

**125 YEARS** TO WORK AT CREATING  
WEALTH FOR OUR MUTUALISTS

125<sup>th</sup>

2013 Annual Report

It's my pleasure to invite you  
to read our 2013 Annual Report.



**Alexandre Desbiens**, ASA, ACIA, FRM, PRM

Vice-president - Sales and marketing  
Individual Insurance and Investment-Retirement

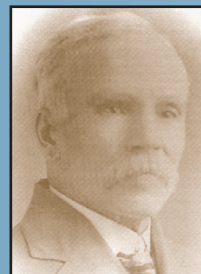
Presidents  
of the Board  
who have  
succeeded to  
each other  
since our  
foundation  
in 1889.



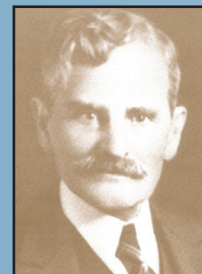
François-Xavier-Édouard Demers  
1889-1896



Damase Benoît  
1896-1898



Honoré Gravel  
1898-1900



Alexandre Mercure  
1900-1940

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Joseph-Henri Tétreau  
1940-1943



Gaston Ringuet  
1943-1965



Marcel Marier  
1965-1985



Noël Sylvain  
1985-1998



Jacques Desbiens  
1998 to this date

# Report

by the Chairman  
of the Board  
and President and  
Chief Executive  
Officer



To all our mutualists,



**125 YEARS** TO WORK AT CREATING  
WEALTH FOR OUR MUTUALISTS

This is the theme that we chose to celebrate our 125<sup>th</sup> foundation anniversary which, by the way, will specifically be on December 29, 2014. This theme is the continuation of the one held for the centenary of UL Mutual in 1989: *100 years of mutual respect*. After all, these are all related considering that creating wealth for our mutualists implies a premise of mutual respect.

Regarding our 125 years of existence, we must say that it has really been a while, as the saying goes. Not many insurance companies can boast about having as many years of existence. In fact, UL Mutual is the oldest life insurance company incorporated in Quebec, and as mentioned in the last Annual Report, it is the last and only mutual life insurance company incorporated in Quebec. On the Canada level, UL Mutual is, at our knowledge, the 5<sup>th</sup> oldest life insurance company.

In the same vein, it is important to mention that our 125 years of existence are themselves an exploit of which we can only be proud. More especially for our mutualists, it is, among others, a proof of security and perennality for our institution.

The fact remains that this feat deserves to be pointed out by a strong program intended for all UL Mutual stakeholders. For that matter, we thought that our 2013 Annual Report needed to be the spearhead of this event. That is why it was built around the *125 years to work at creating wealth for our mutualists* theme as the main idea.

## 2013 Financial Results

UL Mutual's Net Income for 2013 amounts to \$ 17.1m comparatively to \$ 16.2m last year, which is an increase of \$ 0.9m or 5.6%. It is therefore the 22<sup>nd</sup> consecutive increase of our Net Income, and at the same time a new record peak.

We are blessed by the Gods since this was against all expectations. Indeed, as mentioned last year, we were expecting to go through a first break after our series of 21 consecutive increases of our Net Income. This turnaround is mostly due to the financial transactions called "asset extensions" that we did to improve our asset-liability matching. The improvements in the interest rates since May created a favourable timing to do this. In the end, it allowed to reduce the increase of the Actuarial Liabilities in the income statement. Nevertheless, the Net Income of \$ 17.1m is a nice way to end 2013, and at the same time, to get the year of the 125<sup>th</sup> anniversary of UL Mutual's foundation off to a flying start.

The mutualists' equity which includes the Retained Earnings and Accumulated Other Comprehensive Income amounts to \$ 191.8m at the end of 2013 compared to \$ 178.9m at the end of last year, which is an increase of \$ 12.9m. If we analyze each component, this growth results from the increase of the Retained Earnings of \$ 17.5m, but also from the Accumulated Other Comprehensive Income's decrease of \$ 4.6m. We could also say that, just as it should, the mutualists' equity increased by the Comprehensive Income for the year, which is \$ 12.9m as indicated in the income statement summary. Since the change in Retained Earnings and the Accumulated Other Comprehensive Income is equal to the Net Income plus the Other Comprehensive Income detailed in the income statement, they mathematically overlap.

Beyond these highflying explanations, what needs to be remembered is that the mutualists' equity is at such a level that it allows us to keep a solvency ratio of 300% for the greater security of our mutualists, and at the same time to continue being the master of our own destiny. That is why we keep it as the apple in our eye. We will also do whatever it takes to continue to make the mutualists' equity grow at least at the same pace.

UL Mutual's Assets on December 31, 2013 amounted to \$ 1.65G, which is a decrease of \$ 62.3m compared to last year. At first glance, a decrease of Assets is always questioning, but not in this case. Indeed, this time it's a question of presenting the financial information that commands to evaluate the Assets to its market value. Since the interest rates have noticeably increased from December 31, 2012 to December 31, 2013, the market value decreased in spite of the addition of cash flow for the year as well as the Reinsurance Assets value which would have otherwise increased. These decreases are respectively of \$ 40.7m and \$ 29.1m. Taking into consideration the changes in Other Assets and the change in Segregated funds assets amount to \$ 7.5m, we can reconcile the assets' decrease of \$ 62.3m.

This being said, we can add that we have not recorded any assets default in 2013. It undoubtedly remains the result of a prudent approach regarding our investments, which remain of a high-quality and extremely safe because we continue to put forward the quality instead of the return. It is also worth mentioning that the rigorous frame that we use to follow our investments is part of this success, and most of all it guarantees a continuity regarding their performance.



## The year 2013 in retrospect

To make a long story short, the Business Plan approved by the Board of Directors for 2013 was entirely carried out. More particularly, the goals for new sales have been reached in Individual Insurance, and have been surpassed in Group Insurance. In Investment-Retirement, we must mention that they were surpassed by more than double. Regarding the projects chosen in priority for 2013, they were carried out, or at least the most important ones. In the end, great improvements of our overall products and services offer came out of it.

As an example, in Individual Insurance we have extended our “equitable” concept to all our permanent products. This concept was explained in last year’s Annual Report. Essentially, the “equitable” concept takes for granted that, following the 31 year cycle theory, the interest rates should increase in the future. In this case, premium discounts will be given according to a formula predetermined in the contract. We can certify that it works because the first Adaptable Equitable products sold did receive a premium discount at their first renewal.

In Group Insurance, we do not spare either to respond to the market demands. For example, we are now ready to offer the Critical Illness protection, and soon a Health Care Spending Account.

After all, 2013 may be qualified as being one of the most satisfying years mostly because our Net Income is at a level which we thought was not reachable at the beginning of the year, and it allowed us to extend our consecutive raises to 22.

On another note, 2013 brought in its wake good news for our industry. Therefore, unless contrary notice, the Canadian Institute of Actuaries (CIA) will change in 2014 the approach that had been decreed to this date to determine the reinvestment rates used for calculating the Actuarial Liabilities. The new approach, which should be ratified soon, is a noticeable improvement compared to the current approach. It more truly reflects the reality, so consequently it will be more accommodating during the transition to the IFRS 4 – Phase 2.

Speaking of the IFRS 4 – Phase 2, it still remains a black box as we could call it, but which, according to the last news, is a matter that progresses very well. In fact, the CLHIA, the OSFI, and the AMF have done convergent representations to the International Accounting Standards Board (IASB), especially so that the currently recommended approach for the evaluation of the insurance contracts liabilities can be revaluated in the light of their comments, and this to limit the impact of the transition to the IFRS 4 – Phase 2 and to restrain the fluctuations of its financial results. In parallel, the Accounting Standards Board was requested to wait for more countries, including the most influential ones, to support the IFRS 4 – Phase 2 before deciding on which date it will come in force in Canada, which will have for effect to give the insurance industry more time to get prepared.

## 20 years as 1<sup>st</sup> Officer

On August 2, 2013, I announced the staff members that I had just reached my 20th year as the 1<sup>st</sup> officer of UL Mutual. I also took the opportunity to tell them that together, we have

succeeded in many challenges as they came on our way, and we made UL Mutual what it is today. It was also important for me to remind them of the accomplishments of the team during the last 20 years surrounding the growth of UL Mutual, of its influence and its most enviable financial situation. I went on and mentioned that during those years, we had all together forged UL Mutual such that we can now applause it for the following attributes:

- UL Mutual is an innovating company especially in terms of products conception (we have been copied more often than not);
- UL Mutual is a company with an excellent expertise regarding the acquisitions of companies or portfolios (15 acquisitions in 20 years);
- UL Mutual is a company with a strong, stable and committed team with a prudent management;
- UL Mutual is a company with one of the most enviable financial health. This is demonstrated by the following highlights:
  - the long series of consecutive increases of the Net Income;
  - a MCCR of more than 300%; and
  - a compound return of 13% per year on the mutualists' equity during this period.
- UL Mutual is the last and only mutual insurance company incorporated in Quebec;
- UL Mutual is a national scope company with a head office located in the Centre-du-Quebec; and
- UL Mutual is proportionally the insurance company with the greatest advance in teleworking.

I concluded with this:

"So, all in all, I have undoubtedly had the most beautiful 20 out of the 38 years of my career to this date, and with your collaboration and your commitment, the following ones will go with the same great momentum."

## What will 2014 bring ?

Even though the news are good, we began 2014 with a certain caution. It is not yet the time to let loose. The time to see clearer through the IFRS 4 – Phase 2, which has a great impact on the viability of the sales of the individual insurance whole life products, and this, as it is now, we will put more emphasis on the sales of the Group Insurance products as well as the Investment-Retirement products. In parallel, if the stars are aligned, we will improve the mix of our Individual Insurance products by placing on the market Accident and Sickness products.

On another note, we give ourselves the year of 2014 to make a decision regarding the pertinence of offering Property and Casualty insurance. We have been talking about it for many years and the conjuncture is favourable to finalize the reflections regarding this so that at the end of the year, we can have a go – no go decision from the board members.

Simultaneously, many members of our staff will be invited to participate in activities surrounding our 125<sup>th</sup> foundation anniversary. The program held took into consideration the interests of all the stakeholders, which are our mutualists, the ones who sell our products and financial services and our staff members. As it must be, there will be something for each and everyone. To disseminate the news, we will make sure to announce our 125<sup>th</sup> anniversary in well targeted media.

At the end of 2014, all other things being equal, we hope to be able to “deliver” an increased Net Income for a 23<sup>rd</sup> consecutive year. In that case, there would not be any better way to celebrate our 125<sup>th</sup> foundation anniversary of which the date coincides with the end of the year.

## Changes in the Board of Directors

We have known for ages that in 2013, 4 board members out of the 9 who are part of the Board of Directors would leave according to the age policy. These persons are, in the order, Mrs. Diane Drouin, General (Ret.) Maurice Baril, Mr. Real Brodeur and Mr. Gilles Pare. They respectively sat on the board for 19 years, 7 years, 14 years, and 19 years. Needless to say, their sustained contribution during those years was extremely beneficial for the growth of UL Mutual. The exactness of their interventions has led to the making of informed decisions. We thank them again for their involvement, and we wish them a long life.

When we took a look at this situation a while ago, it was decided that we would only fill 2 positions out of 4 since the law allows a minimum of 7 board members and this for our own motives. The UL Mutual Board of Directors will thus go from 9 to 7 board members after a resolution will have been approved by our mutualists at a special general meeting which will take place during the annual general meeting. This being said, we were very lucky in our steps to recruit the two coveted successors. Our choices were Mr. Richard Fortier, FSA, FCIA, CFA, who held many positions including being the 1<sup>st</sup> officer of an important insurance company before retiring after a very busy career in the field of life insurance, and Mr. Jacques Begin, ing. who has worked

at Cogeco during almost his whole career, especially as the Vice-president and Chief officer. We thank them for joining our Board of Directors, and we wish them loads of success in the execution of their mandate.

## Note of thanks

If we were able to report on such great achievements for 2013, it is because each and everyone participated and contributed to it. One sure thing is that we are well aware that this does not happen by magic. We would therefore like to truly thank:

- our mutualists and our insureds for their trust and loyalty;
- the persons who distribute our products and financial services for their ability to appreciate them at their fair value;
- our board members for their enlightened vision and their well-advised support; and
- our staff members for their dedication, their collaboration and their involvement at all times. They deserve that we go on with our tradition of naming each one of them below:

*Eric Gemme, Michel Ducharme, Jean-François Théberge, Lucie Bastien, Chantal Beaudry, Pascale Beaulieu, Sylvie Bergeron, Cindy Blais, Maryse Cartier, Diane Cayer, Martine Charron, Marie-Josée Champagne, Ghislaine Chicoine, Réal Cloutier, Luc Comeau, Martine Corbeil, Pauline Custeau, Marcel Desbiens, Linda Dubois, Chantal Ducharme, Véronique Fillion, Nathalie Fréchette, Sylvie Gagnon, Serge Gagnon, Bibiane Gravel, Sylvie Hamel, Julie Hébert, Manon Jobin, Sophie Lachapelle, Danielle Lafond,*



2013 has finally kept us on alert unlike what was expected at the beginning of the year. The increase of the interest rates, the good news surrounding the insurance industry and, against all expectations, the reach of an increase of the Net Income for a 22nd consecutive year have all contributed to make 2013 a year full of emotions.

**CREATE WEALTH FOR OUR MUTUALISTS.**

  
**Jacques Desbiens, FSA, FCIA**  
Chairman of the board  
President and Chief Executive Officer

## Board of Directors

**Jacques Desbiens, FSA, FCIA** <sup>3</sup>

Chairman of the Board  
(Drummondville)

**Denis Lapierre, FSA, FCIA** <sup>1 3</sup>

1<sup>st</sup> Vice President  
(Saint-Jean-sur-Richelieu)

**Maurice Savoie, B. Sc. S.** <sup>2 3</sup>

2<sup>nd</sup> Vice President  
(Quebec)

**Yves Langlois, M.D., LMCC** <sup>2</sup>

(Saint-Jean-sur-Richelieu)

**Richard Fortier, FSA, FCIA, CFA** <sup>1</sup>

(Longueuil)

**Jacques Bégin, ing.** <sup>2</sup>

(Saint-Étienne-des-Grès)

**Jean-Pierre April** <sup>1</sup>

(Québec)

**Corporate Secretary-Treasurer**

**Carl Têtu, CPA, CA**

(Drummondville)

1. Member of Audit Committee

2. Member of Ethics Committee

3. Member of Executive Committee

## Corporate Management

**Jacques Desbiens, FSA, FCIA**

Chief Executive Officer

**Luc Pellerin, FSA, FCIA**

Executive Vice President  
Strategic Planning and Corporate Actuarial

**Julie Michaud, ASA, ACIA, M.A.P.**

Senior Vice President  
Individual Insurance and Investment-Retirement

**Sylvain Paré, ASA, ACIA**

Senior Vice President  
Group Insurance

**Carl Têtu, CPA, CA**

Senior Vice President  
Corporate Services

## Management Report

To the mutualists  
of The Union Life Mutual Assurance Company

The preparation of the financial statements of The Union Life Mutual Assurance Company is the responsibility of management. These summary consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and include certain amounts based on best estimates and judgements that are appropriate to the Company's circumstances.

In order to discharge its responsibilities as they relate to the financial statements, management has implemented internal control systems that are designed to ensure the accuracy of financial information and the control of operations.

In accordance with the provisions of the Québec Act respecting insurance, the Board of directors names the appointed actuary, who is responsible for valuing actuarial liabilities in accordance with the standards of practice of the Canadian Institute of Actuaries.

The external auditors, appointed by the members of the Company, ensure that the consolidated financial statements have been prepared in accordance with IFRS.

The Audit committee of the Board of directors, a majority of whose members are part of neither the management or the staff of the Company, ensures that management discharges its responsibility for financial disclosure. This committee is fully empowered to obtain from management any information required to form its opinion.

On behalf of management,



**Jacques Desbiens, FSA, FCIA**

Chairman of the Board,  
President and Chief Executive Officer

Drummondville, February 25, 2014

# Summary

## Consolidated Income Statements

For the year ended December 31, 2013 (in thousands of Canadian dollars)

### Revenues

Gross life and annuity premiums  
Ceded premiums  
Net life and annuity premiums  
Investment income (losses)  
Other revenues

### Expenses

Gross benefits to policyholders and beneficiaries  
Ceded benefits  
Net benefits to policyholders and beneficiaries  
Gross commissions  
Commissions ceded  
Net commissions  
Change in actuarial liabilities  
Change in reinsurance assets  
Net change in actuarial liabilities over change  
in reinsurance assets  
Premium and investment income taxes  
General expenses  
Interest on long-term debt  
Participating policyholders' dividends

**Income before income taxes**

**Income taxes**

**Net income**

2013 \$	2012 \$
137,906	121,030
( 31,757 )	( 32,002 )
106,149	89,028
( 41,723 )	54,084
794	1,959
65,220	145,071
80,934	72,048
( 20,014 )	( 17,302 )
60,920	54,746
10,501	10,003
( 4,186 )	( 4,653 )
6,315	5,350
( 68,228 )	221,882
28,272	( 177,659 )
( 39,956 )	44,223
3,674	3,623
13,412	14,430
206	344
212	199
17,504	18,596
44,783	122,915
20,437	22,156
3,380	5,973
17,057	16,183

# Summary

## Consolidate Comprehensive Income Statements

For the year ended December 31, 2013 (in thousands of Canadian dollars)

### Net income

### Other comprehensive income

Items that may be reclassified subsequently to net income

Unrealized gains (losses) arising in the year on  
available-for-sales assets, after \$ 938 taxes  
(\$ 509 in 2012)

Reclassification to net income of gains, after  
\$ 759 taxes (\$ 610 in 2012)

Items that will not be reclassified subsequently to net income

Actuarial gains and losses, after  
\$ 177 taxes (\$ 503 in 2012)

**Comprehensive income**

2013 \$	2012 \$
17,057	16,183
( 2,550 )	1,383
( 2,064 )	( 1,294 )
484	( 1,366 )
( 4,130 )	( 1,277 )
12,927	14,906

# Summary

## Consolidated Statement of Financial Position

For the year ended December 31, 2013 (in thousands of Canadian dollars)

	2013 \$	2012 \$
<b>Assets</b>		
<b>Invested assets</b>		
Bonds	893,191	936,169
Mortgages	170,798	164,490
Stocks	32,613	42,901
Short term investments	6,076	799
Deposit certificate	2,000	1,000
Policy loans	5,983	6,018
	<b>1,110,661</b>	<b>1,151,377</b>
<b>Segregated funds assets</b>	<b>27,339</b>	<b>28,179</b>
<b>Other assets</b>		
Cash	1,470	748
Accrued investment income	3,836	3,616
Accounts receivable	2,056	5,809
Income taxes	15,197	5,550
Prepaid expenses	2,651	2,783
Property and equipment	4,072	3,831
Accrued benefit assets	4,791	3,378
Goodwill	348	348
Reinsurance assets	477,402	506,507
	<b>511,823</b>	<b>532,570</b>
	<b>1,649,823</b>	<b>1,712,126</b>
<b>Liabilities</b>		
<b>Policy liabilities</b>		
Actuarial Liabilities	1,392,725	1,460,886
Policyholders' amount on deposit	8,453	8,660
Benefits payable	9,565	10,108
Dividends	90	90
Unearned premiums and other contractual liabilities	491	731
Segregated funds liabilities	27,339	28,179
	<b>1,438,663</b>	<b>1,508,654</b>
<b>Other liabilities</b>		
Account payable and accrued liabilities	8,568	10,161
Long-term debt	3,567	7,167
Accrued benefit liabilities	4,419	4,848
Future income tax liabilities	2,818	2,435
	<b>19,372</b>	<b>24,611</b>
	<b>1,458,035</b>	<b>1,533,265</b>
<b>Mutualist's equity</b>		
<b>Retained earnings</b>	<b>191,394</b>	<b>173,853</b>
<b>Accumulated other comprehensive income</b>	<b>394</b>	<b>5,008</b>
	<b>191,788</b>	<b>178,861</b>
	<b>1,649,823</b>	<b>1,712,126</b>

On behalf of the Board,

*Jacques Desbiens*  
Jacques Desbiens, Director

*Richard Fortier*  
Richard Fortier, Director

# Report

## of the Independant Auditor on the Summary Consolidated Financial Statements

To the Mutualists of The Union Life  
Mutual Assurance Company

The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2013 and the summary consolidated statements income and comprehensive income for the years then ended, are derived from the audited consolidated financial statements of The Union Life Mutual Assurance Company (the Company) for the year ended December 31, 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated February 25, 2014.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. However, the disclosures provided are consistent with those appearing in the audited financial statements. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited financial statements of The Union Life Mutual Assurance Company. For additional information on the Company's financial position, results of operations and cash flows, readers should refer to the corresponding complete consolidated financial statements that are available from the Company.

### Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements.

### Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

### Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of The Union Life Mutual Assurance Company for the years ended December 31, 2013 are a fair summary of those financial statements.

*PricewaterhouseCoopers s.r.l./s.e.n.c.r.l.<sup>1</sup>*

<sup>1</sup> CPA auditors, CA, public accountancy n° A124423  
Quebec, February 25, 2014

*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., CPA auditors  
Place de la Cité, Tour Cominar, 2640 Laurier Boulevard, Suite 1700, Quebec, Quebec, Canada G1V 5C2*

# Appointed Actuary's Report

To the Mutualists of The Union Life  
Mutual Assurance Company

I have valued the policy liabilities and reinsurance recoverables of The Union Life Mutual Assurance Company for its consolidated balance sheet as at December 31, 2013 and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate valuation assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.

This valuation complies with an Act respecting insurance (Quebec) and related regulations.

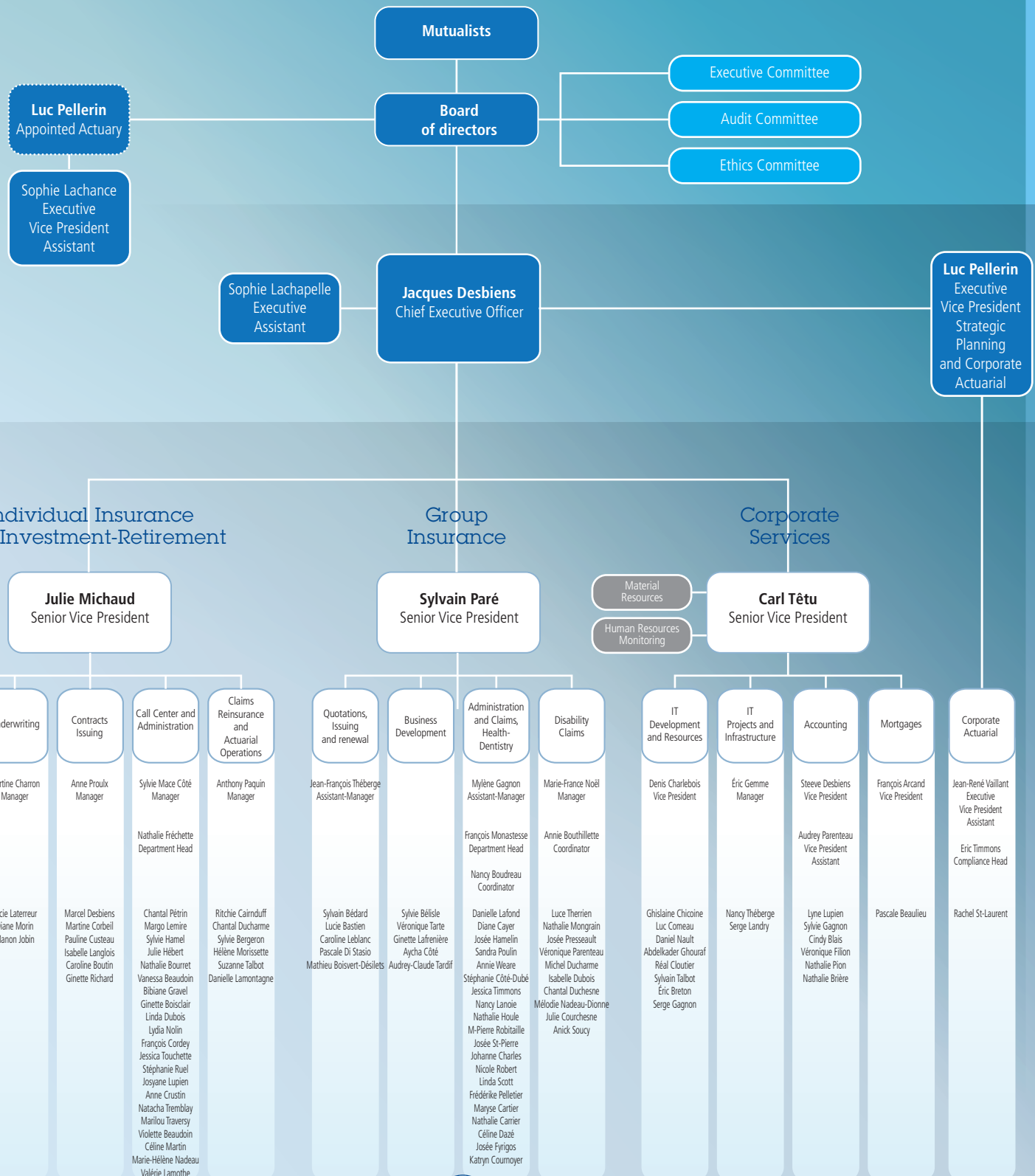


**Luc Pellerin, FSA, FCIA**

Appointed Actuary  
Drummondville, February 25, 2014



# Organization Chart



# UL Mutual

at a glance  
as at December 31, 2013

● Assets : \$1.65 billion

● Premium revenues : \$137.9 million

● Net income : \$17.1 million

● Mutualists' equity : \$191.8 million

● Solvency ratio : > 300%

● Number of insureds :  $\approx$  300,000 insureds

● Number of distributors :  
More than 2,000 financial advisors across Canada

● Number of employees :  
125 employees of whom 40% are fulltime teleworkers

● Lines of business :  
Individual Life Insurance  
Group Insurance  
Critical Illnesses and Long Term Care  
Universal Life  
Investment and Retirement  
Segregated Funds

● Bank-type activities :  
UL Direct Account  
Mortgages  
(multi-residential and commercial)

● Presence and involvement  
in the community :

Member of SOCODEVI

Contribution to the promotion and financing of  
the UQTR University Pavilion in Drummondville

The UL Mutual «Loto-Maison» for the benefit  
of the Tablée Populaire of Drummondville

The Classical Soucy / UL Mutual for the benefit of  
the Ste-Croix / Heriot Foundation



**125 YEARS** TO WORK AT CREATING  
WEALTH FOR OUR MUTUALISTS

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