2011

Assumption Life

ANNUAL REPORT

Board of Directors

Gilles LeBlanc
Chairman of the Board
*1**, 2, 4**, 5 (24/26)*

Georges Marcoux
Vice Chairman of the Board
2, 4 (14/14)

Denis Losier
President and CEO
Assumption Life
2, 4, 5 (35/35)

Philippe DesRosiers
2, 4, 5 (26/26)

Yves Arseneau, CA
Partner
Allen, Paquet & Arseneau LLP
*1, 3, 5*** (17/24)*

Nathalie Godbout
Partner
Lawson & Creamer law firm
*1***, 4 (10/15)*

Denis Larocque, CA
Chief Financial Officer
Major Drilling Groups International Inc.
1, 2, 3, 5 (28/29)

Andrée Savoie
President
Acadian Construction (1991) Ltd.
1, 5* (14/19)*

Allister Surette
President and Vice-Chancellor
Université Sainte-Anne
2, 4 (15/16)*

Jacques Valotaire, FCA, ICD.D
1, 3, 4 (17/18)*

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, 2011. The numbers in parenthesis 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

I am pleased to present the annual report for 2011. The past year was without question one of major upheaval and economic uncertainty on a global scale. Market volatility and declining interest rates were among the challenges we had to contend with. We were forced to re-evaluate our investment strategies and the rates for some of our products. However, while some prominent financial services companies reported major losses in 2011, we at Assumption Life can be particularly proud that we were able to address the challenges that came our way during the year and therefore deliver financial results in line with our established goals.

In addition to our financial success, we were singled out for recognition on several occasions for our achievements as a leading employer, ranking as the **5th Best Place to Work in Atlantic Canada** for our employees' engagement and overall satisfaction, and our best practices. I would like to take this opportunity to commend all of our employees. Your ability to adapt to the revised processes introduced in recent years, your loyalty to Assumption Life, and your efforts to deliver quality service are key drivers of our success.

From a governance point of view, the Board of Directors continued to exercise oversight responsibilities during the year, advising the management team on the implementation of the priorities set forth in the 2010–2012 strategic plan and ensuring sound management practices within the Company. The Board's efforts in 2011 focused specifically on:

- Achieving our mission of ensuring that "Doing business with us is easy." A survey of our brokers early in the year showed us that this mission is having a real impact and that our brokers are aware of and grateful for the exceptional, attentive customer service they receive from Assumption Life.
- Finding a balance between the compliance requirements the Company is bound to meet, our performance objectives and the allotted budgets.
- Managing the talent within our management team and throughout the Company.
- Putting succession plans in place for management-level positions.

As part of our commitment to optimal governance and strong, ethical leadership, our directors attended various training and information sessions, amended our Board mandate, adopted a director mandate and reviewed our performance appraisal program over the past year. Ongoing attempts to further improve the Board's transparency, integrity and efficiency are top priorities for us and will continue to be in 2012.

The Board will be welcoming a new member at the next annual general meeting to fill the vacancy left when Philippe DesRosiers completes his final term. I would like to join my fellow Board members in thanking Mr. DesRosiers for his contribution to the success and growth of Assumption Life over the past nine years.

I would also like to express our appreciation to our clients, agents and brokers for the confidence they continue to place in us.

Finally, I would like to express to Mr. Losier and the management team, the Board's satisfaction with the work accomplished by the Company in 2011.

Gilles LeBlanc
Chairman of the Board

Message from the President and Chief Executive Officer

Affected by the successive American and European debt crises and by continuing low interest rates, financial difficulties piled up for many insurance giants in 2011.

Despite the economic and financial turmoil, Assumption Life delivered enviable year-end results, with profits of $4.7 million, in addition to record sales of $10.3 million in life insurance and $69.9 million in financial products. Policyholders' equity totaled $96 million. Assets under management were $1.2 billion. Sales of group insurance amounted to $4.9 million. The company's solvency ratio was 251%.

Assumption Life was able to maintain profitability because we remained careful about our management decisions. We also have to admit that because of our relatively smaller size, we take smaller risks than some other companies. Also, because Assumption Life is a mutual insurance company, we aren't listed on the stock exchange and aren't forced to act quickly in order to please impatient stockholders. This means that we can not only concentrate on our short-term results but also look toward our growth and our long-term profitability, ensuring our company's financial stability and thus our policyholders' financial security.

New International Financial Reporting Standards (IFRS)

The past year also saw a major shift in the way we present our financial statements, which now comply with international financial reporting standards (IFRS). But although these new practices resulted in changes to our calculation methods and reporting formats, they did not detract from our exceptional performance.

Continued Expansion in the West

On the strength of our good financial results, Assumption Life intends to continue its expansion in the Ontario and Western Canada market, which now accounts for 73% of our life insurance sales. We now have over 5,000 brokers from coast to coast representing and serving different nationalities.

Our company's progress is due in large part to our niche product strategy and to investments in technology, which together have positioned us to deliver a specialized offering that no other insurer has yet been able to duplicate.

However, Assumption Life's success is mainly characterized by the commitment shown by each and every employee. Our philosophy, *Doing business with us is easy,* defines us well, and our employees apply it to their daily tasks and have made it a part of their mindset. I would like to express how deeply grateful I am to them for having embraced our vision and our strategies.

What Does the Future Hold for Assumption Life?

Given that the North American central banks have already announced that long-term interest rates will be stable for at least two more years, we must continue to manage our spending wisely. When this difficult economic period is over, and with our continuing sales success, I'm hopeful that our profitability will increase substantially.

I'd like to take advantage of this opportunity to thank our faithful clients and our brokers, whose contributions are instrumental in ensuring our continued growth and success.

My sincerest thanks and appreciation also go out to the members of our board of directors for their support and especially for their leadership. And, finally, I would like to note the departure of Philippe DesRosiers, who has served on our board in several capacities, including chairman, since 2003. I thank him for his invaluable insights over the years and his unwavering commitment to sound management here at Assumption Life.

Denis Losier,
President and Chief Executive Officer

Social Responsibility

Today, businesses look for ways to integrate social, environmental and economic concerns into their values, culture and activities. This social responsibility among businesses leads them to implement best practices, to create wealth and to improve society.

Assumption Life was founded in the early 20th century on the values of mutual assistance, education and economic and social development. We live our social values around five priorities:

Economy

Assumption Life is a mutual insurance company. Our participating life insurance policyholders are our owners. This means that we aren't listed on the stock exchange. We can therefore not only concentrate on our short-term results but also look toward our growth and our long-term profitability, ensuring our company's financial stability and thus our policyholders' financial security.

Customer Service

"Doing business with us is easy." That's Assumption Life's corporate philosophy on customer service. Our employees have applied it to their daily tasks and made it part of their mindset by adopting individual and corporate behaviors centered on the client, integrity, accountability, commitment and innovation. We are always working on improving our products and reviewing our processes in order to offer exceptional customer service. We are making lasting investments in technology to ensure that we provide our clients with quick online service and innovative products.

Employee Care

Employees are at the heart of Assumption Life's success. Our human resources management is a large part of this success. Whether we're talking about training for new employees, ongoing development, benefits or balancing work and family life, we firmly believe that we have to provide a work environment where our employees feel valued and where they can excel.

This is why Assumption Life is among the five best employers in Atlantic Canada and among the ten best in the region for innovation, internal perspectives and balance. At Assumption Life, we believe that happy employees take good care of our clients.

Environment

Assumption Life has adopted measures to reduce its environmental footprint. Electronic transactions have been topping the list for a number of years: reducing the number of paper statements sent to clients; posting the annual report online; giving our clients secure online access to their investment portfolio; giving our sales force online access to life insurance applications and an online quote system for group insurance; offering direct payment to our suppliers and our group insurance clients.

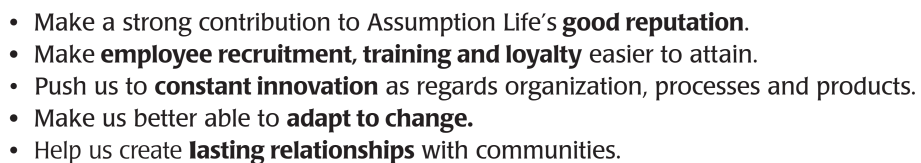
Community Support

Assumption Life is active in the areas of health, education and culture in the many communities it serves.

Health: Assumption Life and its employees have contributed over a million dollars to cancer research through the Atlantic Cancer Research Institute and the Tree of Hope Campaign. Contributions come from the many fundraising activities organized by employees, including the Bobby Orr Benefit Golf Tournament. It also supports efforts to encourage young people to adopt healthy lifestyles.

Education: In 2011, Assumption Life and the Assumption Foundation contributed almost $50,000 in scholarships and in donations to the Université de Moncton. Over the years, the Foundation has granted over $4 million in scholarships and donations to educational institutions.

Culture: Assumption Life has its own art gallery, the Assumption Gallery, an evocative space for artists to exhibit their works. Six exhibits are presented each year.



We are convinced that our social values:
- Make a strong contribution to Assumption Life's **good reputation**.
- Make **employee recruitment, training and loyalty** easier to attain.
- Push us to **constant innovation** as regards organization, processes and products.
- Make us better able to **adapt to change.**
- Help us create **lasting relationships** with communities.

We have audited the attached consolidated financial statements of Assumption Mutual Life Insurance Company, which include the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and as at January 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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, 2011, December 31, 2010, and as at January 1, 2010, and the results of its financial performance and its cash flows for the years ended December 31, 2011, and December 31, 2010, in accordance with International Financial Reporting Standards.

Chartered Accountants

Dieppe, New Brunswick
February 23, 2012

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, 2011, 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.

Luc Farmer
Fellow, Canadian Institute of Actuaries

Moncton, New Brunswick
February 14, 2012

Consolidated Statement of Financial Position

(in thousands)

		As at December 31		As at January 1
		2011	2010	2010
ASSETS	NOTES	$	$	$
Invested assets	5			
Cash and cash equivalent		37,464	10,254	10,657
Debt securities		427,175	380,223	346,975
Equity securities		21,961	23,749	22,447
Mortgages		123,882	122,816	127,321
Other invested assets		2,130	2,419	2,296
Policy loans		7,653	7,228	6,514
Investment properties		31,664	30,595	32,697
		651,929	577,284	548,907
Other assets	7	13,375	11,436	13,363
Reinsurance assets	11	100,693	77,443	69,547
Deferred tax assets	17	28	25	11
Property and equipment	8	5,277	5,408	5,108
Intangible assets	9	8,055	8,317	8,805
Goodwill		346	346	346
Segregated funds net assets	10	453,147	479,944	442,923
		1,232,850	1,160,203	1,089,010
LIABILITIES				
Insurance contract liabilities	11	627,277	533,452	501,240
Investment contract liabilities	12	21,581	19,970	19,992
Other liabilities	14	17,904	19,453	20,388
Employee benefit liability	15	2,787	3,410	3,732
Deferred tax liabilities	17	5,008	5,366	6,951
Borrowings	16	8,480	9,238	9,977
Segregated funds net liabilities	10	453,147	479,944	442,923
		1,136,184	1,070,833	1,005,203
EQUITY				
Policyholders' equity				
Surplus		90,872	86,190	82,279
Accumulated other comprehensive income		5,123	2,506	917
		95,995	88,696	83,196
Non-controlling interests		671	674	611
		96,666	89,370	83,807
		1,232,850	1,160,203	1,089,010

SIGNED ON BEHALF OF THE BOARD

Chairman

President and Chief Executive Officer

Consolidated Statement of Income

(in thousands)

	NOTES	Year ended December 31 2011	2010
REVENUE		$	$
Gross premiums		140,515	116,791
Premiums ceded to reinsurers		(24,260)	(24,199)
Net premiums	21	116,255	92,592
Fees and commission income	22	13,944	12,650
Investment income	23	16,909	19,311
Realized gains and losses from available-for-sale financial assets	24	1,772	1,205
Fair value gains and losses	25	57,702	31,317
Other operating revenue		2,100	2,239
Other revenue		92,427	66,722
Total revenue		208,682	159,314
EXPENSES			
Gross benefits and claims paid		89,583	92,087
Claims ceded to reinsurers		(14,675)	(15,053)
Gross change in contract liabilities		94,156	32,843
Change in contract liabilities ceded to reinsurers		(23,329)	(8,720)
Net benefits and claims		145,735	101,157
Borrowing costs		240	247
Fees and commission expenses	26	24,148	20,956
Administrative expenses	27	26,172	26,344
Other operating expenses	27	3,722	3,850
Other expenses		54,282	51,397
Total expenses		200,017	152,554
PROFIT BEFORE DIVIDENDS AND INCOME TAXES		8,665	6,760
Policyholder dividends		1,516	1,133
PROFIT BEFORE INCOME TAXES		7,149	5,627
Income taxes	17	2,008	1,374
PROFIT FOR THE YEAR		5,141	4,253
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests		459	342
Policyholders		4,682	3,911
		5,141	4,253

Consolidated Statement of Comprehensive Income

(in thousands)

	Year ended December 31	
	2011	2010
	$	$
PROFIT FOR THE YEAR	5,141	4,253
Other comprehensive income:		
Available-for-sale financial assets:		
Change in unrealized gains (losses), net of income taxes of $1,461 ($1,044 in 2010)	3,882	2,463
Reclassification of losses (gains) included in other revenue, net of income taxes of $485 ($352 in 2010)	(1,287)	(853)
Other comprehensive income for the year, net of tax	2,595	1,610
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,736	5,863
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Non-controlling interests	437	363
Policyholders	7,299	5,500
	7,736	5,863

Consolidated Statement of Changes in Equity

(in thousands)

Year ended December 31, 2011

	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling 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

Year ended December 31, 2010

	Surplus	Accumulated other comprehensive income	Total policyholders' equity	Non-controlling interests	Total equity
	$	$	$	$	$
BALANCE, BEGINNING OF YEAR	82,279	917	83,196	611	83,807
Profit for the year	3,911	-	3,911	342	4,253
Other comprehensive income	-	1,589	1,589	21	1,610
Total comprehensive income	3,911	1,589	5,500	363	5,863
Dividends	-	-	-	(300)	(300)
BALANCE, END OF YEAR	86,190	2,506	88,696	674	89,370

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	
	2011	2010
OPERATING ACTIVITIES	$	$
Net income for the year	5,141	4,253
Items not affecting cash:		
Deferred income taxes	(270)	(1,448)
Change in reinsurance assets	(23,250)	(7,896)
Change in insurance and investment contract liabilities	95,436	32,190
Amortization of property and equipment and intangible assets	2,439	2,356
Fair value gains and losses	(57,702)	(31,317)
Realized gains and losses on disposal of available-for-sale financial assets	(1,772)	(1,205)
Employee benefit plan expense	1,010	1,180
Others	(1,546)	(1,927)
	19,486	(3,814)
Change in non-cash working capital items related to operations	(6,568)	(1,488)
Cash flows from operating activities	12,918	(5,302)
INVESTING		
Marketable securities, mortgages and investment properties:		
Sales, maturities and reimbursements	116,286	102,444
Purchases and loans	(98,960)	(93,196)
Acquisition of property and equipment and intangible assets	(2,046)	(2,770)
Others	(230)	(840)
Cash flows from investing activities	15,050	5,638
FINANCING		
Increase (decrease) of borrowings	(758)	(739)
Cash flows from financing activities	(758)	(739)
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	27,210	(403)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	10,254	10,657
CASH AND CASH EQUIVALENTS – END OF YEAR	37,464	10,254

SEE NOTE 18 FOR ADDITIONAL INFORMATION.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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, NB, Canada. These consolidated financial statements, including all notes, were approved by the Board of Directors on February 23, 2012.

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.

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; assumptions used for goodwill and intangible assets impairment tests; assumptions used in the determination of provisions and depreciation of financial instruments.

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 of each element.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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. (60%)

The consolidated financial statements comprise the financial statements of the Group as at 31 December 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, 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 as held-for-trading 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.

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 rate (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 this asset has an impairment loss, thus eliminating volatility in the profit for the year.

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 for 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, these debt securities continue to be recorded at fair value with changes in fair value recorded in other comprehensive 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 this asset has an impairment loss, thus eliminating volatility in net income.

At 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.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

When the decline in value is considered significant or prolonged, the loss accounted in the accumulated other comprehensive income is reclassified to income. Once an impairment loss is recorded in income, it is not reversed through the statement of income. Following impairment loss recognition, these equity securities continue to be recorded at fair value with changes in fair value recorded in other comprehensive income.

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.

At 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 the amount of the outstanding balance 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.

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.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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.

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
Property	Straight-line	Useful life	20 years
Equipment			
Office	Straight-line	Useful life	3 to 10 years
Parking	Straight-line	Useful life	20 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
Franchise	Straight-line	Agreement	20 years

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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 is not recoverable and exceeds its fair value. 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 the acquisition of an additional portion of the subsidiary, at the acquisition date. It is presumed to have an indefinite life and is not subject to amortization and was initially recorded at fair value.

Goodwill is tested for impairment at least once a year or when an event or circumstance occurs that more likely than not reduces the fair value of the goodwill below its carrying amount.

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 other revenues in the income statement.

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 paid with benefits payable if the insured event did not occur.

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 a 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.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

(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 financial liabilities are classified as other liabilities.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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 revenue for the period.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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

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.

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 new standard on its consolidated 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, 2011

4. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Group adopted IFRS on January 1, 2011. Prior to this adoption, the Group prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). These financial statements, for the year ended December 31, 2011, are the first the Group prepared in accordance with IFRS. The accounting policies described in note 3 are the policies that the Group uses in the opening statement of financial position.

Exemptions and Exceptions Under IFRS 1

IFRS 1 requires retrospective application of all IFRS standards with certain optional exemptions and mandatory exceptions. The Group analyzed these exemptions in order to make choices that allow it to establish its opening financial position in IFRS. The information below corresponds to the exemptions to the retrospective application of IFRS that the Group has decided to apply.

Business Combinations

The Group has elected to apply IFRS 3 Business Combinations prospectively only to business combinations on or after the transition date. As a result, no acquistion made prior to January 1, 2010, was restated according to IFRS.

Employee Benefits

The Group has elected to recognize all cumulative unamortized actuarial gains and losses of the Group defined benefit plans in surplus upon transition. The "corridor" approach for recognizing actuarial gains and losses will be applied to gains and losses occuring after transition.

Fair Value or Revaluation Value as Deemed Cost

The Group elected to measure its land and buildings at fair value as their deemed cost at the transition date. For intangible assets and other property and equipment the Group used amortized cost according to previous CGAAP as deemed cost on the date of transition to IFRS.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Reconciliation of Equity Between CGAAP and IFRS

	NOTES	As at January 1, 2010	As at December 31, 2010
		$	$
Policyholders' equity according to CGAAP		88,001	95,421
Employee benefits	a	(8,832)	(8,407)
Investment properties and property and equipment	b	954	(1,652)
Income taxes on changes in accounting	c	3,073	3,334
Reclassification of non-controlling interests, net of taxes	d	611	674
		(4,194)	(6,051)
Equity according to IFRS		83,807	89,370

Reconciliation of Consolidated Comprehensive Income Between CGAAP and IFRS

	NOTES	Year ended December 31, 2010
		$
Comprehensive income according to CGAAP		7,420
Employee benefits	a	425
Investment properties and property and equipment	b	(2,606)
Income taxes on changes in accounting	c	261
Non-controlling interests, net of taxes	d	342
Effect on profit for the year		(1,578)
Non-controlling interests, net of taxes	d	21
Effect on other comprehensive income		21
Comprehensive income according to IFRS		5,863

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Reconciliation of the Financial Position Between CGAAP and IFRS

January 1, 2010

	NOTES	CGAAP $	Adjustments $	IFRS $
ASSETS				
Cash and cash equivalents		10,657	-	10,657
Debt securities		346,975	-	346,975
Equity securities		22,447	-	22,447
Mortgages		127,321	-	127,321
Other invested assets	e	-	2,296	2,296
Policy loans		6,514	-	6,514
Investment properties	b	35,593	(2,896)	32,697
Invested assets		549,507	(600)	548,907
Other assets	f, e	17,995	(4,632)	13,363
Accrued investment income	e	2,098	(2,098)	-
Reinsurance assets	g	-	69,547	69,547
Deferred tax assets	c, e	-	11	11
Property and equipment	b	1,258	3,850	5,108
Intangible assets		8,805	-	8,805
Goodwill		346	-	346
Segregated funds net assets	h	-	442,923	442,923
		580,009	509,001	1,089,010
LIABILITIES				
Insurance contract liabilities	g	430,673	70,567	501,240
Benefits payable and other provisions	g	5,097	(5,097)	-
Investment contract liabilities	g	21,651	(1,659)	19,992
Other liabilities	e	13,986	6,402	20,388
Employee benefit liability	a	-	3,732	3,732
Deferred tax liabilities	c, e	10,013	(3,062)	6,951
Borrowings		9,977	-	9,977
Segregated funds net liabilities	h	-	442,923	442,923
		491,397	513,806	1,005,203
Non-controlling interest	d	611	(611)	-
EQUITY				
Policyholders' equity				
Surplus		85,673	(3,394)	82,279
Accumulated other comprehensive income		2,328	(1,411)	917
		88,001	(4,805)	83,196
Non-controlling interest	d	-	611	611
		88,001	(4,194)	83,807
		580,009	509,001	1,089,010
ASSETS UNDER MANAGEMENT	h	442,923	(442,923)	-

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Reconciliation of the Financial Position Between CGAAP and IFRS

December 31, 2010

ASSETS	NOTES	**CGAAP** $	**Adjustments** $	**IFRS** $
Cash and cash equivalents		10,254	-	10,254
Debt securities		380,223	-	380,223
Equity securities		23,749	-	23,749
Mortgages		122,816	-	122,816
Other invested assets	e	-	2,419	2,419
Policy loans		7,228	-	7,228
Investment properties	b	36,324	(5,729)	30,595
Invested assets		580,594	(3,310)	577,284
Other assets	f, e	16,911	(5,475)	11,436
Accrued investment income	e	1,693	(1,693)	-
Reinsurance assets	g	-	77,443	77,443
Deferred tax assets	c, e	-	25	25
Property and equipment	b	1,329	4,079	5,408
Intangible assets		8,317	-	8,317
Goodwill		346	-	346
Segregated funds net assets	h	-	479,944	479,944
		609,190	551,013	1,160,203
LIABILITIES				
Insurance contract liabilities	g	454,207	79,245	533,452
Benefits payable and other provisions	g	5,437	(5,437)	-
Investment contract liabilities	g	22,531	(2,561)	19,970
Other liabilities	e	13,010	6,443	19,453
Employee benefit liability	a	-	3,410	3,410
Deferred tax liabilities	c, e	8,672	(3,306)	5,366
Borrowings		9,238	-	9,238
Segregated funds net liabilities	h	-	479,944	479,944
		513,095	557,738	1,070,833
Non-controlling interest	d	674	(674)	-
EQUITY				
Policyholders' equity				
Surplus		91,504	(5,314)	86,190
Accumulated other comprehensive income		3,917	(1,411)	2,506
		95,421	(6,725)	88,696
Non-controlling interest	d	-	674	674
		95,421	(6,051)	89,370
		609,190	551,013	1,160,203
ASSETS UNDER MANAGEMENT	h	479,944	(479,944)	-

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Details on Adjustments

(a) Employee Benefits

As previously mentioned, the Group elected to recognize in surplus all cumulative unamortized actuarial gains and losses of the Group employee defined benefit plans upon transition. This resulted in a charge of $8,832 against surplus as of January 1, 2010. This adjustment also had the effect of increasing profit before taxes by $425 for the year ended December 31, 2010. The net impact on equity before taxes as of December 31, 2010, is a decrease of $8,407.

(b) Investment Properties and Property and Equipment

Under previous CGAAP, investment properties were carried at the moving average market method, whereby the carrying value was adjusted at a rate of 3% per quarter of unrealized gains and losses. Under IFRS, investment properties can be valued using the cost model or the fair value model. The Group decided to use the fair value model. The transition from CGAAP to IFRS resulted in an increase of $954 in the carrying value of its investment properties. An amount of $3,850 was also transferred from investment properties to property and equipment so as to properly allocate items as to their nature, for a net decrease of $2,896 in investment properties. This includes a property that the group owns and manages, a hotel, which, under IAS 40, is regarded as a property being used to a significant extent for the supply of goods and services, and therefore has to be accounted for under IAS 16 (property and equipment) instead of as an investment property. On the transition to IFRS, the Group elected fair value as their deemed cost for this property.

(c) Income Taxes

The Group calculated the effect of income taxes on the various changes upon transition to IFRS.

(d) Non-Controlling Interests

Under the previous CGAAP, non-controlling interests were presented between liabilities and policyholders' equity whereas under IFRS, non-controlling interests are presented within the equity section. This reclassification resulted in an increase in total equity as of January 1, 2010, and December 31, 2010, of $611 and $674 respectively. In addition, under IFRS, profit and comprehensive income for the year include the share attribuable to non-controlling interests. This had the effect of increasing profit and other comprehensive income for the year ended December 31, 2010, by $342 and $21 respectively.

(e) Reclassification for Presentation Purposes

The Group made various changes upon transition to IFRS that had no measurement impact.

(f) Other Assets

Under CGAAP, the Group had a pension plan asset of $5,485 classified in other assets. Under IFRS, after recognizing the cumulative unamortized actuarial losses referred to in a) above, the Group calculated an employee pension liability of $3,366. The increase in employee benefit liability includes this new employee pension liability of $3,366 plus a reclassification of a Group insurance benefits liability of $366, previously included in other liabilities under CGAAP.

(g) Presentation of Insurance and Investment Contract Liabilities

Under CGAAP, all policyholder-related liabilities were classified as actuarial liabilities and valued using CALM. Under IFRS 4, contracts are classified and measured depending on the existence of significant insurance risk. If significant risk exists, the contract is classified as an insurance contract and IFRS permits the Group to continue with measuring insurance contract liabilities using CALM. If significant insurance risk does not exist, the contract is classified as an investment contract and measured at either fair value or amortized cost. The change in reclassification had no impact on policyholders' equity at January 1, 2010, or to the consolidated income at December 31, 2010. Also, under previous CGAAP, the actuarial liabilities where reported net of reinsurance and under IFRS, this is no longer permitted.

(h) Segregated Funds

The assets and liabilities of the segregated funds are now presented as a line item in the statement of financial position under IFRS. Under CGAAP, the segregated funds were presented in a separate statement of assets. There was no measurement change resulting from the transition.

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(in thousands) Year ended December 31, 2011

5. INVESTED ASSETS

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	18,364	3,597	-	-	21,961	21,961
Mortgages						
Insured residential	-	-	10,422	-	10,422	10,792
Other residential	-	-	26,939	-	26,939	27,800
Commercial	-	-	86,521	-	86,521	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

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(in thousands) Year ended December 31, 2011

Carrying Value and Fair Value

	2010					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	10,254	-	-	-	10,254	10,254
Debt securities						
Government	300,516	49,996	-	-	350,512	350,512
Municipal	2,157	150	-	-	2,307	2,307
Corporations & other	16,349	11,055	-	-	27,404	27,404
	319,022	61,201	-	-	380,223	380,223
Equity securities	20,167	3,582	-	-	23,749	23,749
Mortgages						
Insured residential	-	-	11,155	-	11,155	11,457
Other residential	-	-	28,370	-	28,370	29,298
Commercial	-	-	83,291	-	83,291	84,633
	-	-	122,816	-	122,816	125,388
Other invested assets	-	-	2,419	-	2,419	2,174
Policy loans	-	-	7,228	-	7,228	7,228
Investment properties	-	-	-	30,595	30,595	30,595
	349,443	64,783	132,463	30,595	577,284	579,611

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Carrying Value and Fair Value

	As at January 1, 2010					
	Designated at fair value through profit or loss	Available-for-sale	Loans & receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and cash equivalents	10,657	-	-	-	10,657	10,657
Debt securities						
Government	272,758	41,021	-	-	313,779	313,779
Municipal	2,131	155	-	-	2,286	2,286
Corporations & other	18,585	12,325	-	-	30,910	30,910
	293,474	53,501	-	-	346,975	346,975
Equity securities	18,803	3,644	-	-	22,447	22,447
Mortgages						
Insured residential	-	-	9,951	-	9,951	10,239
Other residential	-	-	35,604	-	35,604	37,315
Commercial	-	-	81,766	-	81,766	84,844
	-	-	127,321	-	127,321	132,398
Other invested assets	-	-	2,296	-	2,296	1,923
Policy loans	-	-	6,514	-	6,514	6,514
Investment properties	-	-	-	32,697	32,697	32,697
	322,934	57,145	136,131	32,697	548,907	553,611

Investment Properties

The following table details the transactions on investment properties.

	2011	2010
	$	$
Balance, beginning of year	30,595	32,697
Acquisitions resulting from subsequent expenditure	301	130
Change in fair value	768	(2,232)
Balance, end of year	31,664	30,595
Rental income and service charge income	7,208	8,295
Operating expenses that generate rental income	(4,125)	(4,128)
Operating expenses that do not generate rental income	(1,186)	(926)

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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:

	December 31, 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

	December 31, 2010		
	Fair value through profit or loss	Available-for-sale	Total
	$	$	$
Debt securities			
Level 2	319,022	61,201	380,223
Equity securities			
Level 1	20,167	3,582	23,749

	January 1, 2010		
	Fair value through profit or loss	Available-for-sale	Total
	$	$	$
Debt securities			
Level 2	293,474	53,501	346,975
Equity securities			
Level 1	18,803	3,644	22,447

6. 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.

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Cash and cash equivalents	37,464	10,254	10,657
Debt securities	427,175	380,223	346,975
Mortgages	123,882	122,816	127,321
Undisbursed approved mortgages	14,614	5,207	3,245
Other invested assets	2,130	2,419	2,296
Policy loans	7,653	7,228	6,514
Other receivables	11,653	10,306	12,154
	624,571	538,453	509,162

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Quality of the Debt Securities Portfolio

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
AAA	1,391	-	1,071
AA	161,947	143,751	129,109
A	263,837	232,859	211,044
BBB	-	3,613	5,751
	427,175	380,223	346,975

Loans in Arrears and Provisions for Losses

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

December 31, 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	-	-	-	-

December 31, 2010

	31-60 Days in Arrears	61-90 Days in Arrears	More than 90 Days in Arrears	Total
	$	$	$	$
Non-impaired mortgages				
Insured residential	54	-	109	163
Other residential	22	-	23	45
Commercial	-	-	254	254
	76	-	386	462
Impaired mortgages	-	-	-	-

January 1, 2010

	31-60 Days in Arrears	61-90 Days in Arrears	More than 90 Days in Arrears	Total
	$	$	$	$
Non impaired mortgages				
Insured residential	381	-	23	404
Other residential	89	-	113	202
Commercial	507	-	404	911
	977	-	540	1,517
Impaired mortgages				
Commercial	-	-	1,566	1,566

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Provisions for losses

	December 31, 2011	December 31, 2010
	$	$
Mortgage loans:		
Beginning of year	-	1,075
Provisions for losses increase (decrease)	-	(1,075)
End of year	-	-

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 customers 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	13,052	1,500	62

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

	December 31, 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	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

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

	December 31, 2010						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	7,257	2,997	-	-	-	10,254	10,254
Debt securities							
Government	-	11,866	35,629	40,159	262,858	350,512	350,512
Municipal	-	150	349	1,808	-	2,307	2,307
Corporations & other	-	8,132	13,970	1,075	4,227	27,404	27,404
	-	20,148	49,948	43,042	267,085	380,223	380,223
Equity securities	23,749	-	-	-	-	23,749	23,749
Mortgages							
Insured residential	-	-	33	303	10,819	11,155	11,457
Other residential	-	18	702	4,330	23,320	28,370	29,298
Commercial	-	2,096	9,290	12,990	58,915	83,291	84,633
	-	2,114	10,025	17,623	93,054	122,816	125,388
Other invested assets	-	91	641	228	1,459	2,419	2,174
Policy loans	7,228	-	-	-	-	7,228	7,228
Other receivables	10,306	-	-	-	-	10,306	10,306

	January 1, 2010						
	No maturity	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Fair value
	$	$	$	$	$	$	$
Cash and cash equivalents	10,657	-	-	-	-	10,657	10,657
Debt securities							
Government	-	2,048	42,189	52,563	216,979	313,779	313,779
Municipal	-	-	509	1,777	-	2,286	2,286
Corporations & other	-	5,619	18,978	2,390	3,923	30,910	30,910
	-	7,667	61,676	56,730	220,902	346,975	346,975
Equity securities	22,447	-	-	-	-	22,447	22,447
Mortgages							
Insured residential	-	-	75	326	9,550	9,951	10,239
Other residential	-	5	902	5,281	29,416	35,604	37,315
Commercial	-	7,307	3,512	16,703	54,244	81,766	84,844
	-	7,312	4,489	22,310	93,210	127,321	132,398
Other invested assets	-	3	261	447	1,585	2,296	1,923
Policy loans	6,514	-	-	-	-	6,514	6,514
Other receivables	12,154	-	-	-	-	12,154	12,154

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

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.

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

7. OTHER ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Insurance receivables:			
Policyholders	2,997	2,054	3,215
Reinsurers	3,929	4,440	4,767
Agents, brokers and intermediates	247	298	264
Commissions and prepaid expenses	1,294	1,000	1,033
Accrued income	1,622	1,693	2,098
Accounts receivable	2,858	1,821	1,810
Income tax receivable	405	79	150
Other	23	51	26
	13,375	11,436	13,363

8. PROPERTY AND EQUIPMENT

	Property	Equipment	Total
	$	$	$
Cost			
At January 1, 2010	1,831	6,983	8,814
Additions	146	1,857	2,003
Impairment loss	(600)	-	(600)
Other movements	-	(130)	(130)
At December 31, 2010	1,377	8,710	10,087
Additions	-	847	847
Other movements	-	(1,245)	(1,245)
At December 31, 2011	1,377	8,312	9,689
Accumulated depreciation			
At January 1, 2010	-	3,706	3,706
Depreciation	97	1,003	1,100
Other movements	-	(127)	(127)
At December 31, 2010	97	4,582	4,679
Depreciation	38	940	978
Other movements	-	(1,245)	(1,245)
At December 31, 2011	135	4,277	4,412
Carrying amount			
At January 1, 2010	1,831	3,277	5,108
At December 31, 2010	1,280	4,128	5,408
At December 31, 2011	1,242	4,035	5,277

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

9. INTANGIBLE ASSETS

	Purchased software	Developed software	Technology projects under development	Franchise	Total
	$	$	$	$	$
Cost					
At January 1, 2010	596	10,602	-	35	11,233
Cost capitalized	139	-	628	-	767
Completed projects	-	364	(364)	-	-
Other movements	(95)	-	-	-	(95)
At December 31, 2010	640	10,966	264	35	11,905
Cost capitalized	835	-	364	-	1,199
Completed projects	-	107	(107)	-	-
Other movements	(26)	-	-	-	(26)
At December 31, 2011	1,449	11,073	521	35	13,078
Accumulated depreciation					
At January 1, 2010	231	2,196		1	2,428
Amortization	153	1,102		1	1,256
Other movements	(96)	-		-	(96)
At December 31, 2010	288	3,298		2	3,588
Amortization	323	1,136		2	1,461
Other movements	(26)	-		-	(26)
At December 31, 2011	585	4,434		4	5,023
Carrying amount					
At January 1, 2010	365	8,406	-	34	8,805
At December 31, 2010	352	7,668	264	33	8,317
At December 31, 2011	864	6,639	521	31	8,055

10. SEGREGATED FUNDS ASSETS

NET ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Investments:			
Debt securities	-	-	107,858
Equity securities	7,186	17,095	32,637
Pooled funds	444,149	458,090	277,555
Mortgages	-	-	10,456
Cash and term deposits	1,885	4,909	13,211
Accrued investment income	17	31	1,093
Other	535	803	617
	453,772	480,928	443,427
Liabilities	625	984	504
NET ASSETS	453,147	479,944	442,923

CHANGE IN NET ASSETS

	2011	2010
	$	$
NET ASSETS – BEGINNING OF YEAR	479,944	442,923
Net contributions:		
Contributions	54,468	60,715
Withdrawals	(64,626)	(60,582)
	(10,158)	133
Investment income:		
Change in value of investments	(22,405)	29,805
Interest and dividends	12,891	13,436
	(9,514)	43,241
Management and administrative fees	(7,125)	(6,353)
NET ASSETS – END OF YEAR	453,147	479,944

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Nature and Composition

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

	December 31, 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

	December 31, 2010		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	304,527	(48,733)	255,794
Group insurance	40,811	(25,700)	15,111
Annuities and pensions	185,283	(1,981)	183,302
Other insurance contract liabilities	2,831	(1,029)	1,802
	533,452	(77,443)	456,009

	January 1, 2010		
	Insurance contract liabilities	Reinsurance assets	Net
	$	$	$
Individual insurance	278,768	(40,153)	238,615
Group insurance	39,431	(23,860)	15,571
Annuities and pensions	180,732	(4,245)	176,487
Other insurance contract liabilities	2,309	(1,289)	1,020
	501,240	(69,547)	431,693

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

Change in Insurance Contract Liabilities and Reinsurance Assets

The change for the year is explained as follows:

	2011		
	Insurance contracts	**Reinsurance assets**	**Net**
	$	$	$
Balance, beginning of period	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 contracts	4,672	(1,768)	2,904
Total insurance contracts and reinsurance assets	627,277	(100,693)	526,584

	2010		
	Insurance contracts	**Reinsurance assets**	**Net**
	$	$	$
Balance, beginning of period	498,931	(68,258)	430,673
Change in balances on in-force policies	9,314	(5,871)	3,443
Balances arising from new policies	23,048	(2,451)	20,597
Method and assumption changes	(672)	166	(506)
Increase (decrease) in insurance contract liabilities and reinsurance assets	31,690	(8,156)	23,534
Balance before the following:	530,621	(76,414)	454,207
Other insurance contracts	2,831	(1,029)	1,802
Total insurance contracts and reinsurance assets	533,452	(77,443)	456,009

12. INVESTMENT CONTRACT LIABILITIES

	2011	2010
	$	$
Balance, beginning of period	19,970	19,992
Deposits	3,085	1,501
Interest	397	363
Withdrawals	(1,871)	(1,886)
Increase (decrease) in investment contract liabilities	1,611	(22)
Total investment contract liabilities	21,581	19,970

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

13. 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, irrespective of death.

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

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

- Mortality risk – risk of loss arising due to policyholder death experience.
- Morbidity risk – risk of loss arising due to policyholder health experience.
- Longevity risk – risk of loss arising due to the annuitant living longer.
- Investment return risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Policyholder decision risk – risk of loss arising 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 gross and net liabilities, 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 2011	After tax income impact 2010
	$	$	$
Mortality – life insurance products	+ 2%	(1,432)	(1,352)
Mortality – annuity products	- 2%	(307)	(290)
Morbidity	5% adverse	(1,035)	(1,036)
Expenses (maintenance)	+ 5%	(1,554)	(1,359)
Policy termination rates	10% adverse	(4,131)	(2,762)
Interest			
Immediate parallel shift at all points on yield curve	+ 100 bps	472	(144)
	- 100 bps	(6,168)	(329)
Investment properties			
Immediate change in market value	+ 10%	2,352	2,272
	- 10%	(2,352)	(2,272)
Segregated funds and equity securities			
Immediate change in market value	+ 10%	642	550
	- 10%	(911)	(481)

14. OTHER LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Insurance payable:			
Policyholders	7,619	6,846	6,707
Reinsurers	2,428	2,404	2,798
Agents, brokers and intermediates	1,537	1,217	993
Suppliers and other charges	4,989	7,558	6,763
Income tax	162	189	1,917
Other	1,169	1,239	1,210
	17,904	19,453	20,388

15. EMPLOYEE BENEFIT PLANS

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

	2011	2010
	$	$
Changes in accrued benefit obligation:		
Balance at beginning of year	36,610	31,824
Current service cost	1,718	1,613
Interest cost	1,979	1,897
Benefits paid	(670)	(729)
Actuarial losses	5,272	2,005
Balance at end of year	44,909	36,610
Changes in plan assets:		
Fair value at beginning of year	32,068	28,458
Expected return on plan assets	2,010	1,791
Employer's contributions	1,633	1,503
Employees' contributions	716	702
Actuarial gains (loss)	(2,490)	343
Benefits paid	(670)	(729)
Fair value at end of year	33,267	32,068

The amounts recognized in the statement of financial position are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Present value of the defined benefit obligation	44,909	36,610	31,824
Fair value of plan assets	(33,267)	(32,068)	(28,458)
Net defined benefit obligation	11,642	4,542	3,366
Unrecognized net actuarial losses	(9,310)	(1,524)	-
Total net defined benefit obligation	2,332	3,018	3,366

The Group's net pension plan expense is computed as follows:

	2011	2010
	$	$
Current service cost, net of employees' contributions	1,002	911
Interest cost	1,979	1,897
Expected return on plan assets	(2,010)	(1,791)
Net actuarial loss recognized in the year	(24)	137
	947	1,154

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Group insurance benefits liability	455	392	366
Pension plan liability	2,332	3,018	3,366
	2,787	3,410	3,732

The most recent actuarial evaluation was on December 31, 2010, for all of the pension plans. The average remaining service periods of the active employees covered by the three pension plans are 22, 1 and 11 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:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Assumption Life Balanced Fund	32,638	31,086	27,876
Cash	629	982	582
	33,267	32,068	28,458

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

	December 31, 2011	December 31, 2010	January 1, 2010
	%	%	%
Discount rate	4.50	5.25	5.75
Expected long-term rate of return on plan assets	6.25	6.25	6.25 to 6.50
Rate of compensation increase	3.25	3.25	3.25

16. 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, 2011.

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Mortgage Loans			
Mortgage loan at a rate of 2.78%, repayable in monthly instalments of $34, including interest, maturing in April 2012, and pledging investment property	3,716	4,019	4,318
Mortgage loan at a rate of 2.78%, repayable in monthly instalments of $33, including interest, maturing in April 2012, and pledging investment property	2,968	3,283	3,592
Mortgage loan at a rate of 2.78%, repayable in monthly instalments of $15, including interest, maturing in April 2012, and pledging investment property	1,499	1,639	1,770
Bank Loans and Other			
Loans at prime rate minus 1% without fixed repayment conditions	297	297	297
	8,480	9,238	9,977
Fair value	8,033	8,359	9,420

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

Years ending December 31,	**2012**	$789
	2013	$777
	2014	$793
	2015	$820
	2016	$853

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 $7,138.

17. TAXES

Income tax expense consists of the following:

	2011	2010
	$	$
Current income taxes	2,431	2,824
Adjustments from prior year	(153)	(2)
Deferred income taxes	(270)	(1,448)
	2,008	1,374

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:

	2011		2010	
	$	%	$	%
Income tax at statutory rate	2,002	28.0	1,699	30.2
Increase (decrease) in the tax rate resulting from:				
Non-taxable investment income	(37)	(0.5)	(20)	(0.4)
Differences in tax rates in other provincial jurisdictions	(7)	(0.1)	14	0.3
Fiscal benefits not previously recognized	-	-	(379)	(6.8)
Change in tax rate	237	3.3	-	-
Adjustments from prior year	(153)	(2.1)	(2)	-
Other	(34)	(0.5)	62	1.1
	2,008	28.1	1,374	24.4

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Investment properties, property and equipment and intangible assets	5,185	4,838	5,284
Insurance contract liabilities	92	814	1,626
Debt securities	515	730	983
Employee benefit plans	(722)	(872)	(925)
Other	(90)	(169)	(28)
	4,980	5,341	6,940
Deferred tax assets	(28)	(25)	(11)
Deferred tax liabilities	5,008	5,366	6,951
	4,980	5,341	6,940

18. ADDITIONAL INFORMATION ON THE STATEMENT OF CASH FLOWS

Cash flows include the following:

	2011	2010
	$	$
Interest paid on financing	239	534
Interest received	186	71
Income taxes paid	4,473	4,178
Dividends paid	452	311
Dividends received	9	7

19. 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.

20. 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.

21. NET PREMIUMS

	2011			2010
	Gross premiums	**Premiums ceded**	**Net premiums**	**Net premiums**
	$	$	$	$
Individual insurance	44,971	(12,213)	32,758	25,589
Group insurance	43,278	(11,934)	31,344	31,575
Annuities and pensions	52,266	(113)	52,153	35,428
	140,515	(24,260)	116,255	92,592

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

22. FEES AND COMMISSION INCOME

	2011	2010
	$	$
Policyholder administration and investment management services	9,672	8,447
Surrender charges and other contract fees	1,693	1,641
Reinsurance commission income	2,579	2,562
	13,944	12,650

23. INVESTMENT INCOME

	2011	2010
	$	$
Interest on cash and cash equivalents	197	68
Interest on debt securities	5,659	6,630
Dividends	232	191
Interest on mortgage loans and other invested assets	7,371	7,949
Interest on policy loans	367	306
Rental income from investment properties	3,870	4,610
Service charge income from investment properties	3,338	3,685
Service charge expense from investment properties	(4,125)	(4,128)
	16,909	19,311

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

	2011	2010
	$	$
Realized gains		
Equity securities	6	55
Debt securities	1,799	1,494
Realized losses		
Equity securities	(16)	(236)
Debt securities	(17)	(108)
	1,772	1,205

Notes to Consolidated Financial Statements

(in thousands) Year ended December 31, 2011

25. FAIR VALUE GAINS AND LOSSES

	2011	2010
	$	$
Financial assets at fair value through profit or loss	56,934	33,215
Investment properties	768	(1,898)
	57,702	31,317

26. FEES AND COMMISSION EXPENSES

	2011	2010
	$	$
Fees expenses	838	900
Commission expenses	23,310	20,056
	24,148	20,956

27. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2011	2010
	$	$
Administrative expenses		
Salaries and employee benefits expense	15,674	15,502
Depreciation on property and equipment	978	1,100
Amortization of intangible assets	1,461	1,256
Professional and consultant fees	2,763	2,861
Investment property-related expenses	1,186	926
Other	4,110	4,699
	26,172	26,344
Other operating expenses		
Amounts written off on financial and other assets	58	881
Other	3,664	2,969
	3,722	3,850

28. 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, 2011, the Group's ratio is 251% (267% in 2010).

A ratio of 251% means that the Group has sufficient capitalization to face unexpected negative results of approximately $36.1 million ($37.2 million in 2010) while still being able to meet the minimum requirement.

The table below shows the Group's solvency ratio:

Regulatory capital

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Available capital according to requirements	89,524	84,830	80,992
Required capital	35,634	31,744	32,358
Solvency ratio	251%	267%	250%

29. 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 without interest, refundable before October 30, 2024. The balance of this loan as of December 31, 2011, is $786 (1 million dollars in 2010).

Compensation of key management personnel

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

	2011	2010
	$	$
Salaries and other short-term employment benefits	3,672	3,206
Fees	204	151
Post employment pension benefits	141	100
	4,017	3,457

Organizational Chart

Assumption Mutual Life Insurance Company

Atlantic Holdings (1987) Ltd.

100% Assumption Mutual Life Insurance Company
$1,013

Assumption Place Ltd.

100% Assumption Mutual Life Insurance Company
$21,843

Louisbourg Investments Inc.

60% Atlantic Holdings (1987) Ltd.

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

Assumption Mutual Life Insurance Company

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Moncton, NB E1C 8L1
Telephone: 506-853-6040
Toll-free: 1-800-455-7337
Fax: 506-853-5428
www.assumption.ca

Atlantic Holdings (1987) Ltd.

770 Main Street
Moncton, NB E1C 1E7
Telephone: 506-853-5420
Fax: 506-853-5449

Louisbourg Investments Inc.

P.O. Box 160/770 Main Street
Moncton, NB E1C 8L1
Telephone: 506-853-5410
Fax: 506-853-5457

Assumption Place Ltd.

770 Main Street
Moncton, NB E1C 1E7
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