



# 2006

## ANNUAL REVIEW



- > Lombard General Insurance Company of Canada
- > Lombard Insurance Company
- > Zenith Insurance Company

## > LOMBARD COMPANY EXECUTIVES



> **FRONT ROW (LEFT TO RIGHT): Robert T. Coughlin** (SVP, Claims) | **Richard N. Patina** (President & CEO)

> **BACK ROW (LEFT TO RIGHT): Kim H. Tan** (SVP, Corporate & Business Development) | **Katharine M. Allan** (SVP & Chief Underwriting Officer) | **M. Jane Gardner** (SVP & Chief Financial Officer) | **William J. Dunlop** (SVP, General Counsel & Human Resources) | **Anne-Marie Vanier** (SVP & Chief Actuary)

### > TABLE OF CONTENTS

- 1 Mission Statement and Values
- 2 About Lombard Canada
- 3 Message from the CEO
- 4 Lombard Advantages
- 7 Community Service
- 9 Consolidated Financial Statements
- 10 Company Executives
- 10 Locations

## > MISSION STATEMENT

We are committed to running Lombard for the long-term benefit of our customers, business partners, shareholders and employees through innovative and progressive insurance solutions, quality products, and reliable personal and automated system services, resulting in a prosperous environment and high returns on shareholders' equity.

## > VALUES

Honesty and integrity in all our relationships.

Results-oriented teamwork, working in an open and trusting environment.

High quality of life at work.

Professionalism in business practices and business conduct.

Encouragement, development and implementation of entrepreneurial ideas and strategies.

Effective and efficient customer focus based on customer strategies.

Investment in our employees and business associates through continuous training and development.

Continuing our tradition of excellence in state-of-the-art processes, technology and products.

Lombard reported a net profit after tax of \$123.3 million in 2006 compared to a net profit after tax of \$120.6 million in 2005.

## > ABOUT LOMBARD CANADA

### | History Behind “Lombard”

The name Lombard was chosen because it is a traditional name, signifying strength and stability. The Lombard name has long been associated with the insurance industry and has international recognition.

The name originates from Lombard Street, a street right on the edge of the small area that is about a quarter of a square mile where most of the commercial insurance in London is transacted. There you can find among other things, the Lloyd’s building, the Institute of London Underwriters and the London Underwriting Centre.

Of particular significance to our own history, the Phoenix Assurance Company established its office at 19 Lombard Street in 1782. The Dominion Insurance Corporation (now Lombard Insurance Company) acquired the assets and liabilities of the Phoenix Assurance Company of Canada in 1989.

### | The Company

Lombard Canada Ltd. is one of the oldest property and casualty insurance operations in Canada, the successor to a company which was granted a charter in 1782 and began underwriting policies in Halifax, Nova Scotia in 1804. Today Lombard Canada comprises of more than 750 highly trained professionals in partnership with a network of more than 200 independent brokers. Lombard is a multi-line insurer licensed to sell insurance in all provinces and territories across Canada. Lombard is known as one of the

pre-eminent property and casualty (P&C) insurers in Canada.

Lombard Canada Ltd. is the holding company for Lombard General Insurance Company of Canada, Lombard Insurance Company and Zenith Insurance Company. Of these three companies, Lombard General Insurance Company of Canada writes commercial lines business and is the largest; Lombard Insurance Company writes personal lines business through our broker network; Zenith Insurance Company is our direct component which provides personal home and automobile coverages to the “over 50” demographic. Through strict underwriting guidelines, disciplined claims services and centralized control of expenses, Lombard Canada Ltd. is able to ensure that each company remains profitable.

In addition, Lombard Canada Ltd. provides chief agency and management services to Tokio Marine & Nichido Fire Insurance Co., Ltd. This partnership has spanned over 50 years, and we are proud of our commitment to and relationship with this internationally respected company.

Lombard Canada Ltd. with gross written premiums of \$989.4 million in 2006, is the largest subsidiary of Northbridge Financial Corporation, one of the largest commercial property and casualty insurance groups in Canada. Northbridge operates primarily in Canada, selectively in the United States and internationally with consolidated gross written premiums totaling \$1.83 billion and total shareholders’ equity of \$1.16 billion. Northbridge is currently listed on the TSX (NB).

In 2006, A.M. Best Company affirmed its A- (Excellent) rating of all Lombard’s insurance subsidiaries.



## > MESSAGE FROM THE CEO

2006 was another very good year for Lombard. Our gross written premiums totalled \$989.4 million compared to \$976.9 million in 2005 and we finished 2006 with a combined ratio of 90.1%. These results are a reflection of the quality of our core book of business sustained through continued pricing and underwriting actions.

The price softening the industry experienced in the commercial lines business throughout 2006 is expected to continue in 2007. Although we have not returned to the price cutting experience of the late 1990's, in certain classes and areas, and with some competitors, pricing has become more aggressive. To combat these broad price softening trends, we believe that our best weapon continues to be an extremely well trained underwriter provided with the right tools, coaching, and supervision. Throughout 2007, we will maintain our focus on underwriting excellence, along with continued enhancement and refinement of our current underwriting and pricing tools.

Commercial LINCQ™ (Business Choice®), our proprietary commercial lines technology, is still the only multi-line, multi-task, broker interfaced commercial processing system in Canada. In order to maintain this leadership position we continue to enhance its functionality. Each year we meet with insurance broker focus groups to review Commercial LINCQ™ and we incorporate as many of their suggestions as possible.

In the personal lines area, we continued to see a relatively stable automobile rate regulation environment in 2006. Although we do not expect any major changes in 2007, results may be impacted by politics in Alberta and the Atlantic Provinces and a possible election in Ontario. Lombard's personal lines business is concentrated primarily in Ontario as we view Ontario as the most stable province regarding government intervention in our business.

In 2006 we also saw a number of the larger personal lines insurers in Canada try to protect or increase their market share in personal lines by actively buying controlling interests in insurance brokerages. Although we expect this to continue in 2007, we also believe the prices being paid for this business are not sustainable over the long run. We believe our current strategy of being a focused writer of personal lines with a small group of select, experienced independent personal lines brokers in niche areas is the right strategy for Lombard. At the same time our direct personal lines business in the lucrative 50-plus demographic continues to grow.

I would like to take this opportunity to thank all of our employees for their hard work and enthusiasm. Our employees are a key reason for Lombard's past and future success. I would also like to thank our insurance brokers for all their support. We truly believe our broker partners represent the best of the distribution network in Canada.



Richard N. Patina  
President & Chief Executive Officer

Combined underwriting ratio, after affiliated reinsurance, was an outstanding 90.1 percent in 2006.

## > LOMBARD ADVANTAGES

Lombard's philosophy is that first, last and always, we must have excellent underwriting skills. It is through underwriting excellence that outstanding economic results can be achieved whether we are in a hard or soft industry cycle.

In 2006, gross written premiums increased \$12.5 million to \$989.4 million. Our continuing success is the result of integrating all our business practices, maintaining a consistent approach and at all times focusing on underwriting excellence.

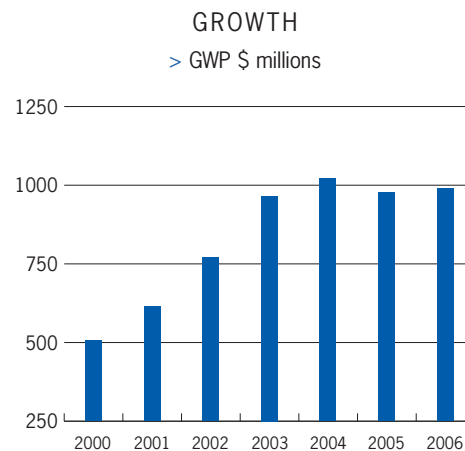
### | LOMBARD SYSTEMS

Through our focus on technology, we have automated our underwriting and customer billing functions enhancing the calibre of our business process and making it simpler for our brokers to conduct business with us.

| **LINCQ™** is Lombard's proprietary Web-based software that provides full commercial multi-line processing capability to our brokers. All commercial insurance transactions are processed by our brokers, allowing us to focus our resources on underwriting excellence.

### | Lombard's Commercial Lines Information Processing System (CLIPS)

technology platform enables our underwriters to have a deep and thorough knowledge of our book of business, pricing, claims trends, market competition, distribution network and risk management.



| **Lombard OnLine** allows our brokers to process all personal lines business. Through this technology, our distribution network produces policy quotes and has access to validation checks, rating and concludes policy transactions efficiently online.

| **S.U.N. Personal Lines Underwriting System** uses sophisticated artificial intelligence software allowing individual personal lines underwriters to thoroughly review and monitor extensive volumes of individual policies and conduct portfolio reviews.

### | **COMMERCIAL LINES**

Over the years our commercial book of business has performed exceptionally well, with 2006 being no different. Commercial lines finished the year with an impressive 90.9 per cent combined ratio before affiliated reinsurance and gross written premiums of \$804.4 million. Much of this success can be attributed to our underwriting practices, innovative technologies, and our focus on our strategic units.

> OUR COMMERCIAL LINES DIVISION IS COMPOSED OF FOUR DISTINCT STRATEGIC UNITS:

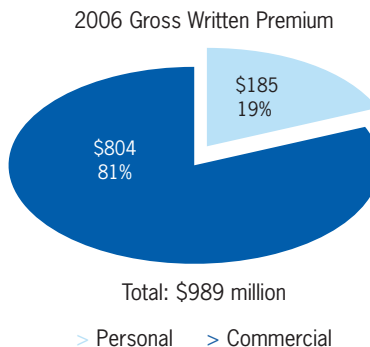
| **Business Choice**<sup>®</sup> provides our customers with comprehensive insurance coverage designed to meet the needs of all types of commercial risks.

| **Custom Marketing** targets commercial groups and associations, providing customized insurance to groups such as the Ontario Veterinarian Medical Association (OVMA) and the Canadian Nursery and Landscape Association (CNLA). Lombard currently writes more than 350 commercial groups and associations.

| **Special Operations** offers unique programs and lines of business requiring specialized underwriting, such as marine, crop hail, agri-business and municipalities insurance.

Lombard continues to enjoy an A- (excellent) rating from A.M. Best, North America's leading financial rating agency for insurance companies.

### OUR **COMMERCIAL/PERSONAL** MIX



| **Risk Solutions** specializes in insurance fronting arrangements, warranty business, errors & omissions, directors & officers and unique insurance products focused on the automobile and homebuilder and development industries.

| **PERSONAL LINES**

Our personal lines book of business continues to be excellent, ending the year with a combined ratio of 92.7 per cent before affiliated reinsurance and gross written premiums of 185.0 million, despite the highly competitive market and an industry trend of aggressive pricing.

> **OUR PERSONAL LINES BUSINESS CONSISTS OF TWO NICHE DIVISIONS:**

| **Retail** is our independent broker channel that focuses on mature customers within territories exclusively assigned to each broker, primarily in Ontario and British Columbia. We work with a select number of brokers who are business-oriented, community-based and committed to effectively servicing their clientele.

| **Direct** is Lombard's direct distribution channel which services business directly to our "over 50" customers through strategic relationships with such groups as the Canadian Association of Retired Persons (CARP).

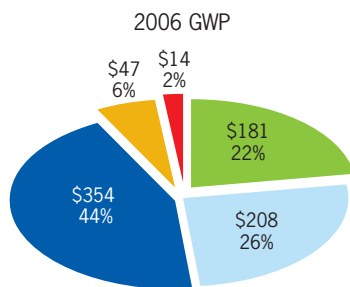
| **OUR BROKERS & LOMBARD**

We work with a select number of brokers who are also committed to underwriting excellence, growth and service. With a network of over 200 independent brokers, Lombard is uniquely positioned for success in both today's insurance marketplace as well as in the future.

Our commitment to our brokers inspires strong working relationships and drives our business strategy to focus on a high quality book of business.

We invest in the education of our staff through an in-house Underwriting and Claims Adjuster training program to develop highly skilled professionals. Lombard also provides continuous training and coaching programs for employees, as well as running sales and insurance courses for our brokers.

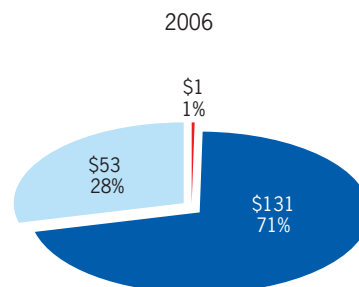
OUR **COMMERCIAL** MIX



Total: \$804 million

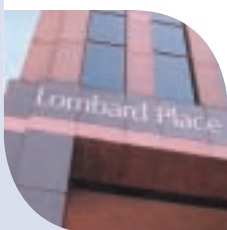
- > Special Operations
- > Custom Marketing
- > Business Choice®
- > Risk Solutions
- > Facility

OUR **PERSONAL** MIX



Total: \$185 million

- > Facility
- > Retail
- > Direct



## > COMMUNITY SERVICE

Lombard Canada focuses on supporting charities specifically relating to children. Although we are often called upon to support other various charitable organizations, and do so whenever possible, our primary focus is on children's charities.

As each year passes, an increasing number of Lombard employees are becoming involved in charitable donations and volunteer work.

Lombard supports the efforts of its employees with a donation-matching program, which matches the donations raised by employees to a maximum of \$1,000 per person, per year.

### | **SickKids Foundation**

Lombard made a gift of \$2-million to endow, in perpetuity, the Lombard Insurance Chair in Paediatric Research at the Hospital for Sick Children (SickKids) in Toronto. SickKids is one of the world's leading hospitals devoted to children's health. Lombard's gift will help ensure ongoing research into the health of children and will also provide a platform to communicate the importance of long-term research funding to those who work outside the laboratory. The contribution will facilitate the department of Paediatrics, which consists of multifaceted programs of national and international significance.

### | **DAREarts Foundation**

DAREarts which stands for Discipline, Action, and Responsibility in Education, was founded to help Canadian children find positive alternatives to negative influences in their communities, through a five-year arts education program that complements Canadian elementary schools. They strive to empower all children to achieve their potential by using the arts to motivate a lifelong pursuit of personal excellence. Lombard has been one of DAREarts' primary contributors funding two of their national programs, 1) DAREarts 'All-The-Arts' Education and 2) DAREarts 'Children for Peace'.

### | **WICC (Women in Insurance Cancer Crusade)**

WICC's role is twofold: to help find a cure by raising funds for cancer research, and to raise awareness about this disease among family, friends, and colleagues. Since its inception in 1996, WICC has raised over \$1,200,000 in the fight against cancer. Lombard is a platinum sponsor of WICC.

### | **The Duke Of Edinburgh Award**

The Duke of Edinburgh's Award is an internationally recognized, registered, voluntary, non-competitive charity program of activities for young Canadians aged 14-25. It is a balanced, non-competitive programme of voluntary activities which encourages: personal discovery and growth, self-reliance, perseverance, responsibility, and service to the community. There are three levels of the award: Bronze, Silver and Gold, each requiring an increasing degree of commitment. The award is amongst the highest accolades a young Canadian can receive. Approximately 70,000 volunteers share their skills, enthusiasm and time to help guide the participants through their Awards, learning new skills and making friends themselves along the way. Lombard is a primary sponsor and a Founding Partner of its Charter for Business.



### > OTHER NOTABLE LOMBARD CHARITIES:

#### | **The United Way/Sharelife Campaign**

United Way is an incorporated non-profit charity focused on improving the long-term health of our community. They run Canada's largest annual fundraising campaign in support of 200 social and health service agencies, providing a vital network of support.

#### | **The Starlight Foundation**

The Starlight Children's Foundation is a non-profit organization dedicated to brightening the lives of seriously ill children and their families by providing a broad array of both in-hospital and out patient programs designed to enhance their ability to cope with the stress of illness.

#### | **Drive Wise**

Beginning in 2002, Drive Wise is a free OPP (Ontario Provincial Police) delivered seminar that introduces a number of succinct tips, suggestions and driving strategies, which are preventative measures against the most likely causes of collisions and mishaps faced by mature Canadians on the road. This program is primarily directed toward mature members of society as drivers 50 years of age and over have become the fastest growing demographic on the roads.

#### | **Reach For The Rainbow**

REACH for the Rainbow (RFTR) is a registered charity serving children and young adults with developmental and physical disabilities from across Ontario.

Please visit [www.Lombard.ca](http://www.Lombard.ca) for more information on these and other various charities that Lombard Canada supports.

## > CONSOLIDATED INCOME STATEMENT

> Fiscal Years Ended December 31  
> (Canadian \$ in thousands)

	2006	2005	2004	2003	2002
Gross Premiums Written	\$ 989,432	\$ 976,944	\$ 1,021,767	\$ 965,770	\$ 770,942
Net Premiums Written	699,685	691,622	715,254	702,473	518,024
<b>Revenues:</b>					
Net Premiums Earned	689,900	688,105	705,524	621,261	469,122
Net Investment Income	127,315	90,234	57,843	66,327	25,964
<b>Total Revenues</b>	<b>817,215</b>	<b>778,339</b>	<b>763,367</b>	<b>687,588</b>	<b>495,086</b>
<b>Expenses:</b>					
Claims and Adjustment Expenses	\$ 417,296	\$ 423,231	\$ 423,435	\$ 393,449	\$ 327,879
Commissions	96,190	80,198	96,717	88,577	56,934
Premium Taxes	32,122	32,122	32,972	28,934	22,777
Income Taxes	69,188	46,284	61,144	37,477	8,517
Other Expenses	79,128	75,858	76,542	76,739	64,928
<b>Total Expenses:</b>	<b>693,924</b>	<b>657,693</b>	<b>690,810</b>	<b>625,176</b>	<b>481,035</b>
<b>Net Income After Taxes</b>	<b>\$ 123,291</b>	<b>\$ 120,646</b>	<b>\$ 72,557</b>	<b>\$ 62,412</b>	<b>\$ 14,051</b>

## > CONSOLIDATED BALANCE SHEET

> Fiscal Years Ended December 31  
> (Canadian \$ in thousands)

	2006	2005	2004	2003	2002
<b>Assets:</b>					
Cash and Short-Term Investments	\$ 373,832	\$ 341,189	\$ 283,375	\$ 174,950	\$ 86,343
Stocks, Bonds and Real Estate	1,253,330	1,085,538	869,474	670,934	479,771
Premiums Receivable	241,855	236,484	279,137	259,452	212,991
Future Income Taxes	24,670	29,827	24,595	19,591	15,028
Reserves Recoverable from Reinsurers	571,940	562,731	519,072	472,357	442,274
Other Receivables and other Assets	201,018	191,366	165,540	157,056	130,767
<b>Total Assets</b>	<b>\$ 2,666,645</b>	<b>\$ 2,447,135</b>	<b>\$ 2,141,193</b>	<b>\$ 1,754,340</b>	<b>\$ 1,367,174</b>
<b>Liabilities:</b>					
Unpaid Claims and Adjustment Expenses	1,317,075	1,201,280	1,014,496	812,036	692,306
Unearned Premium Reserve	488,107	471,601	467,330	455,548	367,465
Other Liabilities	291,306	272,813	259,647	146,493	117,528
<b>Total Liabilities</b>	<b>2,096,488</b>	<b>1,945,694</b>	<b>1,741,473</b>	<b>1,414,077</b>	<b>1,177,299</b>
<b>Shareholder's Equity</b>	<b>570,157</b>	<b>501,441</b>	<b>399,720</b>	<b>340,263</b>	<b>189,875</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 2,666,645</b>	<b>\$ 2,447,135</b>	<b>\$ 2,141,193</b>	<b>\$ 1,754,340</b>	<b>\$ 1,367,174</b>

Note:

> All reinsurance is reflected in these financial statements.

> The effects of discounting Unpaid Claims and Adjustment Expenses are not reflected in these financial statements.

## > COMPANY EXECUTIVES

### **Richard N. Patina**

President & Chief  
Executive Officer

### **M. Jane Gardner**

Senior Vice-President &  
Chief Financial Officer

### **Robert T. Coughlin**

Senior Vice-President,  
Claims

### **Kim H. Tan**

Senior Vice-President,  
Corporate & Business  
Development

### **William J. Dunlop**

Senior Vice-President,  
General Counsel &  
Human Resources

### **Anne-Marie Vanier**

Senior Vice-President &  
Chief Actuary

### **Katharine M. Allan**

Senior Vice-President &  
Chief Underwriting  
Officer

### **Peter Silk**

Vice-President,  
Business Choice®

### **Dean Morrissey**

Vice-President, Sales &  
Custom Marketing

### **Bob Ryan**

Vice-President,  
Special Operations

### **M. Anthony O'Brien**

Vice-President,  
Risk Solutions

## > REGIONAL EXECUTIVES

### **Stan Keeping**

Vice-President,  
Atlantic Region

### **Richard Lapierre**

Vice-President,  
Quebec Region

### **Mark LeBlanc**

Vice-President,  
Central Region

### **Steve Cade**

Vice-President,  
Western Region

## > LOCATIONS

### **Head Office**

Lombard Place  
105 Adelaide St. West  
Toronto, Ontario  
M5H 1P9  
Tel: 416-350-4400  
Fax: 416-350-4412

### **Atlantic Region**

Central Trust Building  
Suite 800  
1801 Hollis St.  
Halifax, Nova Scotia  
B3J 3N4  
Tel: 902-422-1221  
Fax: 902-423-3600

### **Quebec Region**

Suite 1700  
2001 University St.  
Montréal, Québec  
H3A 2A6  
Tel: 514-843-1111  
Fax: 514-284-8070

### **Quebec Region**

Place de la Cité  
– Tour Belle Cour  
Suite 850  
2590 Laurier Blvd.  
Québec, Québec  
G1V 4M6  
Tel: 418-659-6300  
Fax: 418-659-2543

### **Central Region**

Lombard Place  
105 Adelaide St. West  
Toronto, Ontario  
M5H 1P9  
Tel: 416-350-4000  
Fax: 416-350-4123

### **Central Region**

216 Camelot St.  
Thunder Bay, Ontario  
P7A 4B1  
Tel: 807-344-1410  
Fax: 807-345-6479

### **Western Region**

Two Bentall Centre  
Suite 600  
555 Burrard St.  
Vancouver, British Columbia  
V7X 1M8  
Tel: 604-683-0255  
Fax: 604-631-6896

### **Western Region**

Northland Professional  
Centre  
Suite 301  
4600 Crowchild Trail  
Northwest  
Calgary, Alberta  
T3A 2L6  
Tel: 403-289-2550  
Fax: 403-288-3040

### **Vancouver Home Warranty Office**

Suite 1220  
1140 West Pender St.  
Vancouver, British Columbia  
V6E 4G1  
Tel: 604-622-4200  
Fax: 604-622-4213

### **Zenith Insurance Services Inc.**

P.O. Box 100, Station T  
Toronto, Ontario  
M6B 3Z9  
Tel: 416-246-6000

### **Crop Hail**

Suite 201  
3301 Eighth St. East  
Saskatoon, Saskatchewan  
S7H 5K5  
Tel: 306-242-1415  
Fax: 306-664-4492

### **Agri-Business**

Suite 400  
1575 Bishop St. North  
Cambridge, Ontario  
N1R 7J4  
Tel: 519-740-8828  
Fax: 519-740-6474

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