

# 2010

**The Co-operators Group Limited**

# MISSION, VISION, VALUES

## **Our Mission**

The Co-operators: financial security for Canadians and their communities.

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## **Our Vision**

The Co-operators aspires to be valued by Canadians as ...

- a champion of their prosperity and peace of mind,
  - a leader in the financial services industry, distinct in its co-operative character, and
  - a catalyst for a sustainable society.
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## **Statement of Values**

At The Co-operators we ...

- strive for the highest level of integrity
  - foster open and transparent communication
  - give life to co-operative principles and values
  - carefully temper our economic goals with consideration for the environment and the well-being of society at large
  - anticipate and surpass client expectations through innovative solutions supported by mutually beneficial partnerships.
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Visit [www.cooperators.ca](http://www.cooperators.ca) to view the full suite of 2010 reports for The Co-operators group of companies.

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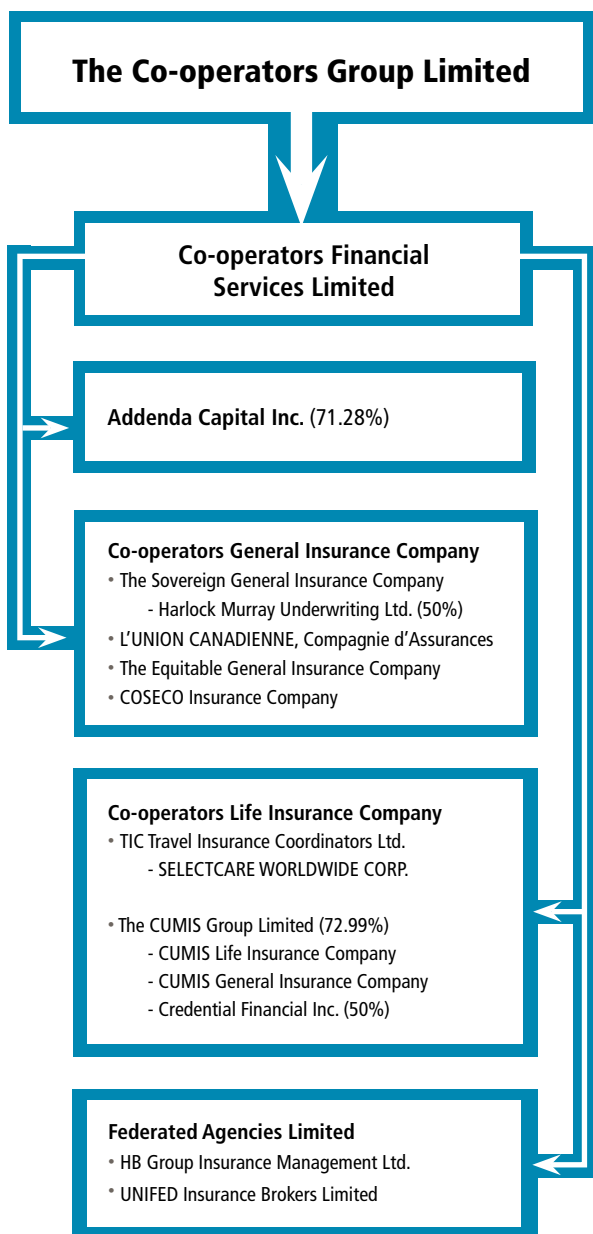
For the 8<sup>th</sup> year in a row, we placed on the 2010 “50 Best Employers in Canada” list — The Co-operators (CGL, CGIC, HB Group and Addenda) at 19<sup>th</sup> and Co-operators Life at 28<sup>th</sup>. TIC Travel Insurance Coordinators Ltd. was ranked among the “50 Best Small- and Medium-sized Employers” in Canada. The CUMIS Group Limited was also recognized on *Maclean’s* list of “Companies to Watch.”

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# COMPANY PROFILE

## Organizational chart

The Co-operators Group Limited is the co-operative holding company for The Co-operators group of companies and is owned by 47 Canadian co-operatives, credit unions and like-minded organizations.



## Profile

The Co-operators is a leading Canadian-owned, multi-product insurance and financial services organization with more than \$42.4 billion in assets under administration.

Within our three core areas of operation — Property and Casualty (P&C) insurance, Life insurance, and institutional investments — we employ 5,018 staff members. We are supported by 485 exclusive agents with 666 retail outlets, four contact centres and one call centre with an extensive national broker network. We also serve approximately 327 credit unions with a total of more than 5 million members.

### Property & Casualty Insurance

- Insures over 810,000 homes and 1.2 million vehicles.
- Provides coverage to more than 40,000 farms and 125,000 businesses.

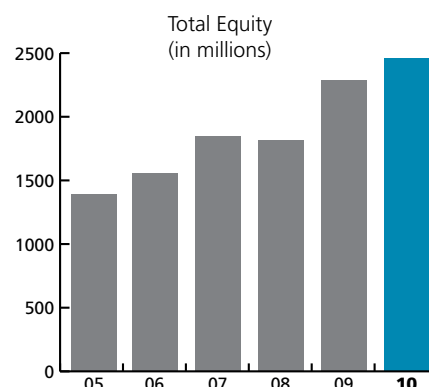
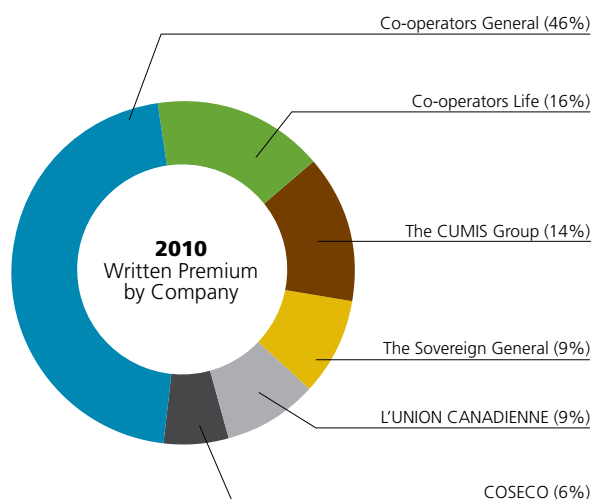
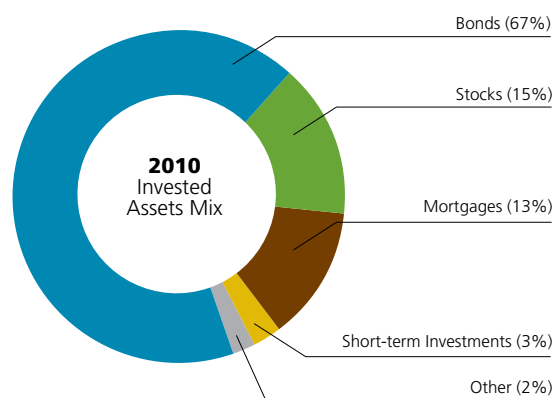
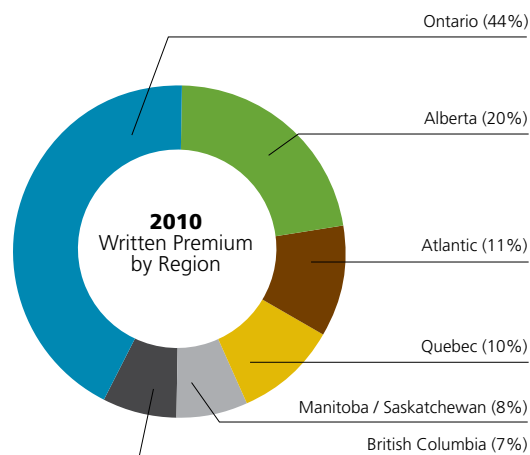
### Life Insurance

- Protects over 643,000 lives.
- Insures more than 255,000 employees through Group benefit plans.
- Provides Travel insurance to more than 1,050,000 Canadians and visitors to Canada.
- Offers a wide range of Wealth Management products.
- Provides Credit insurance to 1.0 million Canadians.

### Investments

- Provides institutional investment and asset management services.

# CONSOLIDATED HIGHLIGHTS



## THREE-YEAR REVIEW

(in millions of dollars, except return on shareholders' equity)	2010	2009	2008
Assets	9,468	9,009	7,620
Policyholder Liabilities	5,927	5,717	5,104
Shareholders' Equity	1,576	1,429	1,222
Participating Policyholder Account	474	426	370
Non-controlling Interests	409	434	225
Total Equity	2,459	2,289	1,817
Property & Casualty Written Premium	2,383	2,258	2,184
Life Written Premium	872	694	695
Net Earned Premium	2,981	2,663	2,609
Net Investment Income	401	298	296
Policyholder Benefits and Adjustment Expenses	2,121	1,863	1,848
Net Income — attributable to shareholders	72	55	73
Return on Shareholders' Equity	5.1%	4.1%	5.6%

# 2010

## LETTER TO SHAREHOLDERS AND MEMBER-OWNERS



After a couple of exceptionally challenging years, we are starting to see improved operating results throughout our group of companies. The hard work — and resulting changes — under trying circumstances have put our organization in a better position to improve our performance in the years ahead.

We have come through these difficult few years with a sharper business focus, a well recognized brand, better integrated direct distribution, more efficient business operations and improved technical capabilities. At the forefront of these capabilities is our Common Systems Initiative (CSI), which we continued to implement in 2010. As part of CSI, we are integrating and streamlining claims, policy and billing systems and workflows across our group of P&C companies; once complete, this will allow us to better serve our clients. We have also increased online quoting functionality on [www.cooperators.ca](http://www.cooperators.ca) and will roll-out a revamped website later in 2011 with even more client functionality and interactivity.

We have more work to do, as evidenced by not having achieved the growth we wanted in overall market share, and it will require a sustained effort by people throughout the organization to achieve our objectives. But we are in a position to build upon our recent achievements, and are guided by a robust strategic plan designed to do just that.

### Eye of the storm

The P&C industry experienced its share of challenges last year. The year started out well with a relatively favourable winter season. Unfortunately, mild weather did not remain a theme, resulting in 2010 being another record-breaking year for major weather events and related industry losses. Year over year, we continue to be hammered by increasingly severe storms, with weather-related claims costs almost doubling in four years.

Further, the industry experienced substantial deterioration in Ontario Auto results, primarily in southern Ontario. Our experience was no different. Regulatory changes designed to improve the overall performance of this line of business were implemented in the fall of 2010 and we continue to work closely with the industry and government to achieve more stability for Ontario Auto insurance consumers.

Our Life operations were challenged by long-term interest rates where, unfortunately, we did not see the expected increase in interest rates that was built into our 2010 plan. It is incumbent on us to continue to implement strategies to manage overall interest rate sensitivity and broader investment environment impacts in all of our businesses.

### Integration achievements

After making several major acquisitions at the close of 2009, much effort was required in 2010 to ensure the successful integration and achievement of the expected results. The integration of The CUMIS Group Limited with Co-operators Life — one of our most significant ventures — has resulted in the accomplishment of our goals and we are pleased with the direct partnership we now have with Central 1 Credit Union to serve the Canadian credit union system.

Our efforts in British Columbia to convert Vancity Insurance Services Limited and WESTCU Insurance Services to our agency model were also successful. And our plan to expand our agency presence in Quebec was achieved with the addition of four agencies, bringing our total in the province to seven.

### Co-operative connections

This year, much time and effort was dedicated to our Democratic Structure Review — an extensive review of our unique ownership structure. This will be a priority in 2011 as we continue the work begun in 2010.

We once again increased the amount of business we have with Canadian co-operatives and credit unions, generating over \$414 million in direct written business.

In addition, we achieved an important milestone in Quebec with the introduction of our Group Life and Health products. Our initial focus is to provide service to co-operative organizations, particularly our Quebec-based member-owners.

### Sustainable success

This past year also marked the end of our three-year sustainability strategy. We've accomplished a tremendous amount in a relatively short period of time — from reducing our greenhouse gas emissions, to launching sustainable products and claims services, to creating and hosting IMPACT! The Co-operators Youth Program for Sustainability Leadership.

We have also become a leader in raising awareness and taking action in our communities, but we must work harder to deliver innovative solutions for our clients and partner organizations. You can read more about our sustainability initiatives in our annual Sustainability Report.

### Investing in talent

We continue to recruit and retain the best talent in the industry. As a testament to these efforts, for the eighth year in a row, we were recognized on the "50 Best Employers in Canada" list, as reported in *Maclean's* magazine.

As a group of companies spanning from coast-to-coast-to-coast, we are also pleased to have developed a common performance management system. The new system will ensure consistent performance measurement and competencies across our companies, while facilitating inter-company transfers and development.

This year, we developed more interactive ways to keep our staff informed and engaged. These include a cross-company executive blog, video communication and online employee publications.

The engagement of our workforce is, and always will be, an ongoing priority.

(Signed)

Richard Lemoing  
Chairperson, Board of Directors

### Sharp focus

As we move into the next chapter for our group of companies, our new four-year strategic plan refocuses our efforts into six key areas. Through the next four years:

- We will earn our clients' trust and business every day through a more integrated and consistently excellent *CLIENT EXPERIENCE*.
- We will create a sustainable competitive advantage by living and demonstrating the *CO-OPERATIVE EXPERIENCE* through our heritage, values and principles.
- We will enhance our *COMPETITIVENESS* in the marketplace allowing us to profitably grow in the industry.
- We will grow, focus and integrate our multi-channel *DISTRIBUTION* capacity.
- We will enhance our *TRUST & REPUTATION* by demonstrating that we are principled, trustworthy, reliable and corporately responsible.
- We will be the employer of choice ensuring highly skilled and engaged *PEOPLE* are in place.

Looking back on the past four years, we take pride in our many accomplishments, celebrate our high points and learn from our challenges. Our business is about people — our member-owners, clients, staff, agents, broker partners, Board of Directors, and community partners. Thank you for your unwavering support; we look forward to all that's ahead.

(Signed)

Kathy Bardswick  
President and Chief Executive Officer

# 2010 COMPANY HIGHLIGHTS



**The Co-operators Group Limited** is the co-operative holding company for The Co-operators group of companies.

- Successfully wrapped up its four-year strategy and introduced a new strategic plan that will guide its thinking and actions for 2011-2014.
- Maintained an aggregate staff engagement score of 77.6%, placing 19<sup>th</sup> on the 2010 "50 Best Employers in Canada" list (CGL, CGIC, HB Group and Addenda).
- Engaged member-owners in the Democratic Structure Review process.
- After completing the final year of its three-year Sustainability strategy, placed 2<sup>nd</sup> on a list of "Canada's Best 50 Corporate Citizens," published by *Corporate Knights* magazine.



**Co-operators Financial Services Limited** is a Canadian holding company that consolidates all The Co-operators insurance and investment management operations.

- Achieved return on equity of 5.4%.
- Completed a \$150 million senior debenture offering, which further diversifies its capital base.



**Addenda Capital Inc.** provides discretionary investment advisory services to pension plans, insurance companies, endowments, foundations, governments, corporations and mutual funds, as well as the companies of The Co-operators Group Limited.

- Ranked among the top five active institutional asset managers in Canada, with assets under management of \$33.5 billion.
- Strengthened capabilities in Canadian equities and liability driven investing by adding professional talent and improving investment processes.



**Co-operators General Insurance Company** provides Home, Auto, Farm and Commercial insurance through an exclusive agency network across Canada. This network also distributes Life and Travel insurance, and Wealth Management products for Co-operators Life.

- Placed 5<sup>th</sup> among all companies — up from 10<sup>th</sup> in 2009 — on the *JD Power and Associates* 2010 Canadian Auto Insurance Customer Satisfaction Survey.
- Achieved profitable growth in our Habitational line of business for the first time in five years, with \$50.3 million in premium growth.
- Continued to grow our agency distribution system, including four additions in Quebec; fully implemented the Agency Contact Centre (overflow and after-hours service) across Canada from coast-to-coast-to-coast.



**The Sovereign General Insurance Company** offers solutions for the specialized and complex insurance needs of Canadians through a coast-to-coast-to-coast, independent brokerage network.

- Earned a company record \$26.6 million income before tax.
- Continued developing target insurance portfolios, ending the year with two-thirds of gross written premium in target specialty lines, commercial automobile and complex commercial portfolios, up from 50% at the beginning of the year.
- Improved financial performance by reducing combined ratio by 4.3 points to 96.6% and increasing shareholders equity by 17.2% to \$174 million.



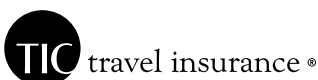
**L'UNION CANADIENNE, Compagnie d'Assurances** offers general insurance products for individuals and businesses through a network of independent brokers, with over 300 points of sale in Quebec, as well as general insurance products in Newfoundland.

- Introduced a new four-year strategic plan, with a focus on Commercial insurance growth.
- Introduced a new broker contract and profit sharing agreement that focuses on sustainable profitable growth.
- Created four consultative committees to collaboratively exchange industry knowledge with its broker partners.



**Co-operators Life Insurance Company** provides Life, Health and Travel insurance, as well as Wealth Management products to individuals and groups across Canada.

- Successfully completed the foundational integration-related activities with The CUMIS Group Limited; these efforts complete a major step towards fully maximizing relationships with credit union partners.
- Continued building towards its growth objectives by introducing the new "Infinity Term" product and expanding its presence into Quebec with the Group Life and Health product suite.
- With an engagement score of 75%, moved up four places to 28<sup>th</sup> on the "50 Best Employers in Canada" list.



**TIC Travel Insurance Coordinators Inc.** is one of the largest providers of travel insurance products to Canadians and visitors to Canada.

- Achieved Payment Card Industry compliant status for managing and storing client credit card information.
- Ranked among the "50 Best Small- and Medium-Sized Employers" in Canada.



**The CUMIS Group Limited** is the leading provider of insurance-related products and services to credit unions, caisses populaires and their members in Canada.

- Completed significant integration-related activities with Co-operators Life Insurance Company.
- Increased its client loyalty score from 80% to 83%.
- Was named one of the "Best Employers in the Greater Toronto Area" and as a "Company to Watch" on the "Best Employers in Canada" list.

FEDERATED AGENCIES LIMITED

**Federated Agencies Limited** offers specialty Personal, Commercial and Wealth Management products that complement the offerings of its strategic business partners.

- As a result of its strategic focus on operational efficiencies, relationship management and staff development, achieved 24% higher than expected gross written premium.
- Achieved 12% new client growth over previous year, which positively contributed to the organizational strategic focus on client growth and retention.



**HB Group Insurance Management Ltd. and COSECO Insurance Company** offer Auto and Home insurance products through three contact centres to employer groups, affinity groups, associations and credit union members. Business developed by HB Group is primarily insured by COSECO.



- COSECO returned to profitability, producing a net income before taxes of \$17.2 million.
- Signed 18 new groups with 68,567 prospective clients for future growth.
- Launched online functionalities for HB/COSECO clients, including the ability to change personal information and new payment options.

# RESPONSIBILITY FOR FINANCIAL REPORTING

## Management

Management is responsible for the preparation of the accompanying consolidated financial statements and the accuracy, integrity and objectivity of the information they contain. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with the consolidated financial statements. These consolidated financial statements, which necessarily include some amounts that are based on management's best estimates and the opinions of valuation actuaries, have been made using careful judgment.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared. These controls are supported by policies and procedures and the careful selection and training of qualified staff.

## Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors, consisting entirely of non-executive, independent directors, is responsible for reviewing the accounting principles and practices employed by the Company and reviewing the Company's annual consolidated financial statements prior to their submission to the Board of Directors for final approval. The Audit Committee meets no less than quarterly with the internal and external auditors, the Company actuaries and management to review their work and to ensure that respective responsibilities are properly discharged. The Audit Committee also reviews and monitors weaknesses in the Company's system of internal controls as reported by the auditors. Both the internal and external auditors have full and unrestricted access to the Audit Committee, with and without the presence of management. The Audit Committee also recommends to the Board of Directors the appointment of external auditors and approval of their fees.

The consolidated financial statements have been examined independently by PricewaterhouseCoopers LLP, on behalf of our shareholders. The auditors' report outlines the scope of their examination and expresses their opinion on the consolidated financial statements of the Company.

(Signed)

**Kathy Bardswick**  
President and Chief Executive Officer

(Signed)

**P. Bruce West**  
Executive Vice-President, Finance  
and Chief Financial Officer

February 16, 2011

February 16, 2011

# Independent Auditor's Report

## To the Shareholders of The Co-operators Group Limited

We have audited the accompanying consolidated financial statements of The Co-operators Group Limited and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of changes in equity, income, comprehensive income and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

### 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 Canadian generally accepted accounting principles, 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.

### Auditor's 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 auditor's 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 auditor considers 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, the consolidated financial statements present fairly, in all material respects, the financial position of The Co-operators Group Limited and its subsidiaries as at December 31, 2010 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

### Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

# CONSOLIDATED FINANCIAL STATEMENTS

## THE CO-OPERATORS GROUP LIMITED CONSOLIDATED BALANCE SHEET

As at December 31

	2010	2009
		(restated - note 5)
(in thousands of dollars)	\$	\$
<b>Assets</b>		
Cash and cash equivalents	91,394	194,550
Restricted cash	92,806	75,259
Invested assets (note 6)	7,186,811	6,660,606
Premiums due	715,075	678,937
Reinsurers' share of policy liabilities (note 8)	211,202	288,523
Amounts on deposit with reinsurers	5,407	5,499
Salvage and subrogation recoverable (note 8)	109,181	91,370
Deferred acquisition expenses	219,332	207,220
Future income taxes (note 10)	91,959	69,802
Income taxes recoverable	43,923	3,247
Goodwill and intangible assets (note 11)	535,066	553,248
Accounts receivable and due from reinsurers	90,812	92,439
Other assets (note 12)	66,691	81,017
Assets of discontinued operations (note 25)	7,844	7,673
	<b>9,467,503</b>	<b>9,009,390</b>
Net segregated fund assets (note 20)	<b>1,721,495</b>	<b>1,509,160</b>
<b>Liabilities</b>		
Policy liabilities, property and casualty operation (note 8)	3,656,567	3,533,816
Policy liabilities, life operation (note 8)	2,270,493	2,183,617
Accounts payable and accrued charges	443,104	400,467
Premium and income taxes payable	66,273	190,951
Future income taxes (note 10)	73,809	65,182
Employee future benefits (note 15)	97,090	92,726
Due to reinsurers	22,428	17,400
Deferred investment gains (note 6)	58,606	62,722
Loans payable (note 14)	13,756	19,056
Subordinated debt (note 14)	304,445	153,386
Liabilities of discontinued operations (note 25)	1,609	1,364
	<b>7,008,180</b>	<b>6,720,687</b>
<b>Equity</b>		
Shareholders' equity		
Share capital (note 16)	33,002	38,207
Contributed surplus	32,413	8,680
Retained earnings	1,382,955	1,314,434
Accumulated other comprehensive income	128,348	67,874
	<b>1,576,718</b>	<b>1,429,195</b>
Participating policyholder account	473,872	425,853
Non-controlling interests	408,733	433,655
	<b>2,459,323</b>	<b>2,288,703</b>
	<b>9,467,503</b>	<b>9,009,390</b>
Net segregated fund liabilities (note 20)	<b>1,721,495</b>	<b>1,509,160</b>
Contingencies, commitments and guarantees (note 23)		

Approved by the Board of Directors:

(Signed)  
Richard Lemoing,  
Chairperson, Board of Directors

(Signed)  
Paul Godin,  
Chairperson, Audit Committee

See accompanying notes to consolidated financial statements.

THE CO-OPERATORS GROUP LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Years ended December 31

2010 (in thousands of dollars)	Share capital \$	Retained earnings \$	Contributed surplus \$	Accumulated other comprehensive income \$	Total shareholders' equity \$	Participating policyholder account \$	Non- controlling interest \$	Total \$
<b>Balance, beginning of year</b>	<b>38,207</b>	<b>1,314,434</b>	<b>8,680</b>	<b>67,874</b>	<b>1,429,195</b>	<b>425,853</b>	<b>433,655</b>	<b>2,288,703</b>
Net income	-	71,782	-	-	71,782	25,374	18,657	115,813
Other comprehensive income	-	-	-	60,474	60,474	21,455	867	82,796
Comprehensive income	-	71,782	-	60,474	132,256	46,829	19,524	198,609
Appropriation	-	(1,190)	-	-	(1,190)	1,190	-	-
Shares redeemed (note 16)	(5,205)	-	-	-	(5,205)	-	-	(5,205)
Stock options issued of a subsidiary	-	-	-	-	-	-	126	126
Reduction of equity in a subsidiary	-	-	435	-	435	-	(435)	-
Tax on related party transaction	-	-	24	-	24	-	643	667
Preferred shares issued of a subsidiary	-	-	-	-	-	-	2,503	2,503
Change in non-controlling interest of existing subsidiary	-	-	23,274	-	23,274	-	(28,070)	(4,796)
Dividends declared	-	(1,937)	-	-	(1,937)	-	(19,213)	(21,150)
Premium on redemption of subsidiary preferred shares	-	(134)	-	-	(134)	-	-	(134)
<b>Balance, end of year</b>	<b>33,002</b>	<b>1,382,955</b>	<b>32,413</b>	<b>128,348</b>	<b>1,576,718</b>	<b>473,872</b>	<b>408,733</b>	<b>2,459,323</b>

2009 (in thousands of dollars)	Share capital \$	Retained earnings \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Total shareholders' equity \$	Participating policyholder account \$	Non- controlling interest \$	Total \$
Balance, beginning of year	43,412	1,264,899	8,680	(94,597)	1,222,394	369,853	225,149	1,817,396
Net income	-	55,473	-	-	55,473	16,895	6,470	78,838
Other comprehensive income	-	-	-	162,471	162,471	38,305	126	200,902
Comprehensive income	-	55,473	-	162,471	217,944	55,200	6,596	279,740
Appropriation	-	(800)	-	-	(800)	800	-	-
Shares redeemed	(5,205)	-	-	-	(5,205)	-	(71)	(5,276)
Preference shares issued of a subsidiary	-	-	-	-	-	-	107,180	107,180
Dividends declared	-	(2,197)	-	-	(2,197)	-	(12,005)	(14,202)
Premium on redemption of subsidiary preferred shares	-	(140)	-	-	(140)	-	-	(140)
Issue costs of share capital of a subsidiary	-	(2,801)	-	-	(2,801)	-	-	(2,801)
Elimination of non-controlling interest of a subsidiary	-	-	-	-	-	-	(619)	(619)
Other adjustments	-	-	-	-	-	-	(13)	(13)
Acquisition of subsidiary (restated - note 5)	-	-	-	-	-	-	107,438	107,438
<b>Balance, end of year</b>	<b>38,207</b>	<b>1,314,434</b>	<b>8,680</b>	<b>67,874</b>	<b>1,429,195</b>	<b>425,853</b>	<b>433,655</b>	<b>2,288,703</b>

See accompanying notes to consolidated financial statements.

THE CO-OPERATORS GROUP LIMITED  
CONSOLIDATED STATEMENT OF INCOME

Years ended December 31

(in thousands of dollars)	2010 \$	2009 \$
<b>Revenue</b>		
Net earned premium	2,981,031	2,663,164
Net investment gains and income (note 6)	401,003	298,230
Fees and other income	129,811	76,141
	<b>3,511,845</b>	<b>3,037,535</b>
<b>Benefits and operating expenses</b>		
Policyholder benefits and adjustment expenses	2,120,506	1,862,792
Premium and other taxes	99,481	84,959
Commissions and agent compensation	509,137	389,823
General expenses	632,080	583,187
	<b>3,361,204</b>	<b>2,920,761</b>
<b>Income before income taxes and results of discontinued operations</b>	<b>150,641</b>	<b>116,774</b>
Income taxes (note 10)	34,756	36,980
Loss from discontinued operations (note 25)	(72)	(956)
<b>Net income</b>	<b>115,813</b>	<b>78,838</b>
<b>Net income attributable to:</b>		
Shareholders	71,782	55,473
Non-controlling interests	18,657	6,470
Participating policyholders	25,374	16,895
	<b>115,813</b>	<b>78,838</b>

THE CO-OPERATORS GROUP LIMITED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31

(in thousands of dollars)	2010 \$	2009 \$
Net income	115,813	78,838
Unrealized gain on available-for-sale financial assets		
Bonds	64,105	73,746
Stocks	86,998	203,520
Other	3	1,522
	151,106	278,788
Reclassification adjustment for (gain) loss included in income		
Bonds	(37,766)	(50,435)
Stocks	6,115	67,376
Other	(1)	(16)
	(31,652)	16,925
Net unrealized gain	119,454	295,713
Income taxes (note 10)	36,658	94,811
Other comprehensive income	82,796	200,902
<b>Other comprehensive income attributable to:</b>		
Shareholders	60,474	162,471
Non-controlling interests	867	126
Participating policyholders	21,455	38,305
	82,796	200,902
<b>Comprehensive income</b>	<b>198,609</b>	<b>279,740</b>
<b>Comprehensive income attributable to:</b>		
Shareholders	132,256	217,944
Non-controlling interests	19,524	6,596
Participating policyholders	46,829	55,200
<b>Comprehensive income</b>	<b>198,609</b>	<b>279,740</b>

See accompanying notes to consolidated financial statements.

THE CO-OPERATORS GROUP LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31

	2010	2009 (restated - note 5)
(in thousands of dollars)	\$	\$
<b>Operating activities</b>		
Net income from continuing operations	115,885	79,794
Items not requiring the use of cash (note 18)	(102,430)	(20,617)
Changes in non-cash operating components (note 18)	62,135	177,307
Cash provided by operations	75,590	236,484
<b>Investing activities</b>		
Business acquisitions (note 5)	-	(251,898)
Cash acquired through business combinations (note 5)	-	121,557
Bonds (note 18)	(177,314)	(254,464)
Mortgages (note 18)	(34,894)	(2,819)
Stocks (note 18)	(15,763)	55,635
Short-term investments (note 18)	(50,558)	41,630
Real estate (note 18)	1,669	2,810
Policy loans (note 18)	(1,684)	(1,855)
Other investments (note 18)	540	828
Property and equipment	(7,320)	(15,287)
Intangible assets	(14,153)	(8,434)
Cash in trust	(17,547)	567
Cash used in investing activities	(317,024)	(311,730)
<b>Financing activities</b>		
Share capital redemptions (note 16)	(3,818)	(3,595)
Dividends paid		
Shareholders	(1,937)	(2,197)
Non-controlling interest	(19,213)	(12,005)
Loans		
Issued	452,612	1,156,002
Repaid	(307,914)	(1,153,946)
Premium on redemption of subsidiary shares	(134)	(140)
Issue costs of subordinated debt	(994)	-
Issue costs of share capital of a subsidiary	-	(2,801)
Preferred shares issued of a subsidiary	2,503	214,620
Cash provided by financing activities	121,105	195,938
Net increase (decrease) in cash and cash equivalents less short-term indebtedness from continuing operations	(120,329)	120,692
<b>Cash flows from discontinued operations</b>		
Net cash provided by (used in) operating activities	741	(1,675)
Net cash provided by (used in) investing activities	(132)	501
Net change in cash from discontinued operations	609	(1,174)
Net increase (decrease) in cash and cash equivalents less short-term indebtedness	(119,720)	119,518
Cash and cash equivalents less short-term indebtedness, beginning of year	183,595	64,077
Cash and cash equivalents less short-term indebtedness, end of year	63,875	183,595
<b>Cash consists of:</b>		
Cash and cash equivalents	91,394	194,550
Cash from discontinued operations (note 25)	5,681	5,075
Short-term indebtedness (note 13)	(33,200)	(16,030)
Cash and cash equivalents less short-term indebtedness, end of year	63,875	183,595
Supplemental information (note 18)		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

(Amounts in thousands of dollars except where otherwise noted)

## 1. Nature of operations

The Co-operators Group Limited (the Company) is incorporated under the Canada Co-operatives Act (proclaimed effective December 31, 1999). The Company is owned by 47 co-operative organizations from across Canada, which are referred to as members. Members hold par value co-operative shares in the Company in conjunction with their membership. No return is paid on these nominal shareholdings.

Insurance is the Company's core and largest business and is regulated under the Insurance Companies Act Canada and various provincial insurance acts. Co-operators General Insurance Company provides personal lines, commercial and farm coverages. Co-operators Life Insurance Company provides life, health and travel insurance and annuity coverages for both individuals and groups. The insurance operations are licensed to write many classes of insurance, in all provinces and territories in Canada. The Company also acts in the investment management market through Addenda Capital Inc. where it provides investment services to corporations and individuals.

On December 31, 2009, a newly incorporated company 7240368 Canada Inc., owned 50.01% by Co-operators Life Insurance Company, acquired 100% of the common shares of The CUMIS Group Ltd., a full service insurance company which markets primarily to credit unions and their members. A transaction on January 1, 2010 increased the ownership percentage of The CUMIS Group Ltd. to 72.99% (note 5).

Other businesses undertaken by subsidiaries of the Company support or are ancillary to the insurance and investment management businesses.

The following are the significant companies which are consolidated in these financial statements:

- Co-operators Financial Services Limited (CFSL)
  - Co-operators General Insurance Company
    - The Sovereign General Insurance Company
    - COSECO Insurance Company
    - L'UNION CANADIENNE, Compagnie d'assurances
  - Co-operators Life Insurance Company
    - TIC Travel Insurance Coordinators Ltd.
    - The CUMIS Group Ltd. (CUMIS) (note 5)
      - CUMIS Life Insurance Company
      - CUMIS General Insurance Company
  - Addenda Capital Inc.
  - Federated Agencies Limited
    - H.B. Group Insurance Management Ltd
- Co-operators Development Corporation Limited (note 25)

## 2. Changes in accounting policies

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: section 1582 "Business combinations", section 1601 "Consolidated financial statements", and section 1602 "Non-controlling interests".

Section 1582 replaced section 1581 "Business combinations" to improve the information reported by an entity about a business combination and its effects. This section established guidance for how the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. As permitted by the transitional provisions of the standard, the Company adopted this section for business combinations with an acquisition date on or after January 1, 2010.

Section 1601 together with section 1602 replaced section 1600 "Consolidated financial statements". These sections establish standards for the preparation of consolidated financial statements and the accounting for a non-controlling interest subsequent to a business combination. The Company adopted these sections for its consolidated financial statements beginning January 1, 2010. This is in accordance with the transitional provisions of these sections which require their adoption when an entity adopts section 1582.

The Company evaluated the impact of the adoption of these sections on its consolidated financial statements as at January 1, 2010, and determined that there was no material impact.

### 3. Future changes in accounting policies

In 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) by 2011 to replace Canadian generally accepted accounting principles (Canadian GAAP). Certain subsidiaries of the Company must transition to IFRS and because of this, the Company has decided that as of January 1, 2011, all future consolidated financial statements will be presented under IFRS. In accordance with IFRS transition guidelines, the Company will provide comparative data in accordance with IFRS for 2010 with reconciliations of shareholders' equity and comprehensive income for previously reported Canadian GAAP amounts.

### 4. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian GAAP. The Company and its subsidiaries must also comply with the accounting and reporting requirements of their respective regulators. The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the regulators, are in all material respects, in accordance with Canadian GAAP and are summarized below.

#### ***Basis of presentation***

The consolidated financial statements of the Company include the accounts of The Co-operators Group Limited and its subsidiaries (note 1). All significant inter-company balances and transactions are eliminated upon consolidation.

These consolidated financial statements include the accounts of all co-ownerships to the extent of the Company's proportionate interest in their respective assets, liabilities, revenue, expenses and cash flows. When the Company has significant influence, the investment is accounted for using the equity method with the Company's pro-rata share of net income from these investments included in net investment income. Equity method investments are included in other assets in the consolidated balance sheet. When the Company has determined that an entity is a variable interest entity (VIE) because it will absorb the majority of an entity's expected losses and/or expected residual returns, the entity is consolidated into the financial statements of the Company.

#### **Insurance contracts**

##### ***Revenue recognition***

Premiums written for all types of insurance and annuity contracts are recognized as revenue in the consolidated statement of income when due. For property and casualty operations, premiums written are deferred as unearned premiums and recognized in the consolidated statement of income over the terms of the underlying policies. Premiums written are gross of any premiums taxes and commissions.

Fees and other income include fees earned on administrative services only (ASO) group health contracts and fees earned from the management of the Company's segregated fund contracts.

##### ***Policy liabilities***

Life actuarial liabilities - Actuarial liabilities have been determined using the Canadian Asset Liability Method (CALM). Actuarial liabilities represent the amounts which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on all policies in force. The liabilities are calculated using estimates of future reinvestment rates, asset default, mortality, morbidity, policy termination and expense, and include reasonable provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions for adverse deviations will be included in future income to the extent not required.

Property and casualty unpaid claims and adjustment expenses – The unpaid claims and adjustment expenses represent the estimated amount required to settle all reported and unreported claims incurred to the end of the year. These estimates are determined using the best information available from claims settlement patterns, inflation, expenses, changes in the legal and regulatory environment and other matters. The provision reflects the time value of money and is discounted based on the projected market yield of the assets backing the claims liability.

Anticipated recoveries of amounts relating to reported and unreported claims and expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets. Estimation of the amount of these recoveries is based on principles consistent with the Company's method for establishing the related liability.

Differences between the estimated cost and subsequent settlement of claims are recognized in the consolidated statement of income in the year in which they are settled or in which the provisions for claims outstanding are re-estimated.

### ***Premiums due***

Premiums due represents receivables that are recognized when owed pursuant to the terms of the related insurance contract. Premiums due are measured on initial recognition at the fair value of the consideration received or receivable and are recorded on the balance sheet net of any impairment provisions. Premiums due are classified as loans and receivables.

### ***Acquisition expenses***

Property and casualty acquisition expenses comprise commissions and premium taxes, which relate directly to the acquisition of premiums. These expenses are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the anticipated claims, expenses and investment income related to the unearned premiums. If a premium deficiency arises, any deferred acquisition expenses would be written off first, and a liability would be recorded on the consolidated balance sheet for any remainder.

Deferred acquisition costs arising on segregated funds are calculated and included in life actuarial liabilities. Life actuarial liabilities implicitly include deferred acquisition costs on life insurance and annuity product sales.

### ***Reinsurance***

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business.

The cost of reinsurance related to insurance contracts of the life operations is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. For the property and casualty operations, premiums payable in respect of reinsurance ceded are recognized in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the balance sheet date. These premiums are expensed on a pro-rata basis over the period of the reinsurance contract.

Reinsurance assets primarily consist of balances due from reinsurance companies for ceded insurance liabilities and relate entirely to the property and casualty operations. Reinsurance ceded assets related to the life operations are shown on a net basis against the related policy liability. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

### ***Structured settlements***

In the normal course of claims adjudication, the Company's property and casualty operation settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the property and casualty subsidiary does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss arising on the purchase of an annuity is recognized in the consolidated income statement at the date of purchase and the related claims liabilities are derecognized.

### ***Segregated funds***

Segregated funds are insurance products offered under life insurance policies which provide policyholders with opportunities to grow their investment capital. The holdings of the segregated funds are kept separate from the Company's assets.

Certain contracts allow policyholders to invest in segregated funds managed by the Company. Income earned on these funds and any related capital gains or losses accrue to the benefit of the segregated fund and are included in income of the funds. Investments held in segregated funds are carried at fair value.

### **Financial instruments**

#### ***Classification and designation***

Financial assets are classified as held-for-trading (HFT), available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables based on their characteristics and purpose of their acquisition. Certain financial assets may be designated as HFT at the Company's option. Financial liabilities are required to be classified as HFT or other liabilities.

The Company has classified bonds and stocks as either AFS or HFT. The majority of bonds and stocks backing equity have been designated as AFS. Certain bonds and stocks backing policyholder liabilities within the Company's insurance subsidiaries have been designated as HFT. For the insurance subsidiaries, the Office of the Superintendent of Financial Institutions Canada (OSFI) has imposed certain restrictions in OSFI guideline D-10 on the designation of assets and liabilities as HFT on initial recognition (the "fair value option"). The fair value option may be used when such a designation eliminates or significantly reduces an accounting mismatch caused by measuring assets and liabilities on different bases or when instruments are measured and managed on a fair value basis. In both cases a documented risk management strategy must exist to support the use of the fair value option.

Mortgages, policy loans, amounts on deposit with reinsurers and accounts receivable are classified as loans and receivables. Short-term investments, which include money market instruments with a maturity of greater than three months from the date of acquisition, and cash and cash equivalents are classified as HFT. Currency derivatives are classified as HFT. Reinsurers' funds on deposit, payables and other liabilities which includes subordinated debt are classified as other financial liabilities with interest expense, if any, recorded in general expenses.

#### ***Presentation***

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is the ability and intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### ***Recognition and measurement***

Purchases and sales of invested assets classified or designated as HFT, AFS, HTM or loans and receivables are recorded on a trade-date basis.

Financial assets are measured at fair value with the exception of loans and receivables. Assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment losses if any. Any premium or discount on bond acquisitions is included in the calculation of the effective interest rate.

Financial liabilities are measured at fair value when they are classified as HFT. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. A specific exemption is provided for contracts issued to policyholders by insurance enterprises. The actuarial liabilities are determined according to standard actuarial practices.

Real estate is not a financial instrument. It is comprised of land and buildings both for own use and held for resale. For the life operation, land and buildings are accounted for using a moving to market basis. External appraisals are completed a minimum of every three years and differences between carrying value and market value are amortized to income at 3% per quarter on a declining balance basis. For the property and casualty operations, these assets are stated at the lower of cost less accumulated amortization and specific investment provisions and fair value.

Policy loans are carried at their amortized cost, which is not in excess of the cash surrender value of the policies on which the respective loans were made. Due to the short-term nature of the loans, fair value is considered to approximate amortized cost.

Changes in the fair value of HFT financial assets and financial liabilities are recognized in net investment gains and income in the consolidated statement of income for the year, while changes in the fair value of AFS financial assets are recognized in other comprehensive income (OCI) until the related instrument is disposed of or has become other than temporarily impaired.

Accumulated other comprehensive income (AOCI) is included in the consolidated balance sheet as a separate component of shareholders' equity (net of income taxes) and is comprised entirely of net unrealized gains and losses on AFS financial assets. The cumulative gains or losses in the fair values of investments previously recognized in AOCI are reclassified to net income when they are realized.

### ***Fair value***

Fair value is the amount of consideration that would be agreed on in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3). These are defined in note 6.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

### ***Impairment of financial assets***

The Company reviews its investment portfolio on a quarterly basis, at a minimum, for any declines in value.

The Company assesses whether an AFS financial asset is other than temporarily impaired by assessing whether there is a significant or prolonged decline in fair value below cost and whether there is objective evidence that the impairment is other than temporary. Factors that are considered when assessing whether an other than temporary impairment exists include but are not limited to: a decline in current financial position; defaults on debt obligations; failure to meet debt covenants; significant downgrades of credit status, and severity and/or duration of the decline in value. If the decline is considered to be other than temporary, an impairment loss is recorded through the consolidated statement of income. Other than temporary impairments of AFS stock instruments are not reversed through net income except when realized on sale. Other than temporary impairments of AFS debt instruments are only reversed prior to realization when the increase can objectively be related to an event occurring after the impairment loss was recognized in net income.

Financial assets include mortgages and other investments classified as loans and receivables that are also evaluated for impairment. These invested assets are considered impaired when there is objective evidence of deterioration in credit quality that indicates the Company no longer has reasonable assurance that the full amount of principal and interest will be collected. The Company then establishes specific provisions for losses and balances are subsequently measured at their net realizable amount based on discounting the cash flows at the original effective interest rate inherent in the loan or the fair value of the underlying security. Changes in the net realizable value of impaired loans are recognized in net investment gains and income as a credit or charge to impairment losses.

Policy loans are not subject to impairment losses because they are fully secured by the policy values on which the loans are made.

### ***Derivative financial instruments***

Derivatives are classified as HFT and transactions are recorded on a trade date basis. There are no significant derivatives designated as a hedge for accounting purposes. Derivatives are recognized at fair value in the consolidated balance sheet. The gains and losses arising from remeasuring the derivatives at fair value are recognized in the consolidated statement of income.

### ***Embedded derivatives***

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable. Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract;

b) the terms of the embedded derivative are the same as those of a free standing derivative; c) the combined instrument or contract is not measured at fair value with the changes in fair value being recognized in other income and d) the fair value of the embedded derivative can be reliably measured on a separate basis. These embedded derivatives are classified as HFT financial assets and liabilities with changes in fair value recognized in the consolidated statement of income as a component of net investment gains (losses).

### **Revenue and expense recognition**

Included within net investment gains and income is dividend and interest income. Dividend income is recorded on the ex-dividend date and interest income, which includes amortization of premiums or discounts, is recognized using the effective interest method. Realized gains and losses on the sale of investments are computed using the average cost of investments and are recognized on the date of sale. Gains and losses on the sale of real estate are recognized when title passes. When there are leaseback agreements in place, the Company may be required to defer all or a portion of any gains on sale and amortize proportionately to the lease payments over the life of the lease.

Transaction costs for AFS financial assets and loans and receivables are recorded as part of the purchase cost of the asset. Transaction costs for financial liabilities classified as other than HFT are included in the value of the instrument at issue. Transaction costs for HFT financial instruments are recognized in the consolidated statement of income.

### **Other significant accounting policies**

#### **Cash and cash equivalents**

Cash and cash equivalents include short-term investments with a maturity of three months or less from the date of acquisition.

#### **Property and equipment**

Computer equipment, furniture and equipment, buildings and leasehold improvements are carried at cost less accumulated amortization and accumulated impairment losses. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance are charged to income during the period in which they occur.

Property and equipment balances are amortized on a straight-line basis over their estimated useful lives as follows:

	Term
Computer equipment	2 - 5 years
Furniture and equipment	2- 10 years
Buildings	40 years
Leasehold improvements	Lesser of 5 years and terms of related lease

Land is not subject to amortization and is carried at cost. Leasehold projects in progress are carried at cost and amortization commences upon completion of the project.

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing the proceeds with the net carrying value. Fully depreciated property and equipment are retained in assets and accumulated amortization accounts until such assets are removed from service.

#### **Leases**

Leases of property and equipment where the Company is not exposed to substantially all of the risks and rewards of ownership are classified as operating leases. Incentives received from the lessor are deferred and amortized to the consolidated statement of income on a straight-line basis over the term of the lease. Where substantially all of the risks and rewards have been transferred to the Company the lease is classified as a capital lease. In these cases an obligation and an asset are recognized based on the present value of the future minimum lease payments and balances are amortized over the lease term or useful life as applicable.

## **Business acquisitions**

Business acquisitions are accounted for using the purchase method whereby the identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. The results of operations and cash flows of an acquired business are included in the Company's consolidated financial statements from the date of acquisition, which is the date on which it obtains control of the acquiree.

## **Goodwill and intangible assets**

Goodwill represents the excess of purchase price over fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is not amortized but is evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates goodwill might be impaired. Testing for impairment is accomplished by determining if the carrying value of a reporting unit exceeds its fair value at the assessment date. A reporting unit is a component of a segment in which discrete financial information is available and the segment's management regularly reviews the operating results of the component. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, the amount of the goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit. Should the carrying value exceed fair value, an impairment loss is recognized in the consolidated statement of income at that time. The estimate of fair value required for the impairment test is sensitive to the cash flow projections and the assumptions used in the valuation model.

Intangible assets are carried at cost less accumulated amortization. Indefinite life intangible assets are tested for impairment annually and as such, no amortization is taken on these assets. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value, an impairment loss is recognized. Amortization and impairments are recorded as general expenses in the consolidated statement of income.

Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

	Term
Brands	Indefinite life, not amortized
Licenses	Indefinite life, not amortized
Computer software	2 - 5 years
Customer relationships	5 - 12 years
Non- compete agreements	3 years

Computer software consists primarily of internally generated software development costs.

## **Employee future benefits**

Employee future benefits include pension plans, post-employment medical and dental benefits and other certain benefits to qualifying individuals.

The primary pension plans are defined contribution plans where the Company's obligation is fulfilled when contributions are made by the employer and employee based on a set percentage of the employee's annual income. The primary pension plan of CUMIS is a defined benefit plan which is accounted for using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected returns on plan assets, those assets are valued at fair value.

The Company also sponsors a number of defined benefit plans which provide pension and other retirement benefits to eligible employees. These defined benefit plans are accounted for using the accumulated benefit method. The expected costs of employee future benefits are expensed during the years that the employees render services and an accrued post-employment benefit obligation is recognized. The obligation is determined by application of the terms of the plan together with relevant actuarial assumptions. There are no employee contributions to the defined benefit plans. Certain of the plans are funded.

Actuarial gains and losses, past service costs and transition costs have been deferred and amortized. For the pension benefits, the excess of the net actuarial gain (loss) in excess of 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees. For all benefits, past service costs and transition costs are amortized over the average future service to expected retirement age on a straight-line basis. Past service costs from plan

amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

### ***Subordinated debt***

Subordinated debt is carried at amortized cost. Debt issuance costs are amortized over the term of the related debt using the effective interest rate method.

### ***Foreign currency translation***

The Company translates all foreign currency monetary assets and liabilities into Canadian dollars at year-end foreign exchange rates. Revenue and expenses are translated at the prevailing foreign exchange rate on the date of the transaction. Exchange gains and losses are recognized in the consolidated statement of income with the exception of unrealized gains and losses associated with financial assets classified as AFS, which are recorded in OCI.

### ***Revenue recognition***

Other revenue is primarily insurance commissions and investment management fees. Revenue is recognized in the period services are rendered.

### ***Provision for agent transition commissions***

The Company's agents are eligible for a transition commission payout on a qualifying termination. The transition commission liability is based on the number of years of service as an agent and the agent's average trailing commission volume. Payments to terminating agents are funded in part from reduced commission payments which are made to agents assuming the rights to the book of business during the first three years of their agency relationship. The obligation to active agents is determined using the projected benefit method pro-rated on services.

### ***Income taxes***

The Company accounts for income taxes using the asset and liability method. Under this method, the provision for income taxes is calculated based on income tax laws and rates enacted and substantively enacted as at the balance sheet date. The income tax provision comprises current and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of current year operations. Future income tax assets and liabilities arise from temporary differences between the accounting and tax basis of assets and liabilities. A future income tax asset is recognized to the extent that the benefit of losses and deductions available to be carried forward to future years for income tax purposes are more likely than not to be realized. Current and future income taxes that are associated with components of OCI are recorded in OCI.

In determining the impact of taxes, the Company is required to comply with the standards of both the Canadian Institute of Actuaries and the CICA. Actuarial standards require that the projected timing of all cash flows associated with the policy liabilities, including income taxes, be included in the determination of actuarial liabilities under the CALM. The actuarial liabilities are first computed including all related income tax effects on a discounted basis, including the effects of temporary differences that have already occurred. Future income tax assets and/or liabilities arising from temporary differences that have already occurred are computed without discounting. The undiscounted future income tax assets and/or liabilities are reclassified from the actuarial liabilities to future income taxes on the consolidated balance sheet. The net result of this reclassification is to leave the discounting effect of the future income taxes in the actuarial liabilities.

### ***Participating policyholder account***

In the life operation, certain policyholders are entitled to share in the operating income and receive policyholder dividends. These policyholders will, based on the contribution of the class of policy to the distributable surplus, be eligible to participate in the distribution of the surplus by means of annual dividends. Equity is maintained between classes of policyholders and generations of policyholders.

### ***Use of estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the

reported amounts of revenues and expenses during the year. Significant estimates include the valuation of investments and embedded derivatives (note 6), policy liabilities (note 8), salvage and subrogation recoverable, income taxes (note 10), goodwill and intangible assets (note 11), employee future benefits (note 15), provision for agent transition commissions, and contingencies (note 23). Actual results could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined.

## 5. Business acquisitions

### **Acquisition of CUMIS**

On December 31, 2009, 7240368 Canada Inc, 50.01% owned by the Company, acquired 100% of the common shares of CUMIS, a leading provider of life insurance and property and casualty insurance to credit unions and their members, for cash consideration of \$214,917 adjusted subsequent to December 31, 2009 for the purchase price finalization. The balance sheet of CUMIS has been included in the Company's consolidated financial statements as at that date. The acquisition of CUMIS contributes to the Company's growth objective as well its strategy to enhance its presence within credit unions.

Prior to the acquisition, Co-operators Life Insurance Company and Co-operators General Insurance Company participated in a co-insurance arrangement with CUMIS. On January 1, 2010, the co-insurance arrangement was terminated. In connection with this termination, the Company injected additional capital of \$73,152 into CUMIS in exchange for an additional ownership interest in CUMIS. This transaction increased the Company's ownership in CUMIS to 72.99%.

During 2010, the purchase price allocation was finalized and was applied retroactively to the December 31, 2009 amounts. The additional payment on purchase price finalization was \$1,499 and other miscellaneous allocation changes were applied retroactively, with the impact on net assets acquired representing the portion of the Company's additional payment.

The business combination was accounted for using the purchase method of accounting. The cost of the acquisition was allocated to identifiable net assets on the basis of the estimated fair values at the date of the purchase. The excess of acquisition costs over the net fair value of assets acquired was allocated to goodwill. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company at the date of acquisition.

	Net assets acquired \$	Adjustments applied retroactively \$	Net assets acquired (restated) \$
Cash and cash equivalents	120,486	-	120,486
Invested assets	592,154	-	592,154
Cash held in trust	59,119	-	59,119
Premiums due	19,631	-	19,631
Reinsurance ceded assets	69,917	-	69,917
Goodwill and intangible assets	144,566	1,717	146,283
Other assets	110,367	613	110,980
<b>Total assets acquired</b>	<b>1,116,240</b>	<b>2,330</b>	<b>1,118,570</b>
Policy liabilities, life operations	370,800	-	370,800
Policy liabilities, property and casualty operation	130,664	-	130,664
Payables and other liabilities	401,358	831	402,189
Assets acquired	213,418	1,499	214,917
Non-controlling interest	106,688	750	107,438
<b>Net assets acquired</b>	<b>106,730</b>	<b>749</b>	<b>107,479</b>

Segregated fund net assets of \$193,362 have also been acquired with a corresponding segregated fund contract liability of \$193,362.

Goodwill and intangible assets related to this acquisition are not deductible for tax purposes.

### **Acquisition of Vancity Insurance Services Ltd. (VISL)**

On August 31, 2009, the Company, through a series of intermediary steps, completed the acquisition of 100% of the common shares of VISL for cash consideration of \$29,360. The results of VISL's operations have been included in the Company's

## Notes to the Consolidated Financial Statements

consolidated financial statements since that date. The acquisition of this company was undertaken for its customer relationships and insurance related licenses.

The business combination was accounted for using the purchase method of accounting. The cost of the acquisition was allocated to identifiable net assets on the basis of the estimated fair values at the date of the purchase. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company at the date of acquisition.

	Net assets acquired \$
Cash and cash equivalents	12
Goodwill and intangible assets	31,794
Accounts receivable and due from reinsurers	5,674
Other assets	359
<b>Total assets acquired</b>	<b>37,839</b>
Accounts payable and accrued charges	2,449
Future income taxes	6,030
<b>Net assets acquired</b>	<b>29,360</b>

Goodwill and intangible assets related to this acquisition are not deductible for tax purposes.

### **Acquisition of WestCU Insurance Services Ltd. (WestCU)**

On November 2, 2009, the Company, through a series of intermediary steps, completed the acquisition of 100% of WestCU for cash consideration of \$4,092. The results of WestCU's operations have been included in the Company's consolidated financial statements since that date. The acquisition of this company was undertaken for its customer relationships and insurance related licenses.

The business combination was accounted for using the purchase method of accounting. The cost of the acquisition was allocated to identifiable net assets on the basis of the estimated fair values at the date of the purchase. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company at the date of acquisition.

	Net assets acquired \$
Cash and cash equivalents	911
Invested assets	22
Goodwill and intangible assets	3,710
Accounts receivable and due from reinsurers	150
Other assets	65
<b>Total assets acquired</b>	<b>4,858</b>
Accounts payable and accrued charges	346
Future income taxes	420
<b>Net assets acquired</b>	<b>4,092</b>

Goodwill and intangible assets related to this acquisition are not deductible for tax purposes.

### **Acquisition of 9175-1917 Quebec Inc.**

On April 30, 2009, the Company, through a series of intermediary steps, completed the acquisition of 100% of a broker through a 20% owned company (9175-1917 Quebec Inc, classified as a VIE) for cash consideration of \$3,529. The results of the broker's operations have been included in the Company's consolidated financial statements since that date. The acquisition of this company was undertaken for its customer relationships and insurance related licenses.

The business combination was accounted for using the purchase method of accounting. The cost of the acquisition was allocated to identifiable net assets on the basis of the estimated fair values at the date of the purchase. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company at the date of acquisition.

	Net assets acquired \$
Cash and cash equivalents	148
Income taxes recoverable	14
Goodwill and intangible assets	3,652
Accounts receivable and due from reinsurers	332
Other assets	75
<b>Total assets acquired</b>	<b>4,221</b>
Accounts payable and accrued charges	218
Future income taxes	474
<b>Net assets acquired</b>	<b>3,529</b>

Goodwill and intangible assets related to this acquisition are not deductible for tax purposes.

## 6. Invested assets and net investment gains and income

### a) Investments – portfolio profile

	Fair Value			Amortized Cost		Carrying value \$
	AFS \$	Classified HFT \$	Designated HFT \$	Loans and receivables \$	Other \$	
<b>2010</b>						
<b>Bonds</b>						
Federal	1,166,528	-	178,005	-	-	1,344,533
Provincial	688,402	-	471,920	-	-	1,160,322
Municipal	97,421	-	124,891	-	-	222,312
Corporate	1,270,375	-	725,581	-	24,681	2,020,637
Co-operative	3,041	-	2,493	-	-	5,534
	<b>3,225,767</b>	<b>-</b>	<b>1,502,890</b>	<b>-</b>	<b>24,681</b>	<b>4,753,338</b>
<b>Stocks</b>						
Canadian common	584,695	-	61,148	-	10	645,853
Canadian preferred	312,818	(24,575)	-	-	-	288,243
U.S. equities	106,912	-	11,041	-	-	117,953
Foreign equities	50,579	-	2,781	-	-	53,360
	<b>1,055,004</b>	<b>(24,575)</b>	<b>74,970</b>	<b>-</b>	<b>10</b>	<b>1,105,409</b>
Short-term investments	77,477	68,090	-	-	41,865	187,432
Collateralized debt obligations	-	38,561	-	-	-	38,561
Derivative contracts	-	167	-	-	-	167
Mortgages	-	-	-	931,834	-	931,834
Other investments	1,847	5,071	77	21,792	2,457	31,244
Real estate	-	-	-	-	42,608	42,608
Investment income due and accrued	-	-	-	40,886	-	40,886
Policy loans	-	-	-	55,332	-	55,332
<b>Total invested assets</b>	<b>4,360,095</b>	<b>87,314</b>	<b>1,577,937</b>	<b>1,049,844</b>	<b>111,621</b>	<b>7,186,811</b>

## Notes to the Consolidated Financial Statements

	Fair Value			Amortized Cost		Carrying value
	AFS	Classified HFT	Designated HFT	Loans and receivables	Other	
2009	\$	\$	\$	\$	\$	\$
<b>Bonds</b>						
Federal	1,103,490	-	163,103	-	-	1,266,593
Provincial	614,761	-	431,323	-	-	1,046,084
Municipal	104,427	-	131,837	-	-	236,264
Corporate	1,172,749	-	673,001	-	24,337	1,870,087
Co-operative	2,970	-	2,503	-	-	5,473
	2,998,397	-	1,401,767	-	24,337	4,424,501
<b>Stocks</b>						
Canadian common	530,184	-	45,873	-	-	576,057
Canadian preferred	278,546	(15,191)	-	-	-	263,355
U.S. equities	100,136	-	8,968	-	-	109,104
Foreign equities	47,061	-	2,157	-	-	49,218
	955,927	(15,191)	56,998	-	-	997,734
Short-term investments	58,190	76,402	-	-	5,452	140,044
Collateralized debt obligations	-	26,555	-	-	-	26,555
Derivative contracts	-	(193)	-	-	-	(193)
Mortgages	-	-	-	906,371	-	906,371
Other investments	2,728	5,235	881	23,123	1,511	33,478
Real estate	-	-	-	-	34,994	34,994
Investment income due and accrued	-	-	-	43,522	-	43,522
Policy loans	-	-	-	53,600	-	53,600
<b>Total invested assets</b>	<b>4,015,242</b>	<b>92,808</b>	<b>1,459,646</b>	<b>1,026,616</b>	<b>66,294</b>	<b>6,660,606</b>

Other investments includes HTM financial assets.

One of the Company's jointly controlled companies is party to interest rate swap instruments designated as cash flow hedges, with a notional balance of \$17,500 (2009 - \$nil). The fair value of the interest rate swaps included in derivative contracts is \$111 (2009 - \$nil), excluding interest income of \$9 (2009 - \$nil). The unrealized gain on the effective portion of the interest rate swap instruments designated as a cash flow hedge, and recorded in OCI, during 2010 is \$91 (2009 - \$nil).

### **b) Investments – measured at fair value**

The Company is responsible for determining the fair value of its investment portfolio by utilizing market driven measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. Assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the significance and reliability of the inputs to the respective valuation techniques. The input levels are defined as follows.

#### *Level 1 – Quoted prices*

Represents unadjusted quoted prices for identical instruments exchanged in active markets. The fair value is determined based on quoted prices in active markets obtained from external pricing sources. Assets measured at fair value and classified as Level 1 includes Canadian common and preferred stocks.

#### *Level 2 – Significant other observable inputs*

Includes directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Assets

measured at fair value and classified as Level 2 include certain money market instruments, short-term investments, derivative contracts, bonds (excluding co-operative bonds), foreign equities, and other investments.

### Level 3 – Significant unobservable inputs

Includes inputs that are not based on observable market data. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require significant management judgement or estimation to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available. Assets measured at fair value and classified as Level 3 include tracking notes, collateralized debt obligations, derivative contracts and certain short-term investments.

The following summarizes how fair values were determined as at December 31:

	Level 1 Quoted prices \$	Level 2 Significant other observable inputs \$	Level 3 Significant unobservable inputs \$	Total fair value \$
<b>2010</b>				
<b>AFS</b>				
Bonds	-	3,225,767	-	3,225,767
Stocks	850,324	163,723	-	1,014,047
Short-term investments	-	77,475	2	77,477
Other investments	-	1,597	-	1,597
	850,324	3,468,562	2	4,318,888
<b>HFT</b>				
Bonds	-	1,502,890	38,561	1,541,451
Stocks	61,148	13,822	-	74,970
Short-term investments	-	68,090	-	68,090
Derivative contracts	-	47	120	167
Other investments	-	59	5,089	5,148
	61,148	1,584,908	43,770	1,689,826
<b>Total fair value investments</b>	<b>911,472</b>	<b>5,053,470</b>	<b>43,772</b>	<b>6,008,714</b>
<b>2009</b>				
<b>AFS</b>				
Bonds	-	2,998,397	-	2,998,397
Stocks	773,851	152,906	-	926,757
Short-term investments	-	58,088	2	58,090
Other investments	353	2,005	-	2,358
	774,204	3,211,396	2	3,985,602
<b>HFT</b>				
Bonds	-	1,401,767	26,555	1,428,322
Stocks	45,876	11,122	-	56,998
Short-term investments	-	76,402	-	76,402
Derivative contracts	-	(193)	-	(193)
Other investments	-	10	6,106	6,116
	45,876	1,489,108	32,661	1,567,645
<b>Total fair value investments</b>	<b>820,080</b>	<b>4,700,504</b>	<b>32,663</b>	<b>5,553,247</b>

## Notes to the Consolidated Financial Statements

Included in the AFS stocks in the above table are embedded derivatives of \$24,575 (2009 - \$15,191), which are classified HFT. The embedded derivative represents the redemption options in the preferred share portfolio, the value of which has been determined using unobserved inputs in an accepted model. The embedded derivatives have been offset against their host instruments as the net amount's fair value represents an unadjusted quoted price for identical instruments exchanged in active markets.

Excluded from these totals are AFS investments of \$16,632 (2009 - \$14,449) in common shares of other co-operative entities which are carried at cost as they do not have quoted market prices in active markets. No investments were transferred during the year.

The following tables are reconciliations of the Level 3 fair value measurements.

2010	Bonds	Short-term/Other	Total
	\$	Investments \$	\$
Balance as at December 31, 2009	26,555	6,108	32,663
Purchases	-	3	3
Sales	-	(1,353)	(1,353)
Gains (losses)			
Realized in net income	107	457	564
Unrealized included in net income	11,899	(97)	11,802
Unrealized included in OCI	-	93	93
Balance at December 31, 2010	38,561	5,211	43,772

2009	Bonds	Short-term/Other	Total
	\$	Investments \$	\$
Balance as at December 31, 2008	13,177	4	13,181
Acquired in business combination	-	870	870
Purchases	-	5,116	5,116
Sales	-	(1)	(1)
Gains (losses)			
Realized in net income	260	(26)	234
Unrealized included in net income	13,118	145	13,263
Balance at December 31, 2009	26,555	6,108	32,663

### c) Net investment gains and income

2010	AFS	Classified	Designated	Loans and	Other	Total
	\$	HFT \$	HFT \$	receivables \$	\$	\$
Interest income	116,093	3,312	68,655	52,403	2,599	243,062
Dividend, rental and other income, net	29,034	-	1,972	-	979	31,985
Gains (losses) from partially owned companies	-	-	-	-	(20)	(20)
Investment expense	-	-	(65)	(873)	(1,840)	(2,778)
Net investment income	145,127	3,312	70,562	51,530	1,718	272,249
Net realized gains (losses)	48,172	4	6,045	3,532	4,598	62,351
Foreign exchange gains (losses)	(802)	(178)	-	-	(23)	(1,003)
Fair value gains	-	10,155	72,132	-	-	82,287
Impairment losses	(14,758)	-	-	(97)	(26)	(14,881)
Net investment gains (losses)	32,612	9,981	78,177	3,435	4,549	128,754
Net investment gains and income	177,739	13,293	148,739	54,965	6,267	401,003

2009	AFS \$	Classified HFT \$	Designated HFT \$	Loans and receivables \$	Other \$	Total \$
Interest income	116,031	4,597	53,341	52,785	3,356	230,110
Interest expense	-	-	-	-	(770)	(770)
Dividend, rental and other income, net	31,055	-	1,229	-	5,669	37,953
Gains (losses) from partially owned companies	-	-	-	-	79	79
Investment expense	-	-	(272)	(787)	(8)	(1,067)
Net investment income	147,086	4,597	54,298	51,998	8,326	266,305
Net realized gains (losses)	19,098	(26)	8,676	1,164	4,080	32,992
Foreign exchange gains (losses)	490	(259)	-	-	(898)	(667)
Fair value gains	-	13,423	21,205	1,245	-	35,873
Impairment losses	(36,273)	-	-	-	-	(36,273)
Net investment gains (losses)	(16,685)	13,138	29,881	2,409	3,182	31,925
Net investment gains and income	130,401	17,735	84,179	54,407	11,508	298,230

In December 2008, the Company disposed of real estate properties resulting in total realized investment gains of \$100,835. A portion of these realized gains related to own use properties which were leased back by the Company. Hence, \$68,283 of these realized gains were deferred and are being amortized in proportion to the lease payments over the 15 year term of the related leases. As at December 31, 2010, the unrealized deferred gain is \$58,606 (2009 - \$62,722). During 2010, the Company recognized \$4,116 of deferred net realized gains in the consolidated statements of income which is included in net investment gains and income (2009 - \$4,114).

#### **d) Impaired assets and provisions for losses**

For the year ended December 31, 2010, the Company has recognized other than temporary impairment losses of \$14,881 (2009 - \$36,273). The impairment losses were determined to be other than temporary based on management's best estimate using available market data. The impairment losses are included in net investment income in the consolidated statement of income.

The AFS financial assets disclosed in the following table exhibit evidence of impairment, however, the impairment loss has not been recognized in net income either because management does not believe there is objective evidence of impairment or because the loss is considered temporary.

	2010		2009	
	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$
Bonds	951,850	6,355	1,169,093	19,171
Stocks	199,451	9,748	321,288	38,099
Other	60	2	353	12
Fair value and unrealized losses not recognized in net income	1,151,361	16,105	1,490,734	57,282

HFT financial assets have been excluded from the above table since changes in fair value of these assets are recorded in the consolidated statement of income.

The Company has mortgages which have been assessed individually and provisions have been established when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The value of the estimated future cash flows discounted at the effective rate inherent in the loan is used to determine the amount the Company expects to recover from an impaired loan.

## Notes to the Consolidated Financial Statements

The following table discloses the distribution of mortgages by credit quality as at December 31:

	2010	2009
	\$	\$
Current	913,321	880,076
Past due:		
Past due less than 90 days	850	1,946
Past due 180 days or more	850	-
Impaired	17,696	25,135
Allowance for impaired loans	(883)	(786)
Balance December 31	931,834	906,371

Impaired loans total \$17,696 (2009 - \$25,135) with specific provisions of \$883 (2009 - \$786). The remaining impaired mortgage does not have a specific provision because, at a minimum, either the fair value of the collateral or the expected future cash flows exceeding the carrying value of the mortgage. Net investment gains and income includes \$328 (2009 - \$254) in respect of a recovery of loan impairments, which includes mortgage write-offs of \$425 (2009 - \$nil).

	2010	2009
	\$	\$
Specific provision - beginning of year	786	1,040
Change in provision	97	(254)
Specific provision - end of year	883	786

In addition to the specific provisions, possible future impairments are provided for through the reduction of future cash flows assumed in the calculation of the actuarial liabilities. The provision for credit losses is \$99,047 (2009 - \$80,598).

During the year the Company foreclosed on a mortgage with a net book value of \$8,812 (2009 - \$nil). In conjunction with the foreclosure, the Company acquired residential and commercial real estate interests with an estimated net realizable value equal to the value of the mortgage. The estimated net realizable value was primarily determined by reviewing recent selling prices for the units already sold and by assessing current market conditions. The Company continues to actively market the properties for sale and no impairment loss has been recorded. As of the year-end date, the property had a carrying amount of \$8,812 and was included within the Company's real estate invested assets.

### e) Maturity profile of invested assets

	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years	No fixed	Total
2010	\$	\$	\$	\$	\$	\$
Bonds and collateralized debt obligations	271,037	744,123	947,716	2,829,023	-	4,791,899
Stocks	4,106	23,619	10,987	13,603	1,053,094	1,105,409
Short-term investments	187,432	-	-	-	-	187,432
Derivative contracts	47	4	116	-	-	167
Mortgages	123,929	209,405	213,310	370,781	14,409	931,834
Other investments	726	10,701	5,834	13,628	355	31,244
Real estate	-	-	-	-	42,608	42,608
Investment income due and accrued	40,886	-	-	-	-	40,886
Policy loans	-	-	-	-	55,332	55,332
	628,163	987,852	1,177,963	3,227,035	1,165,798	7,186,811
	9%	14%	16%	45%	16%	100%

	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years	No fixed	Total
2009	\$	\$	\$	\$	\$	\$
Bonds and collateralized debt obligations	362,729	690,845	1,074,814	2,322,668	-	4,451,056
Stocks	9,406	24,214	32,673	52,957	878,484	997,734
Short-term investments	139,944	-	-	-	100	140,044
Derivative contracts	(193)	-	-	-	-	(193)
Mortgages	141,677	154,401	173,808	419,391	17,094	906,371
Other investments	9	4,000	14,057	8,262	7,150	33,478
Real estate	-	-	-	-	34,994	34,994
Investment income due and accrued	43,522	-	-	-	-	43,522
Policy loans	-	-	-	-	53,600	53,600
	697,094	873,460	1,295,352	2,803,278	991,422	6,660,606
	11%	13%	19%	42%	15%	100%

#### f) Mortgage diversification

	2010 \$	2009 \$
<b>Creditor concentration</b>		
Insured	307,548	304,511
Residential	126,233	114,457
Commercial	498,053	487,403
	931,834	906,371
<b>Geographic concentration</b>		
Atlantic	160,261	145,832
Ontario	321,198	320,894
West	411,902	395,946
Quebec	38,473	43,699
	931,834	906,371
<b>Fair value</b>	982,522	922,584

#### g) Real estate diversification

	2010 \$	2009 \$
<b>Usage concentration</b>		
Land and project developments	30,077	20,477
Office	12,306	14,101
Project development	225	416
	42,608	34,994
<b>Geographic concentration</b>		
Ontario	18,360	18,125
Quebec	947	1,015
Atlantic	8,813	-
West	14,488	15,854
	42,608	34,994
<b>Fair value</b>	48,900	42,135

**h) Other investments**

	2010	2009
	\$	\$
Broker loans	21,397	22,531
Investments	9,847	10,947
	31,244	33,478

The broker loans range in size up to \$6,741 (2009 - \$8,591). These loans have various terms ranging from 2 to 10 years and various interest rates ranging from 3.25% to 7.00%. All loans are meeting their repayment obligations. There have been no defaults. Based on management's review of creditworthiness of the debtors, no provision has been made in the accounts. These loans are secured by net assets of the debtors in the aggregate amount of \$42,590 (2009 - \$42,270).

**7. Financial risk management**

The Company has established risk management policies and practices covering certain aspects of the operations. The Board of Directors approves these policies and management is responsible for ensuring the policies are properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting, as well as annual compliance reporting and by reviews conducted by the internal audit department.

**Credit risk**

Credit risk refers to the risk of financial loss from the failure of a debtor/counterparty to honour its obligation to the Company. Credit risk is increased when there is a concentration of investments made in similar industry sectors, in the same geographical area or within a single entity. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, single issuer limits, corporate sector limits and general guidelines for geographic exposure. Throughout 2010 and 2009, the Company maintained all positions within these concentration limits.

The bond portfolio includes 93.3% (2009 – 94.5%) of bonds rated A or better. The Company limits its investment concentration in any one corporate investee or control group to 5% of total assets and a maximum of 15% of the bond portfolio can be invested in bonds rated below A. At December 31, 2010, the largest corporate credit exposure was 1.8% of invested assets (2009 - 1.3%) or 5.2% of total equity (2009 - 4.8%).

The Company has a separate, comprehensive mortgage policy which includes, among other factors, single loan limits, diversification by type of property limits, and geographic diversification limits. The mortgage portfolio represents 13.0% (2009 - 13.6%) of invested asset carrying value. Each mortgage is secured by real estate and related contracts. The largest single mortgage balance was \$14,396 (2009 - \$13,640). All commercial loans greater than \$1,000 are risk-rated on an annual basis. The life operation's detailed underwriting process for mortgages is in compliance with the requirements of the Insurance Companies Act and OSFI.

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the ceding enterprise of its primary obligation to the policyholder. The Company has established a Reinsurance and Insurance Counterparty Standards Committee that evaluates the financial condition of its reinsurers to minimize its exposure to significant loss from any one reinsurer's insolvencies. Reinsurers are typically all required to have a minimum financial strength rating of A - at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Concentration guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer. There were no material defaults on transactions with reinsurers during the year. Based on management's review of creditworthiness of its reinsurers, no allowance, other than as required by actuarial standards is included in the accounts.

Another potential source of credit risk for insurance contracts is premiums due from policyholders. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents, program managers, or brokers who manage cash collection.

The table below provides information regarding the overall credit risk of the Company by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating and those assets that fall outside the range of AAA to BBB are classified as speculative grade. Bonds, collateralized debt obligations, short-term investments and selected cash equivalent amounts are based on external ratings provided by Dominion Bond Rating Services (DBRS); reinsurance ceded assets are classified

based on financial strength ratings provided by A.M. Best and Standard & Poor's; mortgages are classified using the Company's internal rating system.

	AAA	AA	A	BBB	Below BBB	Not rated	Total
2010	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	5,409	7,457	3,307	1,577	-	73,644	91,394
Cash held in trust	-	-	-	-	-	92,806	92,806
Bonds - AFS	1,404,533	727,410	930,835	162,472	517	-	3,225,767
Bonds - other	316,885	452,388	640,726	92,416	39,036	24,681	1,566,132
Short-term investments	180,586	2	1,281	1,263	-	4,300	187,432
Mortgages and other investments	-	307,599	431,985	167,125	12,361	44,008	963,078
Investment income due and accrued	-	-	-	-	-	40,886	40,886
Policy loans	-	-	-	-	-	55,332	55,332
Reinsurance ceded assets	16,533	82,776	50,899	13,906	132	52,363	216,609
Salvage and subrogation recoverable	-	-	-	-	-	109,181	109,181
Premiums due	-	-	-	-	-	715,075	715,075
Other receivables	-	-	-	-	-	148,854	148,854
	<b>1,923,946</b>	<b>1,577,632</b>	<b>2,059,033</b>	<b>438,759</b>	<b>52,046</b>	<b>1,361,130</b>	<b>7,412,546</b>

	AAA	AA	A	BBB	Below BBB	Not rated	Total
2009	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	35,118	-	3,102	697	-	155,633	194,550
Cash held in trust	-	-	-	-	-	75,259	75,259
Bonds - AFS	1,369,443	653,116	864,148	97,411	13,403	876	2,998,397
Bonds - other	303,614	439,061	575,128	83,460	27,059	24,337	1,452,659
Short-term investments	122,390	9,735	-	2,499	-	5,420	140,044
Mortgages and other investments	-	304,512	406,355	174,747	5,637	48,598	939,849
Investment income due and accrued	-	-	-	-	-	43,522	43,522
Policy loans	-	-	-	-	-	53,600	53,600
Reinsurance ceded assets	19,592	87,377	46,402	23,033	-	117,618	294,022
Salvage and subrogation recoverable	-	-	-	-	-	91,370	91,370
Premiums due	-	-	-	-	-	678,937	678,937
Other receivables	-	-	-	-	-	174,269	174,269
	<b>1,850,157</b>	<b>1,493,801</b>	<b>1,895,135</b>	<b>381,847</b>	<b>46,099</b>	<b>1,469,439</b>	<b>7,136,478</b>

Management has interpolated short-term investments ratings as follows: AAA = R-1 (high); AA = R-1 (middle); A = R-1 (low); BBB = R-2 (high, middle, low); below BBB = R-3 (high, middle, low).

The total amounts outlined in the tables above represent the Company's maximum credit exposure based on a worst case scenario and do not take into account any collateral held or other credit enhancements attached to the assets.

In the normal course of property and casualty claims adjudication, the Company settles some long-term losses through the purchase of annuities under structured settlement arrangements (structured settlements) with life insurance companies. In addition, in the past, the Company provided certain post retirement benefits for a class of employees known as field underwriters for which the Company also acquired annuities from a life insurance company to fulfill the obligation. The Company funds such claims settlements and it generally has no recourse to the funds. This business is placed with several licensed Canadian companies. The net risk to the Company is the credit risk related to the life insurance companies the annuities are purchased from. This risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan that funds most policy liabilities of an insolvent Canadian life insurer. No default has occurred and the Company considers the possibility of default to be remote.

The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives securities of superior credit quality and value as collateral for securities loaned. At December 31, 2010, securities, which are included in invested assets, with an estimated fair value of \$621,092 (2009 - \$595,350) have been loaned. Securities with an

## Notes to the Consolidated Financial Statements

estimated fair value of \$652,752 (2009 - \$627,388) were received as collateral. The collateral received has not been recorded on the Company's consolidated balance sheet.

The Company is the assigned beneficiary of collateral consisting of cash, trust accounts and letters of credit totaling \$19,799 as at December 31, 2010 (2009 - \$27,979) as security from unlicensed reinsurers. This collateral is held in support of policy liabilities of \$14,212 as at December 31, 2010, (2009 - \$17,586) and could be used should these reinsurers be unable to meet their obligations.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risks: equity risk, foreign exchange risk and interest rate risk.

#### a) Equity risk

Equity risk arises whenever financial results are adversely affected by changes in the capital markets. One of the Company's exposures to market risk occurs when investment guarantees are offered, as is the case with segregated funds. Stocks have a fair value of \$1,105,409 (2009 - \$997,734) and comprise 15.4% (2009 - 15.0%) of the fair value of the Company's total invested assets.

An investment policy is in place and its application is monitored by the Board of Directors on a quarterly basis. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets. The life operation also ensures that there are adequate policy liabilities to cover the segregated fund guarantees, Individual Life Par liabilities, Universal Life liabilities, and Group Benefit liabilities.

The Company's stock portfolio is benchmarked to and is considered closely correlated with the following indices. A 1% movement in the indices with all other variables held constant would have the following estimated effect on the fair values of the Company's stock holdings.

Stock portfolio	Benchmarked index	2010		2009	
		AFS \$	HFT \$	AFS \$	HFT \$
Canadian common	S&P/TSX Composite Index	5,829	611	5,251	459
Canadian preferred	BMO CM 50 Preferred Index	3,166	-	2,885	-
US equities	S&P 500 Index (CDN \$)	1,022	110	952	89
Foreign equities	MSCI EAFE Index (CDN \$)	471	28	442	22

The above chart includes the Company's life and property and casualty operations. Other operations were not included as its stock portfolio is immaterial.

The cumulative change in fair value of a stock is recognized in net investment gains (losses) when the Company sells the stock, or when it is other than temporarily impaired. For AFS stocks that the Company holds at year-end, except for those that are other than temporarily impaired, the change in fair value during the year is recognized in OCI. For HFT stocks that the Company holds at year-end, the changes in fair value during the year is recognized in net investment gains and income.

#### b) Foreign exchange risk

Foreign exchange risk is the risk that the value of the foreign denominated financial instrument portfolio that is not offset by corresponding liabilities, will fluctuate as a result of changes in foreign exchange rates.

The majority of the Company's foreign exchange risk is related to its stock holdings. Policies limit investments in foreign denominated securities to a maximum value of 10% of invested assets. A 1% change in the value of the United States dollar would affect the fair value of the stocks by \$1,069 (2009 - \$924).

The Company mitigates a portion of its foreign exchange risk by buying or selling foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Forwards are transacted in over-the-counter markets. These foreign exchange forward contracts are included in invested assets under derivative contracts.

The counterparty risk of default for these derivative financial instruments is limited to their positive replacement cost, which is substantially lower than their notional amount. The replacement cost of over-the-counter derivative financial instruments is an estimate and is determined using valuation models that incorporate prevailing foreign exchange rates and prices on underlying instruments with similar maturities and characteristics. The replacement cost reflects the estimated amount that the Company would receive or might have to pay to terminate the contracts as at December 31, 2010. The counterparties are federally regulated financial institutions. As at December 31, 2010, the negative replacement cost of these derivative instruments was \$395 (2009 – \$193). The maturity date for the Company's contracts range from January to April, 2011. The contract rates range from \$1.005 to \$1.057.

The foreign exchange risk for the Company's investment management and other operations is not material.

### *c) Interest rate risk*

Interest rate risk is the potential for financial loss arising from changes in interest rates. One source of this risk arises when a company's asset cash flows do not coincide with the cash flows arising from the liabilities, as this may result in the need to either sell assets to meet policy payments and expenses or reinvest excess asset cash flows under unfavourable interest environments.

For the property and casualty operation, interest rate risk is managed with the use of historical data and current information that profiles the ultimate claims settlement pattern by class of insurance, which is then used to develop a Board approved and monitored investment policy and strategy. The policy and strategy is based upon prudence, regulatory guidelines and claims settlement patterns by product line. The policy provides conservative investment limits which balance our long term focus with market opportunities as they arise. This is achieved by investing in a diversified mix of securities and by shifting between asset classes as trends in capital markets develop.

Interest rate risk also causes income volatility as a result of the discounting of the unpaid claims and adjustment expenses on the projected market yield of the assets backing the claims liabilities. Changes in the value of the unpaid claims and adjustment expenses resulting from fluctuations in interest rates flow through claims and adjustment expenses in the consolidated statements of income. The corresponding change in asset values will either flow through the consolidated statement of income or through OCI based on the designation of assets held to settle future claims obligations. If the assets backing the liabilities are classified as AFS, the gains and losses due to interest rate fluctuations flow through OCI. If the assets backing the liabilities are designated under the fair value option as HFT, the gains and losses due to interest rate fluctuations flow through the consolidated statements of income.

To mitigate the impact of interest rate risk, the Company deployed an asset liability management (ALM) strategy in 2009 for the property and casualty operation. Being in its initial stages, the strategy is focused on one segment of the Company's unpaid claims and adjustment expenses and only applies to claims arising since 2009. The assets backing these liabilities are designated as HFT under the fair value option with the objective of offsetting the financial impact of interest rate changes and avoiding an accounting mismatch between the impact of interest rate changes on assets and liabilities in the consolidated statement of income.

For the P&C operation, at December 31, 2010, a 1% move in interest rates, a commonly accepted rate change in line with the most likely movement, with all other variables held constant, could impact the fair value of AFS bonds by \$137,422 (2009 - \$118,495) and HFT bonds by \$3,554 (2009 - \$1,876). A fair value change in AFS bonds would be included in OCI for the year, whereas changes in HFT bonds are recognized in net income. Larger rate changes would have a corresponding impact to net income and OCI.

For the life operation, asset and liability cash flows are subject to uncertainty for a number of reasons, including the presence of embedded features as well as the inherent variability of both assets and liabilities. The assets and liabilities of the life operation are segmented based on the nature of the products and the relative level of exposure to interest rate risk. The investment objective and interest rate risk limits for each portfolio of assets are intended to match the liability structure and specific needs of the products in that segment. Managing interest rate risk involves prudent management of both assets and liabilities in order to control the impact of changes in interest rates on the Company's financial results. Interest rate risk for life insurance liabilities is managed through the life operation's ALM function. The ALM policy is established by the ALM Committee and reviewed by the Board of Directors. The assets supporting surplus are managed on a total return basis.

For certain product types, including participating individual insurance and some forms of universal life and pension products, the effect of changes in the interest rate environment is at least partially passed through to the policyholders through changes in the

dividend scale or the rate of interest credited. However, the very long duration of the insurance liabilities still results in a mismatch in interest rate sensitivity with the assets. Asset strategies are selected to mitigate some of the exposure to interest rate risk. Annuities, individual non-participating life, group life, and group accident and sickness liabilities involve either contractual or otherwise guaranteed payments to policyholders. Therefore, these liabilities are also sensitive to changes in interest rates.

One measure of sensitivity to interest rate changes is the change in net present value of ALM assets and liabilities due to interest rate changes. Net present value equals the present value of asset cash flows less the present value of liability cash flows, determined using the interest rate in effect at the reporting date. The market yield based on Government of Canada yield curve is used for reporting purposes.

For the life operation, a 1% increase in interest rates, with all other variables held constant, could positively impact the net present value by \$25,073 (2009 - \$24,520). Conversely, a 1% decrease in interest rates, with all other variables held constant, could negatively impact the net present value by \$113,836 (2009 - \$80,264).

Interest rate risk for the Company's other operations is managed primarily with fixed interest rate investments and liabilities. This risk is not material to the Company.

**Liquidity risk**

Liquidity risk refers to the ability of the Company to access sufficient funds to meet financial commitments as they fall due. Liquidity risk varies by line of business based on contractual rights to make cash withdrawals and other distinct product features. The life operation's ALM process ensures it has adequate liquid assets to cover potential commitments. It is unlikely that all demand liabilities will be withdrawn at the same time and approximately 67% (2009 – 65%) of life policy liabilities are not cashable prior to maturity or are subject to market value adjustments. The Company has no material commitments for capital expenditures and there is normally no need for such expenditures in the normal course of business.

Claims payments are funded by current revenue cash flow which normally exceeds cash requirements. At December 31, 2010 the Company had \$91,394 (2009 - \$194,550) of cash and cash equivalents, and \$187,432 (2009 - \$140,044) of short-term investments. In addition, the Company had a combination of lines of credit and a liquid investment portfolio. Together, the bond portion of the portfolio, which consists primarily of Canadian fixed income securities issued or guaranteed by governments and investment grade corporate bonds, and publicly traded Canadian and U.S. equities, had a December 31, 2010 fair value of \$5,779,714 (2009 - \$5,333,897).

The Company's estimated maturities of its financial instruments, insurance contracts and other commitments are shown in the following table on an undiscounted basis. Financial liabilities and contractual commitments are presented based on their estimated contractual maturities. Unpaid claims and adjustment expenses, unearned premiums and agent transition commissions are presented based on expectations of the timing of future cash flows and/or the duration of the contract.

Contractual commitments are not reported on the consolidated balance sheet.

	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years	Total
2010	\$	\$	\$	\$	\$
Policy liabilities - life	237,960	170,957	139,306	5,197,409	5,745,632
Policy liabilities - property & casualty	2,120,706	801,171	394,188	261,619	3,577,684
Provision for agent transition commissions	12,515	24,915	12,262	78,085	127,777
Financial liabilities					
Premium, income and other taxes payable	64,649	-	-	-	64,649
Long term debt	850	152,093	4,021	161,237	318,201
Other payables and liabilities	388,530	811	660	20,049	410,050
Total financial liabilities	2,825,210	1,149,947	550,437	5,718,399	10,243,993
Contractual commitments					
Operating lease commitments	52,705	88,998	54,792	89,487	285,982
Mortgage funding	51,989	1,620	-	-	53,609
Total contractual commitments	104,694	90,618	54,792	89,487	339,591

	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years	Total
2009	\$	\$	\$	\$	\$
Policy liabilities - life	261,591	207,445	156,057	5,959,585	6,584,678
Policy liabilities - property & casualty	2,011,658	746,954	370,539	252,017	3,381,168
Provision for agent transition commissions	13,000	19,260	14,536	78,466	125,262
<b>Financial liabilities</b>					
Premium, income and other taxes payable	190,966	-	-	-	190,966
Long term debt	5,850	150,538	5,380	10,674	172,442
Other payables and liabilities	355,575	6,564	4,666	61,541	428,346
<b>Total financial liabilities</b>	<b>2,838,640</b>	<b>1,130,761</b>	<b>551,178</b>	<b>6,362,283</b>	<b>10,882,862</b>
<b>Contractual commitments</b>					
Operating lease commitments	43,766	68,606	39,459	71,499	223,330
Mortgage funding	23,771	650	-	-	24,421
<b>Total contractual commitments</b>	<b>67,537</b>	<b>69,256</b>	<b>39,459</b>	<b>71,499</b>	<b>247,751</b>

The mortgage funding commitments have interest rates ranging from 4.0% - 7.0%.

## 8. Policy liabilities

### a) Property and casualty operation

	2010			2009		
	Gross \$	Ceded \$	Net \$	Gross \$	Ceded \$	Net \$
Automobile - liability	824,515	15,070	809,445	797,202	30,237	766,965
Automobile - personal accident	512,651	15,406	497,245	482,244	26,868	455,376
Automobile - other	55,466	295	55,171	58,381	930	57,451
Property	334,180	47,379	286,801	315,805	54,433	261,372
Liability	418,782	53,378	365,404	415,204	64,426	350,778
Risk sharing pools	121,337	143	121,194	122,428	2,006	120,422
Other	45,337	21,991	23,346	52,880	28,349	24,531
Discounted provision	2,312,268	153,662	2,158,606	2,244,144	207,249	2,036,895
Unearned premiums	1,226,342	57,540	1,168,802	1,193,577	81,274	1,112,303
Provision for experience rated refunds	8,776	-	8,776	4,725	-	4,725
<b>Net discounted policy liabilities, property and casualty operation</b>	<b>3,547,386</b>	<b>211,202</b>	<b>3,336,184</b>	<b>3,442,446</b>	<b>288,523</b>	<b>3,153,923</b>

	2010 \$	2009 \$
Gross unpaid claims and adjustment expenses	2,421,449	2,335,514
Gross unearned premiums	1,226,342	1,193,577
Provision for experience rated refunds	8,776	4,725
<b>Policy liabilities, property and casualty operation</b>	<b>3,656,567</b>	<b>3,533,816</b>
Salvage and subrogation recoverable	(109,181)	(91,370)
Reinsurers share of policy liabilities	(211,202)	(288,523)
	<b>3,336,184</b>	<b>3,153,923</b>

Management estimates the amount of unpaid claims and the timing of future claims payments based on assumptions that reflect the expected set of economic conditions and planned courses of action. Uncertainty exists on reported claims in that all information may not be available at the reporting date. In addition, claims may not be reported to the Company immediately, therefore estimates are made as to the value of claims incurred but not yet reported, a value which may take years to finally determine.

## Notes to the Consolidated Financial Statements

The initial actuarial estimate of unpaid claims and adjustment expenses is an undiscounted amount. In order to determine the undiscounted liability, assumptions are developed considering the characteristics of the class of business, historical trends, the amount of data available on individual claims and any other pertinent factors. This estimate is then discounted to recognize the time value of money. The interest rate used to discount the liabilities for each of the operating companies ranges from 3.05% - 3.60% (2009 – 3.20% - 4.20%) based on each property and casualty company's projected rate of return on their respective investment portfolios.

The discounted unpaid claims and adjustment expenses incorporates assumptions concerning future investment income, projected cash flows, and appropriate provisions for adverse deviation (PFADs). As the estimates for unpaid claims are subject to measurement uncertainty and the variability could be material in the near term, the Company includes PFADs in its assumptions for claims development, reinsurance recoveries and future investment income. The incorporation of PFADs is in accordance with accepted actuarial practice in order to ensure that the actuarial liabilities are adequate to pay future benefits. The selected PFADs are within the ranges recommended by the Canadian Institute of Actuaries.

There is no material exposure to foreign exchange fluctuations on unpaid claims.

A 1% change in the discount rate would have an approximate impact of \$41,081 (2009 - \$38,935) on the value of unpaid claims and adjustment expenses and net income of \$28,828 (2009 - \$27,990).

### Claims development – discounted

As time passes the ultimate cost of the claims becomes more certain. This chart indicates the direction and degree of variation the most recent estimates have against the original estimates.

	2010	2009	2008
	\$	\$	\$
<b>Original estimates</b>			
Gross reserves	2,421,449	2,335,514	2,195,164
Less: reinsurance/salvage recoveries	262,843	298,619	231,086
Unpaid claims and adjustment expenses (net)	2,158,606	2,036,895	1,964,078
Add: investment income on unpaid claims		79,316	122,642
Less: net paid claims		663,041	891,585
Less: re-estimate of unpaid claims at December 31		1,253,419	774,983
Claims development - favourable		199,751	420,152
<b>Claims development - favourable</b>			
1st year		199,751	251,981
2nd year			168,171
		199,751	420,152

## b) Life operation

Life Operation	2010	2009
	\$	\$
Actuarial liabilities		
Individual insurance	671,277	586,955
Group insurance	424,412	436,572
Wealth management	817,297	804,138
Travel insurance	13,685	15,440
Credit Insurance	121,389	114,609
Total life actuarial liabilities	2,048,060	1,957,714
Policyholders' funds on deposit	133,321	126,900
Claims in course of settlement	23,673	22,835
Provision for unreported claims	24,766	28,382
Provision for policyholder dividends and experience rating refunds	40,310	47,509
Reinsurers' funds on deposit	363	277
Total life other policy liabilities	222,433	225,903
Policy liabilities, life operations	2,270,493	2,183,617

Policy liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on all policies in force. Policy liabilities are determined in accordance with Canadian generally accepted actuarial practices, based on standards established by the Canadian Institute of Actuaries. These standards prescribe the use of the CALM to determine policy liabilities.

Policy liabilities have been adjusted to incorporate the effect on future cash flows attributable to differences between statement and tax policy liabilities and asset valuations.

Assumptions used to calculate policy liabilities consist of two components - an "expected" or "best estimate" assumption and a margin for adverse deviation.

In the computation of life actuarial liabilities, "expected" assumptions covering the lifetime of the policies have been made for many variables including mortality, morbidity, investment returns, rate of policy lapsation, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in policy liabilities resulting from assumption revisions is recognized in income immediately.

Mortality and morbidity assumptions are based on a combination of company and industry experience. Assumptions for expenses and policy terminations are mainly derived from company experience studies.

The life operation maintains asset segments backing specific lines of business. Under the CALM, projections of future asset and liability cash flows under multiple interest rate scenarios are used to determine the policy liability for each segment, along with a reinvestment strategy consistent with the life operation's policy for that segment. A reduction is made to the asset cash flows to provide for future credit losses.

To recognize the uncertainty in establishing the expected assumptions, to allow for possible deterioration in experience and to provide greater comfort that policy liabilities are adequate to pay future benefits, a margin for adverse deviation is included in each assumption. With the passage of time, and resulting reduction in estimation risk, these margins are released into income. The life operation maintains margins within the standard range as prescribed by the Canadian Institute of Actuaries.

Changes in actuarial liabilities during the year were caused by the following business activities and changes in actuarial assumptions:

## Notes to the Consolidated Financial Statements

	Individual Insurance	Group Insurance	Wealth Management	Travel Insurance	Creditor Insurance	Total
2010	\$	\$	\$	\$	\$	\$
Actuarial liabilities - beginning of year	586,955	436,572	804,138	15,440	114,609	1,957,714
Normal changes						
a) new business	(46,977)	89,177	38,310	13,563	36,331	130,404
b) in-force	135,814	(92,292)	(26,252)	(15,318)	(28,845)	(26,893)
Changes in assumptions						
Mortality/morbidity	(10,692)	(12,139)	(3,903)	-	(712)	(27,446)
Investment returns	9,013	902	441	-	-	10,356
Expenses	(16,188)	5,181	3,746	-	174	(7,087)
Policy lapsation	13,624	-	1,122	-	(3)	14,743
Other	(272)	(239)	(305)	-	(165)	(981)
Other adjustments	-	(2,750)	-	-	-	(2,750)
Actuarial liabilities - end of year	671,277	424,412	817,297	13,685	121,389	2,048,060
2009	\$	\$	\$	\$	\$	\$
Actuarial liabilities - beginning of year	538,461	420,689	564,659	10,254	53,071	1,587,134
Normal changes						
a) new business	(37,394)	82,575	10,248	15,302	17,764	88,495
b) in-force	79,200	(96,898)	(14,842)	(10,116)	(17,988)	(60,644)
Changes in assumptions						
Mortality/morbidity	(7,841)	-	-	-	(233)	(8,074)
Investment returns	7,367	238	567	-	-	8,172
Expenses	(3,360)	1,615	668	-	(350)	(1,427)
Policy lapsation	856	-	867	-	199	1,922
Other	(99)	-	(945)	-	(487)	(1,531)
Increase due to acquisition of CUMIS	9,765	28,353	242,916	-	62,633	343,667
Actuarial liabilities - end of year	586,955	436,572	804,138	15,440	114,609	1,957,714

### 9. Reinsurance programs

Reinsurance has been used to reduce risk by limiting the Company's exposure to costs from individual claims and from events involving multiple insureds.

With respect to the property and casualty operation, reinsurance has been purchased which limits the liability of the Company to a maximum amount for property coverage of \$5,500 (2009 – \$5,500), general liability of \$2,200 (2009 – \$2,200), automobile of \$5,000 (2009 - \$5,000) and Fidelity and Director's Liability in excess of \$3,000 (2009 - \$1,500). The Company has also obtained catastrophe reinsurance which covers the Company's liability in the event of a series of claims between \$35,000 and \$800,000 (2009 - \$35,000 and \$500,000) arising out of a single catastrophe.

The life operation reinsures most individual insurance amounts in excess of \$500 per life (2009 - \$500), group insurance amounts in excess of \$325 per life (2009 - \$325) and all monthly income amounts in excess of two thousand five hundred dollars per month for non-experience rated group long-term disability business. For certain individual life products, the Company retains less than \$500 per life (2009 - \$500). Travel insurance claim amounts in excess of \$200 per individual (2009 - 200) are reinsured. In addition, net death claims in excess of \$7,000 (2009 - \$7,000), or travel insurance claims in excess of \$500 (2009 - \$500), resulting from a loss occurrence involving multiple lives are reinsured.

Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the Company remains primarily liable to the beneficiaries on these policies.

## 10. Income taxes

### a) Reconciliation to statutory income tax rate

Differences in the effective income tax rate reflected in the consolidated statement of income and the corporate income tax rate are as follows:

	2010 \$	2009 \$
Income before income taxes	150,641	116,774
Combined basic Canadian federal and provincial income tax rate	30%	32%
Income taxes at statutory rates	45,192	37,368
Non taxable investment income	(8,869)	(9,205)
Change in future tax rates	3,154	3,191
Other	(4,721)	5,626
Income taxes	34,756	36,980
The income tax provision comprises the following:		
Current	48,353	48,700
Future	(13,597)	(11,720)
Income taxes	34,756	36,980
Effective rate of tax	23%	32%

### b) Components of future income tax balances

	2010		2009	
	Asset \$	Liability \$	Asset \$	Liability \$
Bonds and mortgages	79	17,154	(4,898)	21,965
Stocks	1,120	-	(126)	-
Real estate	12,732	-	14,974	2,472
Other assets	6,906	52,766	3,977	50,488
Unpaid claims and adjustment expenses	31,824	-	27,426	(5,629)
Other liabilities	15,463	3,889	15,408	6,447
Employee future benefits	23,835	-	13,041	(10,561)
	91,959	73,809	69,802	65,182

### c) Income taxes included in OCI

OCI included on the consolidated statements of comprehensive income (loss) is presented net of income taxes. The following income tax amounts are included in each component of OCI:

	2010 \$	2009 \$
Unrealized gains (losses) on AFS assets		
Bonds	19,615	24,827
Stocks	27,259	64,261
Other	(171)	405
	46,703	89,493
Reclassification to net income for AFS assets		
Bonds	(11,876)	(16,234)
Stocks	1,831	21,552
	(10,045)	5,318
Total income taxes expense	36,658	94,811

**d) Non-capital loss carryforwards**

The Company has non-capital loss carryforwards of \$42,503 (2009 - \$52,669) of which a future income tax asset of \$11,543 (2009 - \$15,800) has been recorded. The future income tax asset has been recorded in other assets in the above table. The non-capital loss carryforwards expire as follows:

	\$
2015	44
2023	8
2025	268
2026	3,501
2027	550
2028	10,462
2029	1,875
2030	25,795

**11. Goodwill and intangible assets**

	Indefinite life intangibles			Finite life intangibles			Total \$
	Goodwill \$	Brands \$	Licenses \$	Computer Software \$	Customer Relationships \$	Non Compete Agreements \$	
<b>Cost</b>							
January 1, 2009	187,135	17,700	1,723	11,629	183,365	3,900	405,452
Additions	2,090	-	30	8,325	174	-	10,619
Acquisitions of subsidiaries	94,915	4,800	17,045	819	71,533	-	189,112
Disposals	-	-	(3,395)	-	-	-	(3,395)
December 31, 2009	284,140	22,500	15,403	20,773	255,072	3,900	601,788
Additions	1,486	-	-	12,667	-	-	14,153
Disposals	(2,090)	-	-	(15)	(16)	-	(2,121)
<b>December 31, 2010</b>	<b>283,536</b>	<b>22,500</b>	<b>15,403</b>	<b>33,425</b>	<b>255,056</b>	<b>3,900</b>	<b>613,820</b>
<b>Accumulated amortization and impairment</b>							
January 1, 2009	-	-	-	889	10,504	901	12,294
Amortization	-	-	-	3,311	15,942	1,300	20,553
Disposals	-	-	-	-	-	-	-
Impairment	15,693	-	-	-	-	-	15,693
December 31, 2009	15,693	-	-	4,200	26,446	2,201	48,540
Amortization	-	-	-	4,695	22,098	1,300	28,093
Disposals	2,090	-	-	15	16	-	2,121
<b>December 31, 2010</b>	<b>17,783</b>	<b>-</b>	<b>-</b>	<b>8,910</b>	<b>48,560</b>	<b>3,501</b>	<b>78,754</b>
<b>Net carrying value</b>							
January 1, 2009	187,135	17,700	1,723	10,740	172,861	2,999	393,158
December 31, 2009	268,447	22,500	15,403	16,573	228,626	1,699	553,248
<b>December 31, 2010</b>	<b>265,753</b>	<b>22,500</b>	<b>15,403</b>	<b>24,515</b>	<b>206,496</b>	<b>399</b>	<b>535,066</b>

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually.

## 12. Other assets

	2010 \$	2009 \$
Property and equipment	36,487	40,264
Prepaid assets	10,671	7,632
Other	19,533	33,121
	<b>66,691</b>	<b>81,017</b>

Details of property and equipment are as noted below.

	Computer equipment \$	Furniture and equipment \$	Buildings \$	Land \$	Leasehold improvements \$	Leasehold projects in progress \$	Total \$
<b>Cost</b>							
January 1, 2009	35,609	44,444	357	119	27,911	6,221	114,661
Additions	1,160	3,913	-	-	5,021	5,306	15,400
Disposals	(2,727)	(2,962)	-	-	(2,682)	-	(8,371)
Acquisition of subsidiaries	1,448	1,385	-	-	664	-	3,497
Transfers	-	2,214	-	-	8,801	(11,029)	(14)
December 31, 2009	35,490	48,994	357	119	39,715	498	125,173
Additions	1,680	2,222	-	-	1,579	2,219	7,700
Disposals	(738)	(2,457)	-	-	-	-	(3,195)
Transfers	-	-	-	-	718	(718)	-
<b>December 31, 2010</b>	<b>36,432</b>	<b>48,759</b>	<b>357</b>	<b>119</b>	<b>42,012</b>	<b>1,999</b>	<b>129,678</b>
<b>Accumulated amortization</b>							
January 1, 2009	33,432	34,214	204	-	15,372	-	83,222
Amortization	1,286	2,747	9	-	4,275	-	8,317
Disposals	(2,639)	(2,736)	-	-	(2,654)	-	(8,029)
Acquisition of subsidiaries	530	517	-	-	352	-	1,399
December 31, 2009	32,609	34,742	213	-	17,345	-	84,909
Amortization	1,677	2,749	9	-	6,447	-	10,882
Disposals	(721)	(1,879)	-	-	-	-	(2,600)
<b>December 31, 2010</b>	<b>33,565</b>	<b>35,612</b>	<b>222</b>	<b>-</b>	<b>23,792</b>	<b>-</b>	<b>93,191</b>
<b>Net carrying value</b>							
January 1, 2009	2,177	10,230	153	119	12,539	6,221	31,439
December 31, 2009	2,881	14,252	144	119	22,370	498	40,264
<b>December 31, 2010</b>	<b>2,867</b>	<b>13,147</b>	<b>135</b>	<b>119</b>	<b>18,220</b>	<b>1,999</b>	<b>36,487</b>

## 13. Short-term indebtedness

The Company has arranged credit facilities of \$61,815 (2009 - \$62,815). Interest rates range from bank prime less 0.25% to bank prime plus 0.50%. These facilities are secured by portfolio securities and shares of one of the subsidiaries. The Company has utilized \$nil (2009 - \$nil) at the balance sheet date.

Short-term indebtedness of \$33,200 (2009 - \$16,030), which includes payments in transit and security settlements, is presented on the balance sheet within accounts payable and accrued charges.

## 14. Loans payable and subordinated debt

	2010	2009
	\$	\$
<b>Loans payable</b>		
Savings certificates bearing interest at rates varying from 3% to 6% secured partially by the Company's investment in a subsidiary company, maturing in 2011.	850	850
Term certificates with interest paid semi-annually, bearing interest set annually based upon the government one year treasury bill rate plus 1.1%, having maturities ranging from 2011 to 2016.	6,900	11,900
Class D preference shares, automatically redeemable in 5 years from the issue date for par (\$100) or equivalent value of a new series of Class D shares (note 16).	6,006	4,393
Term loan with blended monthly payments of interest and principal, with interest set based upon the credit union prime rate plus 1%, maturing in 2014.	-	1,913
	<b>13,756</b>	<b>19,056</b>

	2010	2009
	\$	\$
<b>Subordinated debt</b>		
Senior unsecured debentures bearing interest at 5.07%, with maturity date of July 21, 2012. Interest payable semi-annually in arrears on the 20th of January and July. The debentures rank equally with all of the Company's other senior unsecured obligations	149,758	149,612
Senior unsecured debentures bearing interest at 5.78% with maturity date of March 10, 2020. Interest payable semi-annually in arrears on the 20th of September and March. The debentures rank equally with all of the Company's other senior unsecured obligations.	149,067	-
Subordinated debt with various savings and credit unions, non interest bearing with maturities ranging from September 2020 to March 2021.	5,620	3,774
	<b>304,445</b>	<b>153,386</b>

The fair value of the senior unsecured debentures maturing in 2012 is \$153,630 (2009 - \$152,565). The fair value of the senior unsecured debentures maturing in 2020 is \$150,435 (2009 - n/a). For the remainder of the loans payable and subordinated debt, the carrying amount is considered to be a reasonable approximation of fair value.

Principal repayments of loans payable and subordinated debt due in the next five years and thereafter are as follows:

	\$
2011	850
2012	149,758
2013	2,335
2014	2,057
2015	1,964
Thereafter	161,237
<b>Total</b>	<b>318,201</b>

## 15. Employee future benefits

The Company sponsors a number of defined benefit pension plans and other retirement plans. Actuarial valuations of the plans are prepared periodically for accounting purposes. The measurement date used for financial reporting purposes is December 31. The plan information below relates to various plans of the Company.

	2010	2009
	\$	\$
Other benefit plans - The Co-operators Group Limited	56,436	52,777
Other benefit plans - The CUMIS Group Ltd.	17,933	17,163
Pension Plan Benefits - The Co-operators Group Limited	12,968	10,360
Pension Plan Benefits - The CUMIS Group Ltd.	9,045	11,644
<b>Balance at end of year</b>	<b>96,382</b>	<b>91,944</b>
Employee future benefit liability	97,090	92,726
Accrued benefit asset	(708)	(782)
	<b>96,382</b>	<b>91,944</b>

The accrued benefit liability for The CUMIS Group Ltd. is determined as the difference between the fair value of the plan assets and the accrued benefit obligation. The plan assets for this pension plan is \$69,955 (2009 - \$63,185) and the accrued benefit obligation is \$79,856 (2009 - \$74,829). The pension plan of The Co-operators Group Limited as well as the other benefit plans are not funded.

	Pension plans		Other benefit plans	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Change in fair value of plan assets</b>				
Fair value of plan assets, beginning of year	63,185	-	-	-
Acquisition of CUMIS	-	63,185	-	-
Actual return on plan assets	5,561	-	-	-
Company contributions	5,110	-	-	-
Benefits paid	(3,901)	-	-	-
Fair value of plan assets, end of year	69,955	63,185	-	-
<b>Change in accrued benefit obligation</b>				
Accrued benefit obligation, beginning of year	90,582	12,730	74,148	48,210
Adjustment due to valuation	1,623	-	2,715	-
Acquisition of CUMIS	-	74,829	-	17,163
Recognition of past service cost	-	-	415	-
Current service cost	3,510	628	1,809	1,306
Interest on accrued benefits	5,328	990	4,988	3,610
Actuarial loss	5,163	1,606	11,441	6,634
Benefits paid	(4,113)	(201)	(3,430)	(2,775)
Accrued benefit obligation, end of year	102,093	90,582	92,086	74,148
<b>Funded status</b>				
Excess of benefit obligation over plan assets	(32,138)	(27,397)	(92,086)	(74,148)
Unamortized net actuarial (gain) loss - prior years	6,420	1,131	18,480	6,038
Unamortized past service cost	3,705	4,262	(816)	(1,907)
Unamortized transitional obligation - prior years	-	-	53	77
Accrued benefit liability	(22,013)	(22,004)	(74,369)	(69,940)
<b>Elements of defined benefit cost recognized in the year</b>				
Current service cost	3,510	628	1,809	1,306
Interest on accrued benefits	5,328	990	4,988	3,610
Recognition of past service cost	-	-	415	-
Actual return on plan assets	(5,561)	-	-	-
Actuarial loss	7,591	1,606	14,156	6,634
Elements of defined benefit costs before adjustment recognized	10,868	3,224	21,368	11,550
Experience loss during the year	(7,381)	(1,652)	(12,442)	(5,793)
Past service costs (amortized vs actual in year)	557	557	(1,090)	(691)
Difference between expected and actual return on plan assets	1,288	-	-	-
Transitional obligation amortization	-	-	22	(462)
Other adjustments	(45)	-	-	(9)
Defined benefit costs recognized	5,287	2,129	7,858	4,595

## Notes to the Consolidated Financial Statements

Significant actuarial assumptions used in the measurement of the Company's benefit obligation and expenses are:

	Pension plans		Other benefit plans	
	2010	2009	2010	2009
<b>Fair value of plan assets</b>				
Expected long-term rate of return on plan assets	3.50%-7.00%	3.50%-7.00%	N/A	N/A
<b>Accrued benefit obligation as of December 31</b>				
Discount rate	5.25% - 5.75%	5.50% - 6.75%	5.25% - 5.75%	5.50% - 6.75%
Assumed rate of salary escalation	3.50% - 4.00%	3.50% - 4.00%	4.00%*	4.00%*
Inflation	3.00%*	3.00%*	N/A	N/A
<b>Benefit costs during the year</b>				
Discount rate	5.50% - 6.75%	7.50%	5.50% - 6.75%	7.50%
Assumed rate of salary escalation	3.50% - 4.00%	3.50%	4.00%*	4.00%*
Inflation	3.00%*	3.00%*	N/A	N/A
<b>Assumed medical care cost trend rates at December 31:</b>				
Initial medical care cost trend rate	N/A	N/A	9.00% - 9.50%	5.50% - 7.00%
Commencing in year	N/A	N/A	2011	2010
Cost trend rate declines to	N/A	N/A	4.50% - 5.00%	4.50% - 5.00%
Year that the rate reaches the rate it is assumed to remain at	N/A	N/A	2016 - 2018	2011

\* This assumption is not utilized in the valuation of all plans

Measurement uncertainty exists in valuing the components of employee future benefits. Each assumption is determined by management based on current market conditions and experiential information available at the time, however, the long term nature of the exposure and future fluctuations in the actual results makes the valuation uncertain.

Assumed medical and dental cost trend rates have a significant effect on the amounts reported for the other benefit plans. A 1% change in assumed medical and dental benefit cost trend rates would have the following effects for 2010:

Other benefit plans	Increase		Decrease	
	\$	%	\$	%
Total of service and interest cost	1,255	18.5	(1,007)	(14.9)
Accrued benefit obligation	14,146	15.5	(11,806)	(12.9)

## 16. Share Capital

The number of shares and par values are not in thousands.

### Authorized

200,000	Membership shares; non-cumulative; dividends may not be paid as long as there are issued and outstanding investment shares (including Class A, B, C, or D); annual dividends shall not exceed 10% of the par value' transfer of shares subject to Board of Directors' approval with consideration not to exceed par value (\$0.10)
219,800	Class A preference shares; issuable in series
300,000	Class B preference shares; issuable in series
280,000	Class C preference shares; issuable in series
Unlimited	Class D preference shares; issued in series; rank junior to Class A, B and C preference shares and equal to the Member Participation Shares Class A, B, C and D preference shares, non-cumulative, dividend to be determined by the Board of Directors' redeemable at an amount per share equal to the sum obtained when the amount in the stated capital account for the Preference shares of the particular class or series is divided by the number of issued and outstanding preference shares of the same particular class or series, together with all accrued and unpaid cumulative dividends thereon (which for such purpose shall be calculated as if the dividends on the Preference shares being redeemed were accruing up to the date of redemption) or declared and unpaid non-cumulative dividends thereon ("Redemption Amount"), as applicable at the discretion of the Board of Directors; the Company may redeem or purchase at any time, at its option, all or part of the shares at the par value.
Unlimited	Member Participation Shares (MPS); non-cumulative; dividend to be determined by the Board of Directors but not to exceed 6% of the amount equal to the sum obtained when the amount in the stated capital account for the MPS is divided by the number of issued and outstanding MPS; rank after all preference shares; non-transferrable except at the discretion of the Board of Directors. Redemption at the amount in the stated capital account for the MPS is divided by the number of issued and outstanding MPS, together with all declared and unpaid dividends thereon, requires approval of the Board of Directors; intention to phase out these shares, with shares being redeemable at the Participation Amount for cash or equivalent value in Class D preference shares.

### Issued

	2010		2009	
	Number of shares	Amount \$	Number of shares	Amount \$
Membership shares	86,520	9	86,520	9
Class B, Series A non-cumulative and redeemable preference shares	66,665	6,667	66,665	6,667
Class B, Series C non-cumulative and redeemable preference shares	20,721	2,072	20,721	2,072
Class B, Series D non-cumulative and redeemable preference shares	20,000	2,000	20,000	2,000
Class C, Series A non-cumulative preference shares; base dividend of 6% of Redemption Amount (not including any declared and unpaid dividends) and participating dividend up to 5% of Redemption Amount (not including any declared and unpaid dividends) to be determined annually by the Board of Directors; not redeemable for 10 years	86,500	8,650	86,500	8,650
Class C, Series B non-cumulative preference shares; base dividend of 6% of Redemption Amount (not including any declared and unpaid dividends) and participating dividend up to 5% of Redemption Amount (not including any declared and unpaid dividends) to be determined annually by the Board of Directors; not redeemable for 10 years.	84,000	8,400	84,000	8,400
Member participation shares (MPS)	52,038	5,204	104,087	10,409
		33,002		38,207

	2010		2009	
	Number of shares	Amount \$	Number of shares	Amount \$
<b>Share redemptions during the period</b>				
Member participation shares (MPS)	52,049	5,205	52,054	5,205
<b>Shares issued during the period</b>				
Membership shares	-	-	1	-

Dividends	2010		2009	
	Declared	Paid	Declared	Paid
Class B, Series A	334	334	-	-
Class B, Series D	60	60	60	60
Class C, Series A	519	519	519	519
Class C, Series B	504	504	504	504
Membership participation shares (MPS)	520	520	781	781
	<b>1,937</b>	<b>1,937</b>	1,864	1,864

During 2010, the Board of Directors voted to redeem 25% MPS shares in the year. Shares are redeemable at par value for either cash consideration or the equivalent par value of Class D preferred shares. During the year, 52,049 MPS shares were redeemed (2009 - 52,054), 38,176 for cash consideration of \$3,818 (2009 - 35,985, \$3,595) and 13,873 for Class D Preferred shares valued at \$1,387 (2009 - 16,069, \$1,610). In addition, during 2010 2,257 Class D preference shares were issued for cash consideration of \$225 (2009 - 4,504, \$450).

60,057 Class D preference shares have been classified as long-term debt (2009 - 43,927) (note 14).

The Company's subsidiary, Co-operators General Insurance Company has designated \$9,308 (2009 - \$9,442) of retained earnings for premium payable on redemption of preference shares.

## 17. Capital management

The Company views capital as a scarce and strategic resource. This resource reflects the financial well being of the organization, but is also critical in enabling the Company to pursue strategic business opportunities. Adequate capital also acts as a safeguard against possible unexpected losses and as a basis for confidence in the Company by shareholders, policyholders, creditors and others.

The Company has a Board of Directors approved Capital Management Policy. The purpose of this policy is to protect and evaluate the allocation of capital as a scarce and strategic resource, maximize the return on invested capital, and to plan ahead for future capital needs.

### a) Property and casualty operation

The property and casualty operation utilizes reinsurance to protect its capital from catastrophic loss arising from perils such as earthquake, tornado, wind or hail. The incidence and severity of catastrophic losses are inherently unpredictable. To limit the potential impact, reinsurance is purchased which will reimburse the Company for claims from a single catastrophe over \$35,000 to a maximum of \$800,000. The property and casualty operation's exposure of a single retained amount of \$35,000 represents approximately 3% of its capital. The appointed actuary prepares the Dynamic Capital Adequacy Testing analysis on an annual basis which projects and analyzes trends of capital adequacy under a variety of plausible adverse scenarios. For the purpose of capital management, the Company has defined capital as shareholders' equity excluding AOCI.

There were no significant changes made in the property and casualty operation's capital management objectives, policies and procedures during the year.

OSFI measures the financial strength of property and casualty insurers using a Minimum Capital Test (MCT). This test compares a company's capital, including AOCI, against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities, structured settlements, letters of credit, derivatives, unlicensed reinsurance and other exposures, by applying varying factors. As at December 31, 2010, the property and casualty company's exceeded minimum requirements for the MCT.

### b) Life operation

The Life Management Group administers the Capital Management Policy for the life operation. Strategies for the assets backing surplus are managed and monitored by the Surplus Management Committee. Capital is also monitored by the Capital Management Committee. Reinsurance and ALM programs are examples of practices the life operation uses to reduce its capital management risk. For the purpose of capital management, the life operation has defined capital as the participating policyholders' account and shareholders' equity, excluding AOCI.

OSFI measures the financial strength of life insurance companies using the minimum continuing capital and surplus requirement (MCCSR). The MCCSR guideline describes the capital required, using a risk-based formula, and defines the capital that is available to meet the minimum standard.

A life insurer's minimum capital requirement is determined as the sum of the capital requirements for each of five risk components (asset default, mortality/morbidity/lapse, changes in interest rate environment, segregated funds and foreign exchange).

Capital available is comprised of two tiers, tier 1 (core capital) and tier 2 (supplementary capital), consisting mainly of financial statement capital, including AOCI and qualifying non-controlling interests in subsidiaries. Capital available involves certain deductions including goodwill, intangible assets, negative reserves and investments in non-life financial corporations, and is subject to limits and restrictions.

As at December 31, 2010, the life operation was in compliance with OSFI minimum requirements as well as internal targets.

There were no significant changes made in the life operation's capital management objectives, policies and procedures during the year.

### **c) Other operations**

The other operations' Capital Management Policies are also administered by the Capital Management Committee. The other operations are not exposed to any external capital requirements imposed on them by a regulatory body.

CFSL is a holding company with minimal capital requirements. The capital of the Company is mainly attributable to each of its operating companies and it is managed at that level.

Addenda is an investment company which manages its capital to provide shareholder value while meeting its financial obligations and internal targets. For purposes of capital management, Addenda defines capital as shareholders' equity, excluding AOCI.

## **18. Statement of cash flows**

### **a) Other non cash items**

	2010	2009
	\$	\$
<b>Items not requiring the use of cash</b>		
Gains from investing activities	<b>(53,923)</b>	(29,905)
Foreign exchange losses	<b>684</b>	-
Impairment of goodwill	-	15,693
Investment losses	<b>15,504</b>	36,041
Change in unrealized gains on HFT invested assets	<b>(82,203)</b>	(34,483)
Amortization and depreciation of:		
Bond discount	<b>(14,311)</b>	(15,674)
Discount on subordinated debt	<b>304</b>	139
Mortgage deferred revenue accretion	<b>507</b>	588
Intangible assets	<b>32,335</b>	20,553
Real estate	<b>90</b>	87
Property and equipment	<b>10,692</b>	8,487
Employee future benefits	<b>4,364</b>	(7,897)
Future income taxes	<b>(12,463)</b>	(13,543)
Non-controlling interest	<b>(4,010)</b>	(704)
Other	-	1
	<b>(102,430)</b>	(20,617)

## Notes to the Consolidated Financial Statements

	2010	2009
	\$	\$
<b>Changes in non-cash operating components</b>		
Increase in policy liabilities	269,137	105,427
Premiums due	(36,138)	(45,713)
Deferred acquisition expenses	(12,112)	(12,571)
Accounts receivable and other	(17,580)	300,547
Deferred investment gains	(4,116)	(4,114)
Accounts payable and accrued charges	(137,056)	(166,269)
	<b>62,135</b>	<b>177,307</b>

### b) Investing activities

The investing activities included in the statement of cash flow are comprised of the following:

2010	Advances and purchases \$	Sales and redemptions \$	Premium amortization \$	Net \$
Bonds	(5,997,742)	5,772,313	48,115	(177,314)
Mortgages	(172,382)	137,289	199	(34,894)
Stocks	(340,775)	325,012	-	(15,763)
Short-term investments	(1,336,353)	1,285,795	-	(50,558)
Real estate	(734)	2,403	-	1,669
Policy loans	(9,058)	7,374	-	(1,684)
Other investments	(4,766)	5,306	-	540
	<b>(7,861,810)</b>	<b>7,535,492</b>	<b>48,314</b>	<b>(278,004)</b>

2009	Advances and purchases \$	Sales and redemptions \$	Premium amortization \$	Net \$
Bonds	(4,405,623)	4,134,504	16,655	(254,464)
Mortgages	(133,479)	130,438	222	(2,819)
Stocks	(396,991)	452,626	-	55,635
Short-term investments	(1,767,681)	1,809,311	-	41,630
Real estate	(1,033)	3,843	-	2,810
Policy loans	(8,756)	6,901	-	(1,855)
Other investments	(5,620)	6,448	-	828
	<b>(6,719,183)</b>	<b>6,544,070</b>	<b>16,877</b>	<b>(158,235)</b>

### c) Supplemental information

	2010	2009
	\$	\$
Interest and dividends received	377,898	357,738
Interest paid	20,495	13,430
Income taxes paid (recovered)	190,833	(84,652)

## 19. Supplemental expense information

Included within general expenses and policyholder benefits and adjustment expenses are the following:

	2010	2009
	\$	\$
Compensation cost	476,721	398,055
Employee future benefits	13,150	6,718
Amortization expense	59,835	31,080
Interest expense	16,400	9,468

## 20. Segregated funds

The Company manages assets held in segregated accounts under contract whereby the benefit amount is directly linked to the market value of the investments held in the particular segregated account. The Company has a liability to unitholders equal to the amount of total assets valued at market. The Company earns fee income for the administration of segregated accounts. These assets and the corresponding liabilities are not reflected in these financial statements. The following is a summary of the change in the assets held in these accounts during the year.

	2010 \$	2009 \$
Assets at market, beginning of year	1,509,160	1,239,188
Amounts received from unitholders	204,798	125,972
Interest	18,222	20,660
Dividends	21,570	13,202
Other income	17,687	25,778
Net realized gains (losses)	16,724	(10,417)
Market value appreciation	99,668	138,976
Operating expenses	(18,867)	(13,964)
Amounts surrendered/withdrawn by unitholders	(147,467)	(223,851)
Administrator contribution	-	254
Segregated funds acquired through business combinations (note 5)	-	193,362
Assets at market, end of year	1,721,495	1,509,160

## 21. Segmented information

Managerial and financial reporting to the Company's senior officer normally gives emphasis to the property and casualty operation, the life insurance operation, the investment management operation and then any other activities. There is a chief operating officer for each major segment who is responsible for meeting independent strategic initiatives within the group of companies. Each segment has distinctive product, delivery, market or regulatory factors requiring separate reporting.

2010	Life operation \$	Property and casualty operation \$	Investment management operation \$	Other operations \$	Consolidation entries \$	Consolidated \$
Net premium	810,941	2,176,322	-	-	(6,232)	2,981,031
Net investment gains and income	205,339	187,451	209	48,701	(40,697)	401,003
Fees and other income	77,481	290	43,477	104,614	(96,051)	129,811
Total revenue	1,093,761	2,364,063	43,686	153,315	(142,980)	3,511,845
Net income	36,435	86,030	891	35,257	(42,800)	115,813
Assets	3,345,762	5,477,478	336,855	739,863	(432,455)	9,467,503
Equity	785,925	1,434,391	282,789	325,420	(369,202)	2,459,323

2009	Life operation \$	Property and casualty operation \$	Investment management operation \$	Other operations \$	Consolidation entries \$	Consolidated \$
Net premium	631,608	2,037,791	-	-	(6,235)	2,663,164
Net investment gains and income	127,644	164,632	289	66,953	(61,288)	298,230
Fees and other income	17,462	-	44,810	94,440	(80,571)	76,141
Total revenue	776,714	2,202,423	45,099	161,393	(148,094)	3,037,535
Net income	33,696	74,010	(19,413)	54,736	(64,191)	78,838
Assets	3,243,225	5,337,668	354,916	598,263	(524,682)	9,009,390
Equity	751,635	1,294,422	295,045	333,564	(385,963)	2,288,703

Other operations includes a net loss of \$72 (2009 - \$956) and assets of \$7,844 (2009 - \$7,673) relating to discontinued operations (note 25).

**Geographic information**

The Company operates exclusively in Canada, writing business in all provinces and territories.

**22. Co-ownerships**

Through the acquisition of CUMIS, the Company acquired interests in two joint ventures that CUMIS held for the purpose of developing breadth of financial products and services to the credit union market. Through its jointly controlled companies, Credential Financial Inc. (CFI) and CUIS Brokerage Services Limited (CBSL) prior to its dissolution, CUMIS provides wealth management and insurance brokerage services to credit unions and their members. CFI has a year-end of September 30, 2010. Results for CFI have been consolidated as of that time. No events have occurred in the intervening period that would significantly affect the financial position or results of operation of the Company.

The Company is also involved in a number of real estate co-ownerships with varying partners and interests.

The major components of the Company's interests in co-ownerships are as follows:

	2010	2009
	\$	\$
Assets	144,719	131,129
Liabilities	139,571	124,176
Revenue	58,425	493
Expenses	58,293	502
Net income	133	(9)
Cash flow - operating activities	1,868	(1,241)
Cash flow - investing activities	1,592	(53)
Cash flow - financing activities	(2,763)	(5,706)

**23. Contingencies, commitments and guarantees**

The Company is subject to litigation arising in the normal course of conducting its insurance business.

In addition, the Company is from time to time subject to litigation other than the litigation relating to claims under its policies. As at December 31, 2010, it is not expected that the total contingent liabilities from all of such actions will have a material adverse effect on the consolidated financial position of the Company.

The Company provides indemnification agreements for directors, to the extent permitted by law, against certain claims made against them as a result of their services to the company. The Company purchases directors and officers insurance to mitigate the potential financial impact associated with these commitments. The limits of insurance purchased are compared to Canadian benchmarks obtained from the Financial Institution practice of the Company's broker and other industry sources. They are consistent with limits purchased by organizations of similar size and are in amounts management feels to be adequate and reasonable.

The Company has provided an indemnity to the Trustees of The Co-operators Retirement Plan against all actions, costs, charges, losses, damages and expenses which they may incur by reason of any act done in the execution of their duties. A \$10,000 Fiduciary Liability insurance policy covering the Trustees is in place.

The Company leases the majority of its office space and certain equipment used in the normal course of business under operating leases. Lease terms are generally 5 years for equipment and 10 to 15 years for office space. Tenant improvement allowances are deferred and amortized into the consolidated statement of income on a straight-line basis over the term of the related lease. The maturities of these commitments are included in note 7.

The Company has entered into indemnity agreements which guarantee the payment of all rent and other charges payable by the Company's subsidiaries in their respective occupancy leases for a period of 15 years. The maximum potential amount of future payments is unknown, however, the full amount of the rent for the guaranteed period is \$99,990 (2009 - \$107,016).

The Company has guarantees outstanding with financial institutions which secure construction loans and mortgages in the event of default by joint ventures. The maximum amount of all guarantees is \$1,600 (2009 - \$1,600), the maximum single guarantee is

\$1,000 (2009 - \$1,000). In the event of default, the Company would assume control of the property. The estimated market value of each individual property, net of loans and mortgages, exceeds the amount of the guarantee. The amount of all guarantees exposed at December 31, 2010 is \$1,000 (2009 - \$1,000).

## 24. Rate regulated entities

Automobile insurance is regulated as to the nature and extent of benefits in all provinces and the establishment of premium rates in the provinces of Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. The Company's access to write automobile insurance is limited and regulated in those provinces with publicly-run automobile insurance programs.

Companies are required to submit a request or filing with each province's respective rating authorities and wait for approval prior to implementing any changes to their rates. The filing requirements can vary by province with regards to the data to be submitted, the process for dealing with disputes and the waiting period for receiving approval.

The Company's claims costs are influenced by governments to the extent they pass legislation or regulations that change the nature and extent of benefits and other requirements that impact claims costs and the settlement process. Over the past decade, significant legislative changes have been introduced in a number of provinces to address the rising cost of claims, particularly those related to pain and suffering benefits arising from minor injuries. When appropriate, the Company has reduced premiums to reflect the anticipated and actual savings.

There were no material adverse automobile legislative or regulatory changes affecting 2010 or 2009.

## 25. Discontinued operations

During 2008, the Company adopted a formal plan of disposition related to the real estate holdings of Co-operators Development Corporation Limited (CDCL). CDCL sold the majority of its real estate in 2008 and discontinued operations as of December 31, 2008. CDCL's real estate consisted of office buildings and commercial and retail properties across Canada. The results of these operations have been classified as a discontinued operation. The classification of the real estate company as a discontinued operation decreased earnings from continuing operations by \$72 for the year ended December 31, 2010 (2009 - \$956).

The assets and liabilities of discontinued operations are summarized as follows:

	2010	2009
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	5,681	5,075
Invested assets	1,640	1,482
Future income taxes	129	129
Income taxes recoverable	8	157
Other assets	386	830
<b>Total assets</b>	<b>7,844</b>	<b>7,673</b>
<b>Liabilities</b>		
Accounts payable	627	382
Long term debt	982	982
<b>Total liabilities</b>	<b>1,609</b>	<b>1,364</b>
<b>Net assets of discontinued operation</b>	<b>6,235</b>	<b>6,309</b>

## Notes to the Consolidated Financial Statements

The loss from discontinued operations is summarized as follows.

	2010	2009
	\$	\$
Revenue	<b>108</b>	67
Expenses	<b>183</b>	1,045
Earnings (loss) from discontinued operations before tax	<b>(75)</b>	(978)
Income tax expense	<b>(3)</b>	(22)
Loss from discontinued operations	<b>(72)</b>	(956)

### 26. Comparative figures

Certain prior year figures have been reclassified to conform to the current year consolidated financial statement presentation.

# MEMBER-OWNERS

The Co-operators Group Limited is owned by 47 Canadian co-operatives, credit unions and like-minded organizations.

## Alberta

- Agrifoods International Cooperative Limited†
- Alberta Federation of Rural Electrification Associations
- Credit Union Central Alberta Limited
- Federation of Alberta Gas Co-ops Ltd.
- Lilydale Inc.
- UFA Co-operative Limited
- Wild Rose Agricultural Producers

## Atlantic

- Amalgamated Dairies Limited
- Canadian Worker Co-operative Federation†
- Co-op Atlantic
- Credit Union Central of New Brunswick
- Credit Union Central of Nova Scotia
- Credit Union Central of Prince Edward Island
- Farmers Co-operative Dairy Limited
- La Fédération des caisses populaires acadiennes limitée
- Newfoundland-Labrador Federation of Co-operatives
- Northumberland Co-operative Limited
- Scotsburn Co-operative Services Limited

## British Columbia

- Central 1 Credit Union
- Co-operative Auto Network
- Mountain Equipment Co-op†
- Okanagan Tree Fruit Cooperative
- PBC Health Benefits Society
- United Community Services Co-operative of BC

Multi-Region†

## Manitoba

- Arctic Co-operatives Limited
- Caisse Populaire Groupe Financier Ltée
- Credit Union Central of Manitoba
- Granny's Poultry Cooperative (Manitoba) Ltd.
- Keystone Agricultural Producers

## Ontario

- Co-operative Housing Federation of Canada†
- Credit Union Central of Ontario
- Gay Lea Foods Co-operative Limited
- GROWMARK, Inc.
- Ontario Federation of Agriculture
- Ontario Natural Food Co-op
- Organic Meadow Co-operative Inc.
- United Steelworkers of America, District 6

## Quebec

- Fédération des coopératives d'alimentation du Québec
- Fédération des coopératives funéraires du Québec
- Fédération québécoise des coopératives en milieu scolaire/COOPSCO
- La Coop fédérée
- La Fédération des coopératives du Nouveau-Québec

## Saskatchewan

- Access Communications Co-operative Limited
- Credit Union Central of Saskatchewan
- Federated Co-operatives Limited†
- Regina Community Clinic
- Viterra Inc.

We are proud members of the following co-operative organizations:



# BOARD OF DIRECTORS



**Richard Lemoing**  
Chairperson  
Manitoba



**John Lamb**  
1<sup>st</sup> Vice-Chairperson  
Alberta



**Alexandra Wilson**  
2<sup>nd</sup> Vice-Chairperson  
Ontario



**Albert De Boer**  
Alberta



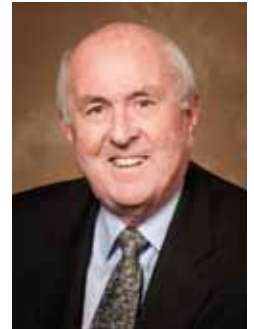
**Don Fluney**  
Alberta



**Connie Doucette**  
Atlantic



**Denis Laverdière**  
Atlantic



**Jim MacConnell**  
Atlantic



**Daniel Burns**  
British Columbia



**Rowland Kelly**  
British Columbia



**Wayne McLeod**  
Manitoba



**Denis Bourdeau**  
Ontario



**Alan Fisher**  
Ontario



**Janet Grantham**  
Ontario



**Sheena Lucas**  
Ontario



**Terry Otto**  
Ontario



**Dave Sitaram**  
Ontario



**Jack Wilkinson**  
Ontario



**Paul Godin**  
Quebec



**Réjean Laflamme**  
Quebec



**André Perras**  
Saskatchewan



**Karl Baumgardner**  
Saskatchewan

# BOARD OF DIRECTORS: COMMITTEES

The following is a brief summary of the key responsibilities of the standing committees of the Board:

**The Executive Committee** provides guidance and advice to management in-between Board meetings, provides counsel on material issues prior to their submission to the Board and takes action in-between Board meetings on matters as required. The committee also serves as the compensation committee of the Board and provides oversight to the company's succession planning and enterprise risk management functions.

**The Audit Committee** oversees the system of internal controls and financial reporting of the company. It has a liaison role between the auditors, Board and management. The committee ensures the independence of the auditors, reviewing their findings with respect to internal controls and accounting treatment and disclosure of company affairs. The committee also has a responsibility to review, evaluate and approve the procedures management puts in place to ensure appropriate internal controls.

**The Conduct Review Committee** has two principal responsibilities. The first is to review transactions with 'related parties' of the company in accordance with the requirements of the Insurance Companies Act (Canada). The second is to act more broadly as a committee to review the conduct of officers and directors with respect to the company, particularly regarding compliance with the code of ethics, the directors conduct policy, the corporate opportunities policy and conflicts of interest. To ensure independence and objectivity, the Chairperson of the Conduct Review Committee is not permitted to hold any other position on board committees.

**The Corporate Governance Committee** is the Board contact and monitoring committee for corporate governance issues. This committee reviews related programs and processes to enhance the company's corporate governance policies and practices.

**The Investment Policy Committee** is responsible for reviewing the investment policies, assets and ongoing activities of the investment management of the company.

## COMMITTEE MEMBERS

### Executive Committee

Richard Lemoing (Chairperson)  
John Lamb (1<sup>st</sup> Vice-Chairperson)  
Alexandra Wilson (2<sup>nd</sup> Vice-Chairperson)  
Daniel Burns  
Wayne McLeod  
Jack Wilkinson

### Audit Committee

Paul Godin (Chairperson)  
Janet Grantham  
Rowland Kelly  
Terry Otto  
André Perras

### Conduct Review Committee

Dave Sitaram (Chairperson)  
Paul Godin  
Richard Lemoing

### Corporate Governance Committee

Connie Doucette (Chairperson)  
Karl Baumgardner  
Don Fluney  
Réjean Laflamme  
Sheena Lucas

### Investment Policy Committee

Albert De Boer (Chairperson)  
Denis Bourdeau  
Alan Fisher  
Denis Laverdière  
Jim MacConnell

### Resolutions Committee

Connie Doucette (Chairperson)  
*Committee comprised of one delegate elected from each Region Committee*

# CO-OPERATIVE GOVERNANCE

## Board of Directors composition and independence

The Co-operators 22-member Board of Directors (Board) consists of individuals elected from our 47 member-owner organizations across Canada. All Directors are independent from management and unrelated to the day-to-day operations of the business.

## Mandate of the Board

The Board is responsible for key governance issues such as: ensuring the organization's financial viability; articulating the mission, vision and values; setting the strategic direction; the appointment, selection and performance management of the President and CEO; and ensuring The Co-operators maintains a leadership role in the insurance industry and co-operative movement.

## Performance management

Annual performance management systems assess the effectiveness of the Board as a whole, the Chairperson of the Board, Board committees and individual Directors. To ensure The Co-operators ongoing relevance and effectiveness with its member-owner organizations, the Board oversees the measurement of member-owner engagement and conducts a formal review of the democratic structure of The Co-operators Group Limited.

## Board development

Orientation for new Directors is provided annually. Additionally, Directors participate in a number of education sessions throughout the year, including biannual education days, structured to meet the development needs and interests of the Board. A substantial training and development allowance is provided to Directors to fund participation in formal programs to support their individual development plan. A comprehensive website and Board of Directors Manual are in place as sources of reference information for all Directors.

## Member-owner relations

The Executive Vice-President, Member Relations and Corporate Services has the specific responsibility of liaison with member-owners to ensure ongoing, effective, two-way communication. Additionally, member-owners receive regular updates on the company's activities and finances throughout the year.

## Board control of significant decisions

Management is responsible for the day-to-day management and operations of the company. Major decisions, such as significant investment transactions, acquisitions, business arrangements or alliances must be submitted to the Board for prior approval. The Board annually reviews the financial statements and strategic business plans for the company, and monitors its progress in achieving these plans throughout the year.

# 3%

For 14 years, we've been a member of Imagine Canada, giving back 3% of our pre-tax profits to charities and non-profit organizations in 2010.



# CORPORATE DIRECTORY

## THE CO-OPERATORS GROUP LIMITED

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### **Kathy Bardswick**

President and Chief Executive Officer

### **Hugh Cumming**

Executive Vice-President and Chief Information Officer

### **Dennis Deters**

Executive Vice-President, Member Relations  
and Corporate Services

### **Rick McCombie**

Executive Vice-President, Direct Distribution  
and Insurance Operations

### **Martin-Éric Tremblay**

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### **P. Bruce West**

Executive Vice-President, Finance and Chief Financial Officer

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[www.addenda-capital.com](http://www.addenda-capital.com)

## CO-OPERATORS GENERAL INSURANCE COMPANY

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[www.cooperators.ca](http://www.cooperators.ca)

### **Kathy Bardswick**

President and Chief Executive Officer

### **Hugh Cumming**

Executive Vice-President and Chief Information Officer

### **Dennis Deters**

Executive Vice-President, Member Relations  
and Corporate Services

### **Rick McCombie**

Executive Vice-President, Direct Distribution  
and Insurance Operations

### **Martin-Éric Tremblay**

Executive Vice-President, National P&C Product and  
President, Quebec Operations

### **Jean Vincent**

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### **P. Bruce West**

Executive Vice-President, Finance and Chief Financial Officer

**(CGIC CONTINUED)**  
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INSURANCE COMPANY**

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**L'UNION CANADIENNE,  
COMPAGNIE D'ASSURANCES**

**Ron Pavelack**

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**Kevin Daniel**

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**Kevin Daniel**

President and Chief Operating Officer

**Bob Hague**

President, Credit Union Distribution

**FEDERATED AGENCIES LIMITED**

**Rick McCombie**

Executive Vice-President, Direct Distribution  
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**Rick McCombie**

Executive Vice-President, Direct Distribution  
and Insurance Operations



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