2012 Annual Report

Assumption Life

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DOING BUSINESS WITH US, IS EASY.

We honor this philosophy on a daily basis by adopting an individual and corporate code of conduct CENTERED ON THE CLIENT, INTEGRITY, ACCOUNTABILITY, COMMITMENT and INNOVATION.

BOARD OF DIRECTORS

Gilles LeBlanc
Chairman of the Board
*1**, 2, 3**, 4**, 5 (38/40)*

Denis Larocque, CA
Vice Chairman of the Board
Chief Financial Officer
Major Drilling Group International Inc.
1, 2, 3, 5 (39/41)

Denis Losier
President and CEO
Assumption Life
2, 4, 5 (45/47)

Yvon Fontaine
Former President of
Université de Moncton
*1***, 4*, 5* (17/26)*

Yves Arseneau, CA
Partner
Allen, Paquet & Arseneau LLP
1, 2, 3 (22/24)*

Nathalie Godbout
Partner
Lawson & Creamer
*1***, 3***, 4 (17/21)*

Georges Marcoux
2, 4 (14/18)*

Andrée Savoie
President
Acadian Construction Ltd.
1, 3, 5 (25/27)

Allister Surette
Vice President of Development
and Partnerships
Université Sainte-Anne
2, 4 (26/26)

Jacques Valotaire
Corporate Director
1, 3, 4 (30/32)

BOARD COMMITTEES

1. Audit
2. Governance
3. Review
4. Human Resources
5. Investments

The numbers following the directors' names indicate Board committee memberships as of December 31, 2012. The numbers in parentheses indicate the number of meetings (Board and committees) attended and the total eligible to attend.

* The director was not a Board or committee member at the first meeting or ceased to be after the first meeting.
** The Chairman of the Board is an ad hoc member of these committees.
*** Substitute member or observer

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear policyholders,

This year, I present my final annual report as chairman of the Board and as a director of Assumption Life. It has been nine years since I joined the Assumption Life Board of Directors. We have come a long way since then, and I am very proud to see the progress Assumption Life has made.

When I joined the Board, our cross-Canada development was just beginning. Today Assumption Life has assumed the place it deserves in the Canadian market. Assumption Life is where it is today thanks to a management team and employees who think big, dare to change and believe in the Company's potential. I would like to thank the members of the management team and the employees, past and present, who have contributed to our success over the years.

Results for 2012

We are proud of our results for 2012. Once again, we set a new sales record in individual insurance and exceeded our sales objectives in group insurance.

We owe our financial stability to a strategy of growth, prudence, unparalleled customer service and technology at the service of clients. We are proud to see that our philosophy "Doing business with us is easy" is put into daily practice and helps us earn the trust and loyalty of our clients, managing general agents and brokers across Canada.

Priority issues

The past year was an exciting one for the Board of Directors.

The 2010-2012 strategic plan is behind us, and we have adopted a plan for 2013-2015 that will ensure continuity in our development and the best use possible of the technology we have acquired and implemented in recent years.

We had various opportunities to study the issues of risk management, internal controls and succession planning. We also reviewed the mandates of some of the Board committees and gave the investment committee greater oversight powers for investments and pension plan performance.

A change in management

The upcoming retirement of our president and CEO, Denis Losier, after 19 years at Assumption Life, was definitely a priority matter for the Board.

I would like to take this opportunity, on behalf of the Board of Directors, to extend my sincere thanks to Mr. Losier for having led Assumption Life so masterfully during his tenure. His leadership and conviction were key factors in Assumption Life's success. His achievements have earned him many honors over the years.

Changes to the Board of Directors

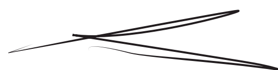
In February 2012, the Board of Directors welcomed a seasoned director in Yvon Fontaine.

The Board will be welcoming another new director at the next annual general meeting, when Georges Marcoux ends his final mandate. I would like to close by thanking him, on behalf of the Board of Directors, for his contribution and commitment to Assumption Life during the past nine years.

Looking toward the future

It is with abundant pride and a sense of accomplishment that I pass the torch.

I wish my colleagues on the Board of Directors a great deal of success. The coming years will bring with them their share of governance challenges, but given the skill, ethics and sound judgement I know the Board members to have, I am confident that Assumption Life is in good hands.



Gilles LeBlanc
Chairman of the Board

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The year 2012 was a volatile one for the financial sector. Many global political factors affected the Canadian life insurance industry. Some of the major insurance companies felt the impact of the world economy, and many of our competitors suffered as a result of it.

While industry sales stagnated or declined, Assumption Life set new sales records and pursued its growth in all markets. In 2012, Assumption Life ended the fiscal year with stable profits of $4.6 million. The Company also posted a record $12.8 million in life insurance sales. Plus, in spite of a fluctuating stock market, Assumption Life had financial product sales in the order of $51.9 million. Policyholders' equity was $99 million, and assets under management were $1.3 billion. Total group insurance sales were $6.6 million, and the Company's solvency ratio was 239%.

Keeping up the pace

Assumption Life was able to maintain its momentum in 2012, in part due to a line of niche products and investments in technology, positioning us in a specialized market where no other company has succeeded in joining us. Our distribution network continues to grow, and we now have over 5,000 brokers coast to coast. We take the time to develop solid business relationships, which has a big impact on our success.

Assumption Life employees are the key to our success. They are never afraid to innovate and suggest new ideas, which keep improving our service delivery. Our most recent sales force survey bears this out: an overall satisfaction rate of 92%, and 95% of those surveyed said that it is easy doing business with us, proof that our philosophy is working and embraced.

The next chapter

I believe major accomplishments are in the cards for Assumption Life. The Company intends to bank on innovation, process improvements and close monitoring of operational expenses to pursue its growth. Continuous improvement in our service is also critical. Products and prices being equal, the only thing that will distinguish us from the competition is service.

I would like to take this opportunity to thank our loyal clients and brokers who support us and who are instrumental to our success.

I would also like to thank the members of the Board of Directors for their commitment, in particular Gilles LeBlanc and Georges Marcoux, who are ending their mandate this year. Their dedication and extensive experience made a significant contribution to the Company.

Finally, I would like to thank Assumption Life employees who supported me and who have always shown me the utmost respect. It has been such a pleasure to come to work and be greeted by the smiles of employees who are proud to contribute to Assumption Life's success, thereby ensuring a brighter future for their families. And for this, I thank them from the bottom of my heart.

Denis Losier
President and Chief Executive Officer

INTERVIEW WITH PRESIDENT AND CEO
DENIS LOSIER

On the eve of Denis Losier's departure as President and CEO, we take a look back on the evolution of the Company and the industry during his 19 years at the helm of Assumption Life.

In spite of a volatile economy, Assumption Life still posted excellent results in 2012. What do you attribute this success to?

Historically, in difficult economic times, people think about what is important to them and what they can do to protect their loved ones. Other sectors tend to suffer more than insurance sales in tough economic times.

Plus the rapid expansion of our distribution network yielded results. Our presence across Canada and a product line designed for the middle and upper-middle class make Assumption Life an appealing choice, thus opening the doors to a very large market.

What were Assumption Life's strategies for carving out a place for itself in this market and making its mark?

We realized that brokers wanted a range of suppliers. This made us take a hard look at our product portfolio. We came to the conclusion that our future lay in a new approach: offering niche products to meet needs ignored by some of the major players. It turns out that our new approach had a great deal of appeal.

Assumption Life is a financially sound company with a varied product line. We are able to support our producers and offer unparalleled customer service. These are comments we often hear, something we are very proud of.

Why did you decide to lead Assumption Life toward nationwide expansion?

It was a necessity. To remain competitive, we had to make investments in the order of $12 to $15 million in technology. We could only generate a return on that investment through a major expansion of our client base. Assumption Life has long been present in the Maritimes and in certain parts of Quebec. We started by solidifying our presence in Quebec and then made important breakthroughs in Ontario and Western Canada. Thanks to the excellent business relationships we have developed with our managing general agents from coast to coast, we were able to keep up our momentum and build on our successes.

After 19 years at the company's helm, what's your reading of the life insurance and financial services industry?

A major consolidation in the industry led to a number of companies either closing their doors or merging. We have seen a concentration in the sale of high-end products among the larger companies, which changed the landscape considerably.

More recently, changes to regulations that govern the insurance and financial services industries forced us to take a look at how we do business.

How did Assumption Life adapt to these changes in the industry?

It became necessary to redefine a certain number of positions and their requirements. Our employees' strengths meant that we could adapt to the changes in the industry. It's an ongoing challenge, and we are continuing the work we started.

What was your greatest accomplishment while at the head of Assumption Life?

The entire management team did a fantastic job of transforming Assumption Life into a modern company with its finger on the pulse of new technology. Our business processes are at the cutting edge, and we are not afraid to pit ourselves against the biggest players in the industry. Today, the name Assumption Life is recognized across the country, and I'm very proud of that.

You have devoted a great deal of time and energy to different causes in recent years, in particular cancer research and Université de Moncton. Why is this important to you?

As a business leader, I have access to a privileged network that can help advance a variety of causes. I supported the causes I did for professional and personal reasons. I believe that getting involved is important. We all have a responsibility for ensuring our collective well-being. As a leader, I take that social responsibility seriously.

What does retirement look like for Denis Losier?

Busy! I'm going to keep sitting on a certain number of boards of directors. I'm also going to take more time to exercise, travel and enjoy fishing! I don't plan to sit around in front of the TV!

SOCIAL RESPONSIBILITY

Community involvement: every little bit counts

Assumption Life and its employees care about their community. Their year-round efforts speak for themselves.

- In 2012, the Bobby Orr Golf Tournament broke the $1 million mark. This major event to benefit the Atlantic Cancer Research Institute enabled important breakthroughs to curb a disease that affects so many people.
- The Tour of Hope: In addition to Assumption Life sponsoring the event, a team also rode 1,000 km to raise money for the Tree of Hope and increase public awareness about the importance of prevention.
- As part of the Tree of Hope campaign, Assumption Life employees demonstrated their generosity by taking part in a variety of activities and donating over $14,000.
- Assumption Life teams up with the Canadian Blood Services. Several times a year, the Life Bus shuttles employees to the clinic to donate blood. Once again this year, some 50 employees answered the call.
- The United Way campaign, which supports a range of community groups, also counts on Assumption Life employees, who donated $5,500 this year.
- Through its sponsorship and donation program, Assumption Life supports a number of causes that reach an impressive number of Canadians of all ages and backgrounds. Once again this year, the Company supported deserving initiatives, such as juvenile diabetes, the Crunch and Move Challenge in New Brunswick's French-language schools, P.R.O. Kids and the Heart & Stroke Foundation, to name just a few.

"THE DEDICATION OF OUR EMPLOYEES TO MANY CAUSES IS A GREAT TESTAMENT TO THEIR COMMITMENT TOWARDS THE COMMUNITY."

- DENIS LOSIER,
PRESIDENT AND CEO

SOCIAL RESPONSIBILITY

Honours and distinctions

Assumption Life continues to distinguish itself for its management practices. These honours are testimony to the quality of our work environment and our employees' dedication to the Company's success. Here are some of the distinctions from the past year:

- 17th among the Top 101 Companies in Atlantic Canada – *Progress Magazine*
- 12th among the top 27 employers in Atlantic Canada – Best Places to Work in Atlantic Canada survey.
- 21st among the 50 Best Small and Medium Employers in Canada – Queen's University School of Business
- Recipient of the Dr. Marilyn Trenholme Counsell Literacy Award in the business category for exemplary practices in employee training.

In 2012, our president and CEO, Denis Losier, was made a Member of the Order of Canada for his contribution to the province's economic and social development as a politician, businessman and community leader. His dedication to a variety of causes, including the Tree of Hope and the Atlantic Cancer Research Institute, were also recognized and earned him this honor, the most prestigious in the country.

Giving nature a helping hand

A pair of peregrine falcons has made its home on the roof of Assumption Place! A nesting box was installed last year to allow the birds to stay on permanently and safely. In 2012, the female was brooding over four eggs, and the young hatched right above our heads. Keep your eyes peeled; they're never far away!

ASSUMPTION MUTUAL LIFE INSURANCE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITORS'
REPORT TO THE POLICYHOLDERS

We have audited the attached consolidated financial statements of **Assumption Mutual Life Insurance Company**, which include the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Assumption Mutual Life Insurance Company** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants

Dieppe, New Brunswick
February 21, 2013

VALUATION
ACTUARY'S REPORT

To the policyholders of Assumption Mutual Life Insurance Company:

I have valued the policy liabilities of **Assumption Mutual Life Insurance Company** for its statement of financial position as at December 31, 2012, and their change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practices, including the selection of appropriate assumptions and methods.

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

Moncton, New Brunswick
February 14, 2013

Luc Farmer
Fellow, Canadian Institute of Actuaries

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION
(in thousands)

	Notes	As at December 31 2012	2011
ASSETS	Notes	$	$
Invested assets	4		
Cash and cash equivalents		10,427	37,464
Debt securities		421,276	427,175
Equity securities		43,907	21,961
Mortgages		136,083	123,882
Other invested assets		2,939	2,130
Policy loans		8,137	7,653
Investment properties		32,129	31,664
		654,898	651,929
Other assets	6	20,836	13,375
Reinsurance assets	10	136,192	100,693
Deferred tax assets	16	36	28
Property and equipment	7	3,991	5,277
Intangible assets	8	7,049	8,055
Goodwill		346	346
Segregated funds net assets	9	472,859	453,147
		1,296,207	1,232,850
LIABILITIES			
Insurance contract liabilities	10	660,790	627,277
Investment contract liabilities	11	22,857	21,581
Other liabilities	13	24,481	17,904
Employee benefit liability	14	3,241	2,787
Deferred tax liabilities	16	4,666	5,008
Borrowings	15	7,706	8,480
Segregated funds net liabilities	9	472,859	453,147
		1,196,600	1,136,184
EQUITY			
Policyholders' equity			
Surplus		94,666	90,872
Accumulated other comprehensive income		4,439	5,123
		99,105	95,995
Non-controlling interests		502	671
		99,607	96,666
		1,296,207	1,232,850

SIGNED ON BEHALF OF THE BOARD

Chairman

President and Chief Executive Officer

CONSOLIDATED STATEMENT
OF INCOME
(in thousands)

	Notes	Year ended December 31 2012	2011
REVENUE	Notes	$	$
Gross premiums		140,086	140,515
Premiums ceded to reinsurers		(24,622)	(24,260)
Net premiums	20	115,464	116,255
Fees and commission income	21	13,696	13,944
Investment income	22	17,121	16,909
Realized gains and losses from available-for-sale financial assets	23	1,584	1,772
Fair value gains and losses	24	11,003	57,702
Other operating revenue		1,528	2,100
Other revenue		44,932	92,427
Total revenue		160,396	208,682
EXPENSES			
Gross benefits and claims paid		109,611	89,583
Claims ceded to reinsurers		(19,690)	(14,675)
Gross change in contract liabilities		35,353	94,156
Change in contract liabilities ceded to reinsurers		(35,587)	(23,329)
Net benefits and claims		89,687	145,735
Borrowing costs		230	240
Fees and commission expenses	25	31,018	24,148
Administrative expenses	26	27,779	26,172
Other operating expenses	26	3,760	3,722
Other expenses		62,787	54,282
Total expenses		152,474	200,017
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		7,922	8,665
Policyholder dividends		1,617	1,516
PROFIT BEFORE INCOME TAXES		6,305	7,149
Income taxes	16	1,454	2,008
PROFIT FOR THE YEAR		4,851	5,141
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		293	459
Policyholders		4,558	4,682
		4,851	5,141

CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
(in thousands)

	Year ended December 31 2012	2011
	$	$
PROFIT FOR THE YEAR	4,851	5,141
Other comprehensive income:		
Available-for-sale financial assets:		
Change in unrealized gains (losses), net of income taxes of $174 ($1,461 in 2011)	429	3,882
Reclassification of realized losses (gains) included in other revenue, net of income taxes of $478 ($485 in 2011)	(1,106)	(1,287)
Other comprehensive income for the year, net of tax	(677)	2,595
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,174	7,736
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	299	437
Policyholders	3,875	7,299
	4,174	7,736

CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
(in thousands)

	Year ended December 31, 2012				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Noncontrolling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	90,872	5,123	95,995	671	96,666
Profit for the year	4,558	-	4,558	293	4,851
Other comprehensive income	-	(683)	(683)	6	(677)
Total comprehensive income	4,558	(683)	3,875	299	4,174
Dividends	-	-	-	(300)	(300)
Redemption of non-controlling interests	(764)	(1)	(765)	(168)	(933)
Balance, end of year	94,666	4,439	99,105	502	99,607

	Year ended December 31, 2011				
	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Noncontrolling interests	Total equity
	$	$	$	$	$
Balance, beginning of year	86,190	2,506	88,696	674	89,370
Profit for the year	4,682	-	4,682	459	5,141
Other comprehensive income	-	2,617	2,617	(22)	2,595
Total comprehensive income	4,682	2,617	7,299	437	7,736
Dividends	-	-	-	(440)	(440)
Balance, end of year	90,872	5,123	95,995	671	96,666

The accumulated other comprehensive income is comprised solely of unrealized gains (losses) on available-for-sale financial assets.

CONSOLIDATED STATEMENT
OF CASH FLOWS
(in thousands)

	Year ended December 31	
	2012	**2011**
OPERATING ACTIVITIES	$	$
Net income for the year	4,851	5,141
Items not affecting cash:		
Deferred income taxes	(350)	(270)
Change in reinsurance assets	(35,499)	(23,250)
Change in insurance and investment contract liabilities	34,789	95,436
Amortization of property and equipment and intangible assets	2,681	2,439
Fair value gains and losses	(11,003)	(57,702)
Realized gains and losses on disposal of available-for-sale financial assets	(1,584)	(1,772)
Employee benefit plan expense	2,131	1,010
Other	(68)	(1,546)
	(4,052)	19,486
Change in non-cash working capital items related to operations	(4,212)	(6,568)
Cash flows from operating activities	(8,264)	12,918
INVESTING		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	119,233	116,286
Purchases and loans	(134,697)	(98,960)
Acquisition of property and equipment and intangible assets	(1,806)	(2,046)
Disposition of property and equipment and intangible assets	1,417	-
Acquisition of additional interest in a subsidiary	(933)	-
Other	(1,213)	(230)
Cash flows from investing activities	(17,999)	15,050
FINANCING		
Change in borrowings	(774)	(758)
Cash flows from financing activities	(774)	(758)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(27,037)	27,210
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	37,464	10,254
CASH AND CASH EQUIVALENTS – END OF YEAR	10,427	37,464

SEE NOTE 17 FOR ADDITIONAL INFORMATION

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands) Year ended December 31, 2012

1. CORPORATE INFORMATION

Assumption Mutual Life Insurance Company, known as **Assumption Life** (the Company), was incorporated under a private law of the Province of New Brunswick's Legislative Assembly. The Company and its subsidiaries (together forming "the Group") underwrite life and non-life insurance risks, such as those associated with death, disability and health. The Group also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs. All these products are only offered in Canada. Finally, through one of its subsidiaries, it holds investment properties in New Brunswick, Canada.

The Group's head office is located at 770 Main St., in the Assumption Place building in downtown Moncton, N.B., Canada.

2. BASIS OF PREPARATION

Declaration of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historic cost basis except for investment properties and those financial assets and financial liabilities that have been measured at fair value.

The consolidated financial statements values are presented in Canadian ($) rounded to the nearest thousand ($000), unless otherwise indicated.

These consolidated financial statements, including all notes, were approved by the Board of Directors on February 21, 2013.

Important Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues, net payments to policyholders and beneficiaries, and expenses during the year. Actual results could differ from management's best estimates. The most significant estimates are related to the determination of: insurance contract and investment contract liabilities and employee benefit liabilities; fair values of financial instruments, investment properties, segregated fund assets and liabilities, retirement plan assets and reinsurance assets.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the significant accounting policies as well as in the notes relating to each element.

In the process of applying the accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements: classification of insurance contracts and classification of properties. They are discussed in the significant accounting policies as well as in the notes relating to each element.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

- **Assumption Place Limited (100%)**
- **Atlantic Holdings (1987) Limited (100%),** the parent company of **Louisbourg Investments Inc. (70%)**

The consolidated financial statements comprise the financial statements of the Group as at 31 December of each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions and dividends are eliminated in full.

Financial Instruments

Recognition

All financial assets, when initially recognized, at the transaction date, must be recorded at fair value and classified as either at fair value through profit or loss, available-for-sale, held-to-maturity or as loans and receivables, based on the features of the instrument and purposes for which the assets have been acquired. Financial liabilities must also be initially recognized at fair value, and must be classified either at fair value through profit or loss or as other liabilities.

Financial instruments classified at fair value through profit or loss are measured at fair value and any change in fair value is recorded in net income in the period in which it arises.

Financial instruments classified as available-for-sale (AFS) are measured at fair value and any unrealized gains or losses are recognized in other comprehensive income except for impairment losses, either significant or prolonged, at which time the loss is immediately recognized in net income.

Financial assets held-to-maturity (HTM), loans and receivables and financial liabilities classified as other financial liabilities are carried at amortized cost using the effective interest method. Interest or dividends arising from these financial instruments are recognized in net income for the period.

The transaction costs of preferred equity securities are recognized in income at the settlement date.

Fair Value

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid for assets/ask for liabilities) prices. If there is no active market, fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs. Fair value is also based on valuation models using unobservable inputs that are supported by little or no market activity.

Invested Assets

Cash and Cash Equivalents

Cash and cash equivalents are classified as held at fair value through profit or loss and include deposits in bank and short-term notes with a maturity of three months or less from the date of acquisition.

Debt Securities

The Group has designated as held at fair value through profit or loss its debt securities backing actuarial liabilities. Actuarial liabilities are established in accordance with the Canadian Asset Liability Method (CALM), in which the book value of the assets backing the liabilities is used in a base computation. Consequently, any variation in fair value of these assets is taken into consideration in computing actuarial liabilities.

The Group has designated as available-for-sale its debt securities not backing actuarial liabilities. Variation in fair value is consequently presented as other comprehensive income, unless there is objective evidence of impairment, in which case, variation in fair value is reclassified to income.

At each reporting date, debt securities classified as available-for-sale are tested for impairment and when there is objective evidence of impairment and the decline in value is considered significant or prolonged, the loss accounted in the accumulated other comprehensive income is reclassified to income. The Group considers as objective evidence of the impairment of debt securities the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. A significant or prolonged decline in fair value of a financial instrument below its cost is also objective evidence of impairment. Once an impairment loss is recorded in income, it is reversed when the debt securities' fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Following impairment loss recognition, any subsequent decrease in fair value is recognized in income.

Equity Securities

The Group has designated as held at fair value through profit or loss its equity securities backing actuarial liabilities. Actuarial liabilities are established in accordance with the Canadian Asset Liability Method (CALM), in which the book value of the assets backing the liabilities is used in a base computation. Consequently, any variation in fair value of these assets is taken into consideration in computing actuarial liabilities.

The Group has designated as available-for-sale its equity securities not backing actuarial liabilities. Variation in fair value is consequently presented as other comprehensive income, unless there is objective evidence of impairment, in which case, variation in fair value is reclassified to income.

On each reporting date, equity securities classified as available-for-sale are tested for impairment. The Group considers as objective evidence of the impairment of equity securities a significant or prolonged decrease in the fair value of the equity securities below its cost or changes in the economic or legal environment that have a negative effect on the issuer and which indicate that the carrying value may not be recovered.

When the decline in value is considered significant or prolonged, the loss accounted in the accumulated other comprehensive income is reclassified to income. Any decline in value is recognized to income and any increase in value is recognized to other comprehensive income. Impairment losses recognized in profit or loss shall not be reversed through profit or loss unless, in a subsequent period, the fair value increases and the increase can be objectively related to an event occuring after the impairment loss was recognized in profit or loss.

Mortgages

Mortgages are classified as loans and receivables and are carried at amortized cost using the effective interest rate method, net of a provision for credit losses. Interest calculated according to this method is accounted in the income statement.

On each reporting date, on an individual basis, the Group considers as objective evidence of the impairment of mortgages the issuer's financial difficulty, a bankruptcy or a default of payment of interest or principal. When there is evidence of impairment on mortgage loans, a provision for losses is recorded in order to adjust the carrying value according to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. This provision is immediately recorded in income. Realized gains and losses on the sale of mortgages are recorded in income.

Other Invested Assets

Other invested assets consist of notes receivable. They are classified as loans and receivables and are accounted at the amortized cost using the effective interest rate method.

Policy Loans

Policy loans, classified as loans and receivables, are carried at amortized cost using the effective interest rate method and are fully secured by the cash surrender value of the policies on which the respective loans are made.

Investment Properties

Properties held for the long term to earn rental income and which the Group does not primarily occupy are considered investment properties. This is determined by comparing the rental space occupied for the Group's own purposes with the total rental space.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the costs are incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Fair values are determined annually by a qualified independent appraiser.

Investment properties are derecognized either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Other Assets

Accounts receivable, premiums receivable, investment income accrued and other financial assets included in other assets are classified as loans and receivables.

Reinsurance Assets

In the normal course of business, the Group uses reinsurance to limit its risk on policyholders. Reinsurance assets represent the amounts due to the Group by reinsurance companies for insurance contracts and investment contracts liabilities ceded. The calculation of these amounts is similar to the provision for future policy benefits on underlying insurance contracts or investment contracts, in accordance with the contract provisions of reinsurance agreements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The depreciation method, basis and period are described in the table below.

	Depreciation method	Basis of depreciation	Depreciation period
Equipment			
Office	Straight-line	Useful life	3 to 40 years
Parking	Straight-line	Useful life	5 to 40 years
Leasehold improvements	Straight-line	Agreement	Lease duration

At the end of each year, the Group revises the residual value and useful life of the assets. Any change represents a modification of an accounting estimate and must be accounted prospectively.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognized in the income statement as an expense.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Intangible Assets

Intangible assets are recorded at cost, less accumulated depreciation and accumulated impairment losses.

The amortization method, basis and period are described in the table below. The amortization period and the amortization method are reviewed at least at each financial year end.

	Amortization method	Basis of amortization	Amortization period
Purchased software	Straight-line	Useful life	3 to 10 years
Developed software	Straight-line	Useful life	3 to 10 years
Technology projects under development	None	None	None

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Group only has finite intangible assets.

When events or changes in circumstances indicate an impairment of value, the Group revaluates the carrying value of long lived assets with finite useful lives. An impairment loss exists when the carrying amount of the asset exceeds the higher of fair value less costs to sell and its value in use. All impairment losses are recognized in net income.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Goodwill

Goodwill represents the positive difference between the cost and the fair value of identifiable assets, liabilities and contingent liabilities on a business acquisition. It is presumed to have an indefinite life and is not subject to amortization.

Goodwill is tested for impairment annually, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of cash-generating units to which the goodwill related. Where the recoverable amount of the cash-generating units is less than the carrying amount of the goodwill, an impairment loss is recognized in net income.

Segregated Funds Net Assets

Funds from group and individual annuities issued by the Group may be invested in segregated portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Group and the segregated fund policyholders have no direct access to the specific assets, the policyholders bear the risks and rewards of the fund's investment performance. The Group derives fee income from the management of its segregated funds. These revenues are accounted in fees and commissions revenues.

The segregated funds are recorded at market value. Realized and unrealized gains and losses are immediately included in the change in net assets of the segregated funds.

Product Classification

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits that will be paid whether the insured event occurs or not.

Investment contracts are those contracts that transfer significant financial risk to the Group. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, a foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance Contract Liabilities

Provision for future policy benefits for insurance contracts represent the amounts which, after consideration of future premiums and investment income, provide for all commitments under policy contracts. These liabilities are set equal to the statement of financial position value of the assets that would be required to support them. These provisions are established using the Canadian Asset Liability Method (CALM), which is generally accepted actuarial practice established by the Canadian Institute of Actuaries (CIA).

CALM involves projecting asset and liability cash flows for each business segment under a set of prescribed interest rate scenarios, plus additional scenarios chosen by the Appointed Actuary, if applicable. 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. The reinvestment strategies are founded on investment policies and the reinvestment returns are drawn from each underlying scenario. The policy liabilities are at least as great as the liabilities determined under the worst of the scenarios tested. Moreover, the projected asset cash flows include assumptions for investment expenses and credit risk.

To determine the cash flows to use in CALM, the Group uses assumptions based on the Appointed Actuary's best estimate of future experience for each assumption. These assumptions include mortality, disability, investment returns (stock markets, interest rates and defaults of payment), operating expense levels, lapse rates, inflation, policyholder dividends and taxes. The assumptions cover the term of the liabilities being valued, taking into consideration events that might occur in a distant future. All assumptions are examined periodically and are subject to changes to ensure they appropriately reflect emerging experience and changes in risk profile.

These best estimate assumptions are adjusted by the Appointed Actuary to include margins for adverse deviation. These margins take into account the uncertainty in establishing these best estimates and a potential deterioration in expected experience.

The following is a description of the methods used to calculate the assumptions and the margins for adverse deviation:

a) Mortality

For individual life, the Group uses a recently published industry mortality table, adjusted to take into account the actual experience of the Group. Future mortality improvements are not taken into account in the valuation.

For annuities and pensions, a recent industry mortality table is used taking into account expected future improvements in annuitant mortality.

b) Disability

The Group uses disability tables representative of the industry experience, modified to reflect the Group's own experience.

c) Investment Returns

The computation of actuarial liabilities takes into account projected net investment income on assets backing liabilities and on new cash flows to be invested or disinvested in the future. The uncertainty of the interest rates at which future cash flows can be reinvested has been taken into account by testing plausible future interest rate scenarios to determine the sensitivity of the results. Investment expenses and asset default risks are also considered in the valuation.

d) Expenses

The administrative expenses per policy are based on the Group's internal cost analysis, which is updated annually. These unit costs are projected into the future factoring inflation.

e) Lapses

Each year, an internal study of the Group's policy lapse rates is conducted. The valuation assumptions are chosen by considering both this internal study and the published industry experience.

f) Policyholder Dividends

Actuarial liabilities include the present value of expected future policy dividends reflecting current dividend scales.

g) Margins for Adverse Deviation

The basic assumptions made in establishing actuarial liabilities represent best estimates for a range of possible outcomes. To recognize the uncertainty in establishing best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, actuaries are required to include a margin for each assumption. A range of allowable margins is defined by the Canadian Institute of Actuaries and the actuary must choose the margins, within this range, with consideration for each company's specific situation.

In general, the margins are higher for fully guaranteed products while they are lower for adjustable products or participating policies where the dividends can be modified to reflect the Group's experience.

The reinsurance asset represents the benefit derived from reinsurance arrangements in force at the balance sheet date. The reinsurance asset is measured consistently with the amounts associated with the insured insurance contracts and in accordance with the terms of each reinsurance contract.

Under CALM, any liability adequacy deficiency is immediately reported in the income statement.

Investment Contract Liabilities

Investment contract liabilities are the amounts that the Group owes to clients since these contracts do not have insurance risk. These amounts are carried at fair value in the consolidated statement of financial position.

Other Liabilities

All elements of other liabilities are classified as other financial liabilities.

Employee Benefit Plans

The Company and its subsidiaries offer to their employees defined benefit pension plans based on earnings and other benefits subsequent to employment. The cost of providing benefits under the defined benefit plans is determined separately using the projected unit credit valuation method and management's best estimate of expected plan investment performance, salary escalation and retirement age of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at market value.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Taxes

The Group provides for income taxes using the liability method of tax allocation. The income tax provision is comprised of current and deferred income taxes. Current income taxes are based on taxable income. Deferred income taxes reflect the net tax effect of temporary differences between assets and liabilities reported for financial statement purposes and those reported for income tax purposes. A deferred income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not. In addition to income taxes, the charge to the income statement includes the tax on capital imposed on financial institutions and the large corporations tax recorded in other operating expenses.

Borrowings
The Group has chosen to classify its borrowings as financial liabilities at amortized cost. The borrowings are initially recognized at fair value, net of related transaction costs. They are subsequently measured at amortized cost using the effective interest rate method.

The interest calculated according to the effective interest rate method is recognized in the statement of income and presented as borrowing costs.

Segregated Funds Net Liabilities
The liabilities of insurance contracts whose financial risk is supported by policyholders are accounted for as a separate line item in the statement of financial position and are recorded at fair value. The assets backing these liabilities are also recorded as a specific item under assets in the statement of financial position.

Foreign Currency Translation
Monetary assets and liabilities in foreign currencies are converted at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities, as well as revenue and expenses, are converted at the historical rate.

Translation gains and losses are included in other operating revenue.

Provision
The Group recognizes a provision that, when there is an obligation towards a third party resulting from a past event, it is probable that an outflow of economic resources will be necessary to settle the obligation and the amount can be estimated reliably.

The amount of provision equals the best estimate of the counterpart needed to extinguish the current obligation, given the risks and uncertainties related to the obligation. The Group does not measure the provision at the current value since these provisions do not have a specified period. No amount of provision is recognized for future operating losses.

Contingent liabilities are disclosed if the future obligation is probable, but the amount cannot be reasonably estimated.

Premiums
Gross insurance and annuity premiums are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provision for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

Fees and Commission Income
Fees and commission income primarily represent fees earned from the management of the Group's segregated fund and pooled fund assets, administrative services only (ASO) income and reinsurance commission income. Fees and commission income are recorded on an accrual basis when services are rendered.

Investment Income
Interest on cash and debt securities is recorded on an accrual basis. Dividend income is recognized when the right to receive it is established. For loans and receivables reported at amortized cost, interest income is calculated using the effective interest rate method and is reported in the income statement. Rental income from investment properties is reported in the statement of income linearly according to the term of the lease.

Realized Gains and Losses From Available-for-Sale Financial Assets
Realized gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortized cost and are recorded on occurrence of the sale transaction.

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands) Year ended December 31, 2012

Recognition of Expenses

Annuities and benefits at maturity are recognized when payment is due. Redemptions are recorded on payment. Death benefits and other benefits are recorded when reported.

Reinsurance recoveries are recorded for the same periods as related benefits.

Future Accounting Policy Changes

IFRS 9, Financial Instruments

The IASB published IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement, on the classification and valuation of financial assets and liabilities. The standard applies to financial statements for periods beginning on or after January 1, 2015, with earlier adoption permitted. The Group is currently evaluating the impact of the new standard on its financial statements.

IFRS 13, Fair Value Measurement

In May 2011, the IASB published IFRS 13, Fair Value Measurement. This standard sets out a framework for fair value measurement and specifies disclosures related to fair value measurement. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Group is currently evaluating the impact of adopting the standard on its financial statements.

IFRS 10, Consolidated Financial Statements

In May 2011, the IASB published IFRS 10, Consolidated Financial Statements. The new standard maintains the existing principles related to control assessment to determine whether an entity should be included in a company's financial statements and gives additional instructions when needed to make a determination. This standard is to be applied for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Group is currently evaluating the impact of adopting the standard on its financial statements.

IAS 1, Presentation of Financial Statements

On June 16, 2011, the IASB published an amendment to IAS 1, Presentation of Financial Statements, regarding the grouping of all other comprehensive income items that will be reversed through income in the statement of comprehensive income. The amendment does not affect the amounts that must be recognized in other comprehensive income or the timing of the items' reversal. The standard is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Group is currently assessing the impact of these changes on its financial statements.

IAS 19, Employee Benefits

On June 16, 2011, the IASB published amendments to IAS 19, Employee Benefits. The revised IAS 19 aims to improve employee benefit disclosures and eliminates options for deferring the recognition of actuarial differences by requiring the recognition of such differences in other comprehensive income as they occur. The standard is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Group is currently assessing the impact of these changes on its financial statements.

IASB projects

On July 30, 2010, the IASB published the Exposure Draft on phase II of IFRS 4, Insurance Contracts, covering the valuation and recognition of insurance contracts. The comments period ended on November 30, 2010. Phase II of the standard should not take effect prior to 2015. The IASB's proposed accounting method for insurance contracts separates the valuation of insurance liabilities from the assets they are matched to. As a result, these proposals could lead to a significant increase in insurance contract liabilities and required capital on adoption and major income volatility.

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands) Year ended December 31, 2012

4. INVESTED ASSETS

Carrying Value and Fair Value

	2012					
	Designated at fair value through profit or loss	Available - for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	10,427	-	-	-	10,427	10,427
Debt securities						
Government	345,595	60,152	-	-	405,747	405,747
Municipal	2,138	-	-	-	2,138	2,138
Corporations & other	7,710	5,681	-	-	13,391	13,391
	355,443	65,833	-	-	421,276	421,276
Equity securities						
Common stocks	-	670	-	-	670	670
Preferred stocks	21,672	-	-	-	21,672	21,672
Investment fund units	18,330	3,235	-	-	21,565	21,565
	40,002	3,905	-	-	43,907	43,907
Mortgages						
Insured residential	-	-	13,437	-	13,437	13,561
Other residential	-	-	33,692	-	33,692	34,490
Commercial	-	-	88,954	-	88,954	90,501
	-	-	136,083	-	136,083	138,552
Other invested assets	-	-	2,939	-	2,939	2,946
Policy loans	-	-	8,137	-	8,137	8,137
Investment properties	-	-	-	32,129	32,129	32,129
	405,872	69,738	147,159	32,129	654,898	657,374

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands) Year ended December 31, 2012

Carrying Value and Fair Value

	2011					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	37,464	-	-	-	37,464	37,464
Debt securities						
Government	347,648	56,189	-	-	403,837	403,837
Municipal	2,215	-	-	-	2,215	2,215
Corporations & other	14,868	6,255	-	-	21,123	21,123
	364,731	62,444	-	-	427,175	427,175
Equity securities						
Common stocks	-	674	-	-	674	674
Preferred stocks	-	-	-	-	-	-
Investment fund units	18,364	2,923	-	-	21,287	21,287
	18,364	3,597	-	-	21,961	21,961
Mortgages						
Insured residential	-	-	10,422	-	10,422	10,792
Other residential	-	-	26,940	-	26,940	27,800
Commercial	-	-	86,520	-	86,520	89,294
	-	-	123,882	-	123,882	127,886
Other invested assets	-	-	2,130	-	2,130	1,878
Policy loans	-	-	7,653	-	7,653	7,653
Investment properties	-	-	-	31,664	31,664	31,664
	420,559	66,041	133,665	31,664	651,929	655,681

Investment Properties

The following table details the transactions on investment properties.

	2012	2011
	$	$
Balance, beginning of year	31,664	30,595
Acquisitions resulting from subsequent expenditure	586	301
Change in fair value	(121)	768
Balance, end of year	32,129	31,664
Rental income and service charge income	7,153	7,208
Operating expenses that generate rental income	(4,146)	(4,125)
Operating expenses that do not generate rental income	(919)	(1,186)

Fair Value Hierarchy

Hierarchy of valuation techniques for financial instruments recorded at fair market value is required. The hierarchies include the following levels:

- Level 1: Quoted prices in active markets for identical financial instruments.
- Level 2: Quoted prices for similar financial instruments in active markets, for similar or identical financial instruments in markets that are not active or with valuation in which all significant inputs are observable in active markets.
- Level 3: Quoted prices in active markets for identical financial instruments are not available.

Cash and cash equivalents classified held at fair value through profit or loss are level 1.

The following tables present information about the fair value of financial instruments based on the levels of input used:

2012	Fair value through profit or loss	Available-for-sale	Total
	$	$	$
Debt securities			
Level 2	355,443	65,833	421,276
Equity securities			
Level 1	40,002	3,905	43,907

2011	Fair value through profit or loss	Available-for-sale	Total
	$	$	$
Debt securities			
Level 2	364,731	62,444	427,175
Equity securities			
Level 1	18,364	3,597	21,961

5. RISK MANAGEMENT RELATING TO FINANCIAL INSTRUMENTS

The principal risks relating to financial instruments that the Group must manage are credit risk, liquidity risk and market risk (interest rate and stock market). The measures adopted by the Group to control each of these risks are outlined below.

Credit Risk

Credit risk is the risk that the Group will incur a financial loss if some of its debtors fail to fulfill their obligation to make payments when due. The Group, in the normal course of its activities, is exposed to that risk through credit granted to its clients, reinsurers and brokers, through credit in the form of mortgages and exposure through its various investment portfolios. The risk of credit concentration may also occur when there is a concentration of investments in entities with similar activities in the same geographic region or in the same sector of activity or when a significant investment is made with a sole entity.

Credit-risk management is conducted through the Group's investment policy and is applied to various means of investment and credit. Investments in debt securities must be selected after an analysis that considers geographic diversification, the type of issuer, average credit rating and maturity of securities. Limits are established for each of these factors.

The Group also has a specific credit policy for mortgages according to which a study must be conducted in order to determine a credit rating for the loan. To manage the risk of concentration, industry limits are established, some sectors are avoided and the loan amounts granted to one person or to one group are limited. Furthermore, loans must be guaranteed by residential or commercial buildings or by land held for subdividing purposes. The type of guarantee is based on the assessment of the degree of counterparty credit risk.

The conclusion of guarantee agreements is also a credit risk mitigation measure. The required amount and type of guarantee are based on the assessment of the counterparty credit risk. Guidelines have been established for the types of acceptable guarantees and related assessment parameters. Management examines the value of guarantees and requires additional guarantees, if needed.

Equity securities, except investments in pooled funds matched with the Universal policy, are subject to a maximum limit of the Group's surplus. Geographic diversification and by type of issuer are also imposed to reduce risks.

Maximum Credit Risk

The table below summarizes the Group's maximum financial instrument credit risk. The maximum credit risk corresponds to the book value of assets, net of any provision for losses.

	2012	2011
	$	$
Cash and cash equivalents	10,427	37,464
Debt securities	421,276	427,175
Mortgages	136,083	123,882
Other invested assets	2,939	2,130
Policy loans	8,137	7,653
Reinsurance assets	136,192	100,693
Other receivables	17,620	11,653
	732,674	710,650

Quality of the Debt Securities Portfolio

	2012	2011
	$	$
AAA	607	1,391
AA	166,987	161,947
A	253,682	263,837
BBB	-	-
	421,276	427,175

Quality of the Equity Securites Preferred Portfolio

	2012	2011
	$	$
PF-1	10,862	-
PF-2	10,810	-
	21,672	-

Loans in Arrears and Provisions for Losses

The carrying value of mortgages in arrears before provisions for losses is as follows:

2012

	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total
	$	$	$	$
Non-impaired mortgages				
Insured residential	8	-	-	8
Other residential	164	-	23	187
Commercial	-	-	234	234
	172	-	257	429
Impaired mortgages	-	-	295	295

2011

	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total
	$	$	$	$
Non-impaired mortgages				
Insured residential	-	-	107	107
Other residential	101	-	314	415
Commercial	-	-	538	538
	101	-	959	1 060
Impaired mortgages	-	-	-	-

Provisions for losses

	2012	2011
	$	$
Mortgage loans:		
Beginning of year	-	-
Provisions for losses increase (decrease)	59	-
End of year	59	-

Liquidity Risk

Liquidity risk is the risk that the Group cannot respond to all of its cash flow commitments as they reach maturity.

This risk is managed through matching of asset and liability cash flows and active management of funds. However, a certain level of liquidity is required to provide for contingencies such as asset repurchases or defaults.

Additional liquidities are available through credit lines, if needed.

The Group has commitments to clients for undisbursed approved mortgages. The following is the payment schedule for those loans:

	1- 6 months	7 - 12 months	Over 1 year
	$	$	$
Undisbursed approved mortgages	84	-	-

The following tables show the carrying amount of financial instruments by maturity, as well as total fair value.

	2012						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	-	10,427	-	-	-	10,427	10,427
Debt securities							
Government	-	4,776	17,108	24,826	359,037	405,747	405,747
Municipal	-	-	1,532	606	-	2,138	2,138
Corporations & other	-	2,593	5,863	-	4,935	13,391	13,391
	-	7,369	24,503	25,432	363,972	421,276	421,276
Equity securities							
Common stocks	670	-	-	-	-	670	670
Preferred stocks	21,672	-	-	-	-	21,672	21,672
Investment fund units	21,565	-	-	-	-	21,565	21,565
	43,907	-	-	-	-	43,907	43,907
Mortgages							
Insured residential	-	1,571	7,053	1,615	3,198	13,437	13,561
Other residential	-	16,976	9,835	58	6,823	33,692	34,490
Commercial	-	27,376	34,219	14,161	13,198	88,954	90,501
	-	45,923	51,107	15,834	23,219	136,083	138,552
Other invested assets	-	635	1,228	421	655	2,939	2,946
Policy loans	8,137	-	-	-	-	8,137	8,137
Other receivables	17,620	-	-	-	-	17,620	17,620

	2011						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	-	37,464	-	-	-	37,464	37,464
Debt securities							
Government	-	4,104	39,172	41,917	318,644	403,837	403,837
Municipal	-	-	974	1,241	-	2,215	2,215
Corporations & other	-	1,460	13,650	1,123	4,890	21,123	21,123
	-	5,564	53,796	44,281	323,534	427,175	427,175
Equity securities							
Common stocks	674	-	-	-	-	674	674
Preferred stocks	-	-	-	-	-	-	-
Investment fund units	21,287	-	-	-	-	21,287	21,287
	21,961	-	-	-	-	21,961	21,961
Mortgages							
Insured residential	-	1,533	7,147	1,692	50	10,422	10,792
Other residential	-	8,781	10,902	63	7,194	26,940	27,800
Commercial	-	26,585	34,676	11,309	13,950	86,520	89,294
	-	36,899	52,725	13,064	21,194	123,882	127,886
Other invested assets	-	596	748	-	786	2,130	1,878
Policy loans	7,653	-	-	-	-	7,653	7,653
Other receivables	11,653	-	-	-	-	11,653	11,653

Market Risk

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to variations in market factors. It consists of the following: interest rate risk and stock market risk.

Interest Rate Risk

Interest rate risk is present when there is not a perfect match between asset and liability cash flows and when interest rates fluctuate, which leads to a variation in the disparity between assets and liabilities. Due to the nature of an insurance company's activities, which is investing clients' premiums with the ultimate goal of paying benefits, the payment of which may be uncertain and far off, namely with regard to death benefits and annuity payments, interest rate risk must be managed properly.

The Group has matched its assets with its liabilities in order to minimize profit margin volatility caused by fluctuations between realized profits and profits credited to existing contracts. To manage matching requirements, financial assets and liabilities are distributed over business lines in order to match one business line's assets with its liabilities. This matching is regularly analyzed and modified. The exchange of information among the Actuarial Department, Finance Department and investment managers along with the regular publication of credited rates are part of the process.

To further manage risk, matching is based on the characteristics of the products sold. For products that must provide fixed and highly predictable benefits, liabilities and assets with similar characteristics are matched, such as investments in fixed-income instruments. This results in some protection against fluctuating interest rates because any variation in the fair value of assets is compensated by a similar variation in the fair value of liabilities. Considering the investments available on the market, it is more difficult to perform this matching for liabilities with maturities of more than 30 years.

Furthermore, the Group's policy is to achieve fairly complete matching. Thus differences in the durations of assets and liabilities must not exceed certain established parameters. That policy is intended to manage interest rate risk for liabilities with maturities later than those of the matched assets.

Projected asset and liability cash flows are used in the Canadian Asset Liability Method (CALM) to establish technical provisions. Asset cash flows are reduced to take into account possible losses due to insufficient return on assets. Reinvestment risk is assessed based on multiple interest rate scenarios (to take into account possible increases or decreases in rates).

Stock Market Risk

Stock market risk is the uncertainty associated with the valuation of assets arising from market fluctuations. The Group is exposed to that risk in various ways: through management fees calculated on the value of the assets being managed, by the expense resulting from the capital guarantee provided for some products and by the return on assets matched to equity and to actuarial liabilities. In order to mitigate this risk, the Group's investment policy provides for cautious investments in accordance with clearly defined limits.

6. OTHER ASSETS

	2012	2011
	$	$
Insurance receivables:		
Policyholders	3,646	2,997
Reinsurers	7,618	3,929
Agents, brokers and intermediates	1,763	247
Commissions and prepaid expenses	1,245	1,294
Accrued income	1,545	1,622
Investment income receivable	3,048	2,858
Income tax receivable	1,947	405
Other	24	23
	20,836	13,375

7. PROPERTY AND EQUIPMENT

	Property	Equipment	Total
	$	$	$
Cost			
At December 31, 2011	1,377	8,312	9,689
Additions	-	1,291	1,291
Other movements	(1,377)	(1,886)	(3,263)
At December 31, 2012	-	7,717	7,717
Accumulated depreciation			
At December 31, 2011	135	4,277	4,412
Depreciation	23	858	881
Other movements	(158)	(1,409)	(1,567)
At December 31, 2012	-	3,726	3,726
Carrying amount			
At December 31, 2011	1,242	4,035	5,277
At December 31, 2012	-	3,991	3,991

8. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Franchise	Total
	$	$	$	$	$
Cost					
At December 31, 2011	1,449	11,073	521	35	13,078
Cost capitalized	15	-	500	-	515
Completed projects	294	529	(823)	-	-
Other movements	(153)	-	-	(35)	(188)
At December 31, 2012	1,605	11,602	198	-	13,405
Accumulated depreciation					
At December 31, 2011	585	4,434		4	5,023
Amortization	339	1,151		1	1,491
Other movements	(153)	-		(5)	(158)
At December 31, 2012	771	5,585		-	6,356
Carrying amount					
At December 31, 2011	864	6,639	521	31	8,055
At December 31, 2012	834	6,017	198	-	7,049

9. SEGREGATED FUNDS ASSETS

NET ASSETS	2012	2011
	$	$
Investments:		
Equity securities	7,589	7,186
Pooled funds	462,239	444,149
Cash and term deposits	1,756	1,885
Accrued investment income	20	17
Other	1,633	535
	473,237	453,772
Liabilities	378	625
NET ASSETS	472,859	453,147

	2012	2011
	$	$
CHANGE IN NET ASSETS		
NET ASSETS – BEGINNING OF YEAR	453,147	479,944
Net contributions:		
Contributions	53,405	54,468
Withdrawals	(59,344)	(64,626)
	(5,939)	(10,158)
Investment income:		
Change in value of investments	14,672	(22,405)
Interest and dividends	18,198	12,891
	32,870	(9,514)
Management and administrative fees	(7,219)	(7,125)
NET ASSETS – END OF YEAR	472,859	453,147

10. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

The composition of the Group's insurance contract liabilities is as follows:

	2012		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	404,671	(104,881)	299,790
Group insurance	43,347	(27,583)	15,764
Annuities and pensions	208,449	(1,744)	206,705
Other insurance contract liabilities	4,323	(1,984)	2,339
	660,790	(136,192)	524,598

	2011		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	367,452	(70,423)	297,029
Group insurance	41,970	(26,488)	15,482
Annuities and pensions	213,183	(2,014)	211,169
Other insurance contract liabilities	4,672	(1,768)	2,904
	627,277	(100,693)	526,584

Change in Insurance Contract Liabilities and Reinsurance Assets

The change for the year is explained as follows:

	2012		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	622,605	(98,925)	523,680
Change in balances on in-force policies	(11,374)	(7,796)	(19,170)
Balances arising from new policies	44,325	(24,134)	20,191
Method and assumption changes	911	(3,353)	(2,442)
Increase (decrease) in insurance contract liabilities and reinsurance assets	33,862	(35,283)	(1,421)
Balance before the following:	656,467	(134,208)	522,259
Other insurance contract liabilities	4,323	(1,984)	2,339
Total insurance contracts and reinsurance assets	660,790	(136,192)	524,598

	2011		
	Insurance contracts	Reinsurance assets	Net
	$	$	$
Balance, beginning of period before other insurance contract liabilities	530,621	(76,414)	454,207
Change in balances on in-force policies	50,294	(13,099)	37,195
Balances arising from new policies	42,391	(8,523)	33,868
Method and assumption changes	(701)	(889)	(1,590)
Increase (decrease) in insurance contract liabilities and reinsurance assets	91,984	(22,511)	69,473
Balance before the following:	622,605	(98,925)	523,680
Other insurance contract liabilities	4,672	(1,768)	2,904
Total insurance contracts and reinsurance assets	627,277	(100,693)	526,584

11. INVESTMENT CONTRACT LIABILITIES

	2012	2011
	$	$
Balance, beginning of period	21,581	19,970
Deposits	4,806	3,085
Interest	363	397
Withdrawals	(3,893)	(1,871)
Increase (decrease) in investment contract liabilities	1,276	1,611
Total investment contract liabilities	22,857	21,581

12. INSURANCE RISK

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The concentration of risk is managed by using reinsurance to limit the Group's risk in regards to each of its insureds and in order to stabilize its results. Maximum amounts of benefits varying by activity sector are established for life and health insurance. The Group also possesses reinsurance treaties that cover financial losses related to multiple settlement requests that could occur following catastrophic events that would include multiple insureds.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Each year, the Group ascertains that its reinsurers exceed the minimum capitalization required by the regulatory authorities.

Insurance Contracts

Life insurance contracts offered by the Group include: individual whole life insurance, individual and group term insurance and individual and group annuities.

Life insurance are contracts for which the insurer receives premiums in exchange for benefits that will be paid at the death or lapse of the policyholder.

Annuity contracts are expressed in the form of an annuity payable at a specified age in exchange for premiums. If death occurs before retirement, contracts generally return the value of the fund accumulated for deferred annuities. Most contracts give the policyholder the option at retirement to take a cash sum amount or a guaranteed conversion rate allowing the policyholders the option of taking a payable annuity.

Single premium annuities are products that pay a specified payment to a policyholder. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period, or are transferable to a spouse at a specified percentage, in the case of death.

Deferred annuities are contracts that credit a guaranteed interest rate usually for a period equal to or less than 5 years. These contracts waive market value adjustment upon death of the policyholder.

Cash outflows related to insurance contract liabilities net of reinsurance are illustrated as follows:

	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
	$	$	$	$	$	$
Individual insurance	-	(14,696)	(20,660)	16,126	319,022	299,792
Group insurance	-	6,506	5,596	3,302	2,697	18,101
Annuities and pensions	-	62,721	89,588	22,619	31,777	206,705

The main risks that the Group is exposed to are as follows:

- Mortality risk - risk of loss due to policyholder death experience being different than expected
- Morbidity risk - risk of loss due to policyholder health experience being different than expected
- Longevity risk - risk of loss due to the annuitant living longer than expected
- Investment return risk - risk of loss due to actual returns being different than expected
- Expense risk - risk of loss due to expense experience being higher than expected
- Policyholder decision risk - risk of loss due to policyholder decision (lapses and surrenders) being different than expected

Sensitivities

The analysis that follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on profit after tax and surplus. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

Assumption	Change	After-tax income impact 2012	2011
		$	$
Mortality - life insurance products	+ 2%	(1,740)	(1,432)
Mortality - annuity products	- 2%	(319)	(307)
Morbidity	5% adverse	(1,110)	(1,035)
Expenses (maintenance)	+ 5%	(1,596)	(1,554)
Policy termination rates	10% adverse	(4,998)	(4,131)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	(1,553)	472
	- 100 bps	(1,787)	(6,168)
Investment properties			
Immediate change in market value	+ 10%	2,369	2,352
	- 10%	(2,369)	(2,352)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	761	642
	- 10%	(768)	(911)

13. OTHER LIABILITIES

	2012	2011
	$	$
Insurance payable:		
Policyholders	12,159	7,619
Reinsurers	3,643	2,428
Agents, brokers and intermediates	1,347	1,537
Suppliers and other charges	5,987	4,989
Income tax	-	162
Other	1,345	1,169
	24,481	17,904

14. EMPLOYEE BENEFIT PLANS

Information about the Group's defined benefit pension plans is as follows:

	2012	2011
	$	$
Changes in accrued benefit obligation:		
Balance at beginning of year	44,909	36,610
Current service cost	1,260	1,002
Employees' contributions	653	716
Interest cost	2,024	1,979
Benefits paid	(1,869)	(670)
Actuarial losses	6,167	5,272
Settlement on pension plan termination	(1,514)	-
Balance at end of year	51,630	44,909
Changes in plan assets:		
Fair value at beginning of year	33,267	32,068
Expected return on plan assets	1,912	2,010
Employer's contributions	1,677	1,633
Employees' contributions	653	716
Actuarial gains (loss)	(175)	(2,490)
Benefits paid	(1,869)	(670)
Settlement on pension plan termination	(1,514)	-
Fair value at end of year	33,951	33,267

The amounts recognized in the statement of financial position are as follows:	2012	2011
	$	$
Present value of the defined benefit obligation	51,630	44,909
Fair value of plan assets	(33,951)	(33,267)
Net defined benefit obligation	17,679	11,642
Unrecognized net actuarial losses	(14,996)	(9,310)
Amount recorded as liability	2,683	2,332

The Group's net pension plan expense is computed as follows:	2012	2011
	$	$
Current service cost, net of employees' contributions	1,260	1,002
Interest cost	2,024	1,979
Expected return on plan assets	(1,912)	(2,010)
Amortization of actuarial loss recognized in the year	656	(24)
	2,028	947

The Group's best estimate of expected payments for employee future benefits for the year ending December 31, 2013, is $1,900 for pension plan.

Employee benefit liability on the statement of financial position is comprised of the following:

	2012	2011
	$	$
Group insurance benefits liability	558	455
Pension plan liability	2,683	2,332
	3,241	2,787

The most recent actuarial evaluation was on December 31, 2011, for all pension plans. The average remaining service periods of the active employees covered by the two pension plans are 21 and 10 years. The average remaining service periods of the active employees covered by the other retirement benefit plans are the same as the pension plans.

The pension fund monies are invested in the following assets:

	2012	2011
	$	$
Assumption Life Balanced Fund	33,224	32,638
Cash	727	629
	33,951	33,267

Assumption Life Balanced Fund

The Assumption Life Balanced Fund (the "Balanced Fund") is a segregated fund established by Assumption Life. The overall objective of the Balanced Fund is a net rate of return, after management fees, that is more than the annual increase in the Consumer Price Index, discounted at the average yearly compound rate over a period of four years.

The Balanced Fund portfolio consists of a mix of cash, Canadian bonds and equities, foreign equities, international bonds or pooled funds or mutual funds invested in any or all of the above asset categories, or future and option contracts on securities, indices or currencies. The Balanced Fund is eligible as a registered retirement savings plan under the Income Tax Act of Canada.

Actuarial Assumptions Utilized to Determine Benefit Obligation Under the Defined Benefit Plans

	2012	2011
	%	%
Discount rate	3.90	4.50
Expected long-term rate of return on plan assets	6.00	6.25
Rate of compensation increase	3.00	3.25

15. BORROWINGS

The Group has authorized credit margins totaling $500 and bearing interest at the bank's base rate. These bank loans are renewable annually, are not guaranteed and are not used as at December 31, 2012.

	2012	2011
	$	$
Mortgage Loans		
Mortgage loan at a rate of 2.76%, repayable in monthly instalments of $34, including interest, maturing in April 2013 and pledging investment property	3,406	3,716
Mortgage loan at a rate of 2.76%, repayable in monthly instalments of $33, including interest, maturing in April 2013 and pledging investment property	2,647	2,968
Mortgage loan at a rate of 2.76%, repayable in monthly instalments of $15, including interest, maturing in April 2013 and pledging investment property	1,356	1,499
Bank Loans and Other		
Loans at prime rate minus 1% without fixed repayment conditions	297	297
	7,706	8,480
Fair value	7,376	8,033

Payments on principal expected and required in the next five years to meet repayment provisions are as follows:

Years ending December 31,	2013	$791
	2014	$807
	2015	$831
	2016	$858
	2017	$887

These estimated payments are based on the assumption that the loans will be renewed.

The balance of mortgage loans to be renewed within one year is $6,618.

16. TAXES

Income tax expense consists of the following:

	2012	2011
	$	$
Current income taxes	1,867	2,431
Adjustments from prior year	(63)	(153)
Deferred income taxes	(350)	(270)
	1,454	2,008

The effective income tax rate in the consolidated statement of income differs from the Group's statutory tax rate, mainly as a result of the following:

	2012		2011	
	$	%	$	%
Income tax at statutory rate	1,658	26.3	2,002	28.0
Increase (decrease) in the tax rate resulting from:				
Non taxable investment income	(199)	(3.2)	(37)	(0.5)
Differences in tax rates in other provincial jurisdictions	23	0.4	(7)	(0.1)
Change in tax rate	-	-	237	3.3
Adjustments from prior year	(63)	(1.0)	(153)	(2.1)
Other	35	0.6	(34)	(0.5)
	1,454	23.1	2,008	28.1

The Group's deferred tax liabilities (deferred tax assets) arise from the following items:

	2012	2011
	$	$
Investment properties, property and equipment and intangible assets	5,153	5,185
Insurance contract liabilities (assets)	(35)	92
Debt securities	420	515
Employee benefit plans	(849)	(722)
Other	(59)	(90)
	4,630	4,980
Deferred tax assets	(36)	(28)
Deferred tax liabilities	4,666	5,008
	4,630	4,980

17. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows related to operating activities include the following:

	2012	2011
	$	$
Interest received	11,831	12,055
Income taxes paid	4,119	4,190
Dividends paid	180	452
Dividends received	668	227
Cash flows related to financing activities include the following:		
Interest paid on financing	266	239

18. CONTINGENCIES

In the course of its normal operations, the Group is occasionally named as a defendant in legal proceedings. While it is not possible to anticipate the outcome of such proceedings, the Group does not expect that it will incur significant losses or need to commit significant amounts to such actions.

19. COMMITMENT

As a member of Assuris, the Group incurs, and will likely incur in the future, certain costs in connection with the operations of Assuris. Assuris is responsible for compensating policyholders in the event that a life insurer's operations must be liquidated.

Assuris annually assesses life insurers on the basis of a five-year average of annual premiums and the assessments are charged to income in the year they are incurred. The Group has agreed to provide Assuris with a credit facility which can be drawn upon, at Assuris' option, should the need arise.

20. NET PREMIUMS

	2012			2011
	Gross premiums	Premiums ceded	Net premiums	Net premiums
	$	$	$	$
Individual insurance	52,885	(12,768)	40,117	32,758
Group insurance	46,308	(11,847)	34,461	31,344
Annuities and pensions	40,893	(7)	40,886	52,153
	140,086	(24,622)	115,464	116,255

21. FEES AND COMMISSION INCOME

	2012	2011
	$	$
Policyholder administration and investment management services	9,669	9,672
Surrender charges and other contract fees	1,009	1,693
Reinsurance commission income	3,018	2,579
	13,696	13,944

22. INVESTMENT INCOME

	2012	2011
	$	$
Interest on cash and cash equivalents	254	197
Interest on debt securities	5,020	5,659
Dividends	812	232
Interest on mortgage loans and other invested assets	7,625	7,371
Interest on policy loans	403	367
Rental income from investment properties	3,731	3,870
Service charge income from investment properties	3,422	3,338
Service charge expense from investment properties	(4,146)	(4,125)
	17,121	16,909

23. REALIZED GAINS AND LOSSES FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
	$	$
Realized gains		
Equity securities	1	6
Debt securities	1,588	1,799
Realized losses		
Equity securities	(5)	(16)
Debt securities	-	(17)
	1,584	1,772

24. FAIR VALUE GAINS AND LOSSES

	2012	2011
	$	$
Financial assets at fair value through profit or loss	11,124	56,934
Investment properties	(121)	768
	11,003	57,702

25. FEES AND COMMISSION EXPENSES

	2012	2011
	$	$
Fees expenses	868	838
Commission expenses	30,150	23,310
	31,018	24,148

26. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2012	2011
	$	$
Administrative expenses		
Salaries and employee benefits expense	16,679	15,674
Amortization on property and equipment	881	978
Loss on disposal	309	-
Amortization of intangible assets	1,491	1,461
Professional and consultant fees	3,394	2,763
Investment property related expenses	919	1,186
Other	4,106	4,110
	27,779	26,172
Other operating expenses		
Amounts written off on financial and other assets	2	58
Other	3,758	3,664
	3,760	3,722

27. CAPITAL MANAGEMENT

With regard to capital management, the Group ensures that equity is always sufficient to maintain the Group's security and stability. Furthermore, it ensures that the return on capital meets the expectations of policyholders entitled to share in the Group's profits. The Group also ensures compliance with the requirements established by the Office of the Superintendent of Financial Institutions of Canada (OSFI).

Moreover, each year the valuation actuary projects the expected results of the Group according to its business plan. This analysis, called the Dynamic Capital Adequacy Testing (DCAT), is presented to the Board of Directors and filed with the regulatory authorities. The purpose of this analysis is to make sure the Group has enough capital to successfully go through the next few years and face unexpected outcomes.

This exercise considers many unfavorable scenarios in order to test the financial strength of the Group. Given the diversity of the Group's lines of business, this analysis shows that no element of exposure taken separately has any significant impact on its solvency. Also, the combination of these elements to different degrees does not jeopardize the solvency of the Group.

Regulatory Requirements and Solvency Ratio

The regulatory authorities require life insurance companies in Canada to maintain a minimum capitalization ratio in order to carry on business activities. In reference to the guideline imposed by OSFI, the Group maintains a ratio above the minimum requirement of 150%. As of December 31, 2012, the Group's ratio is 239% (251% in 2011).

A ratio of 239% means that the Group has sufficient capitalization to face unexpected negative results of approximately $34.7 million ($36.1 million in 2011) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory capital

	2012	2011
Available capital according to requirements	$92,954	$89,524
Required capital	$38,830	$35,634
Solvency ratio	239%	251%

28. RELATED PARTY TRANSACTIONS

Related parties include directors, executives and their affiliates.

Directors and Their Affiliates

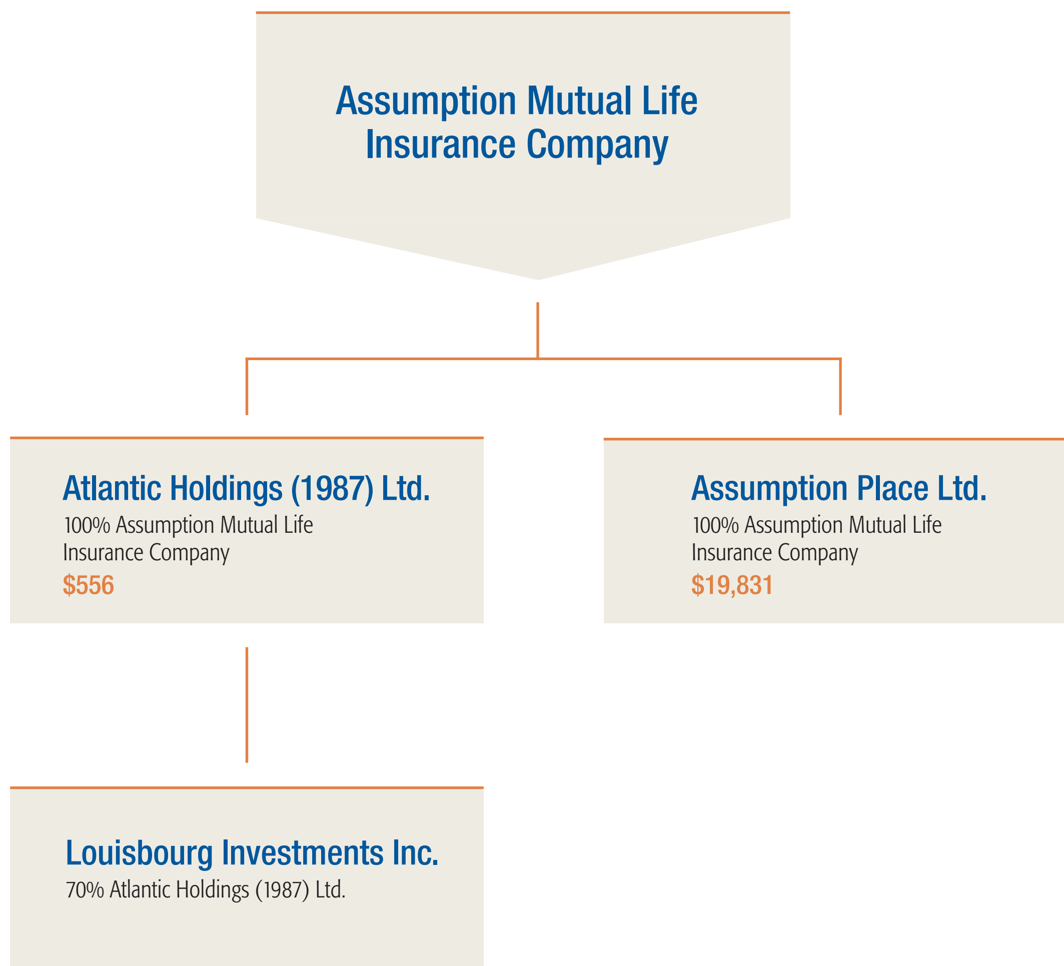
In 2009, the Company granted to 647439 NB Inc., whose shareholders are directors of Louisbourg Investments Inc., a loan of 1.3 million dollars, as well as an additional $467 in 2012, without interest, refundable before October 30, 2024. The balance of this loan as of December 31, 2012, is $1,100 ($786 in 2011).

Compensation of Key Management Personnel

Key management personnel of the Group includes all directors, executive and non executive, and senior management. The summary of compensation of key management personnel for the year is as follows:

	2012	2011
	$	$
Salaries and other short-term employment benefits	3,662	3,672
Fees	218	204
Post-employment pension benefits	171	141
	4,051	4,017

ORGANIZATIONAL CHART



% value = percentage of voting rights held
$ value = book value (in thousands of Canadian dollars)

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