as Level 2. Equity mutual funds are quoted in an active market and are classified as Level 1, while bond and other mutual funds are valued based on observable inputs and are classified as Level 2. The investment in a private company is valued using inputs that are not based on observable market data and is classified as Level 3.

The pension plan investment policy calls for a portfolio structure diversified by investment category and economic sector. The following table shows the allocation by economic sector for each asset class.

	2014				2013			
	Stocks %	Bonds %	Mutual funds %	Investment in a private company %	Stocks %	Bonds %	Mutual funds %	Investment in a private company %
Governments, municipalities, school boards and hospitals	**—**	**36.6**	**—**	**—**	—	39.5	4.5	—
Communications	**8.4**	**3.9**	**5.0**	**—**	8.8	4.4	5.4	—
Consumer discretionary	**7.8**	**0.1**	**13.4**	**—**	6.9	0.1	12.2	—
Consumer staples	**8.3**	**3.6**	**12.1**	**—**	10.8	3.4	15.5	—
Energy	**9.7**	**3.2**	**10.2**	**—**	12.9	4.1	11.9	—
Real estate	**—**	**—**	**—**	**75.6**	—	—	—	—
Infrastructure	**—**	**—**	**—**	**23.7**	—	—	—	100.0
Manufacturing	**6.9**	**3.0**	**11.4**	**—**	5.8	3.7	9.6	—
Materials	**8.1**	**—**	**5.8**	**—**	10.1	—	6.2	—
Financials	**31.5**	**11.1**	**21.2**	**—**	29.4	11.5	21.0	—
Utilities	**6.5**	**38.3**	**14.0**	**—**	3.8	33.2	7.0	—
Technology	**12.8**	**—**	**6.9**	**0.7**	11.5	—	6.7	—
Mortgage-backed securities	**—**	**0.2**	**—**	**—**	—	—	—	—
Other	**—**	**—**	**—**	**—**	—	0.1	—	—
	100.0	**100.0**	**100.0**	**100.0**	100.0	100.0	100.0	100.0

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

	Pension plans		Other future benefits	
	2014 %	2013 %	2014 %	2013 %
To determine defined benefit obligation				
Discount rate	**4.1**	4.9	**4.1**	4.9
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3
To determine defined benefit expense				
Discount rate	**4.9**	4.5	**4.9**	4.5
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3

14) EMPLOYEE FUTURE BENEFITS [Cont'd]

	2014			
	Other future benefits			
Health care cost trend rates	Drugs %	Health %	Dental %	Other %
Initial health care cost trend rates	**7.0**	**5.0**	**3.0**	**5.0**
Cost trend rates decline to	**3.0**	**3.0**	**3.0**	**3.0**

	2013			
	Other future benefits			
	Drugs %	Health %	Dental %	Other %
Initial health care cost trend rates	7.0	5.0	3.0	5.0
Cost trend rates decline to	3.0	3.0	3.0	3.0

	Pension plans	
	2014 Years	2013 Years
Human life expectancy		
Males	**86**	86
Females	**89**	89

Canadian mortality rates have been established in accordance with the public sector table and improvement scale published in 2014 by the Canadian Institute of Actuaries following its Canadian pensioner mortality study.

The Mutual's net expense in respect of employee pension plans and other employee future benefits is as follows:

	Pension plans		Other future benefits	
	2014 $	2013 $	2014 $	2013 $
Current service costs	**16,189**	16,453	**1,719**	1,675
Net interest on net defined benefit obligation	**1,514**	3,023	**1,074**	893
Administrative costs	**48**	15	**—**	—
Net expense	**17,751**	19,491	**2,793**	2,568

The net employee future benefit expense is included under general expenses in the consolidated statement of income.

The dates of the most recent and the next required actuarial valuations for funding purposes are December 31, 2013 and December 31, 2014, respectively.

Sensitivity analysis

The following tables summarize the sensitivity analysis for each of the significant actuarial assumptions used to calculate defined benefit obligation.

	2014			
Assumptions:	Health care cost trend rate		Discount rate	
Sensitivity level:	1% increase $	1% decrease $	1% increase $	1% decrease $
	4,628	**(3,528)**	**(95,446)**	**128,936**

	2014			
Assumptions:	Rate of increase in future compensation		Human life expectancy	
Sensitivity level:	1% increase $	1% decrease $	1 year increase $	1 year decrease $
	39,406	**(31,827)**	**10,175**	**(10,046)**

	2013			
Assumptions:	Health care cost trend rate		Discount rate	
Sensitivity level:	1% increase $	1% decrease $	1% increase $	1% decrease $
	3,292	(2,556)	(69,415)	90,622

	2013			
Assumptions:	Rate of increase in future compensation		Human life expectancy	
Sensitivity level:	1% increase $	1% decrease $	1 year increase $	1 year decrease $
	26,567	(21,685)	8,457	(8,206)

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.

The Mutual expects to contribute $16,506 [2013: $12,468] to the defined benefit pension plans during the following fiscal year.

The weighted average duration of the defined benefit obligation is 22 years [2013: 19 years] for the pension plans and 16 years [2013: 15 years] for other future benefits.

15) LONG-TERM DEBT

	2014 $	2013 $
Subordinated debenture maturing on September 29, 2016 and bearing interest at a rate of 4.9% per annum payable semi-annually.	**7,000**	7,000
Borrowing secured by a $20,000 first immovable hypothec primarily concerning an investment property valued at $22,869, bearing interest at the bankers' acceptance rate plus 3.1% [2013: 2.3%], totalling 5.4% renewable in 2016 and maturing in 2036.	**15,986**	16,328
	22,986	23,328

The maturities for long-term debt are as follows:

	Subordinated debenture $	Borrowing secured by an immovable hypothec $	Total $
Current portion	**—**	**418**	**418**
Portion from 1 to 5 years	**7,000**	**15,568**	**22,568**
	7,000	**15,986**	**22,986**

The interest on long-term debt amounted to $1,222 [2013: $1,246].

The subordinated debenture, constituting an unsecured direct claim on the Mutual, ranks after the rights of policyholders and other creditors of the Mutual. Repayment of the subordinated debenture in whole or in part is subject to approval by the Autorité des marchés financiers.

The fair values of the subordinated debenture and the borrowing secured by an immovable hypothec classified under other liabilities are estimated using a valuation model based on market prices for instruments with similar terms. These fair values may fluctuate depending on interest rates and credit risks associated with such financial instruments.

	2014 $	2013 $
Fair value		
Subordinated debenture	**7,260**	7,370
Borrowing secured by an immovable hypothec	**16,079**	16,433
	23,339	23,803

16) CAPITAL MANAGEMENT

The Mutual's capital management objectives are to ensure capital preservation, development and growth, and to meet the requirements of the authorities that regulate the operations of its insurance subsidiaries.

To meet its objectives, the Mutual has implemented sound business and financial practices with respect to capital management. The policies and procedures described in these practices enable the Mutual and its subsidiaries to support strategic directions and performance goals while meeting the set capital adequacy target.

The Mutual and its subsidiaries regularly review capital using various tools including the Dynamic Capital Adequacy Testing and capital position monitoring reports. These documents are reviewed and approved each year by the Boards of Directors.

In Quebec, insurance companies must comply with the Autorité des marchés financiers (AMF) capital adequacy requirements (CAR) guideline to provide a guarantee of their solvency. The consolidated regulatory capital of the subsidiary La Capitale Civil Service Insurer Inc., determined in accordance with this guideline, constitutes its capital funds and is different from the equity reported in the statement of financial position. It consists of two tiers of capital.

Tier 1 capital comprises more permanent components of capital than Tier 2, and consists primarily of equity attributable to members.

The following table provides a summary of total available capital:

	2014 $	2013 $
Tier 1 capital	**510,919**	529,670
Tier 2 capital	**24,605**	—
Total available capital	**535,524**	529,670

Under regulatory authority guidelines, the insurance subsidiaries must set capital targets which exceed capital requirements. As at December 31, 2014, the insurance subsidiaries were in compliance with the applicable capital requirements of regulatory authorities.

In 2014, items resulting primarily in an increase in capital consisted of net income and changes in available-for-sale financial instruments.

17) DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of risk management, the Mutual relies on financial instruments used for matching purposes.

The following table shows the notional amounts of these derivative financial instruments and their related fair values.

	2014 $	2013 $
Notional amount by maturity		
Under one year – financial instruments used for matching purposes	**98,000**	86,700
Reported as an asset (liability) at fair value:		
Financial instruments used for matching purposes	**72**	(277)

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

The fair value recognized in other investments is the estimated amount that the Mutual expects to receive at the end of the year to close out its positions.

18) INVESTMENT INCOME

	2014					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	3,476	—	—	—	—	3,476
Bonds						
Interest	—	58,747	9,118	—	—	67,865
Realized net gains	—	—	10,461	—	—	10,461
Change in fair value	—	164,522	—	—	—	164,522
Stocks						
Dividends	—	12,724	14,585	—	—	27,309
Realized net gains	—	—	24,780	—	—	24,780
Change in fair value	—	15,154	—	—	—	15,154
Mutual funds						
Distribution income	—	12,043	11,425	—	—	23,468
Realized net gains	—	—	4,143	—	—	4,143
Change in fair value	—	25,765	—	—	—	25,765
Mortgage loans						
Interest	—	—	—	21,591	—	21,591
Policy loans						
Interest	—	—	—	2,034	—	2,034
Investment properties						
Rental income	—	—	—	—	26,319	26,319
Change in fair value	—	—	—	—	(318)	(318)
Realized net loss	—	—	—	—	(410)	(410)
Other investments						
Interest	—	—	—	2,322	8	2,330
Distribution income	—	2,174	1,052	—	—	3,226
Change in fair value	1,952	1,324	—	—	(166)	3,110
Share of income of joint venture and affiliates	—	—	—	—	1,937	1,937
Realized net gains	—	—	—	—	412	412
Other	—	—	—	—	253	253
	5,428	292,453	75,564	25,947	28,035	427,427
SUMMARY						
Interest	3,476	58,747	9,118	25,947	8	97,296
Dividends	—	12,724	14,585	—	—	27,309
Distribution income	—	14,217	12,477	—	—	26,694
Rental income	—	—	—	—	26,319	26,319
Share of income of joint venture and affiliates	—	—	—	—	1,937	1,937
Realized net gains	—	—	39,384	—	2	39,386
Change in fair value	1,952	—	—	—	(484)	1,468
Other	—	—	—	—	253	253
Interest and other investment revenues	5,428	85,688	75,564	25,947	28,035	220,662
Changes in fair value of financial assets designated at fair value through profit or loss	—	206,765	—	—	—	206,765
	5,428	292,453	75,564	25,947	28,035	427,427

18) INVESTMENT INCOME [Cont'd]

	2013					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	3,965	—	—	—	—	3,965
Bonds						
Interest	—	56,121	13,491	—	—	69,612
Realized net gains	—	—	1,759	—	—	1,759
Change in fair value	—	(107,522)	—	—	—	(107,522)
Stocks						
Dividends	—	12,819	13,406	—	—	26,225
Realized net gains	—	—	21,308	—	—	21,308
Change in fair value	—	(5,538)	—	—	—	(5,538)
Mutual funds						
Distribution income	—	13,976	3,389	—	—	17,365
Realized net gains	—	—	3,956	—	—	3,956
Change in fair value	—	19,618	—	—	—	19,618
Mortgage loans						
Interest	—	—	—	21,322	—	21,322
Policy loans						
Interest	—	—	—	1,936	—	1,936
Investment properties						
Rental income	—	—	—	—	25,635	25,635
Change in fair value	—	—	—	—	(3,870)	(3,870)
Other investments						
Interest	7	—	—	2,140	13	2,160
Change in fair value	(578)	533	—	—	(239)	(284)
Share of income of joint venture and affiliates	—	—	—	—	1,576	1,576
Other	—	—	—	—	10	10
	3,394	(9,993)	57,309	25,398	23,125	99,233
SUMMARY						
Interest	3,972	56,121	13,491	25,398	13	98,995
Dividends	—	12,819	13,406	—	—	26,225
Distribution income	—	13,976	3,389	—	—	17,365
Rental income	—	—	—	—	25,635	25,635
Share of income of joint venture and affiliates	—	—	—	—	1,576	1,576
Realized net gains	—	—	27,023	—	—	27,023
Change in fair value	(578)	—	—	—	(4,109)	(4,687)
Other	—	—	—	—	10	10
Interest and other investment income	3,394	82,916	57,309	25,398	23,125	192,142
Changes in fair value of financial assets designated at fair value through profit or loss	—	(92,909)	—	—	—	(92,909)
	3,394	(9,993)	57,309	25,398	23,125	99,233

19) GENERAL EXPENSES

	2014 $	2013 $
Salaries and employee benefits	**214,655**	203,952
Amortization of property and equipment *[note 8]*	**7,967**	8,094
Amortization of intangible assets *[note 9]*	**8,067**	7,288
Fees, rent and other	**51,312**	61,544
	282,001	280,878

20) COMMITMENTS AND CONTINGENCIES

Commitments

Leases

As lessee

As at December 31, 2014, the Mutual is committed under operating leases for the use of office premises and service contracts expiring at various dates through 2025.

The following table details future minimum payments under non-cancellable operating leases:

	2014 $	2013 $
Under 1 year	**5,713**	4,970
1–5 years	**12,848**	9,491
Over 5 years	**4,824**	4,154
	23,385	18,615

These leases have terms ranging from one to nine years and may include a renewal option at expiry.

Rental costs expensed during the year totalled $4,970 [2013: $5,531].

As lessor

Operating leases pertain to the rental of investment properties held by the Mutual. These leases have terms ranging from one to 22 years and may include a renewal option at expiry. There is no purchase option available under current lease terms.

Future rent payments receivable under non-cancellable leases are as follows:

	2014 $	2013 $
Under 1 year	**22,844**	24,836
1–5 years	**73,284**	72,950
Over 5 years	**40,942**	69,398
	137,070	167,184

Investment commitments

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

Expiring in		
45 days $	46–365 days $	2016 and thereafter $
17,286	**13,386**	—

The Mutual is also committed to subscribe, on demand, an amount of $57,838 [2013: $40,753] for various corporate mutual funds.

20) COMMITMENTS AND CONTINGENCIES [Cont'd]

Commitments [Cont'd]

Structured settlements

The Mutual has entered into annuity contracts with several Canadian life and health insurance companies to provide for fixed and periodic benefit payments to beneficiaries. Under these agreements, the Mutual has ceded its commitments to the beneficiaries of annuity contracts; however, it remains exposed to credit risk to the extent that the life and health insurance companies might not be able to meet their financial obligations to these beneficiaries. To reduce its exposure to this credit risk, the Mutual has purchased annuity contracts from insurance companies with a Standard and Poor's credit rating of at least A+. The residual credit risk assumed by the Mutual is the credit risk related to the Canadian life and health insurance companies with which it does business. This residual credit risk is mitigated by the protection provided by ASSURIS to life and health insurance policyholders.

As at December 31, 2014, none of the insurance companies from which the Mutual had acquired annuity contracts were in default and accordingly, no provision for credit risk was recorded in the financial statements. Exposure to credit risk is evaluated as total purchases of annuity contracts that are not provided for as a liability of the Mutual, which amounted to $25,170 [2013: $23,280] over a maximum period of 52 years [2013: 52 years]. The risk-adjusted balance is determined by applying the standard measures of counterparty risk defined by the regulatory authority to the credit equivalent amount.

The Mutual's management considers the risk of financial default by the insurance companies with which it does business to be very low.

Credit facilities

As at December 31, 2014, the Mutual had a $10,000 credit facility [2013: $10,000] bearing interest at the prime rate, as well as a $2,000 credit facility [2013: $2,000] for the issuance of letters of credit at a cost of 0.625% of the dollar amount.

As at December 31, 2014, the Mutual had issued a $500 standby letter of credit [2013: $500] to Liberty Mutual Insurance Company.

The Mutual also had a $20,000 commercial line of credit [2013: $20,000] to enable it to finance its mortgage loan operations, bearing interest at prime rate.

The credit facilities were undrawn as at December 31, 2014 and 2013, respectively.

Pledged assets

In the normal course of business, certain subsidiaries of the Mutual have pledged assets in respect of obligations contracted, strictly to serve as collateral to the counterparty. In the event of default by the Mutual, the counterparty is entitled to apply the collateral to settle the debt. No defaults occurred during the fiscal year. Pledged assets comprise bond holdings in the amount of $75,000 [2013: $75,000].

Other

The Mutual acquired emphyteutic lease rights on April 5, 1989, expiring on December 31, 2050. As at December 31, 2014, annual lease payments totalled $352 [2013: $342] indexed at 3% per annum until December 31, 2020. Subsequently, annual lease payments will be adjusted on December 31, 2020, based on the value of the land and the average yield of Québec long-term savings bonds. Total commitments amounted to $2,277 from 2015 to 2020 [2014 to 2020: $2,619].

As at December 31, 2014, the Mutual is committed under agreements with charities to pay a total amount of $955 [2013: $1,651]. The minimum payments for the next two fiscal years amount to $508 and $447, respectively.

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.

21) RELATED PARTY INFORMATION

Compensation of executive officers

Compensation of senior executive officers for the year was as follows:

	2014 $	2013 $
Short-term employee benefits	**22,612**	22,343
Post-employment benefits	**5,858**	6,921
Termination benefits	**238**	444

22) MANAGEMENT OF FINANCIAL INSTRUMENT AND INSURANCE CONTRACT 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 on an annual basis.

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

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

The risk management policy falls under the purview of the Risk Management Committee. Coordinated by the Office of the Executive Vice-President, Financial Affairs, Real Estate and IT Infrastructure, this policy provides a framework for the Mutual's key risks, consisting of insurance risks, financial risks, operational risks and strategic risks.

The Mutual monitors insurance risks pertaining to product design and pricing, as well as to underwriting and liabilities. Financial risks consisting of market, exchange rate, credit, real estate, liquidity and capital management risks are measured and managed. For operational risks, standards designed to limit the risks of administrative deficiencies are set out and followed. Strategic risk exposures are managed by the implementation and stringent monitoring of a strategic plan, as well as by monitoring the Mutual's business.

The financial stability of the Mutual's insurance subsidiaries is validated annually by dynamic capital adequacy testing ("DCAT") conducted by the Appointed Actuaries, which includes a formal opinion as to the financial soundness of the Mutual's insurance subsidiaries.

Insurance risks – Life and health insurance

By selling insurance contracts to its insureds, the Mutual assumes insurance risks. Risk arises when an insured event materializes differently than anticipated. Such variances are minimized through selection, pricing and reinsurance.

The Mutual's life and health insurance risk is not concentrated in a single region or product. The catastrophe reinsurance treaty makes it possible to manage the risk concentration of group business. An analysis is conducted each year to review concentration levels and adjust the required catastrophe treaty coverage.

Measuring the actuarial liabilities associated with insurance contracts is complex and requires the use of several assumptions and valuation methods. The most sensitive assumptions for the Mutual pertain to mortality, morbidity and the economic environment. During the first annual DCAT, sensitivity tests were conducted to better identify the Mutual's exposure to volatility and provide a basis to establish mitigation techniques.

The Mutual is also exposed to credit and liquidity risks under risk transfers to its different reinsurers. To mitigate these risks, the Mutual carefully diversifies the reinsurers with which it does business. The Mutual also reviews the financial strength of its reinsurers annually or more often as necessary and does not do business with reinsurers rated lower than A– by Standard and Poor's or AM Best.

Scheduled cash outflows (inflows) related to life and health insurance contract liabilities net of reinsurance ceded are illustrated as follows:

	2015 $	2016 $	2017 $	2018 $	2019 $	2020 and thereafter $	Total $
Life and health – Individual	19,274	(4,811)	5,350	14,413	23,356	1,314,979	1,372,561
Annuities – Individual	189,592	114,493	116,596	103,395	120,846	508,495	1,153,417
Life and health – Group	176,376	47,125	41,150	34,836	30,277	184,114	513,878
Annuities – Group	208	278	322	361	365	3,545	5,079
	385,450	157,085	163,418	153,005	174,844	2,011,133	3,044,935

Insurance risks – Property and casualty insurance

The Mutual identified the following risks that may have a material effect on its bottom line, such as the risk of a significant rise in claim frequency and severity, the risk of multiple catastrophes combined with reinsurer payment defaults, the risk of a change in premium volume in a soft market with significant premium reductions and the risk of adverse development of claims reserves for long-tail business classes.

Underwriting standards are set out and applied by the Mutual. These standards provide for diversified risk selection in line with the Mutual's objectives. Together, contract terms and conditions and rates appropriately reflect the inherent risks in the policies written.

The use of reinsurance plays a key role in managing the Mutual's risks and exposures. Various catastrophe excess of loss treaties per risk and per event are in place to limit the adverse income effect of major claims, on both a separate and cumulative basis, on occurrence of a catastrophic event.

22) MANAGEMENT OF FINANCIAL INSTRUMENT AND INSURANCE CONTRACT RISKS [Cont'd]

Principles and responsibilities of risk management [Cont'd]

Insurance risks – Property and casualty insurance [Cont'd]

Use of other types of reinsurance (optional or treaty for a given business line) is also possible to manage specifically identified risks.

A 10% increase in the net loss index would result in a decrease in net income and equity of $58,800 [2013: $55,200].

Concentration risk

The Mutual's concentration risk exposure is mitigated by the use of reinsurance contracts, and the rigorous selection and implementation of underwriting strategies, which are adhered to mainly through sector diversification.

Insurance concentration risk by product is described below based on the allocation of gross premiums written.

	Gross premiums	
	2014 $	2013 $
Individual insurance	**414,454**	344,655
Group insurance	**579,173**	561,115
Property and casualty insurance	**832,574**	781,347
	1,826,201	1,687,117

Financial risks

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

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

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

A stock market downturn reduces the management fees generated by the insurer from market-linked insurance policies. As these liabilities are fully matched, lower management fees could, in such situations, increase the insurer's cost to guarantee capital. Furthermore, a market downturn has a direct impact on the value of marketable securities invested in the Mutual's surplus.

A 10% stock market downturn as at December 31, 2014 would result in a $20,968 decrease [2013: $21,508] in the Mutual's after-tax comprehensive income. A 10% stock market upturn as at December 31, 2014 would have the opposite effect, resulting in a $20,812 increase [2013: $21,281] in the Mutual's after-tax comprehensive income.

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

A 1% rise in interest rates as at December 31, 2014 would result in a $19,796 decline [2013: $25,215] in the Mutual's after-tax comprehensive income. A 1% decline in interest rates as at December 31, 2014 would result in a $20,912 increase [2013: $25,381] in the Mutual's after-tax comprehensive income.

Financial instruments

Classification of financial instruments

Financial assets and financial liabilities are recorded at fair value or amortized cost. The table below shows the classification and carrying amounts of financial instruments:

	2014 $	2013 $
FINANCIAL ASSETS		
Held-for-trading		
Cash and cash equivalents	**109,697**	104,114
Other financial assets	**7,749**	4,301
Other investments	**72**	—
	117,446	108,415
Designated at fair value through profit or loss		
Bonds	**1,382,323**	1,201,034
Stocks	**286,949**	303,965
Mutual funds	**462,130**	271,120
Other investments	**50,124**	24,233
	2,181,526	1,800,352
Available-for-sale		
Bonds	**330,911**	501,246
Stocks	**361,839**	337,280
Mutual funds	**353,037**	84,061
Other investments	**24,795**	16,806
	1,070,582	939,393
Loans and receivables		
Mortgage loans	**549,154**	514,527
Policy loans	**34,619**	32,954
Other investments	**71,758**	51,594
Premiums receivable	**525,432**	481,911
Other financial assets	**78,031**	90,547
	1,258,994	1,171,533
Total financial assets	**4,628,548**	4,019,693
FINANCIAL LIABILITIES		
Held-for-trading		
Other financial liabilities	**12,176**	8,753
Other liabilities		
Other financial liabilities	**261,367**	250,521
Long-term debt	**22,986**	23,328
	284,353	273,849
Total financial liabilities	**296,529**	282,602

Fair value hierarchy

The following table classifies 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.

22) MANAGEMENT OF FINANCIAL INSTRUMENT AND INSURANCE CONTRACT RISKS [Cont'd]

Principles and responsibilities of risk management [Cont'd]

Financial risks [Cont'd]

Fair value hierarchy [Cont'd]

Assets and liabilities measured at fair value

	2014			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Cash and cash equivalents	109,697	—	—	109,697
Bonds				
Government of Canada	—	23,262	—	23,262
Provincial governments	—	1,138,479	—	1,138,479
Municipalities, school boards and hospitals	—	28,807	—	28,807
Corporate	—	522,686	—	522,686
	—	1,713,234	—	1,713,234
Stocks				
Common shares	324,696	—	—	324,696
Preferred shares	324,092	—	—	324,092
	648,788	—	—	648,788
Mutual funds				
Bonds	—	241,328	—	241,328
Stocks	221,573	—	—	221,573
Diversified	—	255,210	—	255,210
Other	—	97,056	—	97,056
	221,573	593,594	—	815,167
Investment properties	—	—	161,996	161,996
Other investments				
Investments in the limited partnerships	—	—	74,919	74,919
Derivative financial instruments	—	72	—	72
	—	72	74,919	74,991
Other assets				
Retained interests – Securitization	—	—	3,909	3,909
LIABILITIES				
Other liabilities				
Bank overdraft	8,336	—	—	8,336

	2013			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Cash and cash equivalents	104,114	—	—	104,114
Bonds				
Government of Canada	—	105,711	—	105,711
Provincial governments	—	1,095,924	—	1,095,924
Municipalities, school boards and hospitals	—	10,301	—	10,301
Corporate	—	482,569	—	482,569
International	—	7,775	—	7,775
	—	1,702,280	—	1,702,280
Stocks				
Common shares	294,548	—	—	294,548
Preferred shares	346,697	—	—	346,697
	641,245	—	—	641,245
Mutual funds				
Stocks	355,181	—	—	355,181
Investment properties	—	—	177,482	177,482
Other investments				
Investments in the limited partnerships	—	—	46,984	46,984
Other assets				
Retained interests – Securitization	—	—	3,679	3,679
LIABILITIES				
Other liabilities				
Bank overdraft	7,854	—	—	7,854
Liabilities related to derivative financial instruments	—	277	—	277
	7,854	277	—	8,131

Assets and liabilities whose fair value is disclosed in the notes to financial statements

	2014			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Mortgage loans	—	555,247	—	555,247
Policy loans	—	34,619	—	34,619
Other investments				
Personal loans	—	19,576	—	19,576
Other loans	—	52,440	—	52,440
Properties held for resale	—	642	—	642
	—	72,658	—	72,658
LIABILITIES				
Long-term debt	—	23,339	—	23,339

22) MANAGEMENT OF FINANCIAL INSTRUMENT AND INSURANCE CONTRACT RISKS [Cont'd]

Principles and responsibilities of risk management [Cont'd]

Financial risks [Cont'd]

Fair value hierarchy [Cont'd]

Assets and liabilities whose fair value is disclosed in the notes to financial statements [Cont'd]

	2013			
	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS				
Mortgage loans	—	523,846	—	523,846
Policy loans	—	32,954	—	32,954
Other investments				
Personal loans	—	16,619	—	16,619
Other loans	—	34,765	—	34,765
Properties held for resale	—	1,722	—	1,722
	—	53,106	—	53,106
LIABILITIES				
Long-term debt	—	23,803	—	23,803

For the 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.

The Vice-President, Investments determines the fair value measurement policies and procedures and analyzes the changes that occur from period to period in relation to those measurements for the financial assets classified in Level 3 of the hierarchy. In addition, the Vice-President, Investments selects an appropriate valuation model, as well as the inputs for each of those investments.

Valuation techniques for financial instruments classified in Level 2 or Level 3

Bonds

Bonds are valued externally using 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 quoted prices are not available, fair value is estimated using a valuation method based on discounted future cash flows for securities with a similar risk profile and comparable terms and conditions. Significant inputs to this method consist of the discount rate, and credit and liquidity risks.

Bond mutual funds

The underlying bonds of bond mutual funds are valued externally using the average of bid prices quoted by Canada's top brokers. The external source uses the latest quoted market or closing price. Where quoted prices are not available, fair value is estimated using the fair value method based on discounted future cash flows for securities with a similar risk profile and comparable terms and conditions. Significant inputs to this method consist of the discount rate, and credit and liquidity risks.

Diversified mutual funds

The underlying shares of diversified mutual funds are valued using closing bid prices. The underlying bonds are valued in the same manner as the bonds of bond mutual funds.

Other mutual funds

The underlying securities of other mutual funds are valued using the fair value method based on discounted future cash flows. Significant inputs to this method consist of the discount rate, and credit, liquidity and prepayment risks. Derivative financial instruments are measured at fair value.

Investment properties

Investment properties are measured using a valuation technique based primarily on discounted future cash flows from rental space. The main variables affecting fair value are the rate of return and overall discount rate.

Sensitivity analysis

A 0.25% increase in the rate of return and overall discount rate would result in a $6,276 [2013: $6,407] decline in the fair value of the investment properties. A 0.25% decline in the rate of return and overall discount rate would result in a $6,276 [2013: $6,407] increase in the fair value of the investment properties.

Investments in the limited partnerships

The investments in one of the limited partnerships is measured using the cost of the properties under construction and the fair value derived using a discounting method for future cash flows of properties in operation. This measurement is based on unobservable inputs including the capitalization rate, average vacancy rate at maturity, long-term rate of growth in income before interest, taxes and amortization, long-term operating margin and discount for lack of liquidity. Taken individually, an increase (decrease) in the capitalization rate, average vacancy rate at maturity and discount for lack of liquidity would result in a decrease (increase) in fair value of the investment. Taken individually, an increase (decrease) in long-term rate of growth in income before interest, taxes and amortization, and long-term operating margin would result in an increase (decrease) in fair value of the investment.

Sensitivity analysis

A 1% increase in the capitalization rate would result in a $1,105 [2013: $695] decline in the fair value of the investment in that limited partnership. A 1% decline in the capitalization rate would result in a $1,198 [2013: $883] increase in the fair value of the investment in that limited partnership.

The investment in one of the limited partnerships is measured using the discounted future cash flow method, including the estimation of the residual value of the infrastructure assets. This measurement is based on unobservable inputs, such as the discount rate, inflation rate and growth rate. An increase (decrease) in the discount rate would result in a decrease (increase) in the fair value of the investment. An increase (decrease) in the growth rate would result in an increase (decrease) in the investment.

Sensitivity analysis

A 1% increase in the discount rate would result in a $6,430 [2013: $4,151] decline in the fair value of the investment in that limited partnership. A 1% decrease in the discount rate would result in a $6,973 [2013: $4,559] increase in the fair value of the investment in that limited partnership.

The investment in one of the limited partnerships is measured using the discounted future cash flow method, including the estimation of the residual value of the investment buildings. This measurement is based on unobservable inputs, such as the capitalization rate, growth rate and vacancy rate. Taken individually, an increase (decrease) in the capitalization rate and vacancy rate would result in a decrease (increase) in the fair value of the investment. An increase (decrease) in the growth rate would result in an increase (decrease) in the fair value of the investment.

Sensitivity analysis

A 1% increase in the capitalization rate would result in a $1,058 decrease in the fair value of the investment in that limited partnership. A 1% decline in the capitalization rate would result in a $1,058 increase in the fair value of the investment in that limited partnership.

Derivative financial instruments

The fair value of derivative financial instruments, such as interest rate contracts, is the difference between the price at maturity of the underlying instrument at the measurement date and the price at maturity at the position's inception. The closing prices used in calculating the value of the position are externally sourced.

Retained interests

Retained interests are measured using the expected discounted cash flows of securitized mortgages. The model uses inputs such as the pool maturity date and balance, coupon rate, weighted average mortgage rate, average remaining amortization, average term to maturity and expected term at maturity and within the preceding five months.

The model factors in projections of total wind-ups, partial prepayment and anticipated defaults, as well as budget data such as management fees and acquisition costs based on the issuer's historical data.

The sensitivity analysis of retained interest is disclosed in note 10.

Changes in Level 3 financial instruments measured at fair value

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

	Investment properties $	Investments in the limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2014	**177,482**	**46,984**	**3,679**
Decrease	**—**	**—**	**(1,689)**
Unrealized gains recognized in other comprehensive income	**—**	**1,614**	**—**
Issuances	**—**	**—**	**1,919**
Purchases	**1,803**	**24,992**	**—**
Sales	**(16,971)**	**—**	**—**
Change in fair value	**(318)**	**1,329**	**—**
Balance as at December 31, 2014	**161,996**	**74,919**	**3,909**

22) MANAGEMENT OF FINANCIAL INSTRUMENT AND INSURANCE CONTRACT RISKS [Cont'd]

Principles and responsibilities of risk management [Cont'd]

Financial risks [Cont'd]

Changes in Level 3 financial instruments measured at fair value [Cont'd]

	Investment properties $	Investments in the limited partnerships $	Retained interests – Securitization $	Liabilities related to derivative financial instruments $
Balance as at January 1, 2013	180,512	5,180	4,073	510
Gains recognized in income	—	528	—	—
Decrease	—	—	(2,243)	—
Unrealized gains recognized in other comprehensive income	—	383	—	—
Issuances	—	—	1,849	—
Purchases	880	40,974	—	—
Sales	(40)	—	—	—
Change in fair value	(3,870)	(81)	—	(510)
Balance as at December 31, 2013	177,482	46,984	3,679	—

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

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

Given the performance of foreign currency matching and since the Mutual's foreign currency revenues and expenses are insignificant, foreign currency fluctuations have little impact on the Mutual's bottom line.

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

Credit risk management is the process of controlling the impact of credit risk-related events on the Mutual and consists in identifying, understanding and quantifying the risk of loss and taking appropriate measures.

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

The Mutual is exposed to credit risk on mortgage, personal and commercial loans as well as on corporate bonds and term preferred shares held in its portfolios, to counterparty risk on derivative products and to risk related to its reinsurers. The Mutual considers counterparty default risk when measuring the fair value of derivative financial instruments. Strict monitoring of credit risk is performed with respect to mortgage, personal and commercial loans. Corporate bonds and preferred shares are managed to ensure a diversified, low-risk portfolio by maintaining minimum Dominion Bond Rating Service (DBRS) credit ratings of BBB on 100% of bonds and P2 on preferred shares to limit default concentration risk. Derivative product counterparties have minimum DBRS credit ratings of "AA" for reinsurance counterparties, and credit and credit quality ratings are verified annually or when warranted by market events.

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

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

The Mutual's maximum credit risk exposure for its financial instruments is equal to the carrying amount of cash and cash equivalents, bonds, term preferred shares, mortgage loans, policy loans, other investments, premiums receivable, reinsurance assets and other receivables included in other financial assets totalling $3,586,672 [2013: $3,443,102].

Except for loans for which there are non-provisioned amounts past due discussed in note 4, there are no significant financial assets past due that have not been provisioned.

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

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

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

Changes in the real estate properties have no significant impact on the Mutual's results since the properties are mostly matched to the Mutual's business lines and the results are thereby offset by the insurance contract liability reserves.

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

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

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

	Under 1 year $	1 year to 5 years $	6 years to 10 years $	Over 10 years $	No specific maturity $	Total $
Provision for claims and loss adjustment expenses	159,522	125,632	26,474	1,801	—	313,429
Other financial liabilities	234,560	—	—	—	39,523	274,083
Long-term debt	418	22,568	—	—	—	22,986
	394,500	148,200	26,474	1,801	39,523	610,498

La Capitale Civil Service Mutual

COMPANY
PROFILES

As at December 31, 2014

Life and Health Insurance and Financial Services Sector

COMPANY PROFILES

LA CAPITALE CIVIL SERVICE INSURER

La Capitale Civil Service Insurer has provided financial products to ensure the economic well-being of Quebec's public administration employees for the last 75 years. Clients benefit from the unique expertise La Capitale Civil Service Insurer has developed in life and health insurance, savings and investments, and mortgage loans. Its teams of specialists design attractive, flexible financial solutions that are tailored to clients' needs. And, to simplify the payment of premiums, it also offers the exclusive Payroll Deduction Privilege to public service employees working in 825 institutions across Quebec's public and parapublic sectors.

PRODUCTS AND SERVICES OFFERED

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

LA CAPITALE INSURANCE AND FINANCIAL SERVICES

Established in 1989, La Capitale Insurance and Financial Services is a subsidiary of La Capitale Civil Service Insurer. It provides group insurance products directly to the Quebec public service and serves groups in the Canadian private sector in partnership with selected financial services firms. It also offers individual insurance products and services to clients outside the Quebec public service. La Capitale Insurance and Financial Services is renowned for its integrated take-charge approach by providing human, preventative and innovative solutions, such as the VIVA workplace health and wellness program, to it clients. It began distributing individual credit insurance products across Canada in 2014, in partnership with third party administrators.

PRODUCTS AND SERVICES OFFERED

- Life, health and disability Insurance
- Critical illness, dental care and vision care insurance
- Travel and trip cancellation insurance
- Credit insurance
- Employee and manager assistance programs
- Home care and assistance services
- Health insurance claims profile
- Overall integrated approach to health
- Online administrative services
- Health spending account
- CAP Medical Assistance
- VIVA Workplace Health and Wellness Program

LA CAPITALE FINANCIAL SERVICES

La Capitale Financial Services is a financial services firm whose primary role is offering insurance and investment and savings products to individuals working in the Quebec public service. It is dedicated to providing them with the best financial security available, thanks to its unique financial planning tools. The firm is represented by 165 financial service advisors who serve Quebec government employees in their workplaces.

PRODUCTS AND SERVICES OFFERED

- Term, permanent and universal life insurance
- Health, long-term care,critical illness and disability insurance
- Registered and non-registered investment products (e.g. GICs, investment accounts, retirement incomes, RRSPs, RESPs and TFSAs)
- Investment funds
- Referrals for car, home and legal access insurance and mortgage loans
- Financial situation evaluations
- Personalized financial planning
- Financial education sessions
  - Presentations (RREGOP, RRPE, mortgage loans...)
  - Educational sessions:
    - Building Your Future
    - Mid-career
    - Retirement Preparation
    - Legal Aspects

LA CAPITALE FINANCIAL SECURITY

Based in Mississauga, Ontario, La Capitale Financial Security (formerly Penncorp Life Insurance Company) offers simplified, personal disability insurance products and financial solutions designed to fit the unique needs of small business owners, self-employed workers, skilled tradespeople and other individuals who do not have easy access to traditional insurance and financial products. La Capitale Financial Security has a network of 272 career agents with branch offices and field representatives across Canada, and also relies on an independent distribution channel.

PRODUCTS AND SERVICES OFFERED

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

LA CAPITALE MFQ REAL ESTATE MANAGEMENT

This subsidiary is responsible for implementing the Group's real estate strategy and managing its real estate holdings. Its realty portfolio covers approximately 1.3 million sq. ft., including 311 residential units under management, spread out over 10 buildings in Quebec and Ontario, plus office space leased by the branch offices of La Capitale General Insurance and La Capitale Financial Services across Quebec, and the regional branch offices of La Capitale Financial Security outside Quebec. La Capitale MFQ Real Estate Management manages assets worth a total of $345.1 million, including commercial and residential buildings, office space and a seniors' residence located in Quebec.

PRODUCTS AND SERVICES OFFERED

- Construction and interior design
- Property management and leasing
- Commercial mortgage loan management
- Green buildings
- Quality fit-up services for rental units

SECURIGLOBE

SecuriGlobe, which is Canada's largest independent distributor of travel insurance, was acquired by La Capitale Civil Service Insurer in June 2014. Founded in 1999, SecuriGlobe relies on a network of more than 2,000 active partners across Canada and represents 14 different insurance carriers. It has developed unique expertise by specializing in products for retirees and pre-retirees. The company has grown by 25% every year for the last 10 years.

PRODUCTS AND SERVICES OFFERED

- Multiple travel insurance products – emergency health care, cancellation, interruption, baggage and special risk insurance
- Cruise insurance packages
- Extension of travel insurance
- Visitors to Canada coverage
- International student coverage
- Expatriates coverage
- Health and dental care insurance
- Credit card coverage

Life and Health Insurance and Financial Services Sector

OFFICERS

La Capitale Civil Service Insurer

La Capitale Insurance and Financial Services

Senior Management

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

Corporate Actuarial

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

Guy Harvey, ASA
Senior Director, Corporate Actuarial

Information Technology

Claude Gaboury
Vice-President

Lyne Groleau
Senior Director, IT Development Group Insurance

Francine Hampleman, FLMI
Senior Director, IT Development Individual Insurance and Financial Services

Maxime Morin, BSc A.
Senior Director, Architecture and Project Management

Raymond St-Gelais
Senior Director, Maintenance & Piloting

Group insurance

Éric Marcoux, FSA, FCIA
Executive Vice-President

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

Eveline Keable, BSc Act.
Senior Director, Claims Management, Life and Disability Insurance

Martin Bédard
Vice-President, Sales and Marketing

Dean Bergeron, BSc Act.
Vice-President, Administration and Customer Relations

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

Individual Insurance and Financial Services

Product Development and Marketing

Michel Lafrance, FSA, FCIA
Vice-President

Administration and Customer Relations

Christian Dufour, FSA, FCIA
Vice-President

Dany LeBœuf, FLMI, FLHC, ALHC, ACS, UND, AIAA
Senior Director, Savings and Financial Services

Diane Moreau, FLMI
Senior Director, Individual Life and Health Insurance

Sales

Eli Pichelli, MBA, CLU
Vice-President, Sales – Exclusive Distribution Channels

Ghassan Barakat
Regional Director North-West and South-West Regional Financial Centres

Frédéric Dancause, CLU, F. Pl.
Regional Director East Regional Financial Centre

Pierre Maltais, BBA, RLU
Regional Director Saguenay – Lac-Saint-Jean – North Shore Regional Financial Centre

Kim Oliphant, BBA
Senior Director, Sales – Brokerage Channel

La Capitale Financial Security

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

Scott Hunt
Vice-President, Operations

Eli Pichelli, MBA, CLU
Vice-President, Sales – Exclusive Distribution Channels

Neil Brown
Assistant Vice-President, Finance

Cristine Y. Chan, BA, CHRP
Assistant Vice-President, Human Resources and Shared Services

Chris Kitagawa, BA
Assistant Vice-President, Underwriting, Contract Management and Agency Services

Mark Turkiewicz
Assistant Vice-President, Claims

SecuriGlobe

Mathieu Laplante
President

Property and Casualty Insurance Sector

COMPANY PROFILES

LA CAPITALE GENERAL INSURANCE

La Capitale General Insurance is one of the leading property and casualty insurance companies in Quebec. It distributes its products directly through a network of 19 branch offices and 175 affiliated agents based in all four corners of the province. La Capitale General Insurance stands out from its competitors by constantly providing attentive and personalized service, preventing claims and losses and looking out for its clients' safety. That's why its range of products includes many exclusive assistance services, offered at no cost to its clients.

PRODUCTS AND SERVICES OFFERED

(DIRECT DISTRIBUTION)

- Automobile insurance
- Leisure vehicle insurance (motorcycles, snowmobiles, ATVs, boats, motorhomes, travel trailers and stationary trailers)
- Home insurance
- Legal Access Insurance
- Professional liability insurance
- Commercial insurance
- Airmedic coverage
- Roadside assistance
- Legal Access Assistance

L'UNIQUE GENERAL INSURANCE

L'Unique General Insurance was acquired by La Capitale General Insurance in October 2004. It continues to be independently managed and distributes its products through a network of 348 independent brokers. L'Unique's Head Office is located in Quebec City and the company has branch offices in Montreal. In 2005, L'Unique acquired Orleans General Insurance Company, a company specialized in surety products in Canada. L'Unique offers its brokers a diverse line of products for individuals and businesses, along with a complete line of contractor and commercial bonding services. L'Unique is renowned for the quality of its service and the close links it maintains with its distribution network.

PRODUCTS AND SERVICES OFFERED

(BROKER DISTRIBUTION)

- Automobile insurance (personal and fleet)
- Leisure vehicle insurance (motorcycles, snowmobiles, ATVs, trailers, motorhomes and watercraft)
- Home insurance
- Commercial insurance
- Legal Access Insurance
- Surety bonds for contractors
- Commercial bonding
- Roadside assistance

UNICA INSURANCE

Unica was acquired by La Capitale General Insurance in September 2008. Unica offers home and auto insurance to individuals, as well as a wide range of products created specifically for businesses. From its head office in Mississauga, it continues to operate independently through a network of 135 brokers in Ontario.

PRODUCTS AND SERVICES OFFERED

(BROKER DISTRIBUTION)

- Commercial insurance
- Automobile insurance
- Home insurance
- Leisure vehicle insurance

Property and Casualty Insurance Sector

OFFICERS

La Capitale General Insurance

Senior Management

Constance Lemieux
President and Chief Operating Officer

Sales and Client Retention

Marie-Claude Dulac, FCIP
Vice-President

Dominique Bergeron, CIP
Senior Director, Branch Office Network

Sylvie Chartrand, RLU, F. Pl.
Senior Director, Public Sector Development

Céline Daigle, LL B
Senior Director, Legal Access Insurance

Hélène Tremblay, FCIP
Senior Director, Client Retention and Specialized Teams

Claims

Christian Fournier, FCIA, FCAS
Vice-President

Hubert Auclair, LL B
Senior Director, Legal Affairs and Specialized Risks

Isabelle Circé, MBA, FCIP
Senior Director, Claims, Client Contact Centres

Lynda Mercier, FCIP
Senior Director, External Claims

Business Development

Sylvain Simard, BBA, CIP
Vice-President

Daniel Sauro, BBA
Senior Director, Affiliated Agents Network

Michel Talbot, FCIP
Senior Director, Commercial Insurance

Actuarial, Insurance and Business Intelligence

François Dumas, FCIA, FCAS
Vice-President

Isabelle Gingras, FCIA, FCAS
Senior Director, Ratemaking, Insurance and Products – Quebec

Isabelle Périgny, FCIA, FCAS
Senior Director, Corporate Actuarial and Business Intelligence

Marketing and E-Commerce

Éric Champagne, Eng., MBA
Vice-President

Frédérique Leclerc, BBA, MSc, FLMI
Senior Director, Marketing

Yves Watier
Senior Director, Business Development and Marketing

Information Technology

Richard Gagné
Vice-President

Jean Boulé
Senior Director, General Insurance Systems Development – Direct Channel

Liette Labrie
Senior Director, Corporate Systems Development

Éric Marcoux
Senior Director, Architecture and Production Support

L'Unique General Insurance

Senior Management

Mario Cusson, CPA, CA, MBA
President and Chief Operating Officer

Sales and Development

Yves Gagnon, BA, CIP
Vice-President

Commercial Insurance and Surety Lines

Bruno Perrino, BA
Vice-President

Daniel Carrier, CIP, FPT
Senior Director, Commercial Insurance

Martin Sohier, CPA, CA
Senior Director, Surety Lines

Finance

André Boucher, CMA
Assistant Vice-President, Finance

Information Technology

Michel Lévesque
Senior Director, Systems Development – Brokers

Unica Insurance

Senior Management

Martin Delage, BA, CHRP
President and Chief Operating Officer

Operations

Dave Smiley, CPA, CA, FCIP
Vice-President

Nancy Covel, CIP, ABC
Assistant Vice-President, Marketing and Communications

Jim Cutler, FCIP, CRM
Senior Director, Commercial Insurance

Steve Lewicki, BES, CIP
Assistant Vice-President, Claims

Jennifer Ronca, BA, CIP
Assistant Vice-President, Personal Insurance

Chris Weston, MBA
Assistant Vice-President, Business Development

Finance

Katherine Evans, CPA, CA
Executive Vice-President and Chief Financial Officer

Legal Services and Legal Counsel

Mark H. Fonseca, BA, LLB
Senior Director

Human Resources and Shared Services

Cristine Y. Chan, BA, CHRP
Assistance Vice-President

Shared Services

OFFICERS

These divisions serve both the Life and Health Insurance and Financial Services and the Property and Casualty Insurance sectors.

Senior Management

René Rouleau
Chairman of the Board and Chief Executive Officer

Human Resources and Organizational Development

Shirley Brown, BA, CHRP
Vice-President

Geneviève Drouin, MSc, CHRP
Senior Director, Human Resources

Linda Gaboury, BA, CHRP
Senior Director, Administration and Total Compensation

Corporate Affairs

Marie-Josée Guérette
Executive Vice-President

Pierre Carpentier
Senior Director, Communications and Marketing

Legal Affairs and Corporate Secretary

Pierre Marc Bellavance, LLM
Vice-President and Corporate Secretary

Finance, Real Estate and Technological Infrastructure

Marthe Lacroix, FCIA, FCAS
Executive Vice-President

Finance

Lucie Garneau, CPA, CA
Vice-President

Johanne Gauthier, CGA
Senior Director, Account Collection Services

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

Hélène Myrand, CA
Senior Director, Finance

Financial Management

John Kirouac, CPA, CA
Vice-President

Sylvie L. Beaudoin
Senior Director, Material Resources

Technological Infrastructure

Jean-Pierre Boutet
Vice-President

René Moisan
Senior Director, Systems Evolution

André Paquet, FLMI
Senior Director, Infrastructure Operations

Danny Redmond
Senior Director, IT Help Desk

Investments

Michel Lévesque, FSA, FCIA, CFA
Vice-President

Life and Health Insurance and Financial Services Sector

POINTS OF SERVICE

La Capitale Civil Service Insurer
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418 747-7600
or 1 800 463-5549

La Capitale Insurance and Financial Services
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418 644-4200
or 1 800 463-4856

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or 1 800 463-4856

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Quebec QC G1K 8X9
418 644-4200
or 1 800 463-4856

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Sales – Advisor Network and CFS
7333 Place des Roseraies
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514 687-2964
or 1 866 279-9394

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

Saguenay – Lac-Saint-Jean – North Shore Regional Financial Centre
874 de l'Université Blvd E
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Chicoutimi QC G7H 6B9
418 615-0694
or 1 800 713-8271

South-West Regional Financial Centre
7055 Taschereau Blvd
Suite 300
Brossard QC J4Z 1A7
514 864-4189
or 1 866 279-7384

Sherbrooke Financial Centre
1802 King St W
Suite 104
Sherbrooke QC J1J 0A2
819 780-4697
or 1 800 713-8236

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

Trois-Rivières Financial Centre
Le Trifluvien Building
4450 des Forges Blvd
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Trois-Rivières QC G8Y 1W5
819 374-3539
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La Capitale Financial Security

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