ANNUAL REPORT

2018

La Capitale
Civil Service Mutual

For life. And all it brings.

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2018 Key Facts and Figures

CONSOLIDATED INFORMATION

Assets	$7.4B
Total consolidated revenue	$2.4B
Equity	$1,060.2M
Net income	$75.5M
Return on equity	7.8%
Donations to the community from the Foundation	$1.8M

Number of mutual members	Over 312,000*
Number of contracts and certificates in force	1,892,731
Number of employees	2,686

* Approximate number of mutual members, calculated following the amalgamation of La Capitale Civil Service Insurer Inc. and La Capitale Insurance and Financial Services Inc.

LIFE AND HEALTH AND FINANCIAL SERVICES

Consolidated revenue from premiums	$1,353.1M up 9.3%
Consolidated net income	$43.8M
Sales (individual premiums and deposits)	$544M
Savings and investments portfolio	$2.4B

Group insurance premiums in force	$727M up 7.7%
RRSP campaign sales	$126M
Number of financial information sessions attended by 9,040 public service employees	753

PROPERTY AND CASUALTY INSURANCE

Consolidated gross written premiums	$1,041.7M up 8.1%
Consolidated net income	$31.7M
Gross written premium volume for La Capitale General Insurance	$626.9M up 4.3%
Gross written premium volume for L'Unique General Insurance	$276.8M up 17.8%

Gross written premium volume for Unica Insurance	$138M up 8.4%
Consolidated gross written premiums for Commercial Lines insurance	9.1% growth

Our mission

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.

Our vision

By bringing together all of its components through its values, its organizational culture, its management philosophy and its strategic orientations, La Capitale will be recognized as a responsible, client-oriented corporate citizen. To this end, La Capitale will provide a unique client experience and hold a competitive position among those having influence in the Canadian market, maintaining superior market growth and a profitability rate which ensures its longevity.

Our values

PEOPLE FIRST

Taking care first and foremost of the well-being of our people (Mutual members, clients and employees) by demonstrating respect and empathy and by embracing practices based on our fundamental principles of equality, fairness and democracy.

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.

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.

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.

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.

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.

Human Resources

2018 at a glance

2,686 EMPLOYEES

853
Life and Health and Financial Services

1,196
Property and Casualty Insurance

637
Shared Services

BECAUSE OF ITS REPUTATION IN THE LABOUR MARKET, LA CAPITALE IS ABLE TO RECRUIT EXPERIENCED AND RELIABLE WORKERS.

4.73%
Turnover

154
promotions

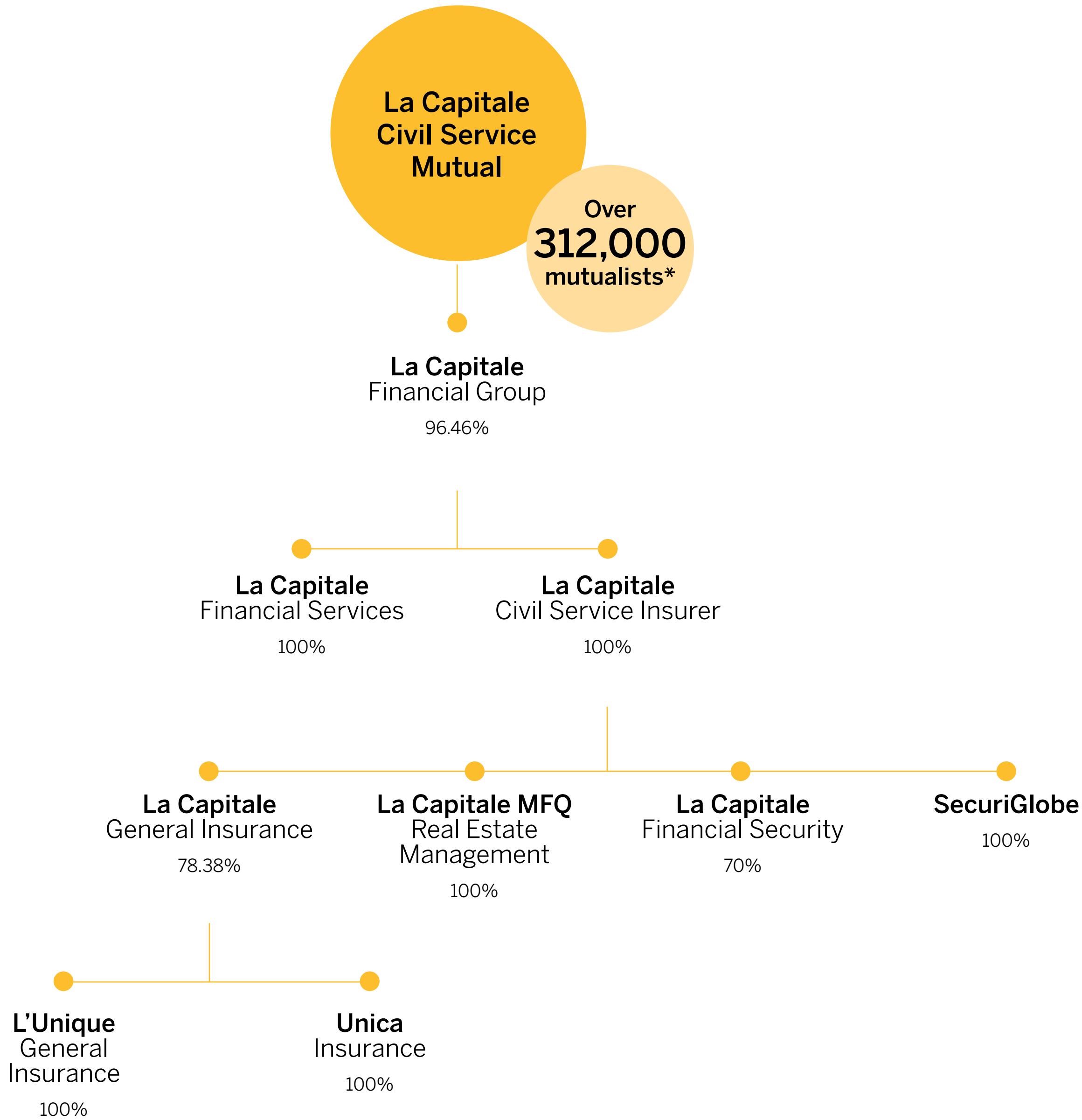
403
permanent positions filled

49%
of our managers are female

46
interns

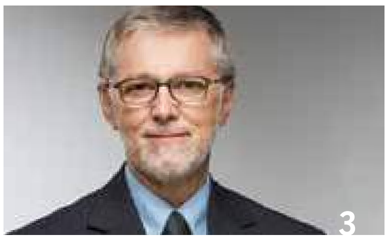
2.63%
of the payroll invested in training

Organizational Chart



* Approximate number of mutual members, calculated following the amalgamation of La Capitale Civil Service Insurer Inc. and La Capitale Insurance and Financial Services Inc.

Board of Directors

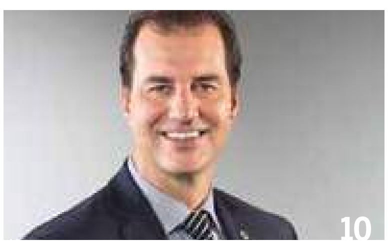


1. Jean St-Gelais [2] | Chairman
2. Jacques Cotton [2*] | Vice-Chairman
3. Dominique Dubuc [1*, 2]
4. Hubert Bolduc
5. Alain Brière [1]
6. Danielle Chevrette
7. Richard Fiset
8. Carl Gauthier
9. Josée Germain [1]
10. Madeleine Paulin
11. François Latreille [2]

1. Human Resources and Corporate Management Committee (led by La Capitale Financial Group Inc.)
2. Strategic Governance, Forecasting and Risk Management Committee

* Committee Chair

Executive Committee



1. Jean St-Gelais, Chairman of the Board and Chief Executive Officer
2. Mario Albert, Executive Vice-President, Group Insurance
3. Pierre Marc Bellavance, Vice-President, Legal Affairs and Corporate Secretary
4. Shirley Brown, Vice-President, Human Resources and Organizational Development
5. Eric Champagne, Executive Vice-President and Chief Operating Officer of SecuriGlobe
Executive Vice-President of Marketing, Communications and Digital Strategies
6. Mario Cusson, Transformation Office Chief
7. Martin Delage, Executive Vice-President, Individual Insurance and Financial Services
8. Robert Desbiens, Executive Vice-President, Corporate Development and Innovation
9. Christian Fournier, Senior Executive Vice-President and Chief Operating Officer, La Capitale General Insurance
10. Richard Gagné, Executive Vice-President, Information Technology
11. Mélissa Gilbert, Executive Vice-President, Finance, Corporate Actuarial and Risk Management
12. Marie-Josée Guérette, Executive Vice-President, Public Affairs and Corporate Outreach
13. Luc Meunier, Vice-President, Investments

Message to Mutual Members

JEAN ST-GELAIS
Chairman of the Board
and Chief Executive Officer

The insurance and financial services industry is evolving at a rapid pace with the advent of new players riding the wave of new technology. To weather the storm and carry on with its mission to meet the needs of its clients and Mutual members, La Capitale strengthened its commitment towards sustainable development in 2018.

Throughout the past year, La Capitale completed a planning exercise and took on ambitious strategic objectives. To ensure its longevity, the company aims to position itself as an industry leader in terms of profitability, customer service and innovation. To attain these objectives, we are implementing a transformation plan that will impact all areas of our company. All of La Capitale's teams are already hard at work, and we are confident that we will achieve the desired results.

As far as last year's performance is concerned, La Capitale obtained strong results with a consolidated net income of $75.5 million. Our property and casualty insurance division performed well under the circumstances, while major climatic events had a negative bottom line impact on the entire industry. That division posted a net income of $31.7 million, while the life and health insurance and financial services division ended the year with a $43.8 million net income.

The Mutual's total equity was $1,060 million, and total consolidated revenue, which is derived from premium revenue, investment income and other items, reached $2.4 billion. Lastly, the Mutual's consolidated assets reached $7.4 billion.

During the past year, we continued with the innovation efforts begun in 2017 with, among other things, the introduction of a new, more user-friendly and modern Client Centre that enables clients to ask questions directly to Mia, our virtual assistant. A new application was also launched to make it easier to access files using a mobile device and accelerate the processing of healthcare claims.

But La Capitale's news is not only about virtual things! We opened two new boutique branches: one at the *Centre hospitalier de l'Université de Montréal* (CHUM) in February 2018 and another at the *Centre hospitalier de l'Université Laval* (CHUL) in Quebec City early in 2019.

Property and Casualty insurance

Increased damage due to major climatic events in 2018 had unfavourable consequences for the entire Canadian property and casualty insurance industry. In spite of the difficulties encountered, this division had a good year and posted a consolidated net income of $31.7 million. It also passed the landmark of $1 billion in written premiums in 2018, with a premium volume of $1,041.7 million. This represents a $78.2 million increase over the previous year, or an 8.1% growth.

The results by company are as follows: In 2018, La Capitale General Insurance had a premium volume of $626.9 million, a 4.3% growth over 2017. L'Unique had a premium volume of $276.8 million, a 17.8% growth over the previous year. Lastly, Unica had a premium volume of $138 million in 2018, an 8.4% growth over the previous year.

With regard to its client experience and product offering, the division had a very good year. Our client satisfaction levels bear this out: We had excellent satisfaction levels with regard to claims, in particular, despite the major climatic events in 2018. The launch of our THANKS loyalty program and legal access insurance for businesses, and the establishment of a structure that allows us to have a greater commercial insurance presence, are noteworthy.

Life and Health Insurance and Financial Services

The life and health insurance and financial services division had a profitable year, posting consolidated revenue from premiums of $1,353.1 million and a consolidated net income of $43.8 million.

Individual Insurance and Financial Services

In 2018, the individual insurance and financial services division focused its efforts on increasing profitability, facilitating relations with partners and improving the client experience.

The product line was streamlined and enhanced by, among other things, the addition of new funds and a series of investment accounts without redemption fees, which have proven to be very popular. RRSP campaign sales reached $126 million, and the savings and investments portfolio increased in value to $2.4 billion in 2018, doubling its volume over the last four years.

In 2018, issue and policy change times were greatly improved, and remote eSignature was implemented, thus simplifying the process for clients and advisors. Doing business with La Capitale is simpler and faster now than ever before.

Group insurance

Our group insurance division had an excellent year of growth in 2018. Inforce premiums hit the $727 million mark, up 7.7% over the previous year. Sales, which reached $75.5 million, were distributed more or less evenly between Quebec and the rest of Canada.

However, the highlight of the year in 2018 was the *Fédération interprofessionnelle de la santé du Québec – FIQ* decision to entrust La Capitale with management of its group insurance plan. The FIQ is 75,000 members strong, and this decision represents $185 million in premiums. La Capitale is extremely proud to welcome the FIQ, one of the largest Quebec public sector groups, as of April 14, 2019.

Our group insurance division's technology modernization project, which began in 2017, is proceeding nicely. The implementation of the TELUS integrated health claims solution has been completed, as has the implementation of the FINEOS disability claims management software tool. La Capitale now has ultramodern infrastructures which constitute a solid foundation for continuous improvement of our customer service.

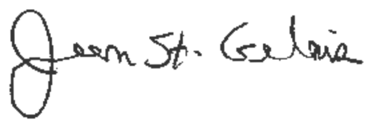
Acknowledgements

The confidence with which we look to our Mutual's future would not be possible without the commitment and support of our employees. La Capitale is fortunate to be able to rely on teams that invest themselves day after day to the pursuit of our objectives. They are the source of our strength. I offer them my heartfelt thanks.

I would also like to thank the members of our Board of Directors. Their contribution is essential to our Mutual's good governance and longevity. I am most grateful to La Capitale's directors, who allow our Mutual to benefit from their abilities and experience.

Thank you also to our business partners, who have made a significant contribution to our success by providing exceptional service to our clients.

In closing, I wish to thank our clients and Mutual members for the trust they place in us year after year.



Governance

Board of Directors

La Capitale Civil Service Insurer Inc. amended its private statutes to expand its market throughout Canada. This amendment enabled the entity and La Capitale Insurance and Financial Services Inc. to amalgamate on January 1, 2018. Moreover, the restriction stating that the company's Board members must come from the public sector has been lifted. This change will facilitate greater diversity of Board member skills.

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 terms. To this end, it ensures that senior management manages La Capitale's activities in accordance with the orientations it adopts. Lastly, the Board of Directors actively supports the La Capitale Foundation's mission and encourages employees of the entire organization to continue their tremendous social involvement based on mutualist values.

Members of the Board of Directors

The Board of Directors defines specific mandates for its committees. These committees – save for the new investment committee of La Capitale Civil Service Insurer Inc., which is composed of two experts who are not Board members – are made up exclusively 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.

Strategic Governance, Forecasting and Risk Management Committee

The purpose of the Strategic Governance, Forecasting and Risk Management Committee is to enable the Board of Directors of La Capitale Civil Service Mutual to fulfil its obligations with regard to governance, strategic vision and orientations and risk management, taking the evolution of La Capitale's internal and external environment into account.

Audit committees

In accordance with Quebec's *Act respecting insurance*, an audit committee exists 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.

Ethics committees

In accordance with Quebec's *Act respecting insurance*, an ethics 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.

Investment committee

La Capitale decided to form an investment committee. The mandate of that committee is to provide guidance to La Capitale for the ongoing and operational management of its investments. It thus contributes to defining the manner in which investments are managed.

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 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.

La Capitale
Civil Service Mutual

For life. And all it brings.

CONSOLIDATED FINANCIAL STATEMENTS

2018

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 and have been prepared by management in accordance with International Financial Reporting Standards. These consolidated financial statements 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 Quebec *Act respecting insurance*, is responsible for ensuring that the assumptions made and the methods used for the valuation of policy liabilities net of reinsurance recoverables are in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations and directives. The Appointed Actuary must issue an opinion on the appropriateness of the policy liabilities net of reinsurance recoverables to meet all policyholder obligations of the Mutual at the balance sheet date.

The independent auditor, Ernst & Young LLP, appointed by the members, is 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,

Jean St-Gelais

Jean St-Gelais
Chairman of the Board and Chief Executive Officer

Quebec City, February 26, 2019

Independent Auditor's Report

To the Members of
La Capitale Civil Service Mutual

Opinion

We have audited the consolidated financial statements of **La Capitale Civil Service Mutual** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, comprehensive income, changes in equity and table of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young LLP[1]

Quebec, Canada
February 26, 2019

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

Consolidated Statement of Financial Position

AS AT DECEMBER 31 [in thousands of Canadian dollars]

	2018	2017
	$	$
ASSETS		
Investments *[note 4]*		
Cash and cash equivalents	**85,405**	67,001
Bonds	**2,313,457**	2,321,275
Stocks	**405,933**	456,406
Mutual funds	**1,924,339**	1,648,094
Mortgage loans	**493,658**	538,673
Policy loans	**42,984**	41,943
Investment properties	**160,405**	172,591
Other investments	**411,423**	343,992
	5,837,604	5,589,975
Premiums receivable	**694,227**	630,931
Reinsurance assets *[note 7]*	**272,831**	273,642
Income taxes receivable	**21,116**	29,525
Other financial assets *[note 8]*	**93,496**	77,558
Other assets *[note 8]*	**72,958**	66,882
Deferred tax assets *[note 9]*	**29,589**	40,965
Property and equipment *[note 10]*	**138,579**	141,235
Intangible assets *[note 11]*	**181,027**	168,157
Goodwill *[note 11]*	**102,572**	102,572
TOTAL ASSETS	**7,443,999**	7,121,442

On behalf of the Board of Directors,

Jean St-Gelais, Chairman of the Board

Jacques Cotton, Vice-Chairman of the Board

AS AT DECEMBER 31 [in thousands of Canadian dollars]

	2018	2017
	$	$
LIABILITIES		
Life and health insurance contract liabilities *[note 13]*	**4,634,043**	4,407,853
Property and casualty insurance contract liabilities *[note 13]*	**1,145,117**	1,099,762
	5,779,160	5,507,615
Other financial liabilities *[note 14]*	**308,054**	293,607
Other liabilities *[note 14]*	**10,607**	10,417
Income taxes payable	**4,553**	4,610
Deferred tax liabilities *[note 9]*	**15,508**	15,294
Employee future benefits *[note 15]*	**102,563**	142,946
Long-term debt *[note 16]*	**13,985**	14,514
Subordinated debenture *[note 17]*	**149,403**	149,254
	6,383,833	6,138,257
EQUITY		
Retained earnings attributable to members	**913,958**	812,575
Accumulated other comprehensive income	**(20,030)**	9,548
	893,928	822,123
Participating policyholders' account	**841**	1,095
Non-controlling interests	**165,397**	159,967
	1,060,166	983,185
TOTAL LIABILITIES AND EQUITY	**7,443,999**	7,121,442

Commitments, garantees and contingencies *[note 21]*

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]

	2018	2017
	$	$
Revenues		
Premiums *[note 13]*	**2,349,914**	2,170,625
Premiums ceded to reinsurers	**(88,085)**	(84,648)
Net premiums	**2,261,829**	2,085,977
Investment income *[note 4]*		
Interest and other investment income	**252,468**	233,139
Change in fair value of financial assets	**(154,673)**	115,039
	97,795	348,178
Fees and other revenues	**23,241**	21,467
Total revenues	**2,382,865**	2,455,622
Policy benefits, claims and expenses		
Gross benefits and claims	**1,461,970**	1,331,735
Benefits and claims ceded to reinsurers *[note 7]*	**(40,445)**	(45,091)
	1,421,525	1,286,644
Participating policyholder dividends	**12,766**	12,083
Experience rating refund	**24,695**	22,688
Changes in actuarial liabilities	**212,954**	489,008
Changes in reinsurance assets	**(746)**	(15,784)
Net benefits and claims	**1,671,194**	1,794,639
General expenses *[note 20]*	**349,252**	318,793
Commissions	**162,858**	155,969
Premium taxes	**61,496**	57,160
Investment management costs	**34,652**	35,310
Finance costs	**11,069**	3,406
Total policy benefits, claims and expenses	**2,290,521**	2,365,277
Income before income taxes	**92,344**	90,345
Income taxes *[note 9]*	**16,856**	18,003
NET INCOME	**75,488**	72,342
Attributable to members of the Mutual	**61,426**	59,986
Attributable to participating policyholders	**1,746**	3,384
Attributable to non-controlling interests	**12,316**	8,972
	75,488	72,342

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]

	2018	2017
	$	$
Net income	**75,488**	72,342
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net income		
Net unrealized gains (losses) for the year on available-for-sale financial assets	**(28 433)**	18,721
Income taxes	**7,631**	(5,056)
	(20,802)	13,665
Reclassification of net realized gains to net income	**(21,013)**	(18,711)
Income taxes	**5,620**	5,015
	(15,393)	(13,696)
	(36,195)	(31)
Items that will not be reclassified subsequently to net income		
Remeasurement of the net defined benefit liability *[note 15]*	**59,580**	(43,449)
Income taxes	**(15,817)**	11,541
	43,763	(31,908)
Total other comprehensive income (loss)	**7,568**	(31,939)
COMPREHENSIVE INCOME	**83,056**	40,403
Attributable to members of the Mutual	**69,845**	33,270
Attributable to participating policyholders	**1,746**	2,708
Attributable to non-controlling interests	**11,465**	4,425
	83,056	40,403

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

Consolidated Statement of Changes in Equity

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

	Retained earnings attributable to members $	Accumulated other comprehensive income (loss) attributable to members[1] $	Total retained earnings and accumulated other comprehensive income (loss) attributable to members $	Retained earnings attributable to participating policyholders $	Accumulated other comprehensive income (loss) attributable to participating policyholders[1] $	Total participating policyholders' account $	Non-controlling interests $	Total equity $
Balance as at January 1, 2017	777,007	9,477	786,484	809	21	830	164,703	952,017
Net income	59,986	—	59,986	3,384	—	3,384	8,972	72,342
Other comprehensive income (loss), net of income taxes[2]	—	53	53	—	(1)	(1)	(83)	(31)
Remeasurement of the net defined benefit liability	(26,769)	—	(26,769)	(675)	—	(675)	(4,464)	(31,908)
Total comprehensive income (loss)	33,217	53	33,270	2,709	(1)	2,708	4,425	40,403
Dividends paid to non-controlling interests	—	—	—	—	—	—	(5,506)	(5,506)
Transfer from participating policyholders to members	2,334	18	2,352	(2,423)	(20)	(2,443)	91	—
Changes in non-controlling interests	—	—	—	—	—	—	(3,729)	(3,729)
Other	17	—	17	—	—	—	(17)	—
	2,351	18	2,369	(2,423)	(20)	(2,443)	(9,161)	(9,235)
Balance as at December 31, 2017	812,575	9,548	822,123	1,095	—	1,095	159,967	983,185
Balance as at January 1, 2018	**812,575**	**9,548**	**822,123**	**1,095**	**—**	**1,095**	**159,967**	**983,185**
Net income	**61,426**	**—**	**61,426**	**1,746**	**—**	**1,746**	**12,316**	**75,488**
Other comprehensive income (loss), net of income taxes[2]	**—**	**(29,578)**	**(29,578)**	**—**	**—**	**—**	**(6,617)**	**(36,195)**
Remeasurement of the net defined benefit liability	**37,997**	**—**	**37,997**	**—**	**—**	**—**	**5,766**	**43,763**
Total comprehensive income (loss)	**99,423**	**(29,578)**	**69,845**	**1,746**	**—**	**1,746**	**11,465**	**83,056**
Dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(4,629)**	**(4,629)**
Transfer from participating policyholders to members	**1,927**	**—**	**1,927**	**(2,000)**	**—**	**(2,000)**	**73**	**—**
Changes in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(1,446)**	**(1,446)**
Other	**33**	**—**	**33**	**—**	**—**	**—**	**(33)**	**—**
	1,960	**—**	**1,960**	**(2,000)**	**—**	**(2,000)**	**(6,035)**	**(6,075)**
Balance as at December 31, 2018	**913,958**	**(20,030)**	**893,928**	**841**	**—**	**841**	**165,397**	**1,060,166**

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

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

Consolidated Statement of Cash Flows

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

	2018	2017
	$	$
OPERATING ACTIVITIES		
Net income	**75,488**	72,342
Items not affecting cash and cash equivalents:		
Changes in actuarial liabilities	**212,954**	489,008
Changes in gross unearned premiums	**43,990**	28,745
Changes in reinsurance assets	**811**	(22,530)
Changes in net discounts on investments	**(35,081)**	(34,236)
Losses (gains) on investments	**135,010**	(137,858)
Deferred taxes (recovery)	**(1,940)**	8,855
Amortization of deferred premium acquisition costs	**112,642**	106,275
Net employee future benefit expense	**39,311**	12,218
Depreciation of property and equipment and amortization of intangible assets	**21,399**	20,651
Other items included in net income	**1,788**	2,107
	606,372	545,577
Net change in other items related to operating activities	**(175,635)**	(130,525)
Cash flows related to operating activities	**430,737**	415,052
INVESTING ACTIVITIES		
Acquisitions, issuances and advances related to investments	**(1,986,952)**	(1,712,813)
Disposals and repayments related to investments	**1,607,693**	1,219,316
Net additions to property and equipment and intangible assets	**(31,613)**	(20,963)
Cash flows related to investing activities	**(410,872)**	(514,460)
FINANCING ACTIVITIES		
Changes in a short-term borrowing	**—**	(15,164)
Repayment of long-term debt	**(555)**	(533)
Issuance of a subordinated debenture	**—**	149,250
Changes in non-controlling interests	**(1,446)**	(3,729)
Dividends paid to non-controlling interests	**(4,629)**	(5,506)
Interest paid on long-term debt	**(7,742)**	(602)
Cash flows related to financing activities	**(14,372)**	123,716
Net increase in cash and cash equivalents	**5,493**	24,308
Cash and cash equivalents, beginning of year	**66,243**	41,935
Cash and cash equivalents, end of year[1]	**71,736**	66,243
1. **Consisting of:**		
Cash	**44,822**	62,390
Cash equivalents	**40,583**	4,611
Bank overdraft *[note 14]*	**(13,669)**	(758)
	71,736	66,243
Supplementary information on cash flows		
Interest received	**64,676**	55,176
Dividends and distributions received	**109,161**	105,624
Taxes recovered (paid)	**520**	(38,145)

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

Notes to consolidated financial statements

DECEMBER 31, 2018 [in thousands of Canadian dollars]

1. INCORPORATING STATUTE AND NATURE OF OPERATIONS

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

It operates through its subsidiaries mainly in Canada as a designer, marketer and distributor of products including individual life and health insurance, savings and loans, mortgage loans, group insurance, automobile and home insurance, commercial insurance and surety lines and travel insurance.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

These consolidated financial statements were approved for issue by the Board of Directors of the Mutual on February 26, 2019.

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

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

Basis of consolidation

The consolidated financial statements include the accounts of the Mutual and those of its subsidiaries as at December 31, 2018. The subsidiaries are entities controlled by the Mutual. The Mutual controls a subsidiary only and only if it has:

- Power over the subsidiary (i.e., has existing rights that give it the current ability to direct the activities);
- Exposure, or rights, to variable returns from its involvement with the subsidiary;
- The ability to use its power over the subsidiary to affect the amount of its returns.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Basis of consolidation [Cont'd]

These financial statements include the financial statements of La Capitale Civil Service Mutual and the subsidiaries listed below. The direct parent company's percentage of ownership of voting shares for each subsidiary is detailed under "% interest."

	% interest		Location of main place of business	Description
	2018	2017		
Subsidiary				
La Capitale Financial Group Inc.	**96.5**	96.4	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	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
Développement informatique CSF inc.	**100.0**	100.0	Québec City, Canada	IT development and system improvement services
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.	**78.4**	78.2	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
SécuriGlobe Inc.	**100.0**	100.0	Brossard, Canada	Travel insurance product distributor
Immo-Beauport S.E.C.	**70.0**	70.0	Québec City, Canada	Real estate management company

* Merged with La Capitale Civil Service Insurer Inc. on January 1, 2018

On January 1, 2018, La Capitale Civil Service Insurer Inc., a subsidiary of the Mutual, was merged with its wholly-owned subsidiary La Capitale Insurance and Financial Services Inc. La Capitale Civil Service Insurer Inc. takes over rights and obligations of its merged subsidiary from this date. This merger does not result in any adjustments to the Mutual's consolidated financial statements, other than the tax effect presented in note 9.

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

Investments

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

- Assets held-for-trading and assets designated at fair value through profit or loss with changes in fair value recognized in income;
- Assets available-for-sale recognized at fair value with changes in fair value recognized in accumulated other comprehensive income;
- Loans and receivables recognized at amortized cost using the effective interest rate method.

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

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

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

Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

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

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

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

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

At each reporting date, financial instruments classified as available-for-sale are tested for impairment and, when there is evidence of impairment, generally a decline in value considered significant or prolonged, any loss recognized in accumulated other comprehensive income is reclassified to income. An impairment loss recorded in the statement of income may be reversed through profit or loss, in the case of a debt instrument, if its fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Impairment losses related to equity instruments may not be reversed through the statement of income. Financial instruments continue to be recognized at fair value even if an impairment loss has been recorded. Any subsequent declines in value for impaired financial instruments are recognized in income.

Fair values for bonds and stocks are determined with reference to bid prices observed in active market where available. Where bid prices cannot be obtained, fair value is determined using valuation techniques that factor in the interest rate particular to each security and discounted cash flows, and are based on indirectly observable market data. Fair values of mutual funds are determined according to values published by the fund. If no value is available, the mutual funds' underlying intruments are measured using the fair value method based on discounted future cash flows. Fair value is determined using valuation techniques that factor in the discount rate particular to this type of investment and discounted cash flows, and are based on indirectly observable market data.

Mortgage loans

Mortgage loans are classified as loans and receivables and reported at amortized cost using the effective interest rate method, less any allowance for losses. Commissions paid and other mortgage acquisition costs incurred are recognized and presented under mortgage loans. Amortized cost is the amount at which the mortgage loan is initially recognized less any principal repayments, plus or minus accumulated amortization determined using the effective interest rate method. Realized gains and losses on disposal of these securities and interest income are recognized through income under "Interest and other investment income."

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

Mortgage loan securitization

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

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

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

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

Policy loans

Policy loans classified under loans and receivables are recorded at amortized cost and are fully secured by the cash surrender value of the insurance policies on which the respective loans are granted. The fair value of policy loans approximates their carrying amount due to their short-term maturity.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Investments [Cont'd]

Investment properties

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

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

Other investments

Other investments include personal loans, other loans, properties held for resale, investments in a joint venture and associates, 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 rate method. The fair value of these personal and other loans is determined by discounting future cash flows using market interest rates for loans with similar terms and conditions.

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

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

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

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

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

Derivative financial instruments

The Mutual uses derivative financial instruments to manage interest rate risk in connection with asset-liability matching and to hedge against interest rate risk related to mortgage loans that are being securitized and certain insurance products. The Mutual also uses derivative financial instruments to manage foreign currency exposure.

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

Loan impairment provisions

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

Reinsurance

Reinsurance ceded

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Reinsurance [Cont'd]

Reinsurance assumed

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

Income taxes

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

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

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

Other financial assets and other assets

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

Other assets consist of deferred premium acquisition costs of property and casualty insurance segment, prepaid expenses and tax credits receivable. Deferred premium acquisition costs include commissions and taxes on premiums and are recorded at amortized cost over the term of the relevant insurance contract provided that they are recoverable. They are considered recoverable to the extent that unearned premiums and investment income, net of projected losses, loss adjustment expenses and administrative costs, exceed deferred charges. Prepaid expenses are recognized at cost.

Property and equipment

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

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

Property and equipment are depreciated on the following basis:

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

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

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

Intangible assets

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

Indefinite-life intangible assets are not amortized.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of property, equipment and intangible assets

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

Government assistance

The Mutual receives government assistance in the form of tax credits 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. Goodwill is initially measured and subsequently at cost less any accumulated impairment losses.

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

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

Insurance contract liabilities

Classification of contracts

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

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

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

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

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

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

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

Life and health insurance contract liabilities

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Insurance contract liabilities [Cont'd]

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 and Facility Association

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

Other financial liabilities and other liabilities

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Employee future benefits [Cont'd]

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

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

Long-term debt

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

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

Subordinated debenture

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

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

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

Revenue recognition

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

Premiums

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

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

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

Investment income

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

Fees and other income

Fees and other income comprise mainly brokerage fees, management fees, and other income and recognized on an accrual basis as services are rendered.

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.

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

On January 1st, 2018, the Mutual adopted the following standard:

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, financial instruments and some non-monetary exchanges. This new standard sets out a single, fivestep model for recognizing revenues. IFRS 15 is effective for fiscal year beginning on or after January 1st, 2018.

The Mutual has adopted the standard retrospectively for all financial reporting periods. The adoption of this standard did not have any impact on the financial statements of the Mutual.

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Changes in future accounting policies

The standards issued by the IASB that were not applicable as at the date of publication of the Mutual's financial statements are described below. The Mutual will apply these standards in future fiscal years.

IFRS 9 – *Financial Instruments*

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

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

In September 2016, the IASB published "Applying IFRS 9, *Financial Instruments* and IFRS 4, *Insurance Contracts*". The purpose of the amendments contained in this publication is to align accounting treatments of IFRS 9 to those included in the current IFRS 4 standard for entities that issue insurance contracts. These changes offer the option to reclassify certain amounts of income and expenses related to designated financial instruments from net income to comprehensive income (the "deferral approach"). They also offer an optional temporary exemption allowing entities whose predominant activity is to issue insurance contracts to defer the application of IFRS 9 until the fiscal year beginning on January 1st, 2021 (the "deferral approach"). However, this expiry date should be amended to January 1st, 2022 at the latest by the IASB, subject to a public consultation process.

The Mutual meets the qualification criteria for the deferral approach. The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 80% and the Mutual does not engage in a significant activity unconnected with insurance. The Mutual elects for this exemption.

The Mutual is currently assessing the impact of this standard on its financial statements. The standard is to be applied retrospectively.

IFRS 16 – *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard requires most leases to be accounted for on balance sheet using a single model. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 will be effective for fiscal years beginning on or after January 1st, 2019. The Mutual is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 17 – *Insurance contracts*

In May 2017, the IASB issued IFRS 17, *Insurance contracts*. This comprehensive new standard for insurance contracts (including reinsurance) covers recognition and measurement, presentation and disclosure. While current IFRS 4 is largely based on local valuation practice, IFRS 17 introduces a new general valuation model that aims to provide more useful and consistent financial information on insurance contracts. This general valuation model is set out in various forms covering all relevant aspects of the accounting of insurance contracts. IFRS 17 applies to fiscal years beginning on or after January 1st, 2021. However, effective date should be amended to January 1st, 2022 by the IASB, subject to a public consultation process. The standard is to be applied retrospectively. The Mutual is currently assessing the impact of the standard on its financial statements.

3. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

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.

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. Instruments 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 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 instrument has declined significantly below cost or for a prolonged period of time. During the year, no unrealized losses on available-for-sale financial assets were reclassified from the statement of comprehensive income to the statement of income [2017: none].

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 assesses whether impairment exists and determines fair values and recoverable amounts. The important issues considered include economic factors, new developments affecting companies and specific sectors, and particular aspects affecting certain borrowers and issuers.

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

Estimates and assumptions

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

Fair value of financial instruments

For Level 3 financial instruments, the fair value of financial assets reported in the consolidated statement of financial position cannot be derived from markets considered active. The fair value of these financial instruments is 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 5.

Fair value of investment properties

The Mutual accounts for its investment properties at fair value and recognizes any changes in fair value through the consolidated 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 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 5.

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 11.

Income taxes

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

The Mutual has revised its prior estimates related to income tax figures which resulted in immaterial changes. Following this revision, total equity as at January 1st, 2017 has been decreased by $8,287. Net income for the year ended December 31, 2017 has been decreased by $2,674. As at December 31, 2017, income tax receivable has been decreased by $441, deferred tax assets have been decreased by $3,458, and deferred tax liabilities have been increased by $7,062 resulting in a net reduction of total equity by an amount of $10,961.

Life and health insurance contract liabilities

The establishment of insurance contract liabilities and 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 tax expense, policy lapses, participating policyholder dividends and the margins for adverse deviation. These assumptions are described in note 13.

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 13.

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 15.

4. INVESTMENTS AND INVESTMENT INCOME

Investments

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

Carrying amount and fair value of investments

	2018						
	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	85,405	—	—	—	—	85,405	85,405
Bonds							
Government of Canada	—	1,452	97,803	—	—	99,255	99,255
Provincial governments*	—	1,201,347	317,275	—	—	1,518,622	1,518,622
Municipalities, school boards and hospitals*	—	16,427	26,482	—	—	42,909	42,909
Corporate*	—	380,190	272,481	—	—	652,671	652,671
	—	1,599,416	714,041	—	—	2,313,457	2,313,457
Stocks							
Common shares	—	30,480	125,128	—	—	155,608	155,608
Preferred shares	—	161,265	89,060	—	—	250,325	250,325
	—	191,745	214,188	—	—	405,933	405,933
Mutual funds							
Bonds	—	37,514	119,454	—	—	156,968	156,968
Stocks	—	522,087	31,408	—	—	553,495	553,495
Loans	—	40,041	71,034	—	—	111,075	111,075
Diversified	—	1,073,758	—	—	—	1,073,758	1,073,758
Other	—	262	28,781	—	—	29,043	29,043
	—	1,673,662	250,677	—	—	1,924,339	1,924,339
Mortgage loans							
Insured*	—	—	—	133,655	—	133,655	133,846
Conventional*	—	—	—	360,003	—	360,003	361,078
	—	—	—	493,658	—	493,658	494,924
Policy loans	—	—	—	42,984	—	42,984	42,984
Investment properties							
Held for invesment	—	—	—	—	160,405	160,405	160,405
Other investments							
Personal loans*	—	—	—	17,751	—	17,751	17,264
Other loans	—	—	—	85,841	—	85,841	85,879
Properties held for resale	—	—	—	—	896	896	896
Investments in a joint venture and associates	—	—	—	—	29,006	29,006	
Investments in limited partnerships	—	189,026	86,074	—	—	275,100	275,100
Derivative financial instruments	1,829	—	—	—	—	1,829	1,829
Other	—	—	1,000	—	—	1,000	1,000
	1,829	189,026	87,074	103,592	29,902	411,423	
	87,234	3,653,849	1,265,980	640,234	190,307	5,837,604	

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

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investments [Cont'd]

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

	2017						
	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	67,001	—	—	—	—	67,001	67,001
Bonds							
Government of Canada	—	1,444	92,545	—	—	93,989	93,989
Provincial governments	—	1,200,374	299,831	—	—	1,500,205	1,500,205
Municipalities, school boards and hospitals	—	26,399	65,395	—	—	91,794	91,794
Corporate	—	357,782	277,505	—	—	635,287	635,287
	—	1,585,999	735,276	—	—	2,321,275	2,321,275
Stocks							
Common shares	—	43,736	115,820	—	—	159,556	159,556
Preferred shares	—	179,958	116,892	—	—	296,850	296,850
	—	223,694	232,712	—	—	456,406	456,406
Mutual funds							
Bonds	—	40,999	111,770	—	—	152,769	152,769
Stocks	—	418,636	29,720	—	—	448,356	448,356
Loans	—	29,780	81,382	—	—	111,162	111,162
Diversified	—	904,691	—	—	—	904,691	904,691
Other	—	812	30,304	—	—	31,116	31,116
	—	1,394,918	253,176	—	—	1,648,094	1,648,094
Mortgage loans							
Insured	—	—	—	148,941	—	148,941	150,330
Conventional	—	—	—	389,732	—	389,732	392,893
	—	—	—	538,673	—	538,673	543,223
Policy loans	—	—	—	41,943	—	41,943	41,943
Investment properties							
Held for invesment	—	—	—	—	172,591	172,591	172,591
Other investments							
Personal loans	—	—	—	17,022	—	17,022	16,740
Other loans	—	—	—	81,088	—	81,088	80,794
Properties held for resale	—	—	—	—	447	447	447
Investments in a joint venture and associates	—	—	—	—	27,970	27,970	
Investments in limited partnerships	—	147,688	68,584	—	—	216,272	216,272
Derivative financial instruments	1,193	—	—	—	—	1,193	1,193
	1,193	147,688	68,584	98,110	28,417	343,992	
	68,194	3,352,299	1,289,748	678,726	201,008	5,589,975	

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investments [Cont'd]

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 Quebec City. The fiscal year of the joint venture ends on December 31. This joint venture manages two commercial and residential rental buildings. The joint venture acquired from a partner an emphyteutic lease right on the land of a real estate complex. This right expires on May 31, 2082. Annual lease payments amount to $160 [2017: $160] payable until May 31, 2022. Subsequently, annual lease payments will be adjusted based on the value of the land at that time and the average yield of Quebec long-term savings bonds. The total commitment of the joint venture for the January 1st, 2019 to May 31, 2022 period amounts to $547 [2017: $707] as at December 31, 2018. Under the emphyteutic lease, the joint venture has an obligation to remit to the lessor the property and its improvements in good conditions at the end of that commitment.

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.

	2018	2017
	$	$
Allocation of net assets		
Joint venture	**22,560**	21,200
Associates	**6,446**	6,770
	29,006	27,970
Allocation of the share of		
Net income of the joint venture	**1,636**	81
Net income of the associates	**345**	1,926
	1,981	2,007

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investment income

	2018					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	1,618	—	—	—	—	1,618
Bonds						
Interest	—	59,082	16,583	—	—	75,665
Net realized losses	—	—	(1,850)	—	—	(1,850)
Change in fair value	—	(52,898)	—	—	—	(52,898)
Stocks						
Dividends	—	9,584	9,179	—	—	18,763
Net realized gains	—	—	16,130	—	—	16,130
Change in fair value	—	(23,106)	—	—	—	(23,106)
Mutual funds						
Distribution income	—	70,784	8,826	—	—	79,610
Net realized gains	—	—	2,031	—	—	2,031
Change in fair value	—	(86,396)	—	—	—	(86,396)
Mortgage loans						
Interest	—	—	—	16,428	—	16,428
Policy loans						
Interest	—	—	—	2,762	—	2,762
Investment properties						
Rental income	—	—	—	—	22,782	22,782
Change in fair value	—	—	—	—	(1,332)	(1,332)
Other investments						
Interest	—	—	—	3,123	563	3,686
Distribution income	—	7,558	3,835	—	—	11,393
Net realized gains (losses)	(1,381)	—	4,702	—	—	3,321
Change in fair value	(520)	7,727	—	—	—	7,207
Share of income of the joint venture and associates	—	—	—	—	1,981	1,981
	(283)	(7,665)	59,436	22,313	23,994	97,795
SUMMARY						
Interest	1,618	59,082	16,583	22,313	563	100,159
Dividends	—	9,584	9,179	—	—	18,763
Distribution income	—	78,342	12,661	—	—	91,003
Rental income	—	—	—	—	22,782	22,782
Share of income of the joint venture and associates	—	—	—	—	1,981	1,981
Net realized gains (losses)	(1,381)	—	21,013	—	—	19,632
Change in fair value	(520)	—	—	—	(1,332)	(1,852)
Interest and other investment income	(283)	147,008	59,436	22,313	23,994	252,468
Change in fair value of financial assets designated at fair value through profit or loss	—	(154,673)		—	—	(154,673)
	(283)	(7,665)	59,436	22,313	23,994	97,795

4. INVESTMENTS AND INVESTMENT INCOME [Cont'd]

Investment income [Cont'd]

	2017					
	Held-for-trading $	Designated at fair value through profit or loss $	Available-for-sale $	Loans and receivables $	Other $	Total $
Cash and cash equivalents						
Interest	549	—	—	—	—	549
Bonds						
Interest	—	56,793	10,243	—	—	67,036
Net realized losses	—	—	(916)	—	—	(916)
Change in fair value	—	68,779	—	—	—	68,779
Stocks						
Dividends	—	9,766	10,945	—	—	20,711
Net realized gains	—	—	17,067	—	—	17,067
Change in fair value	—	14,779	—	—	—	14,779
Mutual funds						
Distribution income	—	56,263	9,877	—	—	66,140
Net realized gains	—	—	2,560	—	—	2,560
Change in fair value	—	28,184	—	—	—	28,184
Mortgage loans						
Interest	—	—	—	17,129	—	17,129
Policy loans						
Interest	—	—	—	2,656	—	2,656
Investment properties						
Rental income	—	—	—	—	22,898	22,898
Change in fair value	—	—	—	—	217	217
Other investments						
Interest	—	—	—	2,875	420	3,295
Distribution income	—	6,598	3,168	—	—	9,766
Net realized gains	3,291	—	—	—	—	3,291
Change in fair value	(1,267)	3,297	—	—	—	2,030
Share of income of the joint venture and associates	—	—	—	—	2,007	2,007
	2,573	244,459	52,944	22,660	25,542	348,178
SUMMARY						
Interest	549	56,793	10,243	22,660	420	90,665
Dividends	—	9,766	10,945	—	—	20,711
Distribution income	—	62,861	13,045	—	—	75,906
Rental income	—	—	—	—	22,898	22,898
Share of income of the joint venture and associates	—	—	—	—	2,007	2,007
Net realized gains	3,291	—	18,711	—	—	22,002
Change in fair value	(1,267)	—	—	—	217	(1,050)
Interest and other investment income	2,573	129,420	52,944	22,660	25,542	233,139
Change in fair value of financial assets designated at fair value through profit or loss	—	115,039	—	—	—	115,039
	2,573	244,459	52,944	22,660	25,542	348,178

5. FAIR VALUE OF FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTIES

Fair value hierarchy

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

Level 1: Quoted prices [unadjusted] in active markets for identical assets or liabilities.

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

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

For assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements, the Mutual determines whether the date of the transfer from one level to another is the date of the change in circumstances that triggered the transfer. No transfer occurred during fiscal year ended December 31, 2018 [2017: none].

Assets and liabilities measured at fair value

	2018				2017			
	Level 1 $	Level 2 $	Level 3 $	Total $	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS								
Cash and cash equivalents	**44,822**	**40,583**	**—**	**85,405**	62,390	4,611	—	67,001
Bonds								
Government of Canada	**—**	**99,255**	**—**	**99,255**	—	93,989	—	93,989
Provincial governments	**—**	**1,518,622**	**—**	**1,518,622**	—	1,500,205	—	1,500,205
Municipalities, school boards and hospitals	**—**	**42,909**	**—**	**42,909**	—	91,794	—	91,794
Corporate	**—**	**652,671**	**—**	**652,671**	—	635,287	—	635,287
	—	**2,313,457**	**—**	**2,313,457**	—	2,321,275	—	2,321,275
Stocks								
Common shares	**155,608**	**—**	**—**	**155,608**	159,556	—	—	159,556
Preferred shares	**250,325**	**—**	**—**	**250,325**	296,850	—	—	296,850
	405,933	**—**	**—**	**405,933**	456,406	—	—	456,406
Mutual funds								
Bonds	**—**	**156,968**	**—**	**156,968**	—	152,769	—	152,769
Stocks	**553,495**	**—**	**—**	**553,495**	448,356	—	—	448,356
Loans	**—**	**111,075**	**—**	**111,075**	—	111,162	—	111,162
Diversified	**—**	**1,073,758**	**—**	**1,073,758**	—	904,691	—	904,691
Other	**—**	**29,043**	**—**	**29,043**	—	31,116	—	31,116
	553,495	**1,370,844**	**—**	**1,924,339**	448,356	1,199,738	—	1,648,094
Investment properties	**—**	**—**	**160,405**	**160,405**	—	—	172,591	172,591
Other investments								
Investments in limited partnerships	**—**	**—**	**275,100**	**275,100**	—	—	216,272	216,272
Derivative financial instruments	**—**	**1,829**	**—**	**1,829**	—	1,193	—	1,193
Other	**—**	**—**	**1,000**	**1,000**	—	—	—	—
	—	**1,829**	**276,100**	**277,929**	—	1,193	216,272	217,465
Other financial assets								
Retained interests – Securitization	**—**	**—**	**4,882**	**4,882**	—	—	4,532	4,532
LIABILITIES								
Other financial liabilities								
Bank overdraft	**13,669**	**—**	**—**	**13,669**	758	—	—	758
Derivative financial instruments	**—**	**2,602**	**—**	**2,602**	—	1,446	—	1,446
	13,669	**2,602**	**—**	**16,271**	758	1,446	—	2,204

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

Fair value hierarchy [Cont'd]

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

	2018				2017			
	Level 1 $	Level 2 $	Level 3 $	Total $	Level 1 $	Level 2 $	Level 3 $	Total $
ASSETS								
Mortgage loans	—	494,924	—	494,924	—	543,223	—	543,223
Policy loans	—	42,984	—	42,984	—	41,943	—	41,943
Other investments								
Personal loans	—	17,264	—	17,264	—	16,740	—	16,740
Other loans	—	85,879	—	85,879	—	80,794	—	80,794
Properties held for resale	—	896	—	896	—	447	—	447
	—	104,039	—	104,039	—	97,981	—	97,981
LIABILITIES								
Other financial liabilities								
Other amounts on deposit	—	90,672	—	90,672	—	91,013	—	91,013
Long-term debt	—	13,551	—	13,551	—	13,950	—	13,950
Subordinated debenture	—	147,948	—	147,948	—	149,495	—	149,495

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

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

Bonds

Bonds are valued using market prices based on the average of bid prices quoted by Canada's top twelve brokers. The bid price is then compared to another external pricing source. The external source uses the latest quoted market or closing price. Where there is a spread between the two sourced prices, a comparison is made with a further source specialized in market financial information to determine the price that is most representative of fair value. Where quoted prices are not available, fair value is estimated using a valuation method based on discounted future cash flows 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 fair value of bond mutual funds is determined using the value published by the fund. If no value is available, the bond mutual funds' underlying bonds are measured using the bond valuation technique.

Loan mutual funds

The fair value of the loan mutual funds is determined using the value published by the fund. If no value is available, the loan mutual funds' underlying loans are measured using the fair value method based on discounted future cash flows. The method's significant inputs consist of the discount rate and credit, liquidity and prepayment risks.

Diversified mutual funds

The fair value of diversified mutual funds is determined using the value published by the fund. If no value is available, the diversified mutual funds' underlying shares are measured using closing market bid prices. Their underlying bonds are measured using the bond valuation technique.

Other mutual funds

The fair value of other mutual funds is determined using the value published by the fund. If no value is available, the other mutual funds' underlying securities are measured 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 foreign currency risks.

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

Valuation techniques for Level 2 or 3 assets measured at fair value [Cont'd]

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, the overall discount rate and the weighted average vacancy rate.

	2018	2017
Rate of return	**6.70% – 8.50%**	6.70% – 9.50%
Overall discount rate	**5.75% – 10.50%**	6.00% – 10.50%
Weighted average vacancy rate	**5.75%**	5.83%

Sensitivity analysis

A 0.25% increase in the rate of return and overall discount rate would result in a $5,810 [2017: $5,946] 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 $6,264 [2017: $6,400] increase in the fair value of the investment properties.

Rental income from investment properties in the amount of $22,782 [2017: $22,898] is reported under investment income. The direct operating costs of investment properties generating rental income amounted to $14,193 for the year [2017: $14,974] and are reported under investment management fees.

Other investments

Investments in limited partnerships

Investments in limited partnerships are allocated by line of business as follows:

	2018	2017
	$	$
Investments in limited partnerships by line of business		
Private debt (various sectors)	**114,443**	80,673
Infrastructure – equity	**79,839**	75,324
Real estate	**62,707**	51,185
Other	**18,111**	9,090
	275,100	216,272

Private debt (various sectors)

The investment in limited partnerships that invest in private debt is measured using the future discounted cash flow method, including the interest income and capital distributions from private debt. This measurement is based on an unobservable input, namely the discount rate. An increase (decrease) in the discount rate would result in a decrease (increase) in the fair value of this investment.

A 1% increase in the discount rate would result in a $4,795 [2017: $7,139] decrease in the fair value of the investment in the limited partnerships. A 1% decrease in the discount rate would result in a $4,795 [2017: $7,139] increase in the fair value of the investment in the limited partnerships.

Infrastructure – equity

The investment in the infrastructure line of business is measured using the discounted future cash flow method, including the estimate of the residual value of the infrastructure assets. This valuation method is based on unobservable inputs, namely the discount rate and the 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 fair value of the investment.

A 1% increase in the discount rate would result in a $7,003 [2017: $6,416] decrease in the fair value of the investment in limited partnership. A 1% decrease in the discount rate would result in a $8,091 [2017: $6,973] increase in the fair value of the investment in that limited partnership.

Real estate

The investment in the real estate line of business is measured using the discounted future cash flow method, including the estimation of the residual value of the investment properties. 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.

A 1% increase in the capitalization rate would result in a $14,711 [2017: $12,374] decrease in the fair value of the investment in limited partnerships. A 1% decline in the capitalization rate would result in a $16,130 [2017: $13,536] increase in the fair value of the investment in limited partnerships.

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

Valuation techniques for Level 2 or 3 assets measured at fair value [Cont'd]

***Other investments** [Cont'd]*

Derivative financial instruments

The fair value of derivative financial instruments, such as interest rate and foreign exchange forward 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, for a given notional amount. The closing prices used in calculating the value of the position are externally sourced.

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.

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

	2018					
	Notional amount by maturity				Fair value	
	Under one year $	One year to three years $	Over three years $	Total $	Positive $	Negative $
Interest rate contracts	**147,610**	**—**	**28,200**	**175,810**	**1,743**	**(1,653)**
Foreign exchange forward contracts	**28,978**	**1,583**	**—**	**30,561**	**86**	**(949)**
	176,588	**1,583**	**28,200**	**206,371**	**1,829**	**(2,602)**

	2017					
	Notional amount by maturity				Fair value	
	Under one year $	One year to three years $	Over three years $	Total $	Positive $	Negative $
Interest rate contracts	155,640	—	23,500	179,140	994	(1,407)
Foreign exchange forward contracts	12,507	3,163	—	15,670	199	(39)
	168,147	3,163	23,500	194,810	1,193	(1,446)

Other financial assets

Retained interests – Securitization

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 interests is disclosed in note 12.

Changes in Level 3 assets measured at fair value

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

	Investment properties $	Investments in limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2018	**172,591**	**216,272**	**4,532**
Losses recognized in income	**—**	**—**	**(914)**
Issuances	**—**	**—**	**1,264**
Purchases or capital expenditure	**1,843**	**56,588**	**—**
Disposals and transfer	**(12,697)**	**(13,185)**	**—**
Net realized gains	**—**	**4,702**	**—**
Change in fair value through profit or loss	**(1,332)**	**7,727**	**—**
Unrealized gains recognized in other comprehensive income	**—**	**2,996**	**—**
Balance as at December 31, 2018	**160,405**	**275,100**	**4,882**

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

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

	Investment properties $	Investments in limited partnerships $	Retained interests – Securitization $
Balance as at January 1, 2017	170,278	170,272	5,085
Losses recognized in income	—	—	(1,544)
Issuances	—	—	991
Purchases or capital expenditure	2,096	61,167	—
Disposals	—	(19,418)	—
Change in fair value through profit or loss	217	3,297	—
Unrealized gains recognized in other comprehensive income	—	954	—
Balance as at December 31, 2017	172,591	216,272	4,532

6. MANAGEMENT OF FINANCIAL INSTRUMENT RISKS

Principles and responsibilities of risk management

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

The 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 establishing the relationship between the Boards of Directors and the various committees. The Internal Audit function, which reports to the audit committees of the insurance companies, is responsible for assessing compliance with the policies.

The Strategic Governance, Forecasting and Risk Management Committee reports directly to the Board of Directors of the Mutual. 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 Strategic Governance, Forecasting and Risk Management Committee. Coordinated by the Office of the Executive Vice-Presidency, Finance, Corporate Actuarial and Risk Management, this policy provides a framework for the Mutual's key risks.

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

Market risk

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

The Investment Committee is responsible for monitoring the investment policy, which is reviewed annually. The Board of Directors approves amendments, if any. Investment policy limits are set prudently to mitigate the Mutual's exposure to risk. 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 economic 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, 2018 would result in an $11,469 decrease [2017: $10,654] in the Mutual's after-tax comprehensive income. A 10% stock market upturn as at December 31, 2018 would have the opposite effect, resulting in an $11,469 increase [2017: $10,654] in the Mutual's after-tax comprehensive income.

Interest rate risk

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

A 1% rise in interest rates on surplus portfolios as at December 31, 2018 would result in a $26,818 decrease [2017: $31,907] in the Mutual's after-tax comprehensive income. A 1% decline in interest rates on those portfolios as at December 31, 2018 would result in a $29,129 increase [2017: $34,617] in the Mutual's after-tax comprehensive income.

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

Market risk [Cont'd]

***Interest rate risk** [Cont'd]*

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

		Fixed rate					2018	
	Variable rate $	Maturing in under 1 year $	Maturing in 1 to 5 years $	Maturing in 6 to 10 years $	Maturing in over 10 years $	No specific maturity $	Total carrying amount $	Weighted average effective interest rate %
Bonds								
Government of Canada	—	2,503	74,236	5,987	16,529	—	99,255	2.0
Provincial governments	1,032	28,419	311,347	161,202	1,016,622	—	1,518,622	3.0
Municipalities, school boards and hospitals	—	1,980	19,563	6,690	14,676	—	42,909	3.0
Corporate	9,953	25,698	237,427	76,352	303,241	—	652,671	3.6
	10,985	58,600	642,573	250,231	1,351,068	—	2,313,457	3.1
Stocks								
Preferred shares	2,601	62,253	99,161	1,906	—	84,404	250,325	5.2
Mortgage loans								
Insured	—	52,134	79,435	131	1,955	—	133,655	3.3
Conventional	29,419	111,760	217,699	1,125	—	—	360,003	3.3
	29,419	163,894	297,134	1,256	1,955	—	493,658	3.3
Policy loans	—	—	—	—	—	42,984	42,984	6.5
Other investments								
Personal loans	12,213	1,033	1,241	3,264	—	—	17,751	5.4
Other loans	—	19,326	56,921	386	8,490	718	85,841	3.6
	12,213	20,359	58,162	3,650	8,490	718	103,592	3.9
	55,218	305,106	1,097,030	257,043	1,361,513	128,106	3,204,016	3.4

		Fixed rate					2017	
	Variable rate $	Maturing in under 1 year $	Maturing in 1 to 5 years $	Maturing in 6 to 10 years $	Maturing in over 10 years $	No specific maturity $	Total carrying amount $	Weighted average effective interest rate %
Bonds								
Government of Canada	—	516	70,236	9,326	13,911	—	93,989	1.9
Provincial governments	2,033	14,978	256,743	187,934	1,038,517	—	1,500,205	2.8
Municipalities, school boards and hospitals	—	14,037	52,767	9,652	15,338	—	91,794	2.5
Corporate	11,522	22,629	227,076	56,694	317,366	—	635,287	3.3
	13,555	52,160	606,822	263,606	1,385,132	—	2,321,275	2.9
Stocks								
Preferred shares	7,179	52,171	136,430	—	—	101,070	296,850	4.6
Mortgage loans								
Insured	—	51,976	96,187	778	—	—	148,941	3.1
Conventional	32,456	95,077	260,763	1,436	—	—	389,732	3.1
	32,456	147,053	356,950	2,214	—	—	538,673	3.1
Policy loans	—	—	—	—	—	41,943	41,943	6.5
Other investments								
Personal loans	12,694	980	1,415	1,933	—	—	17,022	4.7
Other loans	—	31,985	46,880	425	1,062	736	81,088	2.7
	12,694	32,965	48,295	2,358	1,062	736	98,110	3.1
	65,884	284,349	1,148,497	268,178	1,386,194	143,749	3,296,851	3.1

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

Market risk [Cont'd]

Foreign exchange risk

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

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

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 at least 90% of 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, some other investments, premiums receivable, reinsurance assets and other receivables included in other financial assets totalling $4,267,400 [2017: $4,246,106].

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

Bonds by credit quality

	Carrying amount			
	2018		2017	
Credit rating	$	%	$	%
AAA	**127,404**	**5.5**	135,112	5.8
AA	**660,500**	**28.6**	653,785	28.2
A	**1,392,200**	**60.1**	1,403,162	60.4
BBB	**133,353**	**5.8**	129,216	5.6
	2,313,457	**100.0**	2,321,275	100.0

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

Preferred shares by credit quality

	Carrying amount			
	2018		2017	
Credit rating	$	%	$	%
P2	**231,386**	**92.4**	272,837	91.9
P3	**18,939**	**7.6**	24,013	8.1
	250,325	**100.0**	296,850	100.0

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

Credit risk [Cont'd]

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

Mortgage loans by property class

	2018			2017		
	Carrying amount $	Fair value $	CMHC secured $	Carrying amount $	Fair value $	CMHC secured $
Residential	**465,533**	**467,074**	**128,619**	502,064	506,431	139,212
Other	**28,125**	**27,850**	**5,036**	36,609	36,792	9,729
	493,658	**494,924**	**133,655**	538,673	543,223	148,941

The carrying amount of mortgage loans secured by CMHC represented 27.1% [2017: 27.6%] of the total carrying amount of the mortgage loan portfolio as at December 31, 2018.

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.

	2018				2017			
	30-59 days in arrears $	60-89 days in arrears $	90 days or more in arrears or in foreclosure $	Total $	30-59 days in arrears $	60-89 days in arrears $	90 days or more in arrears or in foreclosure $	Total $
Insured mortgage loans	**557**	**24**	**874**	**1,455**	1,546	—	247	1,793
Conventional mortgage loans	**298**	**169**	**99**	**566**	87	174	163	424
Personal loans	**16**	**24**	**10**	**50**	—	10	20	30
	871	**217**	**983**	**2,071**	1,633	184	430	2,247

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

Concentration risk

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

The life and health insurance companies mainly limit their investment in a company to 10% of all the corporate bonds, common shares and preferred shares. Mutual funds are not subject to 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.

Corporate bonds by sector

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

	2018				2017			
	Designated at fair value through profit or loss $	Available-for-sale $	Total $	% of total	Designated at fair value through profit or loss $	Available-for-sale $	Total $	% of total
Energy	**87,292**	**9,312**	**96,604**	**14.8**	81,610	13,288	94,898	15.0
Industrials	**33,020**	**7,257**	**40,277**	**6.2**	27,491	6,395	33,886	5.3
Consumer staples and discretionary	**14,514**	**11,315**	**25,829**	**4.0**	15,927	10,211	26,138	4.1
Health care	**962**	**3,446**	**4,408**	**0.7**	996	3,717	4,713	0.8
Financials	**101,201**	**197,563**	**298,764**	**45.7**	87,371	185,290	272,661	42.9
Technology	**1,278**	**—**	**1,278**	**0.2**	1,350	—	1,350	0.2
Communications	**34,807**	**11,019**	**45,826**	**7.0**	29,134	13,929	43,063	6.8
Utilities	**95,265**	**9,268**	**104,533**	**16.0**	97,535	10,713	108,248	17.0
Other	**11,851**	**23,301**	**35,152**	**5.4**	16,368	33,962	50,330	7.9
	380,190	**272,481**	**652,671**	**100.0**	357,782	277,505	635,287	100.0

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

Concentration risk [Cont'd]

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

Stocks by sector

	2018				2017			
	Common shares $	Preferred shares $	Total $	% of total	Common shares $	Preferred shares $	Total $	% of total
Energy	**11,204**	**31,768**	**42,972**	**10.6**	10,624	39,501	50,125	11.0
Materials	**3,115**	**—**	**3,115**	**0.8**	9,403	—	9,403	2.1
Industrials	**9,884**	**—**	**9,884**	**2.4**	12,365	—	12,365	2.7
Consumer staples and discretionary	**9,446**	**—**	**9,446**	**2.3**	20,524	—	20,524	4.5
Health care	**267**	**—**	**267**	**0.1**	210	—	210	—
Financials	**71,287**	**200,367**	**271,654**	**66.8**	73,458	238,893	312,351	68.4
Technology	**1,088**	**—**	**1,088**	**0.3**	1,016	—	1,016	0.2
Communications	**22,142**	**—**	**22,142**	**5.5**	20,311	—	20,311	4.5
Utilities	**10,304**	**18,190**	**28,494**	**7.0**	10,564	18,456	29,020	6.4
Other	**16,871**	**—**	**16,871**	**4.2**	1,081	—	1,081	0.2
	155,608	**250,325**	**405,933**	**100.0**	159,556	296,850	456,406	100.0

Liquidity risk

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

The Mutual 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 is detailed by contractual maturity as follows:

	Under 1 year $	1 year to 5 years $	6 years to 10 years $	No specific maturity $	Total $
Other financial liabilities	271,429	—	—	36,625	308,054
Long-term debt	574	3,291	10,120	—	13,985
Subordinated debenture	—	—	149,403	—	149,403
	272,003	3,291	159,523	36,625	471,442

7. 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 ceding 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. Furthermore, business is spread across a number of reinsurers to reduce reinsurance concentration and coverage risk to an insignificant level.

	2018	2017
Reinsurance assets	$	$
Life and health insurance *[note 13]*	**256,642**	255,896
Property and casualty insurance *[note 13]*	**16,189**	17,746
	272,831	273,642

7. REINSURANCE ASSETS [Cont'd]

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

	Life and health insurance[1]		Property and casualty insurance		Total	
	2018	2017	2018	2017	2018	2017
	$	$	$	$	$	$
Decrease in insurance and premiums acquired	**(59,508)**	(56,530)	**(28,423)**	(29,320)	**(87,931)**	(85,850)
Decrease in benefits and claims incurred	**37,490**	32,676	**2,955**	12,415	**40,445**	45,091
Change in actuarial liabilities	**746**	15,784	**—**	—	**746**	15,784
Decrease in commissions	**13,668**	13,350	**1,541**	1,762	**15,209**	15,112
Favorable (unfavourable) effect before income taxes	**(7,604)**	5,280	**(23,927)**	(15,143)	**(31,531)**	(9,863)

1. This effect does not represent the aggregate impact of reinsurance on income, as it does not take into account movements in market value arising from the write-down of assets from reinsurance.

Property and casualty reinsurance

The property and casualty insurance companies carried out reinsurance transactions in respect of new policies issued and policies renewed in fiscal 2018 and 2017, as well as the related claims incurred.

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

	2018	2017
	$	$
Single risk losses		
Net retentions:		
Automobile:		
– Personal insurance	**2,250**	2,250
– Commercial insurance	**2,250**	2,250
Property:		
– Personal insurance	**2,250**	2,250
– Commercial insurance	**2,250**	2,250
Civil liability	**2,250**	2,250
Multiple risk losses and catastrophes		
Net retentions	**7,500**	7,500
Coverage limits	**425,000**	400,000

8. OTHER FINANCIAL ASSETS AND OTHER ASSETS

	2018	2017
	$	$
Other financial assets		
Held-for-trading		
Retained interests – Securitization *[note 12]*	**4,882**	4,532
Cash in trust	**2,622**	2,584
	7,504	7,116
Loans and receivables		
Investment income receivable	**12,743**	11,736
Due from reinsurers – Life and health insurance segment	**14,205**	10,497
Due from reinsurers – Property and casualty insurance segment	**1,989**	2,584
Subrogations *[note 13]*	**22,280**	18,986
Other receivables	**33,774**	25,066
Balance of selling price receivable	**1,001**	1,573
	85,992	70,442
	93,496	77,558
Other assets		
Deferred premium acquisition costs	**55,167**	51,414
Prepaid expenses	**15,980**	13,264
Tax credits receivable	**1,811**	2,204
	72,958	66,882

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

Deferred premium acquisition costs

	2018	2017
	$	$
Balance as at January 1	**51,414**	53,877
Addition	**116,395**	103,812
Amortization	**(112,642)**	(106,275)
Balance as at December 31	**55,167**	51,414

9. INCOME TAXES

	2018	2017
	$	$
Income tax expense as reported in the consolidated statement of income:		
Current taxes	**18,796**	9,148
Deferred taxes (recovery)	**(1,940)**	8,855
	16,856	18,003

	2018	2017
	$	$
Income tax expense reported in the consolidated statement of income attributable to:		
Members of the Mutual	**10,146**	13,796
Participating policyholders	**3,631**	2,799
Non-controlling interests	**3,079**	1,408
	16,856	18,003

	2018	2017
	$	$
Income tax (recovery) reported in other comprehensive income:		
Current taxes (recovery)	**(10,964)**	(228)
Deferred taxes (recovery)	**13,530**	(11,272)
	2,566	(11,500)

	2018	2017
	$	$
Income tax (recovery) reported in other comprehensive income attributable to:		
Members of the Mutual	**3,017**	(9,981)
Participating policyholders	**—**	(251)
Non-controlling interests	**(451)**	(1,268)
	2,566	(11,500)

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

	2018		2017	
	$	%	$	%
Income before income taxes	**92,344**	**—**	90,345	—
Income tax expense based on statutory rates	**24,656**	**26.7**	24,212	26.8
Increase (deacrease) in income taxes resulting from:				
Non-taxable items	**(8,752)**	**(9.5)**	(9,340)	(10.3)
Prior-year adjustment	**(463)**	**(0.5)**	(293)	(0.3)
Effect of merger of two subsidiaries *[note 2]*	**—**	**—**	2,340	2.6
Effect of substantively enacted income tax rate	**151**	**0.2**	(43)	(0.1)
Other	**104**	**0.1**	64	0.1
	15,696	**17.0**	16,940	18.8
Income taxes on investment income	**1,160**	**1.3**	1,063	1.2
Income taxes and effective rates	**16,856**	**18.3**	18,003	20.0

9. INCOME TAXES [Cont'd]

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

	2018 $	2017 $
Deferred tax assets		
Actuarial liabilities	**59,082**	59,632
Provision for claims and loss adjustment expenses	**4,553**	4,556
Other liabilities	**8,010**	8,363
Employee future benefits	**28,544**	39,442
Unused tax losses	**1,380**	830
Other	**7,181**	4,636
	108,750	117,459
Deferred tax liabilities		
Policy loans	**11,431**	11,080
Investment properties	**16,361**	16,950
Investment in a joint venture	**4,706**	4,474
Property and equipment	**11,725**	11,357
Intangible assets	**35,711**	33,397
Other investments	**10,487**	7,281
Deferred net tax gains	**3,006**	4,041
Other	**1,242**	3,208
	94,669	91,788
Net deferred tax assets	**14,081**	25,671
Reported as:		
Deferred tax assets	**29,589**	40,965
Deferred tax liabilities	**15,508**	15,294

10. PROPERTY AND EQUIPMENT

	Land $	Own-use properties $	Furniture and other $	Computer hardware $	Leasehold improvements $	Total $
Cost						
Balance as at January 1, 2017	11,378	127,504	25,024	53,224	9,645	226,775
Purchases	—	360	630	4,521	194	5,705
Disposals	—	—	(453)	(866)	(282)	(1,601)
Balance as at December 31, 2017	11,378	127,864	25,201	56,879	9,557	230,879
Purchases	**—**	**374**	**602**	**4,018**	**409**	**5,403**
Disposals	**—**	**—**	**(806)**	**(308)**	**(19)**	**(1,133)**
Balance as at December 31, 2018	**11,378**	**128,238**	**24,997**	**60,589**	**9,947**	**235,149**
Accumulated depreciation						
Balance as at January 1, 2017		11,346	18,373	48,898	5,015	83,632
Depreciation		2,484	1,324	3,117	688	7,613
Disposals		—	(453)	(866)	(282)	(1,601)
Balance as at December 31, 2017		13,830	19,244	51,149	5,421	89,644
Depreciation		**2,511**	**1,235**	**3,540**	**757**	**8,043**
Disposals		**—**	**(790)**	**(308)**	**(19)**	**(1,117)**
Balance as at December 31, 2018		**16,341**	**19,689**	**54,381**	**6,159**	**96,570**
Net carrying amount						
December 31, 2018	**11,378**	**111,897**	**5,308**	**6,208**	**3,788**	**138,579**
December 31, 2017	11,378	114,034	5,957	5,730	4,136	141,235

11. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

Intangible assets are detailed as follows:

	Indefinite useful life	Finite useful life				
	Trademarks $	Clients and distribution networks $	Purchased software $	Internally developed software $	Software under development $	Total $
Cost						
Balance as at January 1, 2017	17,187	35,912	44,240	139,384	8,908	245,631
Purchases	—	—	580	—	14,864	15,444
Disposals	—	—	(5)	(42)	—	(47)
Transfer from software under development to software	—	—	—	12,918	(12,918)	—
Tax credits	—	—	44	(230)	—	(186)
Balance as at December 31, 2017	17,187	35,912	44,859	152,030	10,854	260,842
Purchases	**—**	**—**	**359**	**—**	**25,982**	**26,341**
Disposals	**—**	**—**	**(1,245)**	**(59)**	**—**	**(1,304)**
Transfer from software under development to software	**—**	**—**	**476**	**5,450**	**(5,926)**	**—**
Tax credits	**—**	**—**	**—**	**(115)**	**—**	**(115)**
Balance as at December 31, 2018	**17,187**	**35,912**	**44,449**	**157,306**	**30,910**	**285,764**
Accumulated amortization						
Balance as at January 1, 2017		31,064	23,880	24,750	—	79,694
Amortization		1,353	4,210	7,567	—	13,130
Disposals		—	(5)	(42)	—	(47)
Tax credits		—	12	(104)	—	(92)
Balance as at December 31, 2017		32,417	28,097	32,171	—	92,685
Amortization		**1,180**	**3,559**	**8,718**	**—**	**13,457**
Disposals		**—**	**(1,245)**	**(59)**	**—**	**(1,304)**
Tax credits		**—**	**—**	**(101)**	**—**	**(101)**
Balance as at December 31, 2018		**33,597**	**30,411**	**40,729**	**—**	**104,737**
Net carrying amount						
December 31, 2018	**17,187**	**2,315**	**14,038**	**116,577**	**30,910**	**181,027**
December 31, 2017	17,187	3,495	16,762	119,859	10,854	168,157

Goodwill

	2018 $	2017 $
Balance as at January 1 and as at December 31	**102,572**	102,572

11. INTANGIBLE ASSETS AND GOODWILL [Cont'd]

Impairment test

The Mutual tests goodwill and trademarks for impairment annually. Testing was performed on September 30, 2018.

The following table shows the goodwill and trademarks by group of CGUs and the significant asset valuation assumptions used in the group of CGUs.

			Assumptions	
	Goodwill $	Trademarks $	Pre-tax discount rate %	Terminal value growth rate %
Life and health insurance – individual insurance and financial services segment				
December 31, 2018	**57,315**	**10,739**	**11.1 and 17.7**	**2.0 and 2.5**
December 31, 2017	57,315	10,739	13.4 and 17.7	2.0
Property and casualty insurance – broker distribution				
December 31, 2018	**45,257**	**6,448**	**14.2 and 18.4**	**2.0 and 4.0**
December 31, 2017	45,257	6,448	13.8 and 18.4	2.0 and 4.0
Total				
December 31, 2018	**102,572**	**17,187**		
December 31, 2017	102,572	17,187		

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 pretax 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, 2018.

12. SECURITIZATION

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

	2018 $	2017 $
Retained interests reported within other financial assets		
NHA MBS	**4,882**	4,532
Securitized and derecognized mortgage loans		
NHA MBS	**392,963**	370,642
Derecognized mortgage bonds in trust		
NHA MBS	**400,935**	376,201
Mortgage loans over 90 days past due secured by CMHC		
NHA MBS	**620**	277

Securitization transactions

	2018 NHA MBS $	2017 NHA MBS $
Proceeds from new securitization transactions	**111,646**	84,081
Transaction costs	**(377)**	(285)
Net proceeds	**111,269**	83,796
Pre-tax losses	**(869)**	(670)
Results from retained interests in securitization operations and related financial instruments	**2,318**	1,504
Net results from all securitization operations	**1,449**	834

12. SECURITIZATION [Cont'd]

Key assumptions

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

	2018	2017
	%	%
Prepayment rate	**10.5**	19.3
Excess spread	**1.2**	1.2
Discount rate	**2.7**	2.0

As at December 31, 2018, 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

	2018		2017	
	Assumption %	Impact on fair value $	Assumption %	Impact on fair value $
Prepayment rate				
Impact on fair value of 10% adverse change	**11.6**	**(88)**	21.2	(149)
Impact on fair value of 20% adverse change	**12.6**	**(176)**	23.1	(295)
Excess spread (net of credit losses)				
Impact on fair value of 10% adverse change	**1.1**	**(523)**	1.1	(483)
Impact on fair value of 20% adverse change	**1.0**	**(959)**	1.0	(885)
Discount rate				
Impact on fair value of 10% adverse change	**2.9**	**(21)**	2.2	(15)
Impact on fair value of 20% adverse change	**3.2**	**(43)**	2.4	(30)

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.

13. INSURANCE CONTRACT LIABILITIES

Life and health insurance

The Boards of Directors name the Appointed Actuary, who is responsible for the valuation of life and health insurance contract liabilities in accordance with accepted actuarial practice in Canada, applicable legislation and associated regulations and directives and for expressing an opinion regarding their appropriateness 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 life and health insurance subsidiaries.

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

	2018	2017
	$	$
Gross actuarial liabilities	**4,428,411**	4,215,457
Provisions for benefits incurred	**56,775**	57,266
Provisions for experience rating refunds	**36,888**	33,391
Policyholder amounts on deposit	**111,969**	101,739
	4,634,043	4,407,853

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

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

Life and health insurance contract liabilities	2018 Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	**826,460**	**796,689**	**1,623,149**	**132,631**	**1,490,518**
Annuities	**784**	**2,217,699**	**2,218,483**	**—**	**2,218,483**
Group					
Life and health insurance	**—**	**782,987**	**782,987**	**124,011**	**658,976**
Annuities	**—**	**9,424**	**9,424**	**—**	**9,424**
	827,244	**3,806,799**	**4,634,043**	**256,642**	**4,377,401**

	2017 Participating $	Non-participating $	Total before reinsurance ceded $	Reinsurance ceded $	Net total $
Individual					
Life and health insurance	839,786	796,878	1,636,664	130,871	1,505,793
Annuities	805	1,987,915	1,988,720	—	1,988,720
Group					
Life and health insurance	—	774,747	774,747	125,025	649,722
Annuities	—	7,722	7,722	—	7,722
	840,591	3,567,262	4,407,853	255,896	4,151,957

Assets backing life and health insurance contract liabilities	2018 Individual		Group		
	Life and health insurance $	Annuities $	Life and health insurance $	Annuities $	Total $
Participating					
Bonds	**606,335**	**570**	**—**	**—**	**606,905**
Policy loans	**37,846**	**36**	**—**	**—**	**37,882**
Investment properties	**61,086**	**58**	**—**	**—**	**61,144**
Own-use properties and land	**80,206**	**75**	**—**	**—**	**80,281**
Investments in limited partnerships	**41,858**	**39**	**—**	**—**	**41,897**
Other	**6,388**	**6**	**—**	**—**	**6,394**
	833,719	**784**	**—**	**—**	**834,503**
Non-participating					
Bonds	**499,215**	**121,346**	**285,380**	**4,081**	**910,022**
Stocks	**15,865**	**102,126**	**71,647**	**1,025**	**190,663**
Mutual funds	**2,401**	**1,630,961**	**39,556**	**566**	**1,673,484**
Mortgage loans	**632**	**279,989**	**138,344**	**1,979**	**420,944**
Policy loans	**4,905**	**—**	**—**	**—**	**4,905**
Investment properties	**38,058**	**11,182**	**—**	**—**	**49,240**
Own-use properties and land	**8,211**	**95**	**—**	**—**	**8,306**
Investments in limited partnerships	**85,423**	**20,165**	**39,578**	**566**	**145,732**
Other	**2,089**	**51,835**	**84,471**	**1,207**	**139,602**
	656,799	**2,217,699**	**658,976**	**9,424**	**3,542,898**
	1,490,518	**2,218,483**	**658,976**	**9,424**	**4,377,401**
Reinsurance ceded	**132,631**	**—**	**124,011**	**—**	**256,642**
Total before reinsurance ceded	**1,623,149**	**2,218,483**	**782,987**	**9,424**	**4,634,043**

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

	2017				
	Individual		Group		
Assets backing life and health insurance contract liabilities	Life and health insurance $	Annuities $	Life and health insurance $	Annuities $	Total $
Participating					
Bonds	620,977	589	—	—	621,566
Policy loans	37,001	35	—	—	37,036
Investment properties	71,994	69	—	—	72,063
Own-use properties and land	81,666	78	—	—	81,744
Investments in limited partnerships	31,333	30	—	—	31,363
Other	4,167	4	—	—	4,171
	847,138	805	—	—	847,943
Non-participating					
Bonds	487,325	120,799	284,805	2,720	895,649
Stocks	21,163	126,554	75,311	666	223,694
Mutual funds	2,417	1,361,954	29,626	832	1,394,829
Mortgage loans	193	292,814	123,237	1,193	417,437
Policy loans	4,730	—	—	—	4,730
Investment properties	36,752	13,387	—	—	50,139
Own-use properties and land	8,316	86	—	—	8,402
Investments in limited partnerships	74,518	16,146	24,341	71	115,076
Other	23,241	56,175	112,402	2,240	194,058
	658,655	1,987,915	649,722	7,722	3,304,014
	1,505,793	1,988,720	649,722	7,722	4,151,957
Reinsurance ceded	130,871	—	125,025	—	255,896
Total before reinsurance ceded	1,636,664	1,988,720	774,747	7,722	4,407,853

The estimated fair value of the assets backing liabilities before reinsurance ceded was $4,378,519 [2017: $4,155,189].

Assumptions

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

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

Mortality

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

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

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

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 $4,276 [2017: $3,887]. 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 $4,192 [2017: $3,440].

Morbidity

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

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

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

Assumptions [Cont'd]

Morbidity [Cont'd]

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 $29,831 [2017: $30,878]. A 5% decrease in the incidence of morbidity and a 5% 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 $26,750 [2017: $27,596].

Return on investments

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

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

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

Without taking into account this matching, an immediate 1% decline over the entire yield curve would result in a $19,266 [2017: $15,734] decrease in net income, while an immediate 1% rise over the entire yield curve would result in a $20,112 [2017: $17,093] 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 for future years.

A 5% increase in contract management expenses would result in a $11,569 [2017: $10,548] decrease in net income.

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, 2018 were reduced by $15,052 [2017: $13,874] 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, as the case may be.

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

A 10% deterioration in policy lapse assumptions would result in a $32,108 [2017: $28,288] 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 regarding each assumption.

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Life and health insurance [Cont'd]

Changes in net actuarial liabilities

	2018 $	2017 $
Balance, beginning of year	**3,959,561**	3,486,337
Change due		
To the passing of time	**(157,756)**	(8,264)
To new business	**436,546**	381,565
To changes in assumptions and policies	**(66,582)**	99,923
	212,208	473,224
Balance, end of year	**4,171,769**	3,959,561
Gross actuarial provisions	**4,428,411**	4,215,457
Reinsurance assets *[note 7]*	**256,642**	255,896
Net actuarial liabilities	**4,171,769**	3,959,561

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

	2018 $	2017 $
Mortality	**(8,658)**	2,380
Economic assumptions	**(60,625)**	69,915
Methods and other	**2,701**	27,628
	(66,582)	99,923

In 2018, the main changes made to actuarial assumptions and methods concern economic assumptions.

Life and health insurance risks

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

	2019 $	2020 $	2021 $	2022 $	2023 $	2024 and thereafter $	Total $
Life and health – Individual	21,310	(2,973)	7,905	21,188	16,350	4,305,861	4,369,641
Annuities – Individual	260,155	232,245	230,238	215,024	238,219	1,881,484	3,057,365
Life and health – Group	248,211	60,147	51,169	43,531	38,114	294,079	735,251
Annuities – Group	404	460	504	551	594	11,807	14,320
	530,080	289,879	289,816	280,294	293,277	6,493,231	8,176,577

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance

Actuarial liabilities are established to reflect estimated total 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:

	2018	2017
	$	$
Unearned premiums	**765,578**	721,588
Provision for claims and loss adjustment expenses	**379,539**	378,174
	1,145,117	1,099,762

Unearned premiums

The following table details unearned premiums per business line.

	2018				
	Direct unearned premiums $	Reinsurance assumed $	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Personal insurance					
Automobile:					
Civil liability	**179,658**	**—**	**179,658**	**—**	**179,658**
Accident	**15,143**	**—**	**15,143**	**—**	**15,143**
Other	**217,891**	**9,440**	**227,331**	**—**	**227,331**
Property and civil liability	**237,404**	**—**	**237,404**	**—**	**237,404**
Other	**4,496**	**—**	**4,496**	**—**	**4,496**
	654,592	**9,440**	**664,032**	**—**	**664,032**
Commercial insurance					
Automobile:					
Civil liability	**12,437**	**—**	**12,437**	**—**	**12,437**
Accident	**2,172**	**—**	**2,172**	**—**	**2,172**
Other	**10,206**	**—**	**10,206**	**—**	**10,206**
Property and civil liability	**70,148**	**—**	**70,148**	**2,532**	**67,616**
Other	**6,340**	**243**	**6,583**	**104**	**6,479**
	101,303	**243**	**101,546**	**2,636**	**98,910**
Balance, end of year	**755,895**	**9,683**	**765,578**	**2,636**	**762,942**

	2017				
	Direct unearned premiums $	Reinsurance assumed $	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Personal insurance					
Automobile:					
Civil liability	166,465	—	166,465	—	166,465
Accident	14,338	—	14,338	—	14,338
Other	211,264	16,267	227,531	—	227,531
Property and civil liability	217,423	—	217,423	—	217,423
Other	4,316	—	4,316	—	4,316
	613,806	16,267	630,073	—	630,073
Commercial insurance					
Automobile:					
Civil liability	10,679	—	10,679	—	10,679
Accident	1,765	—	1,765	—	1,765
Other	9,167	—	9,167	—	9,167
Property and civil liability	63,886	—	63,886	2,214	61,672
Other	5,899	119	6,018	268	5,750
	91,396	119	91,515	2,482	89,033
Balance, end of year	705,202	16,386	721,588	2,482	719,106

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Changes in unearned premiums

The following table presents movements in the Mutual's unearned premiums during the year.

	2018				
	Direct unearned premiums $	Reinsurance assumed $	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	**705,202**	**16,386**	**721,588**	**2,482**	**719,106**
Premiums written during the year	**1 041,728**	**(1,126)**	**1,040,602**	**28,577**	**1,012,025**
Premiums earned during the year	**(991,035)**	**(5,577)**	**(996,612)**	**(28,423)**	**(968,189)**
Balance, end of year	**755,895**	**9,683**	**765,578**	**2,636**	**762,942**

	2017				
	Direct unearned premiums $	Reinsurance assumed $	Gross unearned premiums $	Reinsurance ceded $	Net unearned premiums $
Balance, beginning of year	668,838	24,005	692,843	3,685	689,158
Premiums written during the year	963,494	(843)	962,651	28,117	934,534
Premiums earned during the year	(927,130)	(6,776)	(933,906)	(29,320)	(904,586)
Balance, end of year	705,202	16,386	721,588	2,482	719,106

Provision for claims and loss adjustment expenses

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

	2018	2017
Provision for claims and loss adjustment expenses	$	$
Gross provision for claims and loss adjustment expenses	**357,259**	359,188
Subrogations	**22,280**	18,986
	379,539	378,174

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

	2018				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Personal insurance					
Automobile:					
Civil liability	**78,371**	**—**	**78,371**	**660**	**77,711**
Accident	**39,569**	**—**	**39,569**	**1,029**	**38,540**
Other	**33,754**	**1,359**	**35,113**	**—**	**35,113**
Property and civil liability	**83,850**	**—**	**83,850**	**14**	**83,836**
Other	**1,484**	**—**	**1,484**	**—**	**1,484**
	237,028	**1,359**	**238,387**	**1,703**	**236,684**
Commercial insurance					
Automobile:					
Civil liability	**28,668**	**—**	**28,668**	**6,387**	**22,281**
Accident	**3,620**	**—**	**3,620**	**163**	**3,457**
Other	**2,410**	**—**	**2,410**	**—**	**2,410**
Property and civil liability	**79,188**	**—**	**79,188**	**3,021**	**76,167**
Other	**4,986**	**—**	**4,986**	**2,279**	**2,707**
	118,872	**—**	**118,872**	**11,850**	**107,022**
Balance, end of year	**355,900**	**1,359**	**357,259**	**13,553**	**343,706**

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

***Provision for claims and loss adjustment expenses** [Cont'd]*

	2017				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Personal insurance					
Automobile:					
Civil liability	85,719	—	85,719	394	85,325
Accident	40,899	—	40,899	1,755	39,144
Other	32,034	1,614	33,648	—	33,648
Property and civil liability	80,222	—	80,222	733	79,489
Other	1,371	—	1,371	—	1,371
	240,245	1,614	241,859	2,882	238,977
Commercial insurance					
Automobile:					
Civil liability	25,456	—	25,456	5,738	19,718
Accident	3,803	—	3,803	282	3,521
Other	1,856	—	1,856	—	1,856
Property and civil liability	78,281	—	78,281	1,472	76,809
Other	7,933	—	7,933	4,890	3,043
	117,329	—	117,329	12,382	104,947
Balance, end of year	357,574	1,614	359,188	15,264	343,924

Reinsurance assets are detailed as follows:

	2018	2017
Reinsurance ceded	$	$
Unearned premiums	**2,636**	2,482
Provision for claims and loss adjustment expenses	**13,553**	15,264
	16,189	17,746

Changes in provision for claims and loss adjustment expenses

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

	2018				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	**357,574**	**1,614**	**359,188**	**15,264**	**343,924**
Current year claims	**673,498**	**7,378**	**680,876**	**5,541**	**675,335**
Prior year favourable claims development	**(8,501)**	**(3,404)**	**(11,905)**	**(2,473)**	**(9,432)**
Increase (decrease) due to changes in discount rate	**(886)**	**3**	**(883)**	**(113)**	**(770)**
Total claims incurred	**664,111**	**3,977**	**668,088**	**2,955**	**665,133**
Claims paid	**665,785**	**4,232**	**670,017**	**4,666**	**665,351**
Balance, end of year	**355,900**	**1,359**	**357,259**	**13,553**	**343,706**

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

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

	2017				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Balance, beginning of year	334,402	3,663	338,065	7,315	330,750
Current year claims	631,095	5,112	636,207	9,596	626,611
Prior year (favourable) unfavourable claims development	(8,368)	(2,122)	(10,490)	2,887	(13,377)
Increase (decrease) due to changes in discount rate	(5)	—	(5)	(68)	63
Total claims incurred	622,722	2,990	625,712	12,415	613,297
Claims paid	599,550	5,039	604,589	4,466	600,123
Balance, end of year	357,574	1,614	359,188	15,264	343,924

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.

	2018				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Undiscounted value	**343,388**	**1,372**	**344,760**	**13,740**	**331,020**
Effect of time value of money using a rate of 4.3%	**(18,943)**	**(13)**	**(18,956)**	**(1,322)**	**(17,634)**
Provision for adverse deviations	**31,455**	**—**	**31,455**	**1,135**	**30,320**
Carrying amount	**355,900**	**1,359**	**357,259**	**13,553**	**343,706**

	2017				
	Direct provision for claims and loss adjustment expenses $	Reinsurance assumed $	Gross provision for claims and loss adjustment expenses $	Reinsurance ceded $	Net provision for claims and loss adjustment expenses $
Undiscounted value	344,175	1,614	345,789	15,338	330,451
Effect of time value of moneyusing a rate of 3.8%	(18,651)	—	(18,651)	(1,227)	(17,424)
Provision for adverse deviations	32,050	—	32,050	1,153	30,897
Carrying amount	357,574	1,614	359,188	15,264	343,924

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 $4,416 [2017: $5,039] impact on the fair value of the provision for claims and loss adjustment expenses and on net income as at December 31, 2018.

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

The following table shows estimated cumulative gross claims and loss settlement expenses incurred in the past nine 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									
	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimated amount of undiscounted claims and loss adjustment expenses before external reinsurance, net of subrogation										
At end of accident year	407,719	401,862	398,892	467,411	473,685	494,773	524,333	584,949	**624,347**	
Revised estimates										
1 year later	395,484	399,260	402,347	458,654	465,558	486,499	515,074	580,986		
2 years later	398,419	401,496	404,542	457,677	464,504	483,415	510,564			
3 years later	398,215	400,860	403,557	457,261	462,449	481,196				
4 years later	400,315	399,895	405,787	456,579	462,385					
5 years later	401,127	400,179	404,668	455,555						
6 years later	400,918	403,551	405,473							
7 years later	401,977	402,982								
8 years later	401,603									
Current estimates	**401,603**	**402,982**	**405,473**	**455,555**	**462,385**	**481,196**	**510,564**	**580,986**	**624,347**	**4,325,091**
Claims paid during prior periods										
At end of accident year	267,904	287,935	289,669	331,715	345,093	354,759	376,097	418,618	**462,213**	
1 year later	348,650	357,135	372,029	418,536	414,960	430,643	467,472	528,849		
2 years later	360,306	367,731	380,490	427,678	427,485	446,609	479,281			
3 years later	371,719	376,567	389,956	435,687	438,978	455,975				
4 years later	381,802	383,360	394,519	439,011	444,235					
5 years later	387,596	388,881	398,291	443,253						
6 years later	394,852	392,881	401,956							
7 years later	396,784	395,238								
8 years later	399,031									
Current cumulative payments	**399,031**	**395,238**	**401,956**	**443,253**	**444,235**	**455,975**	**479,281**	**528,849**	**462,213**	**4,010,031**
Undiscounted provision for claims and loss adjustment expenses before external reinsurance	**2,572**	**7,744**	**3,517**	**12,302**	**18,150**	**25,221**	**31,283**	**52,137**	**162,134**	**315,060**
Provision for claims prior to 2010 accident year, provision for internal expenses and risk pooling arrangement										**29,700**
Effect of time value of money and provision for adverse deviations										**12,499**
Gross provision for claims and loss adjustment expenses										**357,259**
Excess (deficiency) of initial provision relative to re-estimated final cost as at December 31, 2018										
Amount	6,116	(1,120)	(6,581)	11,856	11,300	13,577	13,769	3,963		
Percentage	1.5%	(0.3)%	(1.6)%	2.5%	2.4%	2.7%	2.6%	2.6%		

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

The following table shows estimated cumulative net claims and loss settlement expenses incurred in the past nine 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									
	2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Estimated undiscounted amount of claims and loss adjustment expenses after external reinsurance										
At end of accident year	397,328	390,459	381,790	449,581	468,986	491,073	522,531	576,762	**619,196**	
Revised estimates										
1 year later	383,993	385,332	374,527	445,903	461,234	483,483	513,211	572,455		
2 years later	386,572	388,418	377,833	444,940	460,714	480,187	508,813			
3 years later	385,922	389,086	376,533	446,450	458,686	478,215				
4 years later	387,703	388,596	378,906	445,615	458,719					
5 years later	387,976	389,128	378,198	446,068						
6 years later	388,043	389,324	378,165							
7 years later	387,847	388,756								
8 years later	387,789									
Current estimates	**387,789**	**388,756**	**378,165**	**446,068**	**458,719**	**478,215**	**508,813**	**572,455**	**619,196**	**4,238,176**
Claims paid during prior periods										
At end of accident year	265,656	283,078	280,553	324,488	343,580	354,329	375,467	414,866	**460,844**	
1 year later	339,322	347,473	346,699	409,774	412,358	429,568	466,112	523,515		
2 years later	350,193	358,057	354,676	417,351	424,455	445,168	477,984			
3 years later	360,923	366,714	363,285	425,347	435,713	454,397				
4 years later	371,035	373,174	367,855	429,587	440,843					
5 years later	376,707	378,416	371,952	433,812						
6 years later	382,974	382,311	375,420							
7 years later	384,423	384,234								
8 years later	385,804									
Current cumulative payments	**385,804**	**384,234**	**375,420**	**433,812**	**440,843**	**454,397**	**477,984**	**523,515**	**460,844**	**3,936,853**
Discounted provision for claims and loss adjustment expenses after external reinsurance	**1,985**	**4,522**	**2,745**	**12,256**	**17,876**	**23,818**	**30,829**	**48,940**	**158,352**	**301,323**
Provision for claims prior to 2010 accident year, provision for internal expenses and risk pooling arrangement										**29,697**
Effect of time value of money and provision for adverse deviations										**12,686**
Net provision for claims and loss adjustment expenses										**343,706**

Excess of initial provision relative to re-estimated final cost as at December 31, 2018

	2010	2011	2012	2013	2014	2015	2016	2017
Amount	9,539	1,703	3,625	3,513	10,267	12,858	13,718	4,307
Percentage	2.4%	0.4%	0.9%	0.8%	2.2%	2.6%	2.6%	2.6%

13. INSURANCE CONTRACT LIABILITIES [Cont'd]

Property and casualty insurance [Cont'd]

Property and casualty insurance risks

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 competitive 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.

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 $71,000 [2017: $66,200].

Scheduled undiscounted cash outflows related to provision for claims and loss adjustment expenses are illustrated as follows:

	Under 1 year $	1 year to 5 years $	6 years to 10 years $	Over 10 years $	Total $
Provision for claims and loss adjustment expenses (undiscounted)	199,503	138,895	28,636	1,581	368,615

Risk concentration

The Mutual's risk concentration 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 premiums written.

	Premiums	
	2018	2017
	$	$
Individual insurance	**680,226**	623,596
Group insurance	**672,922**	614,326
Property and casualty insurance	**996,766**	932,703
	2,349,914	2,170,625

14. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES

	2018	2017
	$	$
Other financial liabilities		
Held-for-trading		
Bank overdraft	**13,669**	758
Derivative financial instruments	**2,602**	1,446
Deposits in trust	**2,622**	2,584
	18,893	4,788
Other liabilities		
Accrued liabilities	**149,242**	146,717
Other amounts on deposit	**90,672**	91,013
Loyalty, stabilization and development funds	**36,625**	37,242
Deposits for taxes	**220**	3,046
Due to reinsurers – Life and health insurance segment	**8,684**	8,418
Due to reinsurers – Property and casualty insurance segment	**397**	1,190
Accrued interest on subordinated debenture	**277**	218
Other	**3,044**	975
	289,161	288,819
	308,054	293,607
Other liabilities		
Stock appreciation rights plan payable	**9,661**	9,572
Deferred revenues	**946**	845
	10,607	10,417

14. OTHER FINANCIAL LIABILITIES AND OTHER LIABILITIES [Cont'd]

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.

The expense for the year amounted to $947 [2017: $692].

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

	2018	2017
Risk-free interest rate	**2.1%**	2.0%
Expected volatility of dividend yield	**6.4%**	6.4%
Average expected life of rights	**6.9 years**	5.9 years

15. EMPLOYEE FUTURE BENEFITS

Description of pension plans and other future benefits

The Mutual has four defined benefit plans providing pension benefits to most of its employees. The Mutual also provides additional defined benefit plans for certain members of senior management and defined contribution plan for certain other employees.

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 additional plans are unfunded.

The Mutual also offers other future benefits. These other future benefits include retirees' contributory health insurance plans (withdrawn in 2017 and recognized in 2017 as past service cost as a recovered amount of $20,024) for which employee contributions are adjusted annually, life insurance plans and celebration costs and retirements. These plans are unfunded.

Net defined benefit liability

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

	Pension plans		Other future benefits	
	2018	2017	2018	2017
	$	$	$	$
Change in fair value of plan assets				
Fair value, beginning of year	**601,150**	540,244	**—**	—
Actual return on plan assets	**2,870**	52,128	**—**	—
Employer contributions	**18,512**	19,533	**1,602**	1,752
Employee contributions	**11,936**	11,261	**—**	—
Transfers	**76**	46	**—**	—
Benefits paid	**(18,848)**	(22,062)	**(1,602)**	(1,752)
Fair value of assets, end of year	**615,696**	601,150	**—**	—
Change in defined benefit obligation				
Balance, beginning of year	**735,488**	623,191	**8,608**	25,617
Employee contributions	**11,936**	11,261	**—**	—
Current service costs	**33,281**	26,223	**816**	1,569
Transfers	**76**	46	**—**	—
Financial cost	**25,480**	24,662	**314**	1,037
Actuarial losses (gains) arising from plan experience	**(2,873)**	4,710	**3,623**	(43)
Actuarial losses (gains) arising from changes in financial and demographic assumptions	**(75,848)**	67,457	**(2,192)**	2,204
Benefits paid	**(18,848)**	(22,062)	**(1,602)**	(1,752)
Past service cost	**—**	—	**—**	(20,024)
Balance of obligation, end of year	**708,692**	735,488	**9,567**	8,608
Net defined benefit liability	**92,996**	134,338	**9,567**	8,608

Pension plan assets were measured as at December 31, 2018 and accrued defined benefit obligations were measured as at December 31, 2017 and projected to December 31, 2018.

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Capitalization situation

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

	Pension plans		Other future benefits	
	2018	2017	2018	2017
	$	$	$	$
Funded plans	**694,489**	720,111	**—**	—
Unfunded plans	**14,203**	15,377	**9,567**	8,608
	708,692	735,488	**9,567**	8,608

The dates of the most recent and the next required actuarial valuations for funding purposes are December 31, 2017 and December 31, 2020, respectively. The Mutual expects to contribute required contribution $15,073 to the defined benefit pension plans during the following fiscal year.

Net expense

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

	Pension plans		Other future benefits	
	2018	2017	2018	2017
	$	$	$	$
Current service costs	**33,281**	26,223	**816**	1,569
Past service cost	**—**	—	**—**	(20,024)
Net interest on net defined benefit obligation	**4,875**	3,395	**314**	1,037
Administrative costs	**25**	18	**—**	—
Net expense	**38,181**	29,636	**1,130**	(17,418)

To this net expense is added the expense of the exercise of the defined contribution plans which totalled $1,286 [2017: $1,273].

Remeasurement of net defined benefit liability

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

	Pension plans		Other future benefits	
	2018	2017	2018	2017
	$	$	$	$
Remeasurement of net defined benefit liability				
Return on plan assets, excluding amounts included in net interest	**(17,710)**	30,879	**—**	—
Actuarial gains (losses) arising from plan experience	**2,873**	(4,710)	**(3,623)**	43
Actuarial gains (losses) arising from changes in financial and demographic assumptions	**75,848**	(67,457)	**2,192**	(2,204)
Balance of remeasurement of net defined benefit liability	**61,011**	(41,288)	**(1,431)**	(2,161)

Supplementary information on pension plan assets

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

	Pension plans	
	2018	2017
	%	%
Asset classes		
Stocks	**3.8**	4.2
Bonds	**14.9**	13.6
Mutual funds		
Stocks	**34.6**	37.1
Bonds	**18.6**	20.4
Loans	**2.5**	2.1
Others	**1.5**	4.9
Investments in private companies	**23.8**	16.4
Other	**0.3**	1.3
	100.0	100.0

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Supplementary information on pension plan assets [Cont'd]

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

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

	2018				2017			
	Stocks %	Bonds %	Mutual funds %	Investments in private companies %	Stocks %	Bonds %	Mutual funds %	Investments in private companies %
Governments, municipalities, school boards and hospitals	—	**7.9**	**6.2**	**1.3**	0.1	5.0	6.9	1.9
Communications	**8.3**	**12.8**	**6.5**	**0.7**	13.0	13.1	5.2	1.1
Consumer discretionary	**12.2**	—	**7.0**	**2.0**	11.3	0.9	7.2	2.6
Consumer staples	**5.4**	**8.4**	**8.2**	**3.7**	14.9	10.3	6.8	4.0
Energy	**5.6**	**13.7**	**14.5**	**1.8**	5.4	14.5	14.6	3.1
Real estate	**4.8**	—	**3.6**	**49.5**	—	—	6.3	39.4
Infrastructure	—	—	**10.2**	**20.8**	—	—	8.4	24.5
Manufacturing	**11.7**	**8.4**	**10.9**	**3.5**	12.2	9.3	10.1	5.3
Materials	**6.4**	**16.8**	**4.1**	**0.8**	5.6	—	3.8	1.0
Financials	**21.3**	**32.0**	**15.0**	**2.3**	23.7	16.1	16.5	2.8
Utilities	**2.8**	—	**3.2**	**0.4**	2.4	30.8	2.8	0.6
Technology	**14.3**	—	**5.3**	**7.7**	10.4	—	6.1	6.4
Asset-backed securities	—	—	**0.2**	—	—	—	0.1	—
Mortgage-backed securities	—	—	**0.3**	—	—	—	0.1	—
Transportation	—	—	—	**0.1**	—	—	0.1	0.1
Health	**7.0**	—	**4.1**	**5.3**	—	—	4.5	6.7
Other	**0.2**	—	**0.7**	**0.1**	1.0	—	0.5	0.5
	100.0	**100.0**	**100.0**	**100.0**	100.0	100.0	100.0	100.0

Actuarial assumptions

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

	Pension plans		Other future benefits	
	2018	2017	2018	2017
	%	%	%	%
To determine defined benefit obligation				
Discount rate	**3.8**	3.4	**3.8**	3.4
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3
To determine defined benefit expense				
Discount rate	**3.4**	3.9	**3.4**	3.9
Rate of increase in future compensation	**3.3**	3.3	**3.3**	3.3

	2018			2017		
	Other future benefits			Other future benefits		
Assumed health care cost trend rates	Drugs %	Health %	Dental %	Drugs %	Health %	Dental %
Initial health care cost trend rates	**6.0%**	**5.0%**	**3.5%**	6.5%	5.0%	3.5%
Cost trend rates tend towards	**3.5%**	**3.5%**	**3.5%**	3.5%	3.5%	3.5%

	Pension plans	
Human life expectancy	2018	2017
	Years	Years
Male	**86**	86
Female	**89**	89

15. EMPLOYEE FUTURE BENEFITS [Cont'd]

Actuarial assumptions [Cont'd]

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

The weighted average duration of the defined benefit obligation is 22 years [2017: 22 years] for the pension plans and 9 years [2017: 8 years] for other future benefits.

Sensitivity analysis

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

	2018				2017			
Assumptions:	Discount rate		Rate of increase in future compensation		Discount rate		Rate of increase in future compensation	
Sensitivity level:	1% increase $	1% decrease $	1% increase $	1% decrease $	1% increase $	1% decrease $	1% increase $	1% decrease $
	(121,867)	**173,205**	**49,640**	**(40,043)**	(134,069)	184,488	56,662	(44,760)

	2018				2017			
Assumptions:	Health care cost trend rate		Human life expectancy		Health care cost trend rate		Human life expectancy	
Sensitivity level:	1% increase $	1% decrease $	1year increase $	1year decrease $	1% increase $	1% decrease $	1year increase $	1year decrease $
	611	**(508)**	**14,581**	**(14,808)**	458	(383)	16,967	(16,355)

16. LONG-TERM DEBT

	2018 $	2017 $
Borrowing secured by a $18,000 first mortgage primarily on an investment property valued at $21,506, bearing a fixed interest rate of 4.0% [2017: 4.0%], maturing in 2026	**13,985**	14,514

The maturities for long-term debt are as follows:

	$
Current portion	**574**
Portion from 1 to 5 years	**3,291**
Portion from 6 to 9 years	**10,120**
	13,985

The interest on long-term debt amounted to $598 [2017: $602].

As at December 31, 2018 the fair value of the borrowing amounts to $13,551 [2017: $13,950].

Decrease of $529 [2017: $507] of long-term debt consist of capital payments of $555 [2017: $533] reported as financing activities in the consolidated table of cash flows, and non-cash amortization of a discount of $26 [2017: $26].

17. SUBORDINATED DEBENTURE

	2018 $	2017 $
Subordinated debenture	**150,000**	150,000
Deferred transaction costs	**(597)**	(746)
	149,403	149,254

Subordinated debenture was issued on December 20, 2017 at a par value of $150,000. Its maturity date is January 4, 2028. It bears a fixed interest of 4.82% until January 3, 2023, payable semi-annually, after which the interest rate is the 90-day Bankers's Acceptance rate (CDOR) plus 2.62%, payable quarterly until January 4, 2028. This subordinated debenture is redeemable in advance by the Mutual from January 4, 2023, in whole or in part, upon approval from AMF. Its carrying value is presented net of transaction costs of $750 on issuance. Par value was equal to fair value on issuance.

It's carrying value is net of initial transaction costs of $750 which are amortized linearly over a 5-year period.

Total interest expense on the subordinated debenture is $7,229 [2017: $218]. Total amortization of transaction costs is $149 [2017: $4]. Both are reported in financial expenses.

As at December 31, 2018 the fair value of subordinated debenture amounts to $147,948 [2017: $149,495].

18. 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	2018 %	2017 %
Subsidiary			
La Capitale Financial Group Inc.	Québec City, Canada	**3.5**	3.6
La Capitale Participations inc.	Québec City, Canada	**21.6**	21.8
3602214 Canada Inc.	Mississauga, Canada	**30.0**	30.0

Cumulative balances of significant non-controlling interests

	2018 $	2017 $
La Capitale Financial Group Inc.	**32,717**	30,788
La Capitale Participations inc.	**93,000**	90,936
3602214 Canada Inc.	**37,199**	35,784
	162,916	157,508

Net income attributable to significant non-controlling interests

	2018 $	2017 $
La Capitale Financial Group Inc.	**2,342**	2,313
La Capitale Participations inc.	**6,851**	9,562
3602214 Canada Inc.	**2,907**	(3,109)
	12,100	8,766

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

	2018			2017		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Revenues	**64,159**	**1,016,210**	**118,781**	62,680	955,073	130,855
Net income (loss)	**63,776**	**31,692**	**9,690**	62,288	43,874	(10,364)
Other comprehensive income (loss)	**8,864**	**1,460**	**(4,975)**	(27,861)	(16,557)	318
Comprehensive income	**72,640**	**33,152**	**4,715**	34,427	27,317	(10,046)
Dividends paid to non-controlling interests	**74**	**4,555**	**—**	211	4,281	1,014

	2018			2017		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Total assets	**928,353**	**1,752,999**	**519,423**	854,480	1,714,275	527,775
Total liabilities	**4,307**	**1,319,483**	**395,427**	4,536	1,292,825	408,494
Equity	**924,046**	**433,516**	**123,996**	849,944	421,450	119,281
Attributable to members of the Mutual	**891,329**	**340,516**	**86,797**	819,156	330,514	83,497
Attributable to non-controlling interests	**32,717**	**93,000**	**37,199**	30,788	90,936	35,784

	2018			2017		
	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $	La Capitale Financial Group Inc. $	La Capitale Participations inc. $	3602214 Canada Inc. $
Cash flows						
Operating activities	**441**	**24,599**	**8,699**	2,571	36,782	(11,817)
Investing activities	**(1,021)**	**9,153**	**(6,032)**	2,541	(3,684)	14,184
Financing activities	**(572)**	**(21,086)**	**—**	(3,959)	(19,703)	(3,381)
Net increase (decrease) in cash and cash equivalents	**(1,152)**	**12,666**	**2,667**	1,153	13,395	(1,014)

19. 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, life and health 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 available 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.

Under regulatory authority guidelines, the insurance subsidiaries must set capital targets which exceed capital requirements. As at December 31, 2018, the insurance subsidiaries were in compliance with the applicable capital requirements of regulatory authorities.

Equity

In 2018, items resulting primarily in a net increase in equity consisted of net income, net unrealized losses on available-for-sale financial assets and remeasurement of net defined benefit liability.

20. GENERAL EXPENSES

General expenses by nature

	2018	2017
	$	$
Salaries and employee benefits	**269,392**	242,038
Depreciation of property and equipment *[note 10]*	**8,043**	7,613
Amortization of intangible assets *[note 11]*	**13,356**	13,038
Fees, rent and other	**58,461**	56,104
	349,252	318,793

21. COMMITMENTS, GARANTEES AND CONTINGENCIES

Commitments

Leases

As lessee

As at December 31, 2018, the Mutual is committed under operating leases for the use of office premises and service contracts expiring at various dates through 2028.

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

	2018	2017
	$	$
Under 1 year	**5,718**	5,658
1–5 years	**10,171**	10,652
Over 5 years	**2,069**	1,641
	17,958	17,951

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

Rental costs expensed during the year totalled $6,989 [2017: $6,796].

21. COMMITMENTS, GARANTEES AND CONTINGENCIES [Cont'd]

Commitments [Cont'd]

***Leases** [Cont'd]*

As lessor

Operating leases pertain to the rental of investment properties held by the Mutual. These leases have terms ranging from one to 18 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:

	2018	2017
	$	$
Under 1 year	**19,647**	20,267
1–5 years	**64,708**	59,147
Over 5 years	**64,082**	60,270
	148,437	139,684

Investment commitments

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

Expiring in	
45 days $	46–365 days $
14,473	**9,934**

As at December 31, 2018, the Mutual is committed to subscribe, on demand, an amount of $157,214 [2017: $104,412] for various investments.

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, 2018, 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 $31,530 [2017: $29,820] over a maximum period of 52 years [2017: 52 years]. The riskadjusted 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, 2018, the Mutual had a $10,000 credit facility [2017: $10,000] bearing interest at the prime rate, as well as a $2,000 credit facility [2017: $2,000] for the issuance of letters of credit.

As at December 31, 2018, the Mutual had issued a $500 standby letter of credit [2017: $500].

The Mutual also had a $40,000 commercial line of credit [2017: $40,000] to enable it to finance its mortgage loan operations, bearing interest at the prime rate.

Credit facilities are not drawn as at December 31, 2018 and 2017.

Other

As at December 31, 2018, the Mutual is committed under agreements with charities to pay a total amount of $2,905 [2017: $1,879]. The minimum payments for the next four fiscal years amount to $1,321 in 2019, $820 in 2020, $431 in 2021, $193 in 2022 and $140 in 2023.

Garantees

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 $65,600 [2017: $79,000].

21. COMMITMENTS, GARANTEES AND CONTINGENCIES [Cont'd]

Garantees [Cont'd]

Financial assets held as collateral – 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, 2018, the Mutual had loaned securities, which are included in investments, with a carrying amount of $586,213 [2017: $408,817].

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.

22. RELATED PARTY INFORMATION

Compensation of key management personnel

Compensation of key management personnel for the year was as follows:

	2018	2017
	$	$
Short-term employee benefits	**23,448**	24,252
Post-employment benefits	**6,869**	6,233
Termination benefits	**1,173**	871

La Capitale
Civil Service Mutual

For life. And all it brings.

OUR MEMBER COMPANIES

2018

Life and Health Insurance and Financial Services

MEMBER COMPANIES

LA CAPITALE CIVIL SERVICE INSURER

La Capitale Civil Service Insurer provides financial products to ensure the economic well-being of people in Quebec and the rest of Canada. Clients benefit from the unique expertise La Capitale Civil Service Insurer has developed in life and health insurance, savings and investments, and mortgage loans. This company 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 is renowned for its take-charge approach by providing personalized preventive and innovative solutions, such as the VIVA workplace health and wellness program, to its clients. 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 a payroll deduction option to public service employees working in some 800 institutions across Quebec's public and parapublic sectors.

PRODUCTS AND SERVICES OFFERED

- Life, health and disability Insurance
- Critical illness, dental care and vision care insurance
- Savings and investments
- Mortgage loans
- Payroll deduction option
- Travel and trip cancellation insurance
- Employee and manager assistance programs
- VIVA workplace health and wellness program
- Health spending account
- CAP Medical Assistance
- Conversion insurance (*Perspective healthcare insurance*)
- Home care and assistance
- Portals for insureds and plan administrators
- Mobile app

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 172 financial service advisors who serve Quebec government employees in their workplaces.

PRODUCTS AND SERVICES OFFERED

- Term, permanent and universal life insurance
- Health, critical illness and disability insurance
- Registered and non-registered investment products (e.g. GICs, investment accounts, retirement pensions, RRSPs, RESPs and TFSAs)
- Investment funds
- Referrals for home, auto and legal access insurance and mortgage loans
- Financial situation evaluations
- Personalized financial planning
- Training and presentations on financial security topics (RRSP, RREGOP, PPMP, legal aspects, investments, etc.)

LA CAPITALE FINANCIAL SECURITY

Based in Mississauga, Ontario, La Capitale Financial Security 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 198 career agents with branch offices and field agents across Canada, and also relies on an independent distribution channel.

PRODUCTS AND SERVICES OFFERED

- Short- and long-term disability 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. The real estate portfolio it manages covers approximately 1.4 million sq. ft., including 65 residential units under management, spread out over 9 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 $341 million, including office, commercial and residential buildings.

PRODUCTS AND SERVICES OFFERED

- Real estate asset management
- Property management and leasing
- Green buildings
- Construction and tenant management

SECURIGLOBE

SecuriGlobe, one of the largest travel insurance brokers in Canada, was acquired by La Capitale Civil Service Insurer in June 2014. SecuriGlobe, which was founded in 1999, relies on a network of more than 1,800 active partners across the country and distributes the products of over 13 different insurance carriers. SecuriGlobe has developed unique expertise by specializing in products that are suitable for all types of travellers, but for retirees in particular.

PRODUCTS AND SERVICES OFFERED

- Emergency health care
- Multi-trip annual plans
- Trip cancellation or interruption insurance
- Baggage insurance
- Extension of travel insurance
- Visitors to Canada coverage
- International student coverage
- Expatriates coverage
- Health and dental care insurance

OFFICERS

LA CAPITALE CIVIL SERVICE INSURER

SENIOR MANAGEMENT

Jean St-Gelais
Chairman of the Board and Chief Executive Officer

GROUP INSURANCE

Mario Albert
Executive Vice-President

Sales

Carl Laflamme
Vice-President

Client Experience

Guy Carignan
Vice-President

Administration and Claims

Dean Bergeron, BScAct
Vice-President

Maryse Pineault
Senior Director, Administration

Martin Roussel
Senior Director, Claims

Actuarial

Richard Fecteau, FSA, FCIA
Vice-President

Anne Morency, FSA, FCIA
Senior Director, Underwriting

INDIVIDUAL INSURANCE AND FINANCIAL SERVICES

Martin Delage, BA, CHRP
Executive Vice-President

Operations Management and Customer Relations

Lara Nourcy, BScAct
Vice-President

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

Actuarial and Product Development

Michel Lafrance, FSA, FCIA
Vice-President

Sales – Exclusive Distribution Channels

Ghassan Barakat
Vice-President

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

Sales – Brokerage Channel

Patrick Couture, BScAct
Senior Director

LA CAPITALE FINANCIAL SECURITY

Jean St-Gelais
Chairman of the Board and Chief Executive Officer

Martin Delage, BA, CHRP
Executive Vice-President

Operations Management and Customer Relations

Lara Nourcy, BScAct
Vice-President

Chris Kitagawa, BA
Assistant Vice-President, Administration

Mark Turkiewicz
Assistant Vice-President, Claims

Sales – Exclusive Distribution Channels

Ghassan Barakat
Vice-President

Actuarial and Product Development

Michel Lafrance, FSA, FCIA
Vice-President

Administration

Neil Brown
Assistant Vice-President, Finance

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

Sales – Brokerage Channel

Joseph Tari
Senior Director

SECURIGLOBE

Eric Champagne, Eng., MBA
Executive Vice-President and Chief Operating Officer

POINTS OF SERVICE

LA CAPITALE CIVIL SERVICE INSURER

GROUP INSURANCE

Montreal
425 de Maisonneuve Blvd W, Suite 801
Montreal QC H3A 3G5
1 800 463-4856

Quebec City
625 Jacques-Parizeau St
Quebec QC G1R 2G5
418 644-4200 or 1 800 463-4856

INDIVIDUAL INSURANCE AND FINANCIAL SERVICES

625 Jacques-Parizeau St
Quebec QC G1R 2G5
418 644-4106 or 1 888 703-4480

LA CAPITALE FINANCIAL SERVICES

SALES – EXCLUSIVE DISTRIBUTION CHANNELS

7333 Place des Roseraies, Suite 200
Anjou QC H1M 2X6
514 687-2964 or 1 866 279-9394

Baie-Comeau Financial Centre
337 Lasalle Blvd, Suite 104
Baie-Comeau QC G4Z 2Z1
418 294-6300

CHUL
2705 Laurier Blvd, Room A-02.4
Quebec QC G1V 4G2
418 780-7697

CHUM
1000 Saint-Denis St, Room D.VG.3208
Montreal QC H2X 3J4
514 867-4540

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

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

MUHC
1001 Décarie Blvd, Room BRC010032
Montreal QC H4A 3J1
514 764-2876

North-West Regional Financial Centre
1950 Maurice-Gauvin St, Suite 201
Laval QC H7S 1Z5
514 873-9364 or 1 866 279-0489

Rimouski Financial Centre
287 Pierre-Saindon St, Suite 505
Rimouski QC G5L 9A7
418 724-0777

Saguenay – Lac-Saint-Jean – North Shore Regional Financial Centre
874 de l'Université Blvd E, Suite 320
Saguenay QC G7H 6B9
418 615-0694 or 1 800 713-8271

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

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

Trois-Rivières Financial Centre
Le Trifluvien Building
4450 des Forges Blvd, Suite 200
Trois-Rivières QC G8Y 1W5
1 866 279-9396

LA CAPITALE MFQ REAL ESTATE MANAGEMENT

625 Jacques-Parizeau St
Quebec QC G1R 2G5
418 644-4267 or 1 800 463-5549

POINTS OF SERVICE [Cont'd]

LA CAPITALE FINANCIAL SECURITY

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

BRANCHES

ALBERTA

Calgary
12111 40th Street SE, Suite 133
Calgary AB T2Z 4E6
403 252-7757 or 1 800 267-0192

Edmonton
4466 97th Street
Edmonton AB T6E 5R9
780 438-2420

BRITISH COLUMBIA

Surrey
13889 104th Ave, Suite 300
Surrey BC V3T 1W8
604 589-1381

MANITOBA

Winnipeg
2140 Pembina Highway, Suite B
Winnipeg MB R3T 6A7
204 985-1580 or 1 800 670-1911

MARITIMES

Bedford
1550 Bedford Highway, Suite 700
Bedford NS B4A 1E6
902 835-9203 or 1 800 835-9203

ONTARIO

Barrie
431 Huronia Road, Suite 2
Barrie ON L4N 9B3
705 728-5580

GTA
7045 Edwards Blvd, Suite 403
Mississauga ON L5S 1X2
905 565-9996 or 1 855 565-9996

London
4056 Meadowbrook Drive, Suite 125
London ON N6L 1E3
519 652-0255 or 1 800 934-6128

Ottawa
223 Colonnade Road, Suite 112
Ottawa ON K2E 7K3
613 224-0991

QUEBEC

Montérégie
7005 Taschereau Blvd, Suite 260
Brossard QC J4Z 1A7
450 443-8585 or 1 855 443-8585

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

Saguenay
3885 Harvey Blvd, Suite 402
Saguenay QC G7X 9B1
581 222-0152

SASKATCHEWAN

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

Property and Casualty Insurance

MEMBER COMPANIES

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 22 branch offices and 140 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
- 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 314 brokerage firms. 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 specializing in surety products. L'Unique offers its brokers a diverse line of products for individuals and businesses, along with a complete line of contractor and commercial surety 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 surety bonding
- Roadside assistance
- Legal Access 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 99 brokers in Ontario.

PRODUCTS AND SERVICES OFFERED (Broker distribution)

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

OFFICERS

LA CAPITALE GENERAL INSURANCE

SENIOR MANAGEMENT

Christian Fournier, FICA, FCAS
Senior Executive Vice-President and Chief Operating Officer

Sales and Client Retention

Marie-Claude Dulac, FCIP
Vice-President

Dominique Bergeron, CIP
Senior Director, Branch Office Network

Daniel Sauro, BBA
Senior Director, Affiliated Agents Network

Marc Roy, B.Sc.
Senior Director, Sales and Client Retention Support

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

Claims

Isabelle Gingras, FCIA, FCAS
Vice-President

Christian Charest, MBA, LL B
Senior Director, Appraisal and Commercial Partnerships

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

Johanne Delisle, FCIP
Senior Director of Standards, Claim Practices and Operational Performance

Lynda Mercier, FCIP
Senior Director, External Claims

Actuarial, Insurance and Business Intelligence

François Dumas, FCIA, FCAS
Vice-President and Appointed Actuary

Isabelle Périgny, FCIA, FCAS
Senior Director of Corporate Projects and Strategic Advisor

Patrice Raby, FCIA, FCAS
Senior Director of Actuarial, Insurance and Products – Personal Lines Insurance

Jean-Philippe Keable, FCIA, FCAS
Senior Director of Business Research, Modelling and Intelligence

Commercial Insurance

Sylvain Nolet
Vice-President

Christian Vanasse
Senior Director, Sales, Commercial Insurance

Daniel Carrier, CIP, FPT
Senior Director of Products and Technical Underwriting

Organizational performance

Nadia Savoie, M.A.
Senior Director

L'UNIQUE GENERAL INSURANCE

SENIOR MANAGEMENT

Yves Gagnon, BA, CIP
Executive Vice-President and Chief Operating Officer

Business Development

Magalie Malenfant, MBA, CIP
Senior Director

Operations

Bruno Perrino, BA
Vice-President

Carolynn Isabell Vieira, FCIP
Senior Director, Commercial Insurance

Martin Simard, MBA
Senior Director, Personal Lines Insurance

Martin Sohier, CPA, CA
Senior Director, Surety Lines

UNICA INSURANCE

SENIOR MANAGEMENT

Dave Smiley, BSc, FCIP
Executive Vice-President and Chief Operating Officer

Personal Lines and Commercial Lines Insurance

Jennifer Ronca, BA, CIP
Vice-President

Marketing and Operational Services

Nancy Covel, BA, CIP, ABC
Assistant Vice-President

Claims

Steve Lewicki, BES, CIP
Assistant Vice-President

Broker Financial Solutions

Chris Weston, MBA
Assistant Vice-President

Legal Services

Mark H. Fonseca, BA, LLB
Assistant Vice-President

Human Resources and Shared Services

Cristine Y. Chan, BA, GIE, CHRL
Assistant Vice-President

POINTS OF SERVICE

LA CAPITALE GENERAL INSURANCE

Head Office
625 Jacques-Parizeau St, PO Box 17100
Quebec QC G1K 9E2
418 747-7600

BRANCHES

Alma
310 du Pont Ave N, Suite 120
Alma QC G8B 5C9
418 668-0066

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

Baie-Comeau
337 Lasalle Blvd, Suite 104
Baie-Comeau QC G4Z 2Z1
418 294-6300

Brossard
7055 Taschereau Blvd, Suite 300
Brossard QC J4Z 1A7
514 906-1700

CHUL
2705 Laurier Blvd, Room A-02.4
Quebec QC G1V 4G2
418 780-7697

CHUM
1000 Saint-Denis St, Room D.VG.3208
Montreal QC H2X 3J4
514 867-4540

Drummondville
350 Saint-Jean St, Suite 120
Drummondville QC J2B 5L4
819 475-1799

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

Granby
400 Principale St, Suite 301
Granby QC J2G 2W6
450 777-1750

Laval
1950 Maurice-Gauvin St, Suite 201
Laval QC H7S 1Z5
514 906-1700

Mont-Laurier
530 Albiny-Paquette Blvd, Suite 3
Mont-Laurier QC J9L 3W8
819 203-1103

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

MUHC
1001 Décarie Blvd, Room BRC010032
Montreal QC H4A 3J1
514 764-2876

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

Quebec City
625 Jacques-Parizeau St, PO Box 17100
Quebec QC G1K 9E2
418 266-1700

Rimouski
287 Pierre-Saindon St, Suite 505
Rimouski QC G5L 9A7
418 724-0777

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

Saguenay
874 de l'Université Blvd E, Suite 320
Saguenay QC G7H 6B9
418 698-5900

Saint-Jérôme
373 Lamontagne St
Saint-Jérôme QC J7Y 0L7
450 710-2222

Sept-Îles
818 Laure Blvd, Suite 102
Sept-Îles QC G4R 1Y8
418 968-0044

Sherbrooke
1802 King St W, Suite 104
Sherbrooke QC J1J 0A2
819 822-0060

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

L'UNIQUE GENERAL INSURANCE

Head Office
625 Jacques-Parizeau St, PO Box 17050
Quebec QC G1K 0E1
418 683-2711 or 1 800 463-4800

Montreal
425 de Maisonneuve Blvd W, Suite 500
Montreal QC H3A 3G5
514 787-0777 or 1 855 587-0777

UNICA INSURANCE

Head Office
7150 Derrycrest Drive
Mississauga ON L5W 0E5
905 677-9777 or 1 800 676-0967

La Capitale Financial Group

OFFICERS

These corporate divisions support our Life and Health Insurance and Financial Services and our Property and Casualty Insurance businesses.

SENIOR MANAGEMENT

Jean St-Gelais
Chairman of the Board and Chief Executive Officer

Oversight

Marc Ouellet, CPA, CA
Senior Director

Transformation Office

Mario Cusson, CA, MBA
Transformation Office Chief

Legal Affairs and Corporate Secretariat

Pierre Marc Bellavance, LLM
Vice-President and Corporate Secretary

Human Resources and Organizational Development

Shirley Brown, BA, CHRP
Vice-President

Geneviève Drouin, MSc, CRHP
Senior Director, Human Resources

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

Investments

Luc Meunier
Vice-President

Bruno Turcotte, BAA, C. App.
Senior Director of Real Estate Management

PUBLIC AFFAIRS AND CORPORATE OUTREACH

Marie-Josée Guérette
Executive Vice-President

FINANCE, CORPORATE ACTUARIAL AND RISK MANAGEMENT

Mélissa Gilbert, CPA, CA, ACS
Executive Vice-President

Corporate Actuarial

Eric Marcoux, FSA, FCIA
Vice-President and Appointed Actuary

Guy Harvey, ASA
Senior Director

Finance

Lucie Garneau, CPA, CA
Vice-President

Yann Bernier, CPA, CA
Senior Director of Taxation, Procurement and Logistical Services

André Boucher, CMA
Senior Director, Finance – L'Unique

René Duchesne, CPA, CA
Senior Director, Finance Systems and Accounting

Johanne Gauthier, CPA, CGA
Senior Director, Account Collection Services

Hélène Myrand, CPA, CA
Senior Director, Finance

MARKETING, COMMUNICATIONS AND DIGITAL STRATEGIES

Eric Champagne, Eng., MBA
Executive Vice-President

Marketing and Digital Strategies

Frédérique Leclerc, BBA, MSc, FLMI
Vice-President

CORPORATE DEVELOPMENT AND INNOVATION

Robert Desbiens
Executive Vice-President

INFORMATION TECHNOLOGY

Richard Gagné
Executive Vice-President

Stéphane Girard
Senior Director of Individual Insurance Development, Financial Services and Corporate Digital Affairs

Lyne Groleau
Senior Director, Business Development and Intelligence

Liette Labrie
Senior Director of Organizational Development and Transformation

Michel Lévesque
Senior Director, Development La Capitale General Insurance

Maxime Morin, BScA
Senior Director of Brokerage Development Property and Casualty Insurance

Infrastructure Services and Corporate Development

André Paquet, MBA, FLMI
Vice-President

Jean Boulé
Senior Director, Infrastructure Services and IT Support

Danny Redmond
Senior Director, User Experience

IT Architecture and Innovation

Éric Marcoux
Vice-President

Marc Thibeault
Senior Director of Software Services Architecture and Infrastructure

For information about La Capitale, please
call 418 747-7600 or 1 800 463-5549,
or visit our website at **lacapitale.com**.

La Capitale Civil Service Mutual
Head Office
625 Jacques-Parizeau St
Quebec QC G1R 2G5

La Capitale

Valoriser l'essentiel