



FaithLife

FINANCIAL

Consolidated Financial Statements of FaithLife Financial

Year ended December 31, 2010

AUDITORS' REPORT

To the Members and Directors of FaithLife Financial

We have audited the accompanying consolidated balance sheet of FaithLife Financial and the separate segregated funds statement of assets of FaithLife Financial as at December 31, 2010 and the statements of income, comprehensive income, surplus, cash flows and segregated funds statement of changes in assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 an 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Society'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 Society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Society and its segregated funds as at December 31, 2010 and the results of its operations and its cash flows and the changes in the assets of its segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a single horizontal line that underlines the text.

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
February 22, 2011

ACTUARY'S REPORT

To the Members and Directors of FaithLife Financial

I have valued the policy liabilities of FaithLife Financial for its balance sheet at December 31, 2010, and the change in the policy liabilities in the statement of income for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

A handwritten signature in black ink, appearing to read "Lawrence Guenther". The signature is written in a cursive style with a large initial 'L'.

Lawrence Guenther

Fellow of the Canadian Institute of Actuaries
Waterloo, Ontario
February 22, 2011

FAITHLIFE FINANCIAL

Consolidated Balance Sheet
(In thousands of dollars)

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Bonds and debentures (note 3)	\$ 185,596	\$ 165,843
Mortgage loans on real estate (note 3)	76,987	81,479
Stocks (note 3)	21,903	24,311
Equity pooled funds (note 3)	3,792	3,179
Real estate (note 3)	6,475	6,230
Real estate pooled funds (note 3)	991	708
Cash and cash equivalents (note 3)	5,840	4,759
Mutual funds (note 3)	689	558
Policy loans	12,714	12,058
Accrued investment income	2,846	2,809
Other assets	3,018	3,507
	\$ 320,851	\$ 305,441
Liabilities and Surplus		
Policy liabilities (notes 4 and 5)	\$ 247,968	\$ 236,110
Members' dividends, policy proceeds and other amounts on deposit	17,138	15,630
Provision for members' dividends	4,609	4,737
Policy benefits in course of settlement and provision for unreported claims	1,263	1,549
Expenses due and accrued, including taxes	1,222	1,455
Subordinated debt (note 12)	3,215	3,872
Other liabilities	5,641	5,365
	281,056	268,718
Net deferred realized investment gains (note 3)	192	216
Surplus (note 6):		
Appropriated surplus	1,010	1,010
Unappropriated surplus	37,407	35,700
Accumulated other comprehensive income (loss)	1,186	(203)
	39,603	36,507
	\$ 320,851	\$ 305,441

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

FAITHLIFE FINANCIAL

Consolidated Statement of Income
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Income:		
Premiums and dues:		
Life insurance	\$ 15,369	\$ 14,893
Annuities	8,602	10,756
Health insurance	512	487
Investment income (note 8)	18,893	19,092
Management fees on segregated funds, net	2,758	2,309
Investment management fees	379	303
Other income (note 14)	937	570
	47,450	48,410
Benefits and expenses:		
Death claims	5,276	7,479
Maturity and surrender payments	8,384	10,401
Health insurance claims	63	106
Annuity benefits	4,908	4,879
Change in policy liabilities (note 4(e))	5,873	4,514
Interest on amounts on deposit	756	690
Commissions	4,067	3,600
General operating expenses (note 13)	10,205	9,337
Interest on subordinated debt	294	325
	39,826	41,331
Operating income	7,624	7,079
Members' dividends	4,795	4,689
Fraternal benefits	711	700
	5,506	5,389
Income before income and other taxes	2,118	1,690
Income and other taxes (note 11)	411	344
Net income	\$ 1,707	\$ 1,346

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Consolidated Statement of Comprehensive Income
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Net income	\$ 1,707	\$ 1,346
Other comprehensive income (loss), net of income taxes:		
Unrealized gains on available-for-sale assets	1,418	3,226
Recognition of realized (gains) losses on available-for-sale assets	(29)	80
	1,389	3,306
Total comprehensive income	\$ 3,096	\$ 4,652

See accompanying notes to financial statements

FAITHLIFE FINANCIAL

Consolidated Statement of Surplus
(In thousands of dollars)

Year ended December 31, 2010 with comparative figures for 2009

	2010	2009
Appropriated surplus (note 6):		
Balance, beginning and end of year	\$ 1,010	\$ 1,010
Unappropriated surplus:		
Balance, beginning of year	35,700	34,354
Net income	1,707	1,346
Balance, end of year	37,407	35,700
Accumulated other comprehensive income (loss):		
Balance, beginning of year	(203)	(3,509)
Other comprehensive income	1,389	3,306
Balance, end of year	1,186	(203)
Total surplus	\$ 39,603	\$ 36,507

Accumulated other comprehensive income (loss)

Balance, end of year, consists of:

Unrealized gains (losses) on available-for-sale assets	\$ 1,186	\$ (203)
	\$ 1,186	\$ (203)

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Segregated Funds Statement of Assets (In thousands of dollars)

December 31, 2010 with comparative figures for 2009

	2010	2009
Asia Pacific Equity Fund	\$ 2,043	\$ 1,798
Balanced Fund (Jarislowsky)	374	383
Balanced Fund (Laketon)	13,216	13,392
Balanced Fund (McLean Budden)	8,031	7,892
Balanced Fund (Scheer Rowlett)	839	896
Balanced Fund (TDQC)	474	452
Canadian Bond Fund (Indexed)	453	413
Canadian Bond Fund	19,893	15,555
Canadian Equity Fund (Core 2)	682	605
Canadian Equity Fund (Core)	3,811	3,251
Canadian Equity Fund (Growth 2)	731	638
Canadian Equity Fund (Growth)	16,163	15,515
Canadian Equity Fund (Indexed)	359	345
Canadian Equity Fund (Value)	8,537	7,696
Canadian Small Cap Equity Fund	9,370	6,903
Enhanced Dividend Fund	55,520	44,509
European Equity Fund	741	911
Global Bond Fund	529	693
Global Equity Fund 2	75	88
Global Equity Fund	2,351	2,529
International Equity Fund (Indexed)	180	192
Money Market Fund 2	234	443
Money Market Fund	3,334	5,874
U.S. Equity Fund (Indexed)	12	26
	\$ 147,952	\$ 130,999

Fund assets are represented by investments in the above funds managed by third party investment managers.

Segregated Funds Statement of Changes in Assets (In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Segregated funds assets, beginning of year	\$ 130,999	\$ 111,315
Additions (deductions):		
Members' deposits	17,776	11,740
Net investment income and gains		
on investments	17,800	24,982
Management and administrative fees	(3,350)	(2,845)
Members' withdrawals	(15,273)	(14,193)
	16,953	19,684
Segregated funds assets, end of year	\$ 147,952	\$ 130,999

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	\$ 1,707	\$ 1,346
Items not involving cash:		
Increase in policy liabilities	5,873	4,514
Decrease in provision for member dividends	(128)	(196)
Increase (Decrease) in members' dividends and other amounts on deposit	1,508	(122)
Amortization of realized and unrealized gains on securities	(170)	(231)
Change in fair value of HFT securities	(3,120)	(4,132)
Realized gain on sale of AFS securities	(29)	85
Amortization of capital assets	215	260
Other	81	(652)
Change in non-cash operating assets and liabilities	(2,757)	(1,195)
	3,180	(323)
Investing activities:		
Proceeds of bonds sold and matured	24,614	21,672
Bonds purchased	(33,559)	(23,141)
Proceeds of stocks sold and redeemed	8,142	1,327
Stocks purchased	(4,671)	(1,804)
Equity pooled funds purchased	(340)	(277)
Mutual funds purchased	(74)	(58)
Proceeds of mutual funds sold	7	7
Mortgages loan principal receipts	13,827	9,808
Mortgage loans advanced	(9,535)	(15,890)
Real Estate pooled funds acquired	(200)	(210)
Policy loans repaid	1,892	1,898
Policy loans advanced	(1,475)	(1,401)
Capital assets purchased	(215)	(96)
	(1,587)	(8,165)
Financing activities:		
Redemption of subordinated debt	(512)	(318)
Increase (decrease) in cash and cash equivalents	1,081	(8,806)
Cash and cash equivalents, beginning of year	4,759	13,565
Cash and cash equivalents, end of year	\$ 5,840	\$ 4,759
Supplemental cash flow information:		
Interest paid	\$ 1,050	\$ 1,082
Corporate taxes paid	389	344

See accompanying notes to financial statements.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2010

1. Future changes in accounting policies - International Financial Reporting Standards:

In February 2008 the Canadian Accounting Standards Board ("AcSB") confirmed that all publicly accountable enterprises, including the Society, will be required to adopt International Financial Reporting Standards (IFRS). For the Society, IFRS will be effective for the period commencing January 1, 2011, including the preparation and reporting of one year of comparative information. Accordingly, the transition date in those comparative financial statements will be January 1, 2010.

The Society has completed the scoping phase of the project, consisting of project initiation and awareness, identification of high-level differences between Canadian GAAP and IFRS, project planning and resourcing.

The measurement differences between Canadian GAAP and IFRS will have an impact on the opening financial position of the Society at the transition date. As well, the results of operations under IFRS will differ from Canadian GAAP as will disclosures. The Society continues to evaluate and quantify the impact of transitioning to IFRS. Significant areas of difference that have been identified to date include an increase in the carrying value of real estate; a separation of the carrying value for real estate into own-use and investment components; recognition of all deferred gains on real estate; and an increase in the reported liabilities for pension and other post-retirement benefits.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with the Insurance Companies Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in preparing these consolidated financial statements, including the requirements of the Superintendent of Financial Institutions Canada, are summarized below. These policies conform, in all material respects, to Canadian generally accepted accounting principles.

(a) Basis of presentation:

The consolidated financial statements include all fraternal and financial operations of FaithLife Financial (the "Society") and its wholly-owned subsidiary FI Capital Ltd. and combine the life, annuity and health insurance operations of the Society.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

(b) Portfolio investments:

Portfolio investments are accounted for on the following bases:

(i) Bonds and debentures:

Investments in bonds and debentures are classified either as available-for-sale (AFS) or held-for-trading (HFT) and their fair value is determined using quoted market bid prices.

HFT bonds and debentures are recorded at fair value with realized gains and losses on sale and changes in the fair value of these bonds recorded in net investment income in the consolidated statement of income.

AFS bonds and debentures are recorded at fair value with changes in the fair value of these bonds recorded in unrealized gains and losses in the consolidated statement of comprehensive income. Realized gains and losses on sale are reclassified from accumulated other comprehensive income (AOCI) and recorded in net investment income in the consolidated statement of income.

(ii) Mortgages:

Mortgages are classified as loans and receivables and carried at amortized cost, less principal repayments and provisions for other than temporary declines in value. Gains or losses realized from the sale of mortgages are recorded in net investment income in the consolidated statement of income.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(b) Portfolio investments (continued):

(iii) Stocks:

Investments in stocks are classified either as AFS or HFT and their fair value is determined using quoted market bid prices. HFT stocks are recorded at fair value with realized gains and losses on sale and changes in the fair value of these stocks recorded in net investment income in the consolidated statement of income.

AFS stocks are recorded at fair value with changes in the fair value of these stocks recorded in unrealized gains and losses in the consolidated statement of comprehensive income. Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income in the consolidated statement of income.

(iv) Mutual funds:

Mutual funds are designated as HFT and are carried at market value, and are matched to the investment portion of Universal Life contracts. Increases or decreases in the market value of mutual funds are recorded in net investment income in the consolidated statement of income.

(v) Equity pooled funds:

Equity pooled funds are designated as AFS and are recorded at fair value with changes in the fair value of these funds recorded in unrealized gains and losses in the consolidated statement of comprehensive income. Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income in the consolidated statement of income.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(b) Portfolio investments (continued):

(vi) Real estate:

Real estate includes properties held for investment and Society-occupied premises.

Real properties are carried at cost, adjusted toward market value at the rate of 3% per fiscal quarter of the difference between market value and adjusted book value. Investment income on real estate includes an amount of imputed rent on Society-occupied premises. The fair value of real properties is estimated annually and the market value is established by qualified, independent appraisers at least every three years. Realized gains and losses on disposition of real properties are deferred on the balance sheet and are amortized into income at the rate of 3% per fiscal quarter year on the declining balance.

(vii) Real estate pooled funds:

Real estate pooled funds are comprised of units in a closed-fund real estate limited partnership. They are classified as AFS and are recorded at fair value with changes in the fair value of these units recorded in unrealized gains and losses in the consolidated statement of comprehensive income. Realized gains and losses on sale are reclassified from AOCI and recorded in net investment income in the consolidated statement of income.

(viii) Cash and cash equivalents and short-term investments:

Cash and cash equivalents include cash on deposit and short-term investments with original maturities of less than 90 days. Short-term investments are carried at cost.

(ix) Policy loans:

Policy loans to members are classified as loans and receivables and are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(x) Commercial loans:

Commercial loans are classified as loans and receivables and are carried at amortized cost, less principal repayments and provisions for other than temporary declines in value.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(b) Portfolio investments (continued):

(xi) Asset default provisions:

Provisions for asset default losses are established for individual bonds, debentures and mortgages in instances where, in the opinion of management, there has been a decline in value considered to be other than temporary, where there is reasonable doubt as to the timely payment of principal and/or interest, and in all cases, where scheduled payments of principal and/or interest are 90 days past due. The amount of the provisions established are such that the particular investments are valued at an amount not exceeding estimated net realizable value, determined by discounting expected future cash flows, and any provision for loss is recognized immediately in income.

When title to real estate is acquired under mortgage loan default, an independent appraisal of the property is obtained and expected future cash flows are discounted to determine estimated net realizable value. If necessary, the carrying value of the property is adjusted to net realizable value or the current market value by way of a loss provision. The amount of the provision is charged to income immediately.

In addition to specific loss provisions, the Society provides for potential future defaults by reducing investment yields assumed in the calculation of insurance and annuity policy liabilities for future benefits.

(c) Capital assets:

Included in other assets are furniture and equipment, leasehold improvements, and computer hardware and software, which are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the asset of between 5 and 10 years. Also included in other assets are miscellaneous amounts receivable and prepaid expenses with respect to the normal ongoing operations of the Society.

(d) Income taxes:

The Society uses the asset and liability method of accounting for income taxes. Current income taxes are recognized for estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting value of assets and liabilities, measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(e) Segregated funds:

The Society sells a number of segregated funds products which it administers on behalf of members. The Society earns management fees from these funds. Subject to limited guarantees provided by the Society, investors in these funds bear the full investment risk of, and receive all the benefits from, the assets of the funds. Segregated funds assets are carried at market value and do not form part of the general funds of the Society. The statement of net assets and the statement of changes in assets for segregated funds are presented separately in the financial statements for information purposes only.

(f) Revenue recognition:

Premium revenues are recognized as they become due.

(g) Policy liabilities:

Policy liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

(h) Employee future benefits:

Employee future benefits are expensed during the years that the employee renders services and an accrued post-employment benefit obligation is recognized. The obligation is determined by application of the terms of the plans, together with relevant actuarial assumptions using the projected benefit method pro rated on services. Unamortized past service costs, actuarial gains and losses, and transitional obligation are amortized over the estimated employee average remaining service life ("EARSL"). Only gains and losses in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets are amortized. The accrued obligation is included in other liabilities on the balance sheet.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

3. Portfolio investments:

The Society utilizes the prudent person approach to asset management, as outlined by the Insurance Companies Act. Investment policies are in place and are monitored by the Board of Directors. Policies are in place to limit the investments in any one entity or group of related entities, to manage concentration risk of investments in any one industry or any specific geographic area and to define limitations on the credit quality of investments. Investment assets supporting policy liabilities are chosen such that their amount and cash flow characteristics correspond to policy liability cash flows. Changes in the fair values of assets supporting liabilities will be offset mainly by changes in the fair value of those liabilities.

(a) The values of portfolio investments are as follows, net of provisions for other than temporary declines in value of \$200 (2009 - \$Nil) (see note 3(b)):

2010				
	HFT	AFS	Other	Total
Cash and cash equivalents	\$ -	\$ -	\$ 5,840	\$ 5,840
Canadian bonds and debentures:				
Federal	22,158	-	-	22,158
Provincial	51,901	-	-	51,901
Municipal	35,083	-	-	35,083
Corporate A or higher	72,040	-	-	72,040
Corporate below A	4,414	-	-	4,414
Sub-total, bonds and debentures	185,596	-	-	185,596
Mortgages on Real Estate:				
Residential	-	-	1,959	1,959
Commercial	-	-	75,028	75,028
Sub-total, mortgages	-	-	76,987	76,987
Canadian stocks	-	21,903	-	21,903
Pooled equity funds	-	3,792	-	3,792
Pooled real estate funds	-	991	-	991
Mutual funds	689	-	-	689
Real estate:				
Office building	-	-	6,475	6,475
	\$ 186,285	\$ 26,686	\$ 89,302	\$ 302,273

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

3. Portfolio investments (continued):

2009				
	HFT	AFS	Other	Total
Cash and cash equivalents	\$ -	\$ -	\$ 4,759	\$ 4,759
Canadian bonds and debentures:				
Federal	23,359	-	-	23,359
Provincial	45,660	-	-	45,660
Municipal	29,004	-	-	29,004
Corporate A or higher	54,770	-	-	54,770
Corporate below A	13,050	-	-	13,050
Sub-total, bonds and debentures	165,843	-	-	165,843
Mortgages on Real Estate:				
Residential	-	-	2,721	2,721
Commercial	-	-	78,758	78,758
Sub-total, mortgages	-	-	81,479	81,479
Canadian stocks	-	24,311	-	24,311
Pooled equity funds	-	3,179	-	3,179
Pooled real estate funds	-	708	-	708
Mutual funds	558	-	-	558
Real estate:				
Office building	-	-	6,230	6,230
	\$ 166,401	\$ 28,198	\$ 92,468	\$ 287,067

(b) Provisions for other than temporary declines in value totalled \$200 (2009 - \$Nil) and were related to commercial mortgage investments.

(c) Net deferred realized gains:

Net deferred realized gains are amounts of net unamortized realized gains on real estate in the amount of \$192 (2009 - \$216).

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

3. Portfolio investments (continued):

(d) Geographic concentration - mortgages and real estate:

	2010	2009
Mortgages:		
Nova Scotia	\$ 442	\$ 1,120
Ontario	48,643	57,559
Manitoba	101	188
Saskatchewan	1,266	1,203
Alberta	21,349	16,867
British Columbia	4,951	4,089
New Brunswick	435	453
Less loss provision	(200)	-
	<u>\$ 76,987</u>	<u>\$ 81,479</u>
Real estate:		
Ontario	\$ 6,475	\$ 6,230

(e) Fair value information:

Fair value hierarchy analysis:

The table below provides an analysis of the basis of measurement used to fair value financial instruments carried at fair value, categorised by the following fair value hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

3. Portfolio investments (continued):

(e) Fair value information (continued):

2010	Level 1	Level 2	Level 3	Total
Held for trading:				
Equity investments	\$ 689	\$ -	\$ -	\$ 689
Debt investments	-	185,596	-	185,596
Available-for-sale:				
Equity investments	25,118	1,568	-	26,686
Debt investments	-	-	-	-
Total investments	\$ 25,807	\$ 187,164	\$ -	\$ 212,971
Segregated funds assets	\$ 147,952	\$ -	\$ -	\$ 147,952
2009				
Held for trading:				
Equity investments	\$ 558	\$ -	\$ -	\$ 558
Debt investments	-	165,843	-	165,843
Available-for-sale:				
Equity investments	27,196	1,002	-	28,198
Debt investments	-	-	-	-
Total investments	\$ 27,754	\$ 166,845	\$ -	\$ 194,599
Segregated funds assets	\$ 130,999	\$ -	\$ -	\$ 130,999

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

4. Policy liabilities:

	2010	2009
Participating:		
Life	\$ 153,339	\$ 141,721
Health	886	774
Annuity	92,263	92,305
Segregated funds guarantees	1,480	1,310
	<u>\$ 247,968</u>	<u>\$ 236,110</u>

(a) Nature of policy liabilities:

Policy liabilities represent an estimate of the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on all insurance and annuity policies in force. The calculation of policy liabilities involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender. Policy liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries, which prescribes the use of the Canadian Asset Liability Method.

(b) Assumptions:

In the computation of policy liabilities, best estimate assumptions covering the lifetime of the policies are made. These assumptions may be subject to change in the future. Actual experience is monitored regularly to ensure that the assumptions remain appropriate. Any change in policy liabilities resulting from assumption revisions is recognized in income immediately. The methods for arriving at the most significant assumptions are outlined below:

(i) Mortality:

The mortality assumption for individual life insurance is based on a combination of Society and industry experience. For annuities, the mortality assumption is based upon industry mortality experience and has been projected forward to allow for continuing mortality improvement to the extent permitted by generally accepted actuarial standards.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

4. Policy liabilities (continued):

(b) Assumptions (continued):

(ii) Morbidity:

Morbidity assumptions are made with respect to the rates of claim incidence and recovery. These assumptions are based on industry-expected experience.

(iii) Investment returns:

The Society maintains asset segments backing specific lines of business. For each segment, future investment yields are based upon projected future cash flows and expected future reinvestment rates derived from the current economic outlook and the Society's investment policy.

(iv) Expenses:

Operating expense assumptions reflect the projected cost of maintaining and servicing in-force policies and associated overhead expenses. These expenses are derived from the Society's internal cost studies with future expenses adjusted for inflation.

(v) Policy termination:

Policy termination assumptions are based on the Society's experience adjusted for expected future conditions. The assumptions reflect differences in termination patterns for different types of contracts.

(c) Provision for adverse deviation:

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at the inception of a policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest rate risk. For other risks, which are not specifically addressed by the Canadian Institute of Actuaries, a range is defined as 5% to 20% of the expected experience assumption, taking into account the risk profiles of the business. The Society uses margin assumptions in the mid to high end of the permissible ranges.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

4. Policy liabilities (continued):

(d) Sensitivity to assumption changes:

Those assumptions that are most susceptible to change in the near term are policy lapse rates and future investment yields.

(i) Policy lapse rates:

For lapse-supported policies in force at December 31, 2010, policy liabilities would increase by \$3,000 (2009 - \$2,570) if the lapse rates decreased by 1%. For non-lapse supported policies in force at December 31, 2010, policy liabilities would decrease by \$2,080 (2009 - \$1,970) if the lapse rates increased by 1%.

(ii) Interest rate risk

The Society manages its sensitivity to interest rate changes by matching its assets and liabilities cash flows. Based on those projected cash flows at December 31, 2010, a 1% increase in the general level of interest rates would reduce the value of assets backing policy liabilities by \$1,090 (2009 - \$460) less than the reduction in the value of policy liabilities. A 1% decrease in the general level of interest rates would increase the value of assets backing policy liabilities by \$1,507 (2009 - \$350) less than the increase in the value of policy liabilities.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

4. Policy liabilities (continued):

(e) Changes in policy liabilities:

Policy liabilities will experience a normal change each year reflecting premiums received, investment income, benefit payments and expenses. Policy liabilities may also change due to changes in the methods or assumptions from which they are calculated. The Society's recent mortality, investment income, expenses, taxes and policy termination rates were reviewed and used to update the assumptions for future experience. In addition, refinements were implemented to the calculation of policy liabilities for certain benefits. As a result of these activities, policy liabilities changed as follows:

	2010	2009
Policy liabilities, beginning of year	\$ 236,110	\$ 231,596
Changes due to assumption of Woman's Life business	5,985	-
Normal changes due to operations	5,578	(345)
Changes in policy liability assumptions	295	4,859
Policy liabilities, end of year	\$ 247,968	\$ 236,110

The changes in assumptions and their impact on policy liabilities were:

Refinements in calculations	\$ 458	\$ 1,818
Mortality	(1,685)	(723)
Interest rates/dividends	2,344	6,370
Expenses/taxes	(1,203)	(2,942)
Lapse	381	336
	\$ 295	\$ 4,859

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

4. Policy liabilities (continued):

(f) Assets supporting liabilities:

The Society manages assets, liabilities and surplus within major categories, depending on the investment objectives that are appropriate for each category. The distribution of net assets within each category is as follows:

2010	Insurance	Annuities	Corporate	Surplus	Total
Bonds and debentures	\$ 146,770	\$ 34,121	\$ 1,342	\$ 3,363	\$ 185,596
Mortgages	16,429	54,713	2,007	3,838	76,987
Stocks and other equity funds	689	-	5,194	21,492	27,375
Real estate	-	-	-	6,475	6,475
Policy loans	12,708	6	-	-	12,714
Cash and cash equivalents	550	5,121	57	112	5,840
Accrued investment income	3	588	-	2,255	2,846
Other	857	92	-	2,069	3,018
Total assets	\$ 178,006	\$ 94,641	\$ 8,600	\$ 39,604	\$ 320,851

2009	Insurance	Annuities	Corporate	Surplus	Total
Bonds and debentures	\$ 134,241	\$ 30,635	\$ 967	\$ -	\$ 165,843
Mortgages	15,781	59,237	3,044	3,417	81,479
Stocks and other equity funds	558	-	5,014	23,184	28,756
Real estate	-	-	-	6,230	6,230
Policy loans	12,024	34	-	-	12,058
Cash and cash equivalents	337	4,076	-	346	4,759
Accrued investment income	2,024	611	-	174	2,809
Other	192	159	-	3,156	3,507
Total assets	\$ 165,157	\$ 94,752	\$ 9,025	\$ 36,507	\$ 305,441

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

4. Policy liabilities (continued):

(g) Fair values:

The carrying value of policy liabilities reflects the present value of expected cash flows plus provisions for adverse deviations and is considered to be an indicator of approximate fair value, as there is no ready market for trading policy liabilities.

Assets are chosen for their amount and cash flow characteristics to match policy liability cash flows. Consequently, changes in the fair values of assets supporting liabilities will be offset mainly by changes in the fair values of those liabilities. Changes in the fair values of assets backing surplus, less related income taxes, result in a corresponding change in surplus when realized.

2010	Assets supporting liabilities		Total assets	
	Carrying value	Fair value	Carrying value	Fair value
Bonds and debentures	\$ 182,233	\$ 182,233	\$ 185,596	\$ 185,596
Mortgages	73,149	76,362	76,987	80,368
Stocks and other equity funds	5,883	5,883	27,375	27,375
Real estate	-	-	6,475	7,350
Policy loans	12,714	12,714	12,714	12,714
Cash and cash equivalents	5,728	5,728	5,840	5,840
Accrued investment income	591	591	2,846	2,846
Other	949	949	3,018	3,018
Total assets	\$ 281,247	\$ 284,460	\$ 320,851	\$ 325,107

2009	Assets supporting liabilities		Total assets	
	Carrying value	Fair value	Carrying value	Fair value
Bonds and debentures	\$ 165,843	\$ 165,843	\$ 165,843	\$ 165,843
Mortgages	78,062	79,644	81,479	83,098
Stocks and other equity funds	5,572	5,572	28,756	28,756
Real estate	-	-	6,230	7,650
Policy loans	12,058	12,058	12,058	12,058
Cash and cash equivalents	4,413	4,413	4,759	4,759
Accrued investment income	2,635	2,635	2,809	2,809
Other	351	351	3,507	3,507
Total assets	\$ 268,934	\$ 270,516	\$ 305,441	\$ 308,480

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

5. Reinsurance:

Reinsurance has been used to reduce risk by limiting the Society's exposure to a single claim. The maximum retained exposure on any one life is:

Life insurance	\$275
Critical illness	137
Disability insurance - per annum	6

Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the Society remains liable to the beneficiaries on these policies. From September 1, 1987 to September 30, 1992, the Society reinsured the mortality and investment risk on certain single premium immediate annuity business. This arrangement is now closed for new business, although the business reinsured continues to be in effect.

Reinsurance premiums paid during the year amounted to \$1,474 (2009 - \$1,284).

The Society monitors the financial condition of its reinsurers to minimize its exposure to credit risk and has not incurred any loss during the year, or in prior years as a result of reinsurance transactions.

Policy liabilities are shown net of reinsurance of \$5,955 (2009 - \$6,308).

6. Surplus and capital management:

At the consolidated society level, the Society monitors the amount of consolidated capital available. The amount of capital deployed is dependent upon regulatory requirements as well as the Society's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Society's practice is to maintain capitalization at a level that will exceed the relevant minimum regulatory capital requirements.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

OSFI generally expects life insurance companies to maintain a minimum total MCCSR of 150% or greater, based on the risk profile of the relevant insurance company.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

6. Surplus and capital management (continued):

The following table provides the capital and MCCR information and ratios for the Society:

	2010	2009
Capital Available:		
Tier 1 Capital	\$ 35,323	\$ 30,796
Tier 2 Capital	\$ <u>8,882</u>	\$ <u>9,707</u>
Total Tier 1 and Tier 2 Capital	\$ <u>44,205</u>	\$ <u>40,503</u>
Total Capital Required	\$ <u>17,978</u>	\$ <u>19,172</u>
MCCR ratios:		
Tier 1 Ratio	196%	161%
Total Ratio	246%	211%

The Society has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves the capital policy of the Society.

The Society's capital base is structured to exceed regulatory and internal capital targets while maintaining a capital efficient structure and desired capital ratios. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business. The Society's capital base includes surplus and the subordinated debt referenced in note 12.

Appropriated surplus represents a discretionary amount appropriated by the Board of Directors to provide for possible future fraternal benefits and activities.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management:

The primary goals of the Society's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Society's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Society's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties.

The Society has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk. The following sections describe how the Society manages each of these risks:

(a) Credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The Society is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Board of Directors or the Investment Committee of the Society.
- No activity is undertaken in derivative instruments.

The Society is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any. Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(a) Credit risk (continued):

(i) Maximum Exposure to Credit Risk

The following table summarizes the Society's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses:

	2010	2009
Cash and cash equivalents	\$ 5,840	\$ 4,759
Bonds held for trading	185,596	165,843
Bonds available for sale	-	-
Mortgage loans	76,987	81,479
Loans to policyholders	12,714	12,058
Other financial assets	5,166	5,374
Derivative assets	-	-
Total balance sheet maximum credit exposure	\$ 286,303	\$ 269,514

Credit risk is also mitigated by requiring collateral in certain circumstances. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(a) Credit risk (continued):

(ii) Concentration of Credit Risk (continued):

The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

	2010	2009
Canadian bonds issued or guaranteed by:		
Canadian federal government	\$ 22,158	\$ 23,359
Canadian provincial & municipal governments	86,984	74,664
Total government issued or guaranteed bonds	109,142	98,023
Corporate bonds by industry sector:		
Financial services	38,710	35,829
Consumer discretionary	1,530	2,608
Consumer staples	2,039	2,042
Industrials	6,317	4,930
Utilities	16,581	13,237
Telecommunications	3,017	2,527
Energy	7,634	6,154
Health Care	626	493
Total corporate bonds	76,454	67,820
Total bonds	\$ 185,596	\$ 165,843

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(a) Credit risk (continued):

(iii) Asset Quality

The table below summarized the credit exposure of the Society from its investments in fixed income securities by rating:

	2010	2009
AAA	\$ 52,109	\$ 49,051
AA	55,171	56,564
A	73,902	47,178
BBB	4,414	13,050
Total bonds	\$ 185,596	\$ 165,843

(iv) Impairments

The Society provides for credit risk by establishing allowances against the carrying value of impaired loans and recognizing other than temporary impairments on available-for-sale securities. In addition, the Society provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(a) Credit risk (continued):

(iv) Impairments (continued):

Summary of impairments:

	2010	2009
Bonds	\$ -	\$ -
Equities	-	-
Loans and other	200	(8)
Total impairments (recoveries)	\$ 200	\$ (8)

(b) Liquidity Risk

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The Society closely manages operating liquidity through cash flow matching of assets and liabilities. Management monitors the use of the line of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. Management also closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements of the Society.

In the normal course of business the Society enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Society's financial liabilities:

2010	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	No fixed maturity
Amounts on deposit	\$ -	\$ -	\$ -	\$ -	\$ 17,138
Subordinated debt	-	-	-	3,215	-
Expenses due, accrued	1,222	-	-	-	-
Contractual commitments	-	-	-	-	-
	\$ 1,222	\$ -	\$ -	\$ 3,215	\$ 17,138

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(b) Liquidity Risk (continued):

2009	Within 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	No fixed maturity
Amounts on deposit	\$ -	\$ -	\$ -	\$ -	\$ 15,630
Subordinated debt	-	-	-	3,872	-
Expenses due, accrued	1,455	-	-	-	-
Contractual commitments	-	-	-	-	-
	\$ 1,455	\$ -	\$ -	\$ 3,872	\$ 15,630

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

(i) Currency Risk

Currency risk relates to the Society operating in different currencies and converting non-Canadian dollar earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. If foreign currency assets are acquired to back liabilities, they may be converted back to the currency of the liability using foreign exchange contracts.

As at December 31, 2010 the Society's only significant currency exposure was related to the U.S. dollar-denominated subordinated debt (\$3,198 U.S.), and U.S. dollar-denominated units in a private equity pooled fund (\$580 U.S.). An increase or decrease in foreign currency rates would have no effect on actuarial liabilities.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(c) Market Risk (continued):

(ii) Interest Rate Risk (continued):

The Society utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.

Interest rate risk is managed by investing in assets that are suitable for the products sold.

For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.

For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.

The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used to determine actuarial liabilities. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

See Note 4(d)(ii) for interest rate sensitivity analysis.

(iii) Equity Risk

Some policy liabilities may be supported by equities. Generally these liabilities will fluctuate in line with equity market values. There could be additional impacts on these liabilities as equity market values fluctuate. A 10% increase or decrease in equity markets would be expected to impact actuarial liabilities by an immaterial amount.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(c) Market Risk (continued):

(iii) Equity Risk (continued):

Equities designated as available-for-sale generally do not support actuarial liabilities. Changes in fair value of available-for-sale equities are recorded to OCI. For the Society's available-for-sale equities, an immediate 10% increase in stock prices at December 31, 2010, would result in an estimated after-tax increase in OCI of \$2,190 (2009 - \$2,431). Conversely, an immediate 10% decrease in stock prices would result in an estimated after-tax decrease in OCI of \$2,190 (2009 - \$2,431).

Securities lending

As at December 31, 2010, the Society was not involved in any securities lending activities (December 31, 2009 – \$Nil).

Derivatives

As at December 31, 2010, the Society was not involved in any derivative transactions or activities (December 31, 2009 – \$Nil).

(iv) Concentration risk

The Society establishes enterprise-wide investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Market risk concentrations of the Society's investments at December 31 are as follows:

	2010	2009
Bonds rated at investment grade "BBB" or higher	100.0%	100.0%
Bonds rated at "A" or higher	97.6%	92.1%
Government bonds as a percent of total bonds	58.8%	59.1%
Highest exposure to a single non-government bond issuer	\$ 5,492	\$ 5,252
Largest single issuer as a percent of total stock portfolio	10.81%	8.46%
Publicly listed corporations as a percent of total stock portfolio	100.0%	100.0%

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

7. Financial risk management (continued):

(c) Market Risk (continued):

(v) Segregated Funds Market Value Risk

Segregated funds provide an insurance guarantee that a member's investment will not fall below a minimum value at a specified maturity date or upon the member's death. The actuarial liabilities for segregated funds will generally fluctuate in a direction opposite that of financial market value changes, as the costs of the guarantees become higher when market values decrease and are lower when these values increase.

Since the segregated funds offer bond and stock investment options, this business is subject to both interest rate risk and to equity risk. These risk exposures are quantified and reviewed regularly.

An immediate 10% decrease or decrease in the market value of the segregated fund unit values at December 31, 2010 would impact actuarial liabilities by an immaterial amount, as there is a minimum level of liability held for the risks associated with this business.

(d) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims are based on Society and industry experience; assumptions for policyholder behaviour are based on Society experience and predictive models. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Society.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

8. Investment income:

An analysis of the sources of investment income is as follows:

	2010			
	HFT	AFS	Other	Total
Bonds and debentures	\$ 9,124	\$ -	\$ -	\$ 9,124
Mortgages	-	-	4,454	4,454
Stocks	-	1,124	-	1,124
Pooled equity funds	-	55	-	55
Real estate	-	-	1,297	1,297
Pooled real estate funds	-	-	15	15
Policy loans	-	-	849	849
Cash, cash equivalents, short term investments	-	-	49	49
Other	-	-	-	-
Amortized gains (losses) from real estate	-	-	170	170
Changes in fair value of HFT securities	3,120	-	-	3,120
Realized gains (losses) on AFS securities	-	29	-	29
	12,244	1,208	6,834	20,286
Investment expenses, including real estate operating costs				(1,193)
Provision for credit losses, net			(200)	(200)
				(1,393)
				\$18,893

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

8. Investment income (continued):

	2009			
	HFT	AFS	Other	Total
Bonds and debentures	\$ 8,500	\$ -	\$ -	\$ 8,500
Mortgages	-	-	4,339	4,339
Stocks	-	1,242	-	1,242
Pooled equity funds	-	80	-	80
Real estate	-	-	1,303	1,303
Pooled real estate funds	-	-	-	-
Policy loans	-	-	823	823
Cash, cash equivalents, short term investments	-	-	73	73
Other	-	-	2	2
Amortized gains (losses) from real estate	-	-	231	231
Changes in fair value of HFT securities	4,132	-	-	4,132
Realized gains (losses) on AFS securities	-	(85)	-	(85)
	12,632	1,237	6,771	20,640
Investment expenses, including real estate operating costs				(1,556)
Provision for credit losses, net				8
				(1,548)
				\$19,092

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

9. Business segments:

The Society operates in Canada only, and has three main business segments: life and health insurance, and annuities and investment products, and corporate operations. Segmented information is as follows:

2010	Life and health insurance products	Annuity and investment products	Corporate operations	Total
Policy revenue	\$15,881	\$11,360	\$ -	\$27,241
Investment income	12,496	4,318	2,079	18,893
Other revenue	1,257	(185)	244	1,316
Total revenue	29,634	15,493	2,323	47,450
Policy claims and benefits	6,750	11,880	-	18,630
Change in policy liabilities	5,904	(31)	-	5,873
Interest on amounts on deposit	708	48	-	756
Interest on subordinated debt	-	-	294	294
Commissions	1,969	2,099	-	4,068
Policy dividends	4,777	18	-	4,795
Total segmented expenditures	20,108	14,014	294	34,416
Segment income	9,526	1,479	2,029	13,034
General operating expenses and fraternal benefits				10,916
Corporate taxes				411
				11,327
Net income			\$	1,707

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

9. Business segments (continued):

2009	Life and health insurance products	Annuity and investment products	Corporate operations	Total
Policy revenue	\$15,380	\$13,065	\$ -	\$28,445
Investment income	11,967	4,844	2,281	19,092
Other revenue	-	(130)	1,003	873
Total revenue	27,347	17,779	3,284	48,410
Policy claims and benefits	8,019	14,846	-	22,865
Change in policy liabilities	7,231	(2,717)	-	4,514
Interest on amounts on deposit	664	26	-	690
Interest on subordinated debt	-	-	325	325
Commissions	1,896	1,704	-	3,600
Policy dividends	4,671	18	-	4,689
Total segmented expenditures	22,481	13,877	325	36,683
Segment income	4,866	3,902	2,959	11,727
General operating expenses and fraternal benefits				10,037
Corporate taxes				344
				10,381
Net income			\$	1,346

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

10. Registered pension plan and other benefit plans:

The Society has a registered defined benefit pension plan for head office employees, which allows voluntary contributions. The Society also provides other benefit plans for retired employees, including post-retirement health benefits for all employees and supplementary pension benefits for retired executives. These other plans are unfunded. Information about the Society's registered pension plan and other benefit plans as at December 31, in aggregate, is as follows:

	Registered pension plan		Other benefit plans	
	2010	2009	2010	2009
Accrued benefit obligation	\$ 10,496	\$ 8,537	\$ 6,487	\$ 4,960
Fair value of plan assets	7,885	7,323	-	-
Funded status - plan deficit	\$ (2,611)	\$ (1,214)	\$ (6,487)	\$ (4,960)
Accrued benefit liability	\$ 431	\$ 346	\$ (5,592)	\$ (5,332)

In the past, the Society has periodically provided increases in registered pension benefits paid to retirees, commonly referred to as "indexing," to reflect inflation levels. Such indexing increases are discretionary. They are not contractual or obligatory, either in amount or frequency. The accrued benefit obligation for the registered pension plan has been calculated, assuming indexing increases continue to occur on a regular basis, resulting in the \$2,611 (2009 - \$1,214) funding deficit shown above. Without this assumption, on a purely contractual basis, the accrued benefit obligation for 2010 amounts to \$9,181 (2009 - \$7,571) and the funded status of the plan would result in a \$1,296 deficit position (2009 - \$248).

The supplemental pension obligation to retired and current executives is an integral part of the compensation plan for these individuals. Payments to retired executives are contractual. Future payments to current executives are contingent on their meeting certain service and vesting requirements. The current and potential future obligation is unfunded. In connection with this arrangement, the Society has provided a Letter of Credit to a financial institution to secure the future required payments to current retirees. Credit arrangements with the financial institution, including the Letter of Credit and an operating line of credit, are secured by marketable bonds with a market value of \$2,765 being pledged to the financial institution granting the credit arrangements.

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Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

10. Registered pension plan and other benefit plans (continued):

Accrued benefit liabilities are included in other liabilities on the balance sheet. Of the accrued liability of \$5,592 (2009 - \$5,332) for other benefit plans, \$2,363 (2009 - \$2,298) is for post-retirement health benefits, and \$3,229 (2009 - \$3,034) is for current and potential future supplemental pension obligations to retired and current executives.

The significant actuarial assumptions adopted in measuring the Society's accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	Registered pension plan		Other benefit plans	
	2010	2009	2010	2009
Measurement date	December 31		December 31	
Effective date of last actuarial valuation	January 1, 2009		January 1, 2009	
Date of next required actuarial valuation for funding purposes	January 1, 2012		-	
Discount rate, beginning of year	6.50%	7.25%	6.50%	7.25%
Discount rate, end of year	5.50%	6.50%	5.50%	6.50%
Expected long-term rate of return on fair value of plan assets	7.50%	7.50%	-	-
Rate of compensation increase	4.00%	4.00%	-	-
Annual inflation indexing factor	1.50%	1.50%	-	-
Health care trend rate assumed			8.00%*	8.00%*
			* reducing to 5.00% over 10 years	
Effect of 1% increase in trend rate on:				
Health care benefit cost	-	-	\$30	\$26
Accrued benefit obligation	-	-	\$286	\$205
Effect of 1% decrease in trend rate on:				
Health care benefit cost (decrease)	-	-	\$(23)	\$(20)
Accrued benefit obligation (decrease)	-	-	\$(232)	\$(164)
Dental care trend rate assumed	-	-	3.50%	5.00%
Effect of 1% increase in trend rate on:				
Dental care benefit cost	-	-	\$11	\$11
Accrued benefit obligation	-	-	\$106	\$88
Effect of 1% decrease in trend rate on:				
Dental care benefit cost (decrease)	-	-	\$(9)	\$(9)
Accrued benefit obligation (decrease)	-	-	\$(86)	\$(70)

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

10. Registered pension plan and other benefit plans (continued):

Other information about the Society's benefit plans is as follows:

	Registered pension plan		Other benefit plans	
	2010	2009	2010	2009
Accrued benefit obligation, beginning of year	\$ 8,537	\$ 7,496	\$ 4,960	\$ 3,950
Benefit obligation adjustment	-	(168)	-	(180)
Past service cost	-	-	-	398
Current service cost	460	328	198	174
Interest cost	572	536	326	305
Benefits paid	(382)	(532)	(284)	(262)
Actuarial losses (gains)	1,309	877	1,287	575
Accrued benefit obligation, end of year	\$ 10,496	\$ 8,537	\$ 6,487	\$ 4,960
Fair value of plan assets, beginning of year	\$ 7,323	\$ 6,192	\$ -	\$ -
Expected return on plan assets	557	473	-	-
Employee contributions	59	56	-	-
Employer contributions	518	685	284	262
Benefits paid	(382)	(532)	(284)	(262)
Actuarial gain (loss)	(190)	449	-	-
Fair value of plan assets, end of year	\$ 7,885	\$ 7,323	\$ -	\$ -
Funded status - plan deficit	\$ (2,611)	\$ (1,214)	\$ (6,487)	\$ (4,960)
Unamortized transition asset	-	(34)	5	32
Unamortized net actuarial loss (gain)	3,019	1,567	625	(735)
Unamortized past service costs	23	27	265	331
Accrued benefit asset (liability)	\$ 431	\$ 346	\$ (5,592)	\$ (5,332)
Current service cost	\$ 401	\$ 271	\$ 198	\$ 174
Interest cost	572	536	326	305
Expected return on plan assets	(557)	(473)	-	-
Amortization of past service costs	4	4	66	67
Amortization of net actuarial loss	48	29	(73)	(120)
Amortization of transitional obligation	(34)	(38)	27	68
Settlement	-	-	-	-
Net benefit plan expense	\$ 434	\$ 329	\$ 544	\$ 494
Plan expense	\$ 434	\$ 329	\$ 544	\$ 494
Employee contributions	59	56	-	-
Benefits paid	382	532	284	262

Of the net benefit plan expense of \$544 (2009 - \$494) for other benefit plans, \$140 (2009 - \$79) is for post-retirement health benefits and \$404 (2009 - \$415) is for current and potential supplemental pension obligations to retired and current executives.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

11. Income and other taxes:

The accounting income subject to tax for 2010 is \$Nil (2009 - \$Nil). The Society has deductions available to reduce possible income subject to income taxes in future years of \$11,324 (2009 - \$13,438) with additional Ontario tax credits of \$1,193 (2009 - \$1,136), the tax effect of which is not reflected in the accounts because a full valuation allowance in the amount of \$4,065 (2009 - \$4,561) has been provided against any future tax assets. The provision for income and other taxes consists of capital taxes, investment income tax and other taxes that the Society is required to pay.

12. Subordinated debt:

Subordinated debt consists of the following:

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Subordinated loan, due December 24, 2018, unsecured	\$ 3,215	\$ 3,355	\$ 3,872	\$ 3,669

During the fourth quarter of 2008, the society issued U.S. \$4,000 in subordinated debt. The subordinated debt is redeemable by the Society at the principal amount plus any accrued and unpaid interest at any time. During the fourth quarter of 2009, a redemption of U.S. \$300 took place, and during the fourth quarter of 2010 a further redemption of U.S. \$500 took place. The carrying value has been converted to Canadian currency at the prevailing exchange rate as of the balance sheet date.

The subordinated debt bears an annual interest rate of 6.75% until December 24, 2013. After December 24, 2013 it will bear interest at the rate of 7.75%. The fair value of the subordinated debt is estimated based on the present value of future cash flows discounted at current market rates of interest for debt of similar term and quality.

FAITHLIFE FINANCIAL

Notes to the Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2010

13. Outsourced policy administrative functions:

Effective January 1, 2006, the Society entered into an agreement with a Third Party Administrator for the administration of certain policy administration services. The initial term of this agreement is five years, with renewal options available. Under the terms of the agreement, the charges for administrative services are variable, dependent on the volume of new business sold, and the volume of business in force. In 2010, the charges incurred for such services were \$1,143 (2009 - \$1,072).

14. Acquisition of Canadian business of Woman's Life:

Effective January 1, 2010, under an assumption reinsurance agreement, the Society assumed all the outstanding Canadian business of Woman's Life Insurance Society of Port Huron, Michigan. The effect of this assumption was an increase in policy liabilities of \$5,985, an increase in amounts on deposit and other liabilities of \$1,556 and an increase in assets of \$9,062. The net gain on the transaction, after expenses, was \$1,257 which is included in other income on the consolidated statement of income.