



2011
2nd Quarter
Financial Statements

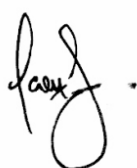
WESTERN FINANCIAL GROUP INC.

CONSOLIDATED BALANCE SHEET

(unaudited)

(in thousands of Canadian dollars, except for per share amounts)

	Note	2011		2010	
		June 30	December 31	January 1	
ASSETS					
Cash and cash equivalents		\$ 58,419	\$ 58,010	\$ 58,463	
Held-for-trading securities		70,255	69,201	61,373	
Available-for-sale securities	9	47,410	43,436	30,901	
Mortgages, loans and leases	10	337,786	359,696	355,621	
Interest rate swaps		-	-	90	
Investment in associates	12	10,863	21,283	11,591	
Accounts receivable	13	52,234	52,863	51,114	
Prepaid expenses		5,158	7,550	7,231	
Property and equipment		12,982	15,491	15,325	
Income tax assets		235	-	-	
Deferred income tax assets		1,152	431	1,102	
Reinsurance contracts	17	48,241	42,119	31,802	
Other assets		2,721	4,370	2,486	
Goodwill	14	158,938	166,388	148,205	
Intangible assets	15	67,757	72,725	72,825	
Total assets		\$ 874,151	\$ 913,563	\$ 848,129	
LIABILITIES					
Deposits from customers	16	\$ 298,979	\$ 312,196	\$ 317,953	
Insurance liabilities	17	114,970	105,155	85,753	
Debt	18	55,000	71,622	79,771	
Interest rate swaps		-	161	-	
Due to policyholders		18,833	22,525	20,392	
Trade and other payables	19	104,882	104,675	81,696	
Current income tax liabilities		-	647	1,809	
Deferred income tax liabilities		9,664	13,068	13,199	
Total liabilities		602,328	630,049	600,573	
EQUITY					
Share capital	20	255,291	233,162	206,905	
Other paid in capital		-	268	268	
Contributed surplus		2,065	2,585	2,099	
Accumulated other comprehensive loss	21	(182)	(552)	(138)	
Retained earnings		14,649	48,051	38,422	
Total equity		271,823	283,514	247,556	
Total liabilities and equity		\$ 874,151	\$ 913,563	\$ 848,129	




Approved: **Scott Tannas, Director** **Robert Herdman, Director**

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED INCOME STATEMENT

(unaudited)

(in thousands of Canadian dollars, except for per share amounts)

	Note	Three months ended June 30		Six months ended June 30	
		2011	2010	2011	2010
REVENUE					
Commission and other customer income		\$ 33,452	\$ 31,857	\$ 59,364	\$ 54,996
Insurance premium income	23	23,716	19,823	46,183	37,843
Interest income on customer loans		6,127	6,719	12,409	13,125
Investment income					
Change in fair value of held-for-trading securities		2,028	2,240	1,030	3,272
Realized gain on available-for-sale securities		14	52	26	88
Other net investment income		789	611	1,476	1,256
		66,126	61,302	120,488	110,580
EXPENSES					
Operating expenses	24	53,586	34,247	90,547	64,479
Policyholder benefits		12,709	11,699	21,808	21,369
Interest expense on customer deposits		2,511	3,176	5,270	6,153
Loan impairment charges	11	177	748	581	924
(Loss) income before the following:		(2,857)	11,430	2,282	17,655
Income from investment in associates		364	449	542	592
Loss on write-down of held-for-sale asset	12	-	-	(8,970)	-
Gain on sale of property and equipment		245	-	334	-
Interest and financing costs on debt		(1,376)	(1,595)	(2,774)	(3,005)
Depreciation of property and equipment		(544)	(701)	(1,164)	(1,330)
Amortization of intangible assets		(913)	(970)	(2,009)	(1,919)
Impairment of goodwill and intangible assets	14, 15	-	-	(16,835)	-
(Loss) income before income tax		(5,081)	8,613	(28,594)	11,993
Income tax (expense) recovery	25	(1,072)	(3,080)	376	(4,243)
NET (LOSS) INCOME FOR THE PERIOD		\$ (6,153)	\$ 5,533	\$ (28,218)	\$ 7,750
(Loss) earnings per share					
Basic	22	\$ (0.12)	\$ 0.07	\$ (0.47)	\$ 0.08
Diluted		\$ (0.12)	\$ 0.07	\$ (0.47)	\$ 0.08

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME

(unaudited)

(in thousands of Canadian dollars, except for per share amounts)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net (loss) income for the period	\$ (6,153)	\$ 5,533	\$ (28,218)	\$ 7,750
Other comprehensive income:				
Unrealized net loss on available-for-sale financial instruments arising during the year, net of tax of \$156 - 3 months (2010 - \$83); net of tax of \$93 - 6 months (2010 - \$44)	414	164	261	101
Reclassification to net income of net gain on sale of available-for-sale financial instruments during the year, net of tax of \$8 - 3 months (2010 - \$nil); net of tax of \$5 - 6 months (2010 - \$11)	(4)	-	(11)	(25)
Change in fair value of interest rate swap, net of tax of \$104 - 3 months (2010 - \$96); net of tax of \$41 - 6 months (2010 - \$65)	(73)	(289)	120	(195)
Other comprehensive income (loss) for the period, net of tax	337	(125)	370	(119)
Total comprehensive (loss) income for the period	\$ (5,816)	\$ 5,408	\$ (27,848)	\$ 7,631

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(unaudited)

(in thousands of Canadian dollars, except for per share amounts)

	Note	Share capital	Other paid in capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total equity
Balance at January 1, 2010		\$ 206,905	\$ 268	\$ 2,099	\$ (138)	\$ 38,422	\$ 247,556
Comprehensive income							
Net income		-	-	-	-	7,750	7,750
Other comprehensive income							
Unrealized net loss on available-for-sale securities, net of tax		-	-	-	101	-	101
Reclassification to net income of net gain on sale of available-for-sale securities, net of tax		-	-	-	(25)	-	(25)
Change in fair value of interest rate swap, net of tax		-	-	-	(195)	-	(195)
Total other comprehensive income (loss)		-	-	-	(119)	-	(119)
Total comprehensive income (loss)		-	-	-	(119)	7,750	7,631
Transactions with owners							
Preferred shares issued and converted, net		(61)	-	-	-	-	(61)
Ordinary shares issued and converted, net		26,512	-	-	-	-	26,512
Stock option plan:							
Value of employee services		-	-	177	-	-	177
Dividends on preferred shares							
First preferred, series 2 (\$3.38 per share)		-	-	-	-	(477)	(477)
First preferred, series 3 (\$3.38 per share)		-	-	-	-	(844)	(844)
First preferred, series 4 (\$3.38 per share)		-	-	-	-	(675)	(675)
First preferred, series 5 (\$5.19 per share)		-	-	-	-	(1,838)	(1,838)
Dividends on ordinary shares (\$0.01 per share)		-	-	-	-	(1,168)	(1,168)
Total transactions with owners		26,451	-	177	-	(5,002)	21,626
Balance at June 30, 2010		\$ 233,356	\$ 268	\$ 2,276	\$ (257)	\$ 41,170	\$ 276,813

	Note	Share capital	Other paid in capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total equity
Balance at January 1, 2011		\$ 233,162	\$ 268	\$ 2,585	\$ (552)	\$ 48,051	\$ 283,514
Comprehensive (loss) income							
Net loss		-	-	-	-	(28,218)	(28,218)
Other comprehensive income							
Unrealized net loss on available-for-sale securities, net of tax		-	-	-	261	-	261
Reclassification to net income of net gain on sale of available-for-sale securities, net of tax		-	-	-	(11)	-	(11)
Change in fair value of interest rate swap, net of tax		-	-	-	120	-	120
Total other comprehensive income (loss)		-	-	-	370	-	370
Total comprehensive (loss) income		-	-	-	370	(28,218)	(27,848)
Transactions with owners							
Preferred shares issued and converted, net	20	(24,007)	-	-	-	(743)	(24,750)
Ordinary shares issued and converted, net	20	46,136	-	-	-	-	46,136
Convertible debentures converted to shares		-	(268)	-	-	-	(268)
Stock option plan:							
Value of employee services		-	-	403	-	-	403
Proceeds from shares issued		-	-	(923)	-	-	(923)
Dividends on preferred shares							
First preferred, series 2 (\$3.38 per share)		-	-	-	-	(78)	(78)
First preferred, series 3 (\$3.38 per share)		-	-	-	-	(844)	(844)
First preferred, series 4 (\$3.38 per share)		-	-	-	-	(675)	(675)
First preferred, series 5 (\$4.50 per share)		-	-	-	-	(1,383)	(1,383)
Dividends on ordinary shares (\$0.01 per share)		-	-	-	-	(1,461)	(1,461)
Total transactions with owners		22,129	(268)	(520)	-	(5,184)	16,157
Balance at June 30, 2011		\$ 255,291	\$ -	\$ 2,065	\$ (182)	\$ 14,649	\$ 271,823

WESTERN FINANCIAL GROUP INC.

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(in thousands of Canadian dollars, except for per share amounts)

	Note	Three months ended June 30		Six months ended June 30	
		2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income for the period		\$ (6,153)	\$ 5,533	\$ (28,218)	\$ 7,750
Adjustments	26	27,193	15,565	55,610	29,511
Net (increase) decrease in mortgages, loans and leases		(1,132)	(18,823)	21,330	(19,555)
Net increase (decrease) in customer deposits		1,753	14,249	(13,217)	19,456
Interest paid		(4,350)	(5,602)	(5,987)	(6,635)
Income tax paid		(5,604)	(1,912)	(7,723)	(4,691)
Net cash generated from operating activities		11,707	9,010	21,795	25,836
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in securities		(39,856)	(68,297)	(65,133)	(113,335)
Proceeds from sale of securities		43,894	73,386	62,975	108,462
Loan repayments received from associates		2,128	-	2,128	-
Investment in associates		(5)	(10)	192	31
Proceeds from sale of investment in associates		1,799	-	1,799	-
Purchases of property and equipment		(603)	(801)	(800)	(1,219)
Proceeds from sale of property and equipment		2,140	-	2,155	-
Net increase in goodwill		-	(12,463)	-	(12,463)
Net increase in intangible assets		(106)	(1,124)	(724)	(1,628)
Other assets		(1,699)	526	(398)	396
Dividends received		474	54	474	54
Business combinations, net of cash acquired		(2,657)	-	(5,562)	-
Net cash generated from (used in) investing activities		5,509	(8,729)	(2,894)	(19,702)
CASH FLOWS FROM FINANCING ACTIVITIES					
Advances of debt		56,344	-	57,874	2,500
Repayments of debt		(73,383)	(2,450)	(75,925)	(5,842)
Proceeds from issuance of ordinary shares		5,387	26,502	5,387	26,502
Change in other paid in capital		(268)	-	(268)	-
Dividends paid - ordinary shares		(1,460)	(528)	(2,101)	(1,056)
Dividends paid - preferred shares		(2,982)	(3,357)	(3,459)	(3,834)
Net cash (used in) generated from financing activities		(16,362)	20,167	(18,492)	18,270
Net increase in cash and cash equivalents for the period		854	20,448	409	24,404
Cash and cash equivalents, beginning of period		57,565	62,419	58,010	58,463
Cash and cash equivalents, end of period		\$ 58,419	\$ 82,867	\$ 58,419	\$ 82,867

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(in thousands of Canadian dollars, except for per share amounts)

NOTE 1 GENERAL INFORMATION

Western Financial Group Inc. ("the Company") was incorporated in the province of Alberta as 674658 Alberta Inc. on November 15, 1995 and is engaged in the acquisition and operation of insurance and financial service brokerage businesses, banking activities, life and health insurance underwriting, provision of dog and cat insurance products, commercial property and casualty underwriting, and travel agency operations in Western Canada. The ordinary shares of the Company are traded on the Toronto Stock Exchange ("TSX") under symbol WES (Note 30).

On April 15, 2011, Desjardins Group, through Desjardins Financial Corporation Inc. ("Desjardins"), a wholly-owned subsidiary of the Fédération des caisses Desjardins du Québec, acquired control of the Company by purchasing the majority of the ordinary shares of the Company (Note 30).

The Company's primary business is the ownership and operation of Western Financial Group (Network) Inc. ("the Network"), which serves 100 communities with offices in British Columbia ("BC"), Alberta ("AB"), Saskatchewan ("SK") and Manitoba ("MB"). In addition, the Company has affiliated offices in 12 communities with 17 offices in BC and SK. These locations offer a broad variety of property and casualty insurance services including private auto insurance and government auto insurance in BC, SK and MB, home and farm insurance, business and specialty insurance, life products and in many locations, investment and financial services.

The banking activities are carried out through a federally incorporated, wholly owned subsidiary, Bank West ("the Bank"), which received its bank charter on November 27, 2002 and commenced operations on January 30, 2003. The Bank is subject to the Bank Act (Canada).

The life and health insurance underwriting activities are carried out through Western Life Assurance Company ("Western Life"). Western Life is a wholly owned subsidiary company licensed to write all classes of life, health, and loss of employment insurance, in all provinces in Canada and is subject to the Insurance Companies Act (Canada). Western Life's products are marketed through agents and independent brokers and the majority of the writings are in the provinces of Ontario and AB.

The provision of dog and cat insurance products and the commercial property and casualty underwriting activities are carried out through Western Financial Insurance Company ("Western Financial Insurance"). Western Financial Insurance is a wholly owned subsidiary company licensed to write property and liability insurance in all provinces and territories in Canada and is subject to the Insurance Companies Act (Canada).

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

NOTE 2 ACCOUNTING POLICIES

To facilitate a better understanding of the Company's consolidated financial statements, wherever possible, the significant accounting policies are disclosed throughout the following notes with the related financial disclosures by major caption:

Note	Topic	Page	Note	Topic	Page
3	Impact of IFRS	12	16	Deposits from Customers	46
4	Risk Management	14	17	Insurance Liabilities	46
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	Liquidity Risk	18	19	Trade and Other Payables	49
	Market Risk	19	20	Share Capital	50
5	Capital Management	25	21	Accumulated Other Comprehensive Loss	53
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10	Mortgages, Loans and Leases	40	26	Cash Flow From Operations	56
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12	Investment in Associates	41	28	Business Combinations	57
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14	Goodwill	43	30	Events After the Reporting Period	59
15	Intangible Assets	44			

Change in Estimate

Effective April 15, the Company changed its method of calculating depreciation of property and equipment and amortization of computer software, to be consistent with the accounting policy of Desjardins. The Company now uses the straight-line method rather than the declining balance method. This change was adopted prospectively. As a result property and equipment are depreciated and computer software is amortized at the following rates. The impact of this change in estimate is not material in this quarter.

- Buildings 20 years
- Furniture and equipment 5 years
- Computer hardware 5 years
- Leased assets 3 years
- Automotive assets 3 years
- Leasehold improvements over the lease term
- Computer software 5 years

Basis of Presentation and Adoption of International Financial Reporting Standards

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. As a result, the Company has commenced reporting on this basis in these financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian general accepted accounting principles before the adoption of IFRS. Additional information required by federal or provincial regulations is included where appropriate.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with the IFRS applicable to the preparation of interim consolidated financial statements including, International Accounting Standard ("IAS") 34, *Interim Financial Reporting* and IFRS 1, *First-time adoption of International Financial Reporting Standards*. The Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

policies from those used on the Company's consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 15, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP audited consolidated financial statements for the year ended December 31, 2010.

Consolidation

a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries which are businesses. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

b) Transactions and minority interests

The Company treats transactions with minority interests as transactions with equity owners of the Company. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest costs in the statement of income in the period in which they are incurred.

Leases

a) The Company is the lessee

The leases entered into by the Company are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the income statement. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

i. Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

ii. Finance lease

Leases of assets, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from customers depending on the counterparty. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b) A group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Cash and cash equivalents

Cash and cash equivalents include cash, short term investments with maturity of up to 90 days at the time of purchase and the outstanding amount under the Company's operating lending facility.

Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement.

Debt

Debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently carried at amortized cost; any difference between the proceeds (net of transactions costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period to which it relates.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

Provisions

Provisions for restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Company recognizes no provisions for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of insurance and banking services in the ordinary course of the Company's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the group.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transactions and the specifics of each arrangement.

a) Commission income and other customer income

Insurance commission income is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinable. The Company maintains an allowance for estimated policy cancellations and commission returns by applying historical policy cancellations and endorsements to the current year revenue adjusted for acquisitions and dispositions.

Other customer income is fees collected from customers that are not insurance commission income, insurance premium income or interest income on customer loans.

b) Interest income on customer loans

Interest income is recognized using the effective interest method. When a loan is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

c) Other net investment income

Included in other net investment income is interest on investments and dividend income. Dividend income is recognized when the right to receive payment is established.

Deferred policy acquisition expenses

Policy acquisition expenses are comprised of premium taxes that relate directly to the production of the business. These expenses are deferred to the extent that they are considered to be recoverable and are expensed in the accounting periods in which related premiums are recognized as income.

Dividends

Dividends payable to the Company's shareholders are recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

NOTE 3 IMPACT OF IFRS

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The impact of the Company's transition to IFRS is summarized as follows:

1. Transition elections
2. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS
3. Adjustments for reinsurance assets
4. Adjustments to the statement of cash flows
5. Accounting standards issued but not yet applied

1. Transition elections

The Company has applied the mandatory transition exemptions and the following optional exceptions to full retrospective application of IFRS:

- Business combinations
- Hedge accounting
- Insurance contracts

2. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

	Explanatory note	December 31, 2010	June 30, 2010	January 1, 2010
Equity				
Equity as reported under Canadian GAAP		\$ 283,228	\$ 276,170	\$ 246,551
IFRS adjustments increase (decrease):				
Stock options - contributed surplus	a)	323	162	56
Stock options - retained earnings	a)	(323)	(162)	(56)
Commission on available-for-sale securities - AOCI	b)	(8)	(8)	(8)
Commission on available-for-sale securities - retained earnings	b)	8	8	8
Dividends	c)	796	799	1,005
Business combination expenses	d)	(510)	(157)	-
Equity as reported under IFRS		\$ 283,514	\$ 276,812	\$ 247,556

	Explanatory note	Year ended December 31, 2010	Six months ended June 30, 2010
Comprehensive income			
As reported under Canadian GAAP		\$ 19,866	\$ 7,894
Decrease in net income for:			
Stock options	a)	(267)	(106)
Business combination expenses	d)	(510)	(157)
As reported under IFRS		\$ 19,089	\$ 7,631

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Explanatory notes

a) Stock options

In accordance with IFRS 2, *Share-based Payment*, the Company accrues the cost of stock options over the vesting period using the graded method of amortization rather than the straight-line method previously allowed under Canadian GAAP. At January 1, 2010, this resulted in an increase to contributed surplus of \$56 and a decrease to retained earnings of \$56 (At June 30, 2010 an increase to contributed surplus of \$162 and a decrease to retained earnings; at December 31, 2010 an increase to contributed surplus of \$323 and a decrease to retained earnings); an overall nil impact on equity. This also decreased operating expense by \$106 for the period ended June 30, 2010 (\$267 -- December 31, 2010).

b) Commission on available-for-sale securities

In accordance with International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, the Company now capitalizes transactions costs related to financial instruments. At January 1, 2010, at June 30, 2010 and at December 31, 2010 this resulted in a decrease to accumulated other comprehensive income of \$8 and an increase to retained earnings of \$8; an overall nil impact on equity.

c) Dividends

In accordance with IAS 10, *Events after the Reporting Period*, the Company now only records dividends when declared. At January 1, 2010 this resulted in an increase to equity of \$1,005 (\$799 – June 30, 2010; \$796 – December 31, 2010) and no impact on comprehensive income.

d) Business combination expenses

In accordance with IFRS transition provisions, the Company elected to apply IFRS 3, *Business Combinations* prospectively from January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment. Also in accordance with IFRS 3, *Business Combinations*, the Company, since January 1, 2010, expenses transaction and restructuring costs related to the acquisition of a business. This resulted in no change to retained earnings as at January 1, 2010. This decreased net income by \$510 for the year ended December 31, 2010 and decreased net income by \$157 for the six months ended June 30, 2011.

3. Adjustments for reinsurance assets

In accordance IFRS 4, *Insurance Contracts*, the Company now presents reinsurance on a gross basis. At January 1, 2010, this had the impact of increasing reinsurance contracts and increasing insurance liabilities, both, by \$31,802 (\$38,042 - June 30, 2010; \$42,119 – December 31, 2010).

4. Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the company except that, under IFRS, cash flows relating to mortgages, loans and leases, customer deposits and interest and income tax paid are classified as operating. Under Canadian GAAP, cash flows relating to mortgages, loans and leases and to deposits from customers are classified as investing and financing respectively.

5. Accounting standards issued but not yet applied

IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") addresses additional disclosures of financial instruments in respect of risk exposures arising from transferred financial assets. This standard is required to be applied for accounting period beginning on or after July 1, 2011, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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IFRS 9, *Financial Instruments* ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standard 39, *Financial Instruments* ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 13, *Fair Value Measurement* ("IFRS 13") provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IAS 1, *Presentation of Financial Statements* ("IAS 1") has been amended to change the disclosure of items presented in other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This standard is required to be applied for accounting periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

Comparative Figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation of Property and equipment and Intangible assets.

NOTE 4 RISK MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risks which include credit risk, liquidity risk, and market risk and it mitigates the risks accordingly. The Company's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company's policies and processes to monitor, evaluate and manage these risks are consistent with those in place at December 31, 2010. Information about the Company's risk management practices is provided in Note 5 to the 2010 audited financial statements.

a) Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers, clients or market counterparties fail to fulfill their contractual obligations to the Company. The most significant assets giving rise to credit risk is the mortgage, loan and lease portfolio. The Company is also exposed to other credit risks arising from cash and cash equivalents, investments in debt securities and other exposures arising from its trading activities; accounts receivables and reinsurance contracts. The key areas in which our insurance companies are exposed to credit risk are:

- Reinsurer's share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

The Company's maximum exposure to credit risk at is summarized in the following table.

	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
Cash and cash equivalents	\$ 58,419	\$ 58,010	\$ 58,463
Held-for-trading securities	70,255	69,201	61,373
Available-for-sale securities	26,007	25,538	24,277
Mortgages, loans and leases, net of allowance for credit losses (Note 10)	337,786	359,696	355,621
Interest rate swaps	-	-	90
Accounts receivable	52,234	52,863	51,114
Reinsurance contracts	48,241	42,119	31,802
Other assets	2,721	4,370	2,486
Total balance sheet maximum credit exposure	595,663	611,797	585,226
Bank West credit commitments	4,814	3,883	10,155
Maximum credit exposure	\$ 600,477	\$ 615,680	\$ 595,381

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

i. Mortgages, Loans and Leases

The following tables present the credit quality of loans.

As at June 30, 2011

	Gross loans neither impaired nor past due	Gross loans past due but not impaired	Gross impaired loans	Specific allowances	Collective allowance	Net loans
Residential mortgages	\$ 10,969	\$ 1,351	\$ 140	\$ 18	\$ -	\$ 12,442
Consumer, credit cards and other personal loans	196,380	1,921	1,561	926	-	198,936
Business and government	119,317	8,493	2,507	1,871	-	128,446
Collective allowance	-	-	-	-	2,038	(2,038)
	\$ 326,666	\$ 11,765	\$ 4,208	\$ 2,815	\$ 2,038	\$ 337,786

As at December 31, 2010

	Gross loans neither impaired nor past due	Gross loans past due by not impaired	Gross impaired loans	Specific allowances	Collective allowance	Net loans
Residential mortgages	\$ 11,478	\$ 666	\$ 2,351	\$ 245	\$ -	\$ 14,250
Consumer, credit cards and other personal loans	207,032	1,991	661	728	-	208,956
Business and government	131,292	6,231	3,160	1,538	-	139,145
Collective allowance	-	-	-	-	2,655	(2,655)
	\$ 349,802	\$ 8,888	\$ 6,172	\$ 2,511	\$ 2,655	\$ 359,696

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

As at January 1, 2010							
	Gross loans neither impaired nor past due	Gross loans past due by not impaired	Gross impaired loans	Specific allowances	Collective allowance	Net loans	
Residential mortgages	\$ 27,105	\$ 1,530	\$ 2,768	\$ 225	\$ -	\$ 31,178	
Consumer, credit cards and other personal loans	184,808	1,312	1,701	850	-	186,971	
Business and government	131,145	7,146	2,806	1,279	-	139,818	
Collective allowance	-	-	-	-	3,021	(3,021)	
	\$ 343,058	\$ 9,988	\$ 7,275	\$ 2,354	\$ 3,021	\$ 354,946	

A loan is considered past due when the borrower has failed to make a payment when contractually due. The following tables present the ageing of gross loans that are past due but not impaired.

As at June 30, 2011						
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total	
Residential mortgages	\$ 633	\$ -	\$ -	\$ 718	\$ 1,351	
Consumer, credit cards and other personal loans	579	620	196	526	1,921	
Business and government	4,403	1,436	2,245	409	8,493	
	\$ 5,615	\$ 2,056	\$ 2,441	\$ 1,653	\$ 11,765	

As at December 31, 2010						
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total	
Residential mortgages	\$ 661	\$ 5	\$ -	\$ -	\$ 666	
Consumer, credit cards and other personal loans	1,081	639	271	-	1,991	
Business and government	4,184	1,538	509	-	6,231	
	\$ 5,926	\$ 2,182	\$ 780	\$ -	\$ 8,888	

As at January 1, 2010						
	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total	
Residential mortgages	\$ 1,184	\$ -	\$ 346	\$ -	\$ 1,530	
Consumer, credit cards and other personal loans	915	264	133	-	1,312	
Business and government	5,002	1,496	394	254	7,146	
	\$ 7,101	\$ 1,760	\$ 873	\$ 254	\$ 9,988	

None of the past due but not impaired mortgages, loans and leases were renegotiated during the first quarter of 2011 or during the first quarter of 2010.

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The Company holds security related to mortgages, loans and leases in the form of real property, mortgage insurance, and liens on equipment and vehicles. Mortgages are fully collateralized by real property. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation amounting to \$3,438 at June 30, 2011 (\$7,738 – June 30, 2010).

ii. Securities

	As at June 30, 2011		As at December 31, 2010		As at January 1, 2010	
	Held For Trading	Available For Sale	Held For Trading	Available For Sale	Held For Trading	Available For Sale
Securities:						
Bonds - AAA rating	\$ 10,227	\$ 14,604	\$ 10,725	\$ 14,653	\$ 15,432	\$ 6,230
Bonds - AA rating	33,095	4,246	34,153	3,778	26,526	2,506
Bonds - A rating	26,474	2,501	22,991	2,832	16,906	4,081
Bonds - below A rating	-	-	-	-	-	209
Bonds - BBB rating	-	-	203	-	204	-
Corporate notes	-	2,129	-	750	-	-
Term deposits	-	999	-	2,011	-	7,574
Subordinated debentures	-	500	-	500	-	500
Preferred shares	-	1,028	-	1,014	-	-
Government of Canada Treasury bills	459	-	1,129	-	2,305	3,177
	\$ 70,255	\$ 26,007	\$ 69,201	\$ 25,538	\$ 61,373	\$ 24,277

Term deposits are held at major Canadian financial institutions.

iii. Accounts Receivable

Credit risk with respect to accounts receivable is minimized by the Company's large customer base, which covers all consumer and business sectors in BC, AB, MB and SK. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

iv. Reinsurance Assets

Western Life

Reinsurance risk is defined as the failure of reinsurers to honour their obligations resulting in losses to the Company. Maximum benefit amount limits per insured (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits. Reinsure contracts do not relieve Western Life from its obligations to policyholders. Western Life has agreements with a number of reinsurers and evaluates the ratings of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The following table summarizes the reinsurers' share of insurance liabilities.

	Credit Rating	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
RGA Life Reinsurance Company of Canada	A+	\$ 20,506	\$ 17,211	\$ 7,640
Optimum Reassurance Inc.	A-	10,992	10,735	11,373
SCOR Canada Reinsurance Company	A	443	456	109
Munich Reinsurance Company	A+	(103)	407	524
		\$ 31,838	\$ 28,809	\$ 19,646

Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. Western Life places its current new business with registered reinsurers. The group of reinsurers that Western Life ceded to has an

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A.M. Best rating from A- (Excellent) to A++ (Superior). No information has come to management's attention indicating weakness or failure of any of its current reinsurers therefore no provision has been made in the accounts for doubtful collection.

The following table summarizes the balances outstanding from Canadian reinsurers by risk rating. These amounts are included in Accounts receivable on the balance sheet.

Credit Rating	Reinsurance Receivable		
	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
A- (Excellent)	\$ 1,284	\$ 1,400	\$ 1,318
A+ (Superior)	559	1,151	725
A (Excellent)	24	-	-
A++ (Superior)	-	-	50
	\$ 1,867	\$ 2,551	\$ 2,093

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund all cash outflow requirements as they fall due as a result of customer deposits being withdrawn, policyholder benefit payments, and cash requirements from contractual commitments or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated balance sheet, or potentially an inability to fulfill lending commitments or an inability to fulfill policyholder commitments. The risk that the Company is unable to do so is inherent in all banking and insurance operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Based on the Company's historical cash flows and financial performance, management believes that the Company's cash flows from operations will continue to provide sufficient liquidity to satisfy its obligations.

The following table presents the contractual maturities of the Company's financial assets and liabilities.

	Within 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 4 years	Over 4 to 10 years	Over 10 years	Total
Cash and cash equivalents	\$ 58,419	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,419
Securities	11,727	3,913	100	120	4,248	10,904	38,726	47,927	117,665
Mortgages, loans and leases	76,032	12,572	15,782	49,184	48,201	94,560	46,308	-	342,639
Accounts receivable	32,074	17,357	684	2,119	-	-	-	-	52,234
Reinsurance contracts	-	-	-	17,458	(938)	(106)	2,298	29,529	48,241
	178,252	33,842	16,566	68,881	51,511	105,358	87,332	77,456	619,198
Deposits from customers	19,411	17,734	59,858	66,860	81,110	53,434	1,445	-	299,852
Insurance liabilities	1,046	387	138	34,960	(2,479)	(10)	6,614	74,314	114,970
Trade and other payables	55,144	29,801	4,779	6,911	-	-	8,247	-	104,882
Debt	55,000	-	-	-	-	-	-	-	55,000
Due to policyholders	752	1,504	2,255	4,511	9,021	790	-	-	18,833
	131,353	49,426	67,031	113,241	87,652	54,214	16,306	74,314	593,537
At June 30, 2011	\$ 46,899	\$ (15,584)	\$ (50,465)	\$ (44,360)	\$ (36,141)	\$ 51,144	\$ 71,026	\$ 3,142	\$ 25,661
At December 31, 2010	\$ 81,642	\$ (9,766)	\$ (16,280)	\$ (63,452)	\$ (12,228)	\$ 14,916	\$ 37,286	\$ 19,046	\$ 51,165

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The following tables present the potential outflows related to credit commitments and the cash flow commitment related to property leases.

	No later than 1			
	year	1 to 5 years	Over 5 years	Total
At June 30, 2011				
Credit commitments	\$ 4,814	\$ -	\$ -	\$ 4,814
Property lease commitments	4,232	12,854	1,936	19,022
Total	\$ 9,046	\$ 12,854	\$ 1,936	\$ 23,836

	No later than 1			
	year	1 to 5 years	Over 5 years	Total
At December 31, 2010				
Credit commitments	\$ 3,883	\$ -	\$ -	\$ 3,883
Property lease commitments	4,157	11,693	3,725	19,575
Total	\$ 8,040	\$ 11,693	\$ 3,725	\$ 23,458

	No later than 1			
	year	1 to 5 years	Over 5 years	Total
At January 1, 2010				
Credit commitments	\$ 10,155	\$ -	\$ -	\$ 10,155
Property lease commitments	4,373	13,076	6,565	24,014
Total	\$ 14,528	\$ 13,076	\$ 6,565	\$ 34,169

c) 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 risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. Market risk includes foreign currency risk, interest rate risk, and other price risk.

The Company has no material exposure to *foreign currency risk*.

Interest rate risk, or sensitivity, is defined as the impact on net income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises primarily when cash flows associated with interest sensitive assets and liabilities have different repricing dates and due to mismatch between amounts of fixed and floating rate assets and liabilities.

During 2009, the Company entered into two interest rate swap agreements to manage interest rate risk on \$40,000 of its bank debt. These were closed out on May 6, 2011 for a cash payment of \$70.

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Bank West

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its loan portfolio and customer deposits. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of the Bank that are scheduled to mature or re-price on particular dates. The Bank uses gap analysis to measure this risk.

The gaps which existed, for the Bank, at June 30 based on the earlier of the maturity date of interest rate sensitive instruments or contractual repricing are detailed in the following table. Mortgage, loan and lease prepayments are assumed to be nil and the gap is sensitive to this assumption.

As at June 30, 2011

	Floating Rate	Within 1 month	Over 1 month to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets										
Cash and securities	\$ 19,984	\$ -	\$ 2,629	\$ -	\$ -	\$ -	\$ -	\$ 8,938	\$ -	\$ 31,551
Mortgages, loans and leases	21,281	54,199	77,538	48,201	48,828	45,732	35,979	8,845	1,484	342,087
Other assets	-	228	2,507	-	-	-	-	-	-	2,735
Total assets	\$ 41,265	\$ 54,427	\$ 82,674	\$ 48,201	\$ 48,828	\$ 45,732	\$ 35,979	\$ 17,783	\$ 1,484	\$ 376,373
Liabilities and Equity										
Current liabilities	\$ 1,032	\$ 11,355	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,247	\$ -	\$ 20,634
Deposits	283	16,756	144,385	81,110	40,309	13,125	1,445	-	(817)	296,596
Shareholder's equity	-	-	-	-	-	-	-	-	53,020	53,020
Total liabilities and equity	\$ 1,315	\$ 28,111	\$ 144,385	\$ 81,110	\$ 40,309	\$ 13,125	\$ 1,445	\$ 8,247	\$ 52,203	\$ 370,250
Interest rate sensitive gap	\$ 39,950	\$ 26,316	\$ (61,711)	\$ (32,909)	\$ 8,519	\$ 32,607	\$ 34,534	\$ 9,536	\$ (50,719)	\$ 6,123
Cumulative gap	\$ 39,950	\$ 66,266	\$ 4,555	\$ (28,354)	\$ (19,835)	\$ 12,772	\$ 47,306	\$ 56,842	\$ 6,123	
Cumulative gap as a percentage of total assets	10.61%	17.61%	1.21%	-7.53%	-5.27%	3.39%	12.57%	15.10%	1.63%	

As at December 31, 2010

	Floating Rate	Within 1 year	Over 1 month to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Cumulative gap	\$ 33,486	\$ 27,785	\$ (18,178)	\$ (26,860)	\$ (24,935)	\$ 13,129	\$ 50,403	\$ 41,745	\$ (15,284)	
Cumulative gap as a percentage of total assets	8.59%	7.13%	-4.66%	-6.89%	-6.39%	3.37%	12.93%	10.71%	-3.92%	

As at January 1, 2010

	Floating Rate	Within 1 year	Over 1 month to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Cumulative gap	\$ 36,182	\$ 34,123	\$ 4,490	\$ (50,912)	\$ (68,659)	\$ (28,984)	\$ 15,298	\$ 54,838	\$ -	
Cumulative gap as a percentage of total assets	9.10%	8.58%	1.13%	-12.80%	-17.26%	-7.29%	3.85%	13.79%	0.00%	

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The effective, weighted average interest rates for each class of financial asset and liability are shown in the following table.

As at June 30, 2011

	Floating Rate	Within 1 month	Over 1 month to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Assets										
Cash and securities	25.0%	0.0%	1.6%	11.0%	0.0%	0.0%	0.0%	0.0%	3.7%	7.8%
Mortgages, loans and leases	6.9%	11.1%	5.6%	6.5%	7.4%	7.2%	6.5%	6.8%	6.5%	7.6%
Other assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total assets	3.6%	11.1%	5.2%	6.5%	7.4%	7.2%	6.5%	4.0%	6.9%	6.6%
Liabilities										
Current liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits	0.0%	4.4%	3.3%	4.1%	3.0%	4.0%	3.0%	0.0%	0.0%	3.0%
Total liabilities	0.0%	3.7%	2.7%	4.0%	3.0%	4.0%	3.0%	0.0%	0.0%	2.7%
Interest rate sensitive gap	3.6%	7.3%	2.5%	2.5%	4.4%	3.2%	3.5%	4.0%	6.9%	3.9%

As at December 31, 2010

	Floating Rate	Within 1 year	Over 1 month to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Total assets	5.2%	5.7%	7.6%	6.4%	7.3%	7.1%	6.4%	5.3%	0.0%	6.9%
Total liabilities	0.0%	2.5%	3.9%	4.1%	3.5%	4.0%	4.0%	0.0%	0.0%	3.8%
Interest rate sensitive gap	5.2%	3.2%	3.7%	2.3%	3.8%	3.1%	2.4%	5.3%	0.0%	3.1%

As at January 1, 2010

	Floating Rate	Within 1 year	Over 1 month to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest rate sensitive	Total
Total assets	2.8%	3.2%	8.3%	7.3%	7.7%	7.5%	7.3%	5.6%	0.0%	6.6%
Total liabilities	0.8%	1.7%	2.4%	4.3%	4.0%	4.6%	3.8%	0.0%	0.0%	2.9%
Interest rate sensitive gap	2.0%	1.5%	5.9%	3.0%	3.7%	2.9%	3.5%	5.6%	0.0%	3.7%

Based on the current interest rate gap position, it is estimated that a 100 basis point increase in all interest rates would increase net interest income by approximately 1.2% or \$208 at June 30, 2011 (2.5% or \$362 at December 31, 2010). A 100 basis point decrease in all interest rates would decrease net interest income by approximately 1.3% or \$213 at June 30, 2011 (2.5% or \$367 at December 31, 2010).

Western Life

Insurance contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate and hence the Company's primary financial risk on these contracts is the risk that interest income and capital redemption from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable.

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The following tables indicate, for Western Life, the estimated amount and timing of cash flows arising from the liabilities and the extent of duration-matching for these contracts against the portion of the investment portfolio backing these liabilities.

As at June 30, 2011

	Carrying amount	Contractual cash flows (undiscounted)				
		0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years
Assets						
Held for trading:						
Fixed rate	\$ 43,264	\$ 5,638	\$ 6,995	\$ 30,011	\$ 2,000	\$ 46,700
Total	\$ 43,264	\$ 5,638	\$ 6,995	\$ 30,011	\$ 2,000	\$ 46,700

	Carrying amount	Expected cash flows (undiscounted)				
		0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years
Liabilities						
Long-term insurance contracts	\$ 41,641	\$ (6,056)	\$ 4,409	\$ 12,964	\$ 11,621	\$ 77,369
Total	\$ 41,641	\$ (6,056)	\$ 4,409	\$ 12,964	\$ 11,621	\$ 77,369

Mean duration of assets 16.7 years
Mean duration of liabilities 25.3 years

As at December 31, 2010

	Carrying amount	Contractual cash flows (undiscounted)				
		0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years
Assets						
Held for trading:						
Fixed rate	\$ 42,392	\$ 5,638	\$ 6,995	\$ 30,011	\$ 2,000	\$ 46,700
Total	\$ 42,392	\$ 5,638	\$ 6,995	\$ 30,011	\$ 2,000	\$ 46,700

	Carrying amount	Expected cash flows (undiscounted)				
		0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years
Liabilities						
Long-term insurance contracts	\$ 39,382	\$ (4,763)	\$ 5,634	\$ 13,091	\$ 10,722	\$ 69,530
Total	\$ 39,382	\$ (4,763)	\$ 5,634	\$ 13,091	\$ 10,722	\$ 69,530

Mean duration of assets 20.7 years
Mean duration of liabilities 25.4 years

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As at January 1, 2010

	Carrying amount	Contractual cash flows (undiscounted)				
		0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years
Assets						
Held for trading:						
Fixed rate	\$ 35,953	\$ 10,516	\$ 6,995	\$ 12,011	\$ 20,000	\$ 17,700
Total	\$ 35,953	\$ 10,516	\$ 6,995	\$ 12,011	\$ 20,000	\$ 17,700

	Carrying amount	Expected cash flows (undiscounted)				
		0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years
Liabilities						
Long-term insurance contracts	\$ 34,062	\$ (1,537)	\$ 6,232	\$ 12,978	\$ 10,425	\$ 54,118
Total	\$ 34,062	\$ (1,537)	\$ 6,232	\$ 12,978	\$ 10,425	\$ 54,118

Mean duration of assets 14.3 years

Mean duration of liabilities 22.7 years

Most of Western Life's securities portfolio is comprised of fixed income securities; therefore changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. In addition, changes in interest rates will affect the market value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Since the investments supporting actuarial liabilities are classified as held-for-trading ("HFT"), market value increases and decreases in fixed income securities will result in corresponding increases and decreases in income. Investments classified as available-for-sale ("AFS") generally do not support actuarial liabilities; changes in the fair value of these investments are recorded in OCI.

The actuarial assumption most susceptible to change in the short run is future investment returns. Under the prescribed valuation method, Canadian Asset Liability Method ("CALM"), alternate interest rate scenarios are tested producing alternate policy liabilities for Individual Life insurance. The liability that is held is based on the interest rate scenario that produces the highest liability. The sensitivity to interest rate changes is, therefore, reflected in the development of the policy liabilities.

The liability produced for the base scenario is \$38,600 at June 30, 2011 (\$37,300 at December 31, 2010) compared to the highest liability produced of \$41,600 at June 30, 2011 (\$39,600 at December 31, 2010) – an increase of \$3,000 (\$2,300 at December 31, 2010). The highest liability results from a gradual 2.0% decrease in rates over the next ten years.

The approximate impact of an increase of 100 basis points in the interest yields would decrease actuarial liabilities and decrease the market value of fixed income securities and income pooled funds resulting in a net increase of \$5,568 to net income at June 30, 2011 (net increase of \$936 at December 31, 2010) and decrease OCI, net of taxes by \$296 at June 30, 2011 (increase OCI, net of taxes by \$425 at December 31, 2010). The approximate impact of a decrease of 100 basis points in the interest yields would increase actuarial liabilities and increase the market value of fixed income securities and income pooled funds resulting in a net increase of \$2,587 at June 30, 2011 (\$1,089 at December 31, 2010) and increase OCI, net of taxes by \$1,931 at June 30, 2011 (\$483 at December 31, 2010).

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Western Financial Insurance

Most of Western Financial Insurance's securities portfolio is comprised of fixed income securities; therefore changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. In addition, changes in interest rates will affect the market value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. Because investments are classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in OCI until the securities are sold and any gain or loss is realized. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

Changes in interest rates also have an impact on the rate used to discount unpaid claims and adjustment expenses. Consequently, changes in interest rates will affect the carrying value of the unpaid claims and adjustment expenses. During periods of rising interest rates, the carrying value of unpaid claims and adjustment expenses will generally decrease and net income will increase. During periods of declining interest rates the opposite is true.

The approximate impact of an increase of 100 basis points in the interest yields would decrease the unpaid claims and adjustment expenses provision and increase the income (pre-tax) of the Company by \$2 at June 30, 2011 (December 31, 2010 - \$2) and decrease investments and other comprehensive income before income taxes of the Company by \$399 (December 31, 2010 - \$456). The approximate impact of a decrease of 100 basis points in the interest yields would increase the unpaid claims and adjustment expenses provision and decrease the income before income taxes of the Company by \$2 (December 31, 2010 - \$2) and increase investments and other comprehensive income before taxes of the Company by \$577 (December 31, 2010 - \$521).

Other price risk is the risk that the fair value and/or future cash flows of the Company's pooled fund holdings fluctuate because of changes in market prices. Investments are reviewed monthly by management and reviewed quarterly by the Investment Committee. The Company monitors its pooled fund holdings relative to equity market conditions and reviews the performance of pooled fund investments against relative benchmarks. A 5% change in price equates to an impact of \$1,070 (June 30, 2010 - \$737) on the fair value, with an offsetting amount recorded in OCI (pre-tax).

In addition to credit risk, liquidity risk and market risk, the Company is also exposed to **product and pricing risk** and **underwriting and liability risk** and **insurance risk** through its subsidiaries, Western Life and Western Financial Insurance.

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. Western Life and Western Financial Insurance price their products by taking into account factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

Western Life or Western Financial Insurance may choose to adjust pricing below what they feel is acceptable to maintain a competitive position. However, Western Life and Western Financial Insurance strive to maintain a pricing level that ensures they are able to produce an acceptable return.

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of the risks to be insured, the adjudication of claims, and the management contractual and non-contractual product options.

Western Life and Western Financial Insurance have specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract in all jurisdictions. These guidelines are developed, in certain circumstances, in consideration of provincial underwriting rules. Western Life and Western Financial Insurance continually review their underwriting rules and compliance with evolving provincial regulation on restricted criteria. Western Life and Western Financial Insurance consider stability, fairness and the expectations of their existing and potential policyholders when making deliberate changes to its underwriting rules.

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The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk Western Life and Western Financial Insurance face under their insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. Western Life and Western Financial Insurance have developed their insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcomes.

The analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The table below describes the impact on short duration contracts not subject to financial risk (i.e. individual life).

Variable	Change in variable	Change in liability	
		June 30, 2011	December 31, 2010
Worsening of mortality	+ 10%	\$ 117	\$ 120
Worsening of morbidity			
Incidence	+ 10%	\$ 647	\$ 573
Duration	+ 1 year	\$ 371	\$ 344

NOTE 5 CAPITAL MANAGEMENT

The objective of the Company's capital management policy is consistent with those in place at December 31, 2010. Information about the Company's capital management practice is provided in Note 19 to the 2010 audited financial statements beginning on page 53.

The Company maintains capital levels above required needs to take account of normal business growth and increased volatility and uncertainty in current market conditions.

a) Bank West

Capital for Canadian financial institutions is managed and reported in accordance with a capital management framework specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI") commonly called Basel II. The current Basel II regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%; 4% of this must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). OSFI has established that Canadian banks need to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. It may also prescribe higher capital levels on an institution-specific basis. OSFI has also established an Assets to Regulatory Capital Multiple, which should not exceed a maximum level prescribed by OSFI, which varies from institution to institution.

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	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
Tier 1 capital			
Eligible capital stock	\$ 69,112	\$ 69,112	\$ 69,112
Undistributed losses	(16,092)	(927)	(1,938)
Goodwill	-	(11,447)	(11,477)
Total Tier 1 capital	\$ 53,020	\$ 56,738	\$ 55,697
Tier 2 capital			
Subordinated debentures	\$ 5,500	5,500	3,000
Total Tier 2 capital	\$ 5,500	\$ 5,500	\$ 3,000
Total regulatory capital	\$ 58,520	\$ 62,238	\$ 58,697
Capital ratios			
Tier 1 capital	17.8%	17.0%	17.7%
Tier 2 capital	1.8%	1.7%	1.0%
Assets to regulatory capital	6.4	7.4	6.9

As at and for the period ended June 30, 2011, the Bank was in compliance with prescribed capital levels.

b) Western Life

The regulatory Minimum Continuing Capital and Surplus Requirements ("MCCSR") rules, set by OSFI, contain detailed instructions for determining the amount of regulatory capital that a life insurance company is required to maintain in respect of its business activities. Companies are required to maintain an MCCSR ratio of at least 150%. Western Life monitors its MCCSR on a quarterly basis. As at and for the period ended June 30, 2011, Western Life's MCCSR was in compliance with the minimum capital required.

c) Western Financial Insurance

Western Financial Insurance is subject to regulation by OSFI. OSFI requires Canadian property and casualty insurance companies to maintain a level of capital sufficient to achieve a target of 150% based on a Minimum Capital Test (MCT) ratio. As at and for the period ended June 30, 2011, Western Financial Insurance's MCT was in compliance with the minimum capital required.

NOTE 6 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

Categories of Financial Instruments

At initial recognition, the Company classifies its financial assets in the following categories depending on the purpose for which the instruments were acquired

a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term. Derivatives are also included in this category unless they are designated and effective as hedging instruments.

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Financial instruments in this category are initially recognized at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from changes in fair value are included directly in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading' in the period in which they arise. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Other net investment income'. The instruments are derecognized when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognizing.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Company upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the balance sheet as 'Mortgages, loans and leases' or 'Accounts receivable'. Interest on loans is included in the income statement and is reported as 'Interest income on customer loans'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the consolidated income statement as 'Loan impairment charges'.

c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- those that the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company designates as available for sale; and
- those that meet the definition of loans and receivables.

Held-to-maturity financial assets are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method.

d) Available-for-sale financial instruments

Available-for-sale financial instruments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified in any of the other categories.

Available-for-sale financial instruments are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement in 'Other net investment income' when the Company's right to receive payment is established.

WESTERN FINANCIAL GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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e) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- a) Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges);
- b) Hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedges); or
- c) Hedges of a net investment in a foreign operation (net investment hedges).

The Company documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

f) Recognition

Regular purchases and sales of financial instruments are recognized on the trade-date – the date on which the Company commits to purchase or to sell the instruments. Financial instruments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all its risk and rewards of ownership.

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As at June 30, 2011

	Held for trading	Available for sale	Loans and receivables, and financial liabilities other than held for trading	Total
Financial assets				
Cash and cash equivalents	\$ 58,419	\$ -	\$ -	\$ 58,419
Securities	70,255	47,410	-	117,665
Mortgages, loans and leases	-	-	337,786	337,786
Accounts receivable	-	-	52,234	52,234
Reinsurance contracts	-	-	48,241	48,241
Total financial assets	\$ 128,674	\$ 47,410	\$ 438,261	\$ 614,345
Financial liabilities				
Deposits from customers	\$ -	\$ -	\$ 298,979	\$ 298,979
Insurance liabilities	-	-	114,970	114,970
Debt	-	-	55,000	55,000
Interest rate swaps	-	-	-	-
Due to policy holders	-	-	18,833	18,833
Trade and other payables	-	-	104,882	104,882
Total financial liabilities	\$ -	\$ -	\$ 592,664	\$ 592,664

As at December 31, 2010

	Held for trading	Available for sale	Loans and receivables, and financial liabilities other than held for trading	Total
Financial assets				
Cash and cash equivalents	\$ 58,010	\$ -	\$ -	\$ 58,010
Securities	69,201	43,436	-	112,637
Mortgages, loans and leases	-	-	359,696	359,696
Accounts receivable	-	-	52,863	52,863
Reinsurance contracts	-	-	42,119	42,119
Total financial assets	\$ 127,211	\$ 43,436	\$ 454,678	\$ 625,325
Financial liabilities				
Deposits from customers	\$ -	\$ -	\$ 312,196	\$ 312,196
Insurance liabilities	-	-	105,155	105,155
Debt	-	-	71,622	71,622
Interest rate swaps	-	-	161	161
Due to policyholders	-	-	22,525	22,525
Trade and other payables	-	-	104,675	104,675
Total financial liabilities	\$ -	\$ -	\$ 616,334	\$ 616,334

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As at January 1, 2010

	Held for trading	Available for sale	Loans and receivables, and financial liabilities other than held for trading	Total
Financial assets				
Cash and cash equivalents	\$ 58,463	\$ -	\$ -	\$ 58,463
Securities	61,373	30,901	-	92,274
Mortgages, loans and leases	-	-	355,621	355,621
Interest rate swaps	-	-	90	90
Accounts receivable	-	-	51,114	51,114
Reinsurance contracts	-	-	31,802	31,802
Total financial assets	\$ 119,836	\$ 30,901	\$ 438,627	\$ 589,364
Financial liabilities				
Deposits from customers	\$ -	\$ -	\$ 317,953	\$ 317,953
Insurance liabilities	-	-	85,753	85,753
Debt	-	-	79,771	79,771
Due to policyholders	-	-	20,392	20,392
Trade and other payables	-	-	81,696	81,696
Total financial liabilities	\$ -	\$ -	\$ 585,565	\$ 585,565

Impairment of financial assets

a) *Assets carried at amortized cost*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands of Canadian dollars, except for per share amounts)

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to mortgages, loans and leases are classified in loan impairment charges while impairment charges relating to investment securities (hold to maturity and loans and receivables categories) are classified in 'Impairment of held to maturity financial instruments'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

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b) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to in a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement.

Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Fair value of financial instruments

Certain financial instruments are carried on the balance sheet at their fair value. These financial instruments include cash and cash equivalents, AFS and HFT securities, and interest rate swaps.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on the observable current market transactions involving the same instrument, without modification or repackaging, or is based on a valuation technique which includes inputs from observable markets and accordingly give rise to an inception profit which is recognized into income upon initial recognition of the instrument. Inception profit is the difference between the fair value that is based on a valuation technique which includes inputs from observable markets, and the fair value at initial recognition represented by transaction price. When an instrument is measured using a valuation technique that significantly utilizes non-observable market inputs, it is initially valued at the transaction price, which is considered the best estimate of fair value.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When there is no active market for the instrument, fair values are determined by using valuation techniques which use observable market inputs. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain financial instruments, fair values may be determined in whole or in part from valuation techniques using non-observable market inputs.

A number of factors such as bid-offer spread, credit profile, input parameter, and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or it is extinguished.

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The Company calculates fair values for fair value disclosure purposes based on the following methods of valuation and assumptions:

For certain of the Company's financial instruments, including accounts receivable, accounts payable, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments. Securities are recorded at fair value (Note 9).

The fair value of fixed rate mortgages, loans and leases has been estimated by discounting the expected future cash flows at market rates for loans with similar terms and risks. For floating rates loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.

The fair value of customer deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

Management considers that no events have occurred subsequent to the advance provided by Desjardins that would indicate that the fair value of debt differs substantially from its carrying value.

The table below sets out the fair values of financial instruments based on the methods described above. The table does not include assets and liabilities that are not considered financial instruments.

	As at June 30, 2011			As at December 31, 2010			As at January 1, 2010		
	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
Assets									
Cash and cash equivalents	\$ 58,419	\$ 58,419	\$ -	\$ 58,010	\$ 58,010	\$ -	\$ 58,463	\$ 58,463	\$ -
Securities	117,665	117,665	-	112,637	112,637	-	92,274	92,274	-
Mortgages, loans and leases	337,786	341,771	3,985	359,696	364,318	4,622	355,621	363,203	7,582
Interest rate swaps	-	-	-	-	-	-	90	90	-
Accounts receivable	52,234	52,234	-	52,863	52,863	-	51,114	51,114	-
Reinsurance contracts	48,241	48,241	-	42,119	42,119	-	31,802	31,802	-
Liabilities									
Deposits from customers	298,979	304,512	5,533	312,196	319,838	7,642	317,953	329,488	11,535
Insurance liabilities	114,970	114,970	-	105,155	105,155	-	85,753	85,753	-
Debt	55,000	55,000	-	71,622	71,622	-	79,771	79,771	-
Interest rate swaps	-	-	-	161	161	-	-	-	-
Due to policyholders	18,833	18,833	-	22,525	22,525	-	20,392	20,392	-
Trade and other payables	104,882	104,882	-	104,675	104,675	-	81,696	81,696	-

The following table presents the Level in the fair value hierarchy into which the fair values of financial instruments that are carried at fair value on the consolidated balance sheet are categorized. The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data.

	Financial assets at fair value as at June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 58,314	\$ 105	\$ -	\$ 58,419
Securities	88,655	29,010	-	117,665
Interest rate swap	-	-	-	-
	\$ 146,969	\$ 29,115	\$ -	\$ 176,084

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	Financial assets at fair value as at December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 57,697	\$ 313	\$ -	\$ 58,010
Securities	84,962	27,675	-	112,637
Interest rate swap	-	(161)	-	(161)
	\$ 142,659	\$ 27,827	\$ -	\$ 170,486

	Financial assets at fair value as at January 1, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 57,678	\$ 785	\$ -	\$ 58,463
Securities	67,660	24,614	-	92,274
Interest rate swap	-	90	-	90
	\$ 125,338	\$ 25,489	\$ -	\$ 150,827

NOTE 7 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgments for certain items are especially critical for the Company's results and financial situation due to their materiality.

Impairment on mortgages, loans and leases

The Company reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Company makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Company. These economic indicators include, average weekly earnings, unemployment rate and bankruptcies. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Company tests annually whether goodwill has suffered impairment. The recoverable amounts of cash-generating units (Note 14) have been determined based on value-in-use calculations. These calculations require the use of estimates.

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The ultimate liability arising from claims made under insurance contracts

The estimate of the ultimate liability arising from claims made under insurance contracts is the most critical accounting estimate made by Western Life and by Western Financial Insurance. There are several sources of uncertainty that need to be considered in the estimate of the liability that Western Life and Western Financial Insurance will ultimately pay for such claims. This liability for Western Life has been determined by the Appointed Actuary using the Canadian Asset Liability Method involving the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of withdrawal. This liability for Western Financial Insurance has been determined the Appointed Actuary using the Selected Claims payment pattern.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

As disclosed in Note 6, there are no Level 3 financial assets.

Revenue recognition

The Company has recorded \$4,022 of contingent profit commissions for the first six months of the year. Contingent profit commissions represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective company. These are estimated by management in the year earned.

NOTE 8 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

The Company has five reportable segments:

- insurance brokerage - provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through the Network;
- banking services - provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through the Bank;
- life insurance – Western Life offers a range of disability products along with group life and health through the Network and other distribution channels;
- pet insurance – Western Financial Insurance Company offers dog and cat insurance products which provide pet owners with insurance coverage for various pet health related costs; and
- corporate and all other which includes travel agencies and real estate assets.

The results of these business segments are based on the internal financial reporting systems of the Company. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

Management monitors the financial performance of the Network based on operating income and customer accounts receivable. The operations of the Bank, Western Life and Western Financial Insurance are monitored based on net income before income tax; the financial position is monitored based on net assets used in that segment as reported in the financial statements of the Bank, Western Life and Western Financial Insurance.

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Because of the integrated nature of the Company's operations, all other assets, including intangibles and goodwill, are managed and reported at a corporate level. Goodwill is, however, allocated to reporting units within each segment for purposes of impairment testing. Interest on long term debt is recorded as a corporate expense.

For the three months ended June 30, 2011	Network	Bank West	Western Life Assurance	Western Financial Insurance	Corporate and all other	Total
REVENUE						
Commission and other customer income	\$ 33,050	\$ 132	\$ 14	\$ 127	\$ 279	\$ 33,602
Insurance premium income	-	-	14,750	9,296	-	24,046
Interest income on customer loans	-	6,127	-	-	-	6,127
Investment income	42	125	2,465	180	3,822	6,634
Inter-segment revenue	(61)	-	(330)	-	(3,892)	(4,283)
Revenue from external customers	33,031	6,384	16,899	9,603	209	66,126
EXPENSES						
Operating expenses	22,421	3,076	7,218	4,348	17,000	54,063
Policyholder benefits	-	-	8,231	4,478	-	12,709
Interest expense on customer deposits	-	2,511	-	-	-	2,511
Loan impairment charges	-	177	-	-	-	177
Inter-segment expenses	(106)	(34)	(71)	-	(266)	(477)
Profit (loss) before the following:	10,716	654	1,521	777	(16,525)	(2,857)
Income from investment in associates	-	-	-	-	364	364
Gain on sale of property and equipment	-	(31)	-	-	276	245
Interest and financing costs on debt	(2)	(56)	-	11	(1,385)	(1,432)
Depreciation and amortization	(485)	(140)	(37)	(107)	(688)	(1,457)
Impairment of goodwill and intangible assets	-	-	-	-	-	-
Inter-segment transactions	-	56	-	-	-	56
Profit (loss) before income tax	\$ 10,229	\$ 483	\$ 1,484	\$ 681	\$ (17,958)	\$ (5,081)

For the three months ended June 30, 2010	Network	Bank West	Western Life Assurance	Western Financial Insurance	Corporate and all other	Total
REVENUE						
Commission and other customer income	\$ 31,598	\$ 156	\$ 53	\$ 130	\$ 373	\$ 32,310
Insurance premium income	-	-	11,181	8,951	-	20,132
Interest income on customer loans	-	6,719	-	-	-	6,719
Investment income	14	86	2,683	108	67	2,958
Inter-segment revenue	(363)	-	(309)	-	(145)	(817)
Revenue from external customers	31,249	6,961	13,608	9,189	295	61,302
EXPENSES						
Operating expenses	20,506	2,483	5,139	3,278	3,580	34,986
Policyholder benefits	-	-	6,910	4,790	-	11,700
Interest expense on customer deposits	-	3,176	-	-	-	3,176
Loan impairment charges	-	748	-	-	-	748
Intersegment expenses	(102)	(34)	(351)	-	(252)	(739)
Profit (loss) before the following:	10,845	588	1,910	1,121	(3,033)	11,431
Income from investment in associates	-	-	-	-	427	427
Interest and financing costs on debt	(4)	(57)	-	-	(1,590)	(1,651)
Depreciation and amortization	(557)	(282)	(20)	(60)	(753)	(1,672)
Impairment of goodwill and intangible assets	-	-	-	-	-	-
Inter-segment transactions	-	56	-	-	22	78
Profit (loss) before income tax	\$ 10,284	\$ 305	\$ 1,890	\$ 1,061	\$ (4,927)	\$ 8,613

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For the six months ended June 30, 2011	Network	Bank West	Western Life Assurance	Western Financial Insurance	Corporate and all other	Total
REVENUE						
Commission and other customer income	\$ 58,464	\$ 253	\$ 19	\$ 255	\$ 1,027	\$ 60,018
Insurance premium income	-	-	27,921	18,898	-	46,819
Interest income on customer loans	-	12,409	-	-	-	12,409
Investment income	87	266	1,861	299	3,882	6,396
Inter-segment revenue	(367)	-	(636)	-	(4,150)	(5,153)
Revenue from external customers	58,184	12,928	29,165	19,452	759	120,488
EXPENSES						
Operating expenses	42,565	5,236	13,622	8,214	22,200	91,837
Policyholder benefits	-	-	12,930	8,878	-	21,808
Interest expense on customer deposits	-	5,270	-	-	-	5,270
Loan impairment charges	-	581	-	-	-	581
Inter-segment expenses	(307)	(68)	(387)	-	(528)	(1,290)
Profit (loss) before the following:	15,926	1,909	3,000	2,360	(20,913)	2,282
Income from investment in associates	-	-	-	-	542	542
Loss on write-down of held-for-sale asset	-	-	-	-	(8,970)	(8,970)
Gain on sale of property and equipment	-	58	-	-	276	334
Interest and financing costs on debt	(3)	(113)	1	11	(2,783)	(2,887)
Depreciation and amortization	(1,036)	(426)	(54)	(256)	(1,401)	(3,173)
Impairment of goodwill and intangible assets	-	(16,835)	-	-	-	(16,835)
Inter-segment transactions	-	113	-	-	-	113
Profit (loss) before income tax	\$ 14,887	\$ (15,294)	\$ 2,947	\$ 2,115	\$ (33,249)	\$ (28,594)
Total assets	\$ 126,305	\$ 376,909	\$ 151,957	\$ 41,139	\$ 177,841	\$ 874,151
Total liabilities	\$ 78,068	\$ 318,401	\$ 120,375	\$ 25,847	\$ 59,637	\$ 602,328
As at December 31, 2010	Network	Bank West	Western Life Assurance	Western Financial Insurance	Corporate and all other	Total
Total assets	\$ 130,187	\$ 403,919	\$ 138,734	\$ 76,357	\$ 164,366	\$ 913,563
Total liabilities	\$ 72,537	\$ 330,221	\$ 109,433	\$ 29,823	\$ 88,035	\$ 630,049

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For the six months ended June 30, 2010	Network	Bank West	Western Life Assurance	Western Financial Insurance	Corporate and all other	Total
REVENUE						
Commission and other customer income	\$ 54,278	\$ 310	\$ 70	\$ 291	\$ 856	\$ 55,805
Insurance premium income	-	-	20,761	17,693	-	38,454
Interest income on customer loans	-	13,125	-	-	-	13,125
Investment income	26	136	4,191	237	83	4,673
Inter-segment revenue	(636)	-	(611)	-	(230)	(1,477)
Revenue from external customers	53,668	13,571	24,411	18,221	709	110,580
EXPENSES						
Operating expenses	39,072	4,834	9,320	6,328	6,324	65,878
Policyholder benefits	-	-	12,637	8,732	-	21,369
Interest expense on customer deposits	-	6,153	-	-	-	6,153
Loan impairment charges	-	924	-	-	-	924
Intersegment expenses	(180)	(68)	(633)	-	(518)	(1,399)
Profit (loss) before the following:	14,776	1,728	3,087	3,161	(5,097)	17,655
Income from investment in associates	-	-	-	-	570	570
Interest and financing costs on debt	(4)	(59)	(4)	(5)	(2,989)	(3,061)
Depreciation and amortization	(1,085)	(552)	(38)	(118)	(1,456)	(3,249)
Impairment of goodwill and intangible assets	-	-	-	-	-	-
Inter-segment transactions	-	56	-	-	22	78
Profit (loss) before income tax	\$ 13,687	\$ 1,173	\$ 3,045	\$ 3,038	\$ (8,950)	\$ 11,993
Total assets	\$ 116,899	\$ 429,527	\$ 125,457	\$ 41,511	\$ 205,563	\$ 918,957
Total liabilities	\$ 73,484	\$ 356,005	\$ 98,566	\$ 27,456	\$ 86,634	\$ 642,145
As at January 1, 2010						
	Network	Bank West	Western Life Assurance	Western Financial Insurance	Corporate and all other	Total
Total assets	\$ 97,863	\$ 397,461	\$ 111,954	\$ 62,048	\$ 178,803	\$ 848,129
Total liabilities	\$ 67,622	\$ 327,208	\$ 87,315	\$ 28,893	\$ 89,535	\$ 600,573

NOTE 9 SECURITIES – UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE

The following tables present unrealized gains and losses on available-for-sale securities.

As at June 30, 2011					
	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying value	
Securities issued or guaranteed by					
Canada	\$ 21,326	\$ 118	\$ (11)	\$ 21,433	
Provinces and municipal corporations in Canada	4,233	39	(1)	4,271	
Other securities in Canada					
Financial institutions	3,140	36	-	3,176	
Other issuers	1,834	19	-	1,853	
Shares	16,458	233	(14)	16,677	
	\$ 46,991	\$ 445	\$ (26)	\$ 47,410	

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As at December 31, 2010				
	Amortized	Unrealized	Unrealized	Carrying
	cost	gross gains	gross losses	value
Securities issued or guaranteed by				
Canada	\$ 14,982	\$ 31	\$ (53)	\$ 14,960
Provinces and municipal corporations in Canada	4,533	38	(78)	4,493
Other securities in Canada				
Financial institutions	7,137	92	(60)	7,169
Other issuers	5,755	23	(17)	5,761
Shares	10,983	105	(35)	11,053
	\$ 43,390	\$ 289	\$ (243)	\$ 43,436

As at January 1, 2010				
	Amortized	Unrealized	Unrealized	Carrying
	cost	gross gains	gross losses	value
Securities issued or guaranteed by				
Canada	\$ 14,456	\$ 160	\$ (35)	\$ 14,581
Provinces and municipal corporations in Canada	4,777	44	(26)	4,795
Other securities in Canada				
Financial institutions	5,277	194	-	5,471
Other issuers	2,388	36	-	2,424
Shares	3,668	-	(38)	3,630
	\$ 30,566	\$ 434	\$ (99)	\$ 30,901

The securities portfolio is primarily comprised of high quality instruments that are not HFT and are typically held to maturity. Fluctuations in value are generally attributed to changes in market credit spreads, interest rates and shifts in the interest rate curve.

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NOTE 10 MORTGAGES, LOANS AND LEASES

	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
Residential mortgages	\$ 12,460	\$ 14,495	\$ 32,092
Consumer, credit card and other personal loans	199,862	209,684	188,034
Business and government	130,317	140,683	140,870
	342,639	364,862	360,996
Allowance for credit losses	(4,853)	(5,166)	(5,375)
	\$ 337,786	\$ 359,696	\$ 355,621
Loans guaranteed by governments and other public and parapublic institutions, included above	\$ 3,440	\$ 3,948	\$ 1,469

Reconciliation of allowance account for losses on loans and advances to customers by class is as follows:

Loans to individuals	2011		2010	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance January 1	\$ 973	\$ 1,040	\$ 1,076	\$ 1,239
Reversal of impairment	(939)	-	(641)	-
Loan impairment charges	478	(130)	614	(270)
Other adjustments	443	-	-	-
At June 30	\$ 955	\$ 910	\$ 1,049	\$ 969
Loans to corporate entities	2011		2010	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance January 1	\$ 1,538	\$ 1,615	\$ 1,278	\$ 1,782
Reversal of impairment	(550)	-	(643)	-
Loan impairment charges	720	(487)	515	205
Other adjustments	152	-	-	-
At June 30	\$ 1,860	\$ 1,128	\$ 1,150	\$ 1,987
Total portfolio	2011		2010	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance January 1	\$ 2,511	\$ 2,655	\$ 2,354	\$ 3,021
Reversal of impairment	(1,489)	-	(1,284)	-
Loan impairment charges (Note 11)	1,198	(617)	1,129	(65)
Other adjustments	595	-	-	-
At June 30	\$ 2,815	\$ 2,038	\$ 2,199	\$ 2,956

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NOTE 11 LOAN IMPAIRMENT CHARGES

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Loan impairment charges	\$ 177	\$ 748	\$ 581	\$ 924
Amounts written off during the year as uncollectible	596	(1)	595	-
Reversal of impairment	(1,113)	(766)	(1,489)	(1,284)
	\$ (340)	\$ (19)	\$ (313)	\$ (360)

NOTE 12 INVESTMENT IN ASSOCIATES

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

	% interest held		
	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
Harvard Western Ventures Ltd.	50%	50%	50%
AgShare Agency Ltd.	50%	50%	0%
Falkins Insurance Agencies Ltd.	40%	40%	20%
Archibald Clarke & Defieux Insurance Services Ltd.	30%	30%	30%
Jennings Capital Inc.	0%	48%	35%

The Company's share of its associates' post-acquisition profits or losses is recognized in the consolidated income statements; its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses in associates are recognized in the consolidated income statement.

	For the period		As at January 1, 2010
	ended June 30, 2011	For the year ended December 31, 2010	
At January 1	\$ 21,283	\$ 11,591	\$ 11,591
Share of profit	174	3,149	-
Investment/(sale) during period	176	6,543	-
Reclassification to held for sale	(10,770)	-	-
At end of period	\$ 10,863	\$ 21,283	\$ 11,591

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The Company has sold its investment in Jennings Capital Inc. ("Jennings"). In the Company's financial statements for the three month period ended March 31, 2011, the Company's investment in Jennings was recorded as a held-for-sale asset with a value of \$1,799 on the balance sheet. On the income statement for the same period, the Company recorded an \$8,970 write-down of held-for-sale asset. On April 6, 2011, the sale of Jennings was complete and no further gain or loss was recorded.

The following summarizes financial information about the Company's share of assets, liabilities, revenues and profit or loss of its associates.

	For the period		As at January 1,	
	ended June 30, 2011	For the year ended December 31, 2010	2010	
Assets	\$ 8,667	\$ 27,285	\$ 12,576	
Liabilities	\$ 4,646	\$ 16,244	\$ 4,847	
Revenues	\$ 2,545	\$ 22,065	-	
Profit	\$ 174	\$ 3,149	-	

The Company assess at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of income.

NOTE 13 ACCOUNTS RECEIVABLE

	December 31,		
	June 30, 2011	2010	
Trade receivables	\$ 32,658	\$ 31,414	\$ 30,659
Less provisions for impairment of trade receivables	(27)	(27)	(15)
Trade receivables - net	32,631	31,387	30,644
Insurance receivables:			
Due from contract holders	3,845	3,522	3,234
Less provision for impairment of receivables from contract holders	(75)	(25)	(19)
Due from agents, brokers and intermediaries	15,868	18,014	17,289
Less provision for impairment of receivables from agents, brokers and intermediaries	(35)	(35)	(34)
	19,603	21,476	20,470
	\$ 52,234	\$ 52,863	\$ 51,114
Current	\$ 52,371	\$ 52,950	\$ 51,182
Non-current	\$ (137)	\$ (87)	\$ (68)

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NOTE 14 GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates.

	June 30, 2011	December 31, 2010	January 1, 2010
Balance, beginning of period	\$ 166,388	\$ 148,205	105,285
Arising from acquisitions	3,586	18,183	42,920
Impairment	(11,036)	-	-
Balance, end of period	\$ 158,938	\$ 166,388	\$ 148,205

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to the operating segment. An operating segment-level summary of the goodwill allocation is presented below.

	June 30, 2011	December 31, 2010	January 1, 2010
Network	\$ 127,210	\$ 123,625	\$ 115,128
Western Financial Insurance	24,728	24,728	15,043
Western Life Assurance	5,188	5,188	5,188
Corporate and all other	1,812	1,812	1,812
Bank West	-	11,036	11,036
	\$ 158,938	\$ 166,388	\$ 148,205

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying value of its net assets, including attributable goodwill and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

During the quarter ended March 31, 2011, \$11,036 of goodwill was written down due to impairment. Due to the current development of a new business plan for Bank West, management determined that this change in strategy was a possible indicator of impairment and performed an assessment. Based on this assessment goodwill was determined to be impaired and was written down. In addition, this change in strategy also resulted in a number of categories of intangibles related to Bank West also being written down (Note 15).

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NOTE 15 INTANGIBLE ASSETS

Relationships

Relationships acquired in a business combination are recognized at fair value at the acquisition date. The relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the relationship. The largest category of customer relationships is the relationships with our customers at the Network.

- | | |
|--------------------------------------|----------------|
| • Customer relationships | 15 to 30 years |
| • Dealer relationships | 20 years |
| • Customer credit card relationships | 10 years |
| • Customer loan relationships | 5 years |

During the first quarter of 2011 the Company determined that \$4,399 of relationships related to Bank West was impaired and was therefore written down (Note 14).

Computer software

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software has a finite life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the software of 5 years.

Trade names

Separately acquired trade names are shown at historical cost. Trade names acquired in a business combination are recognized at fair value at the acquisition date. Trade names have an indefinite useful life.

During the first quarter of 2011 it was determined that trade names related to Bank West were impaired and were therefore written down (Note 14).

Proprietary processes

Separately acquired proprietary processes are shown at historical cost. Proprietary processes acquired in a business combination are recognized at fair value at the acquisition date. Proprietary processes have an indefinite useful life.

During the first quarter of 2011 the Company determined that the proprietary processes related to Bank West were impaired and were therefore written down (Note 14).

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Non-compete agreements

Non-compete agreements acquired in a business combination are recognized at fair value at the acquisition date. The agreements have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over 1 year upon departure of key personnel.

During the first quarter of 2011 the Company determined that \$150 of non-compete agreements related to Bank West was impaired and was therefore written down (Note 14).

Favourable leases

Favourable leases acquired in a business combination are recognized at fair value at the acquisition date. The leases have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the term of lease.

	Customer relationships	Customer credit card relationships	Customer loan relationships	Dealer relationships	Computer Software	Trade Names	Proprietary Processes	Non-compete Agreements	Favourable Leases	Total
At January 1, 2010										
Cost	\$ 64,443	\$ 2,583	\$ 2,210	\$ 1,270	\$ 7,158	\$ 840	\$ 410	\$ 290	\$ 120	\$ 79,324
Accumulated amortization and impairment	(4,291)	(237)	(857)	(58)	(1,052)	-	-	(2)	(2)	(6,499)
Net book amount	\$ 60,152	\$ 2,346	\$ 1,353	\$ 1,212	\$ 6,106	\$ 840	\$ 410	\$ 288	\$ 118	\$ 72,825
Year ended December 31, 2010										
Opening net book amount	\$ 60,152	\$ 2,346	\$ 1,353	\$ 1,212	\$ 6,106	\$ 840	\$ 410	\$ 288	\$ 118	\$ 72,825
Additions	(133)	-	-	-	3,950	-	-	-	-	3,817
Amortization charge	(2,288)	(258)	(442)	(64)	(849)	-	-	(8)	(8)	(3,917)
Closing net book amount	\$ 57,731	\$ 2,088	\$ 911	\$ 1,148	\$ 9,207	\$ 840	\$ 410	\$ 280	\$ 110	\$ 72,725
At December 31, 2010										
Cost	\$ 64,310	\$ 2,583	\$ 2,210	\$ 1,270	\$ 11,108	\$ 840	\$ 410	\$ 290	\$ 120	\$ 83,141
Accumulated amortization and impairment	(6,579)	(495)	(1,299)	(122)	(1,901)	-	-	(10)	(10)	(10,416)
Net book amount	\$ 57,731	\$ 2,088	\$ 911	\$ 1,148	\$ 9,207	\$ 840	\$ 410	\$ 280	\$ 110	\$ 72,725
Six months ended June 30, 2011										
Opening net book amount	\$ 57,731	\$ 2,088	\$ 911	\$ 1,148	\$ 9,207	\$ 840	\$ 410	\$ 280	\$ 110	\$ 72,725
Additions	2,116	-	-	-	726	-	-	-	-	2,842
Amortization charge	(1,184)	(64)	(110)	(16)	(629)	-	-	(4)	(4)	(2,011)
Impairment	(442)	(2,024)	(801)	(1,132)	-	(840)	(410)	(150)	-	(5,799)
Closing net book amount	\$ 58,221	\$ -	\$ -	\$ -	\$ 9,303	\$ -	\$ -	\$ 126	\$ 106	\$ 67,757
At June 30, 2011										
Cost	\$ 66,426	\$ 2,583	\$ 2,210	\$ 1,270	\$ 11,834	\$ 840	\$ 410	\$ 290	\$ 120	\$ 85,983
Accumulated amortization and impairment	(8,205)	(2,583)	(2,210)	(1,270)	(2,530)	(840)	(410)	(164)	(14)	(18,226)
Net book amount	\$ 58,221	\$ -	\$ -	\$ -	\$ 9,304	\$ -	\$ -	\$ 126	\$ 106	\$ 67,757

Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. Due to the development of a new business plan for Bank West, management determined that this change in strategy was a possible indicator of impairment and performed an assessment. Based on this assessment intangibles were determined to be impaired at March 31, 2011 and \$5,799 of intangible assets was written down, as detailed above. There were no write-downs of intangible assets due to impairment during the year ended December 31, 2010.

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NOTE 16 DEPOSITS FROM CUSTOMERS

Customer deposits held by Bank West are comprised of demand deposits and guaranteed investment certificates ("GICs") denominated in Canadian currency, with fixed maturities not exceeding 5 years from date of deposit. The following table provides details as to the gross customer deposits held by Bank West.

	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
Corporate entities (commercial customers):			
Demand deposits	\$ 17	\$ 11	\$ 48
GICs	761	1,079	3,043
Individuals (retail customers):			
Demand deposits	266	469	351
GICs	295,552	308,000	312,192
	<u>\$ 296,596</u>	<u>\$ 309,559</u>	<u>\$ 315,634</u>
Current	\$ 166,384	\$ 149,629	\$ 133,562
Non-current	\$ 130,212	\$ 159,930	\$ 182,072

At June 30, 2011 99.0% (December 31, 2010 – 99.8%) of the deposits from customers are covered by Canadian Deposit Insurance Corporation.

NOTE 17 INSURANCE LIABILITIES

Insurance liabilities include life and health insurance contract liabilities and property and casualty insurance contract liabilities.

a) Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities and a provision for unpaid and unreported claims.

The calculation of the insurance liabilities requires that assumptions are made with respect to the timing of many elements such as death, disability, investment income, inflation, policy cancellations, expenses, income taxes, premiums and commissions. To predict experience, Western Life uses the best estimate assumptions. Some of these assumptions refer to events that are likely to occur in the distant future and they could eventually be changed.

b) Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of provision for claims and adjustment expenses.

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions.

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The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that actual results will deviate from the best estimated made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in the experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk and claims development.

All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include Western Financial Insurance's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of Western Financial Insurance's claims department personnel, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Consequently, the establishment of the provision for unpaid claims and adjustment expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

	June 30, 2011	December 31, 2010
Gross		
Short-term insurance contracts:		
Claims reported	\$ 1,559	\$ 1,704
Claims incurred but not reported	27,608	23,036
With fixed and guaranteed terms	8,384	7,595
Long-term insurance contracts:		
Claims reported	1,128	1,730
Claims incurred but not reported	4,182	3,961
With fixed and guaranteed terms	72,109	67,129
Total insurance liabilities, gross	\$ 114,970	\$ 105,155

	June 30, 2011	December 31, 2010
Recoverable from reinsurers		
Short-term insurance contracts:		
Claims incurred but not reported	\$ 14,899	\$ 12,058
With fixed and guaranteed terms	3,848	3,438
Long-term insurance contracts:		
Claims incurred but not reported	1,504	1,398
With fixed and guaranteed terms	27,990	25,225
Total reinsurers' share of insurance liabilities	\$ 48,241	\$ 42,119

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	June 30, 2011	December 31, 2010
Net		
Short-term insurance contracts:		
Claims reported	\$ 1,559	\$ 1,704
Claims incurred but not reported	12,709	10,978
With fixed and guaranteed terms	4,536	4,157
Long-term insurance contracts:		
Claims reported	1,128	1,730
Claims incurred but not reported	2,678	2,563
With fixed and guaranteed terms	44,119	41,904
Total insurance liabilities, net	\$ 66,729	\$ 63,036

The development of insurance liabilities provides a measure of Western Financial Insurance's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Western Financial Insurance's estimate of the total claims outstanding for each year has changed at successive period-ends. The bottom half of the table reconciles the cumulative claims to the amount included on the balance sheet. The Company has elected to apply the transitional provisions of IFRS 4, *Insurance Contracts*, and disclose only five years of data in its claims development table, as permitted by IFRS 4 in the year of adoption of IFRS. The disclosures will be increased in each succeeding additional year, until the full ten years of information is included.

Western Financial Insurance

						June 30	
Reporting Period	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:							
At end of reporting period	8,256	10,509	14,771	16,425	17,434	6,142	73,537
One year later	8,326	10,406	14,135	15,536	17,282	-	65,685
Two years later	8,321	10,402	14,131	15,535	-	-	48,389
Three years later	8,321	10,402	14,135	-	-	-	32,858
Four years later	8,321	10,402	-	-	-	-	18,723
Five years later	8,321	-	-	-	-	-	8,321
Current estimate of cumulative claims	8,321	10,402	14,135	15,535	17,282	6,142	71,817
Cumulative payments to date	(8,321)	(10,402)	(14,131)	(15,536)	(17,024)	(4,772)	(70,186)
Liability recognized in the balance sheet	-	-	4	(1)	258	1,370	1,631
Reserve in respect of prior years	-	-	-	-	-	-	-
Total reserve included in balance sheet	-	-	4	(1)	258	1,370	1,631

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NOTE 18 DEBT

	As at June 30, 2011	As at December 31, 2010	As at January 1, 2010
Advance provided by Desjardins, no repayment terms, unsecured, interest at Caisse Central Desjardins ("CCD") cost of funds plus 0.5%.	\$ 55,000	\$ -	\$ -
Bank loans provided by a Canadian chartered bank, authorized to a maximum of \$70,000 (2010 - \$70,000) repayable at \$835 (2010 - \$804) per month plus interest, at bank prime rate plus 2.25% (2010 - prime plus 2.25%) per annum. These loans were paid out on May 6, 2011.	-	54,937	62,167
\$16,710 convertible unsecured subordinated debentures , interest payable semi-annually 12% per annum with a maturity date of June 30, 2014. These were fully redeemed on May 24, 2011.	-	15,765	15,535
Fixed rate demand mortgage with a maturity date of June 19, 2012, repayable at \$14 per month including interest at 3.75%, secured by a \$1,602 conventional mortgage providing a first charge over the property located at 777 Portage Avenue, Winnipeg, MB, a fixed rate promissory note of the borrower, general assignment of rents and assignment of insurance coverage. This was paid out in April 2011.	-	920	1,059
Unsecured subordinated notes, interest payable semi-annually at 12% per annum. The Company repaid these in March 2010.	-	-	995
Finance contracts repayable at \$1.9 per month including interest at 0% - 6.7% per annum. Security provided consists of certain automotive assets. The Company repaid these during 2010.	-	-	15
	\$ 55,000	\$ 71,622	\$ 79,771

During April 2011, CCD established an unsecured operating credit facility in favour of the Company in an aggregate principal amount of up to \$10,000. This facility is repayable on demand and bears interest at the CCD cost of funds plus a margin of 0.5%. There were no amounts drawn under this facility at June 30.

Also during April 2011, CCD established an unsecured operating credit facility in favour of Bank West in an aggregate principal amount of up to \$20,000. This facility is repayable on demand and bears interest at the CCD cost of funds plus a margin of 0.5%. There were no amounts drawn under this facility at June 30.

NOTE 19 TRADE AND OTHER PAYABLES

	June 30, 2011	December 31, 2010	January 1, 2010
Trade payables	\$ 59,771	\$ 53,301	\$ 47,041
Withholding and other taxes	945	41	758
Accrued expenses	44,166	51,333	33,897
	\$ 104,882	\$ 104,675	\$ 81,696
Current	96,634	95,834	81,696
Non-current	8,248	8,840	-

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NOTE 20 SHARE CAPITAL

Authorized shares

- Unlimited number of **ordinary**, without nominal or par value
- Unlimited number of **first preferred**, issuable in series
- Unlimited number of **second preferred**

Preferred share rights and privileges

- **Series 2** Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of \$3.60 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the \$3.60 conversion price. These shares have been recorded as equity. Dividends, which are cumulative, when paid and accrued, are recorded against retained earnings. These shares have been fully converted to common shares and were paid out on June 30, 2011 with the related issuance costs from the original issuance charged to retained earnings. (Note 30).
- **Series 3** The Series 3 shares were issued on July 10, 2007 at an issue price of \$100.00 per share. The holders of Series 3 shares are entitled to a fixed cumulative dividend of 6.75% per annum, payable semi-annually if, as and when declared by the Board of Directors. The holders of Series 3 shares are not entitled to receive notice of, to attend or to vote at any meeting of Shareholders other than meetings of the holders of Series 3 shares or as provided under the *Business Corporations Act* (Alberta) ("ABCA"). The Series 3 shares are convertible into common shares at any time at the holder's option at a price of \$7.25 per common share (the "Series 3 Conversion Price"). The Series 3 shares have been redeemable by the Company since August 1, 2010. Redemption from August 1, 2010 and prior to August 1, 2012 will be at a redemption price equal to par plus accrued and unpaid dividends, provided that the volume weighted average trading price of the common shares for at least 20 trading days in any consecutive 30 day period ending five trading days prior to the date on which a notice of redemption is given exceeds 135% of the Series 3 Conversion Price. On or after August 1, 2012, the Series 3 shares will be redeemable by the Company at any time at a redemption price equal to par plus accrued and unpaid dividends. If not redeemed, commencing August 1, 2012, holders of Series 3 shares will be entitled to receive a semi-annual cumulative dividend if, as and when declared by the Board of Directors, at a rate per annum calculated as at December 1, 2012 and reset on each anniversary of such date in an amount equal to 3.5% above the five year Government of Canada bond rate as quoted 10 business days before the anniversary date. In the event of the Company's liquidation, dissolution or winding up, the holders of Series 3 shares are entitled to receive the redemption amount per share, in priority to the holders of common shares and holders of any series or other shares ranking junior to the Series 3 shares and *pari passu* with holders of Series 2 shares, Series 4 shares and Series 5 shares..
- **Series 4** The Series 4 shares were issued on December 28, 2007 at an issue price of \$100.00 per share. The holders of Series 4 shares are entitled to fixed cumulative dividend of 6.75% per annum, payable semi-annually if, as and when declared by the Board of Directors. The holders of Series 4 shares are not entitled to receive notice of, to attend or to vote at any meeting of Shareholders other than meetings of the holders of Series 4 shares or as provided under the ABCA. The Series 4 shares are convertible into common shares at any time at the holder's option at a price of \$6.90 per common share (the "Series 4 Conversion Price"). The Series 4 shares have been redeemable by the Company since January 1, 2011. Redemption from January 1, 2011 and prior to January 1, 2013 will be at a redemption price equal to par plus accrued and unpaid dividends, provided that the volume weighted average trading price of the common shares for at least 20 trading days in any consecutive 30 day period ending five trading days prior to the date on which a notice of redemption is given exceeds 135% of the Series 4 Conversion Price. On or after January 1, 2013, the Series 4 shares will be redeemable by the Company at any time at a redemption price equal to par plus accrued and unpaid dividends. If not redeemed, commencing June 1, 2013, holders of Series 4 Shares will be entitled to receive a semi-annual cumulative dividend if, as and when declared by the Board of Directors, at a rate per annum calculated as at June 1, 2013 and reset on each anniversary of such date in an amount equal to 3.5% above the five year Government of Canada bond rate as quoted 10 business days before June 13, 2013 and each subsequent anniversary date. In the event of the Company's liquidation, dissolution or winding up, the holders of Series 4 shares are entitled to receive the redemption amount per

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share, in priority to the holders of common shares and holders of any series or other shares ranking junior to the Series 4 shares and *pari passu* with holders of Series 2 shares, Series 3 shares and Series 5 shares.

- Series 5** The Series 5 shares were issued on September 3, 2009 at an issue price of \$100.00 per share. The holders of Series 5 shares are entitled to fixed cumulative preferential cash dividends, if, as and when declared by the Board of Directors at a rate of \$9.00 per share per annum, to accrue from the date of original issue, payable in equal instalments of \$4.50 per share on March 31 and September 30 of each year until (and including) March 31, 2015. The first dividend was payable on March 31, 2010 in the amount of \$5.17808 per Series 5 share. From March 31, 2015 until March 31, 2016 and recalculated each anniversary thereafter, the rate of the annual dividend on the Series 5 shares (which will continue to be paid in equal semi-annual instalments on March 31 and September 30 of each year, the first such dividend to be payable on September 30, 2015) will be 6.28% above the five year Government of Canada benchmark bond rate as quoted on the Bloomberg page "GCAN5YR <INDEX>" or comparable sources at 10:00 a.m. (Toronto time) on the tenth business day prior to March 31, 2015 and each subsequent anniversary date. The Series 5 shares are convertible into common shares at the option of the holder at any time, or if called for redemption, on the business day immediately preceding the date fixed for redemption, at a conversion price of \$2.81 per common share (the "Series 5 Conversion Price"), being a rate of 35.5872 common shares per Series 5 shares, subject to adjustment. The Series 5 shares are not redeemable before September 30, 2012. On or after September 30, 2012 and prior to September 30, 2014, the Series 5 Shares will be redeemable by the Company, in whole at any time, or in part from time to time, on not less than 30 days and not more than 60 days prior written notice at a redemption price equal to \$100 per share plus accrued or declared and unpaid dividends, provided that the volume weighted average trading price of the common shares on the TSX for at least 20 trading days in any consecutive 30 day period ending five trading days prior to the date on which notice of redemption is given is equal to or exceeds 135% of the Series 5 Conversion Price. On or after September 30, 2014, the Series 5 Shares are redeemable by the Company in whole at any time, or in part from time to time, on not less than 30 days and not more than 60 days prior written notice, at a redemption price equal to \$100.00 per share plus all accrued or declared and unpaid dividends. The holders of Series 5 Shares are not, except in certain limited circumstances, entitled to receive notice of or attend, or vote at, our shareholder meetings. The Series 5 shares rank senior to the common shares and rank *pari passu* with each other and all other series of First Preferred Shares with respect to the payment of dividends and the distribution of assets on the Company's liquidation, dissolution or winding-up.

	June 30, 2011		December 31, 2010	
	Number	Amount	Number	Amount
Issued Ordinary Shares				
Balance, beginning of period	59,883	\$ 143,493	49,367	\$ 117,186
Ordinary shares issued:				
For cash	-	-	10,394	27,546
On exercise of options	1,087	4,396	53	113
On dividend reinvestment plan	8	32	51	126
On conversion of preferred Series 2 shares	3,913	14,133	-	-
On conversion of preferred Series 5 shares	3,778	10,617	18	50
On conversion of debentures	5,563	16,958	-	-
Costs related to issuance of shares for cash	-	-	-	(1,516)
Costs related to dividend reinvestment plan	-	-	-	(12)
Balance, end of period	74,233	\$ 189,629	59,883	\$ 143,493

	June 30, 2011		December 31, 2010	
	Number	Amount	Number	Amount
Issued First Preferred Series 2 Shares, recorded as share capital				
Balance, beginning of period	141	\$ 13,390	141	\$ 13,390
Converted to common shares	(141)	(14,133)	-	-
Transfer to retained earnings	-	743	-	-
Balance, end of period	-	\$ -	141	\$ 13,390

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	June 30, 2011		December 31, 2010	
	Number	Amount	Number	Amount
Issued First Preferred Series 3 Shares, recorded as share capital				
Balance, beginning of period	250	\$ 23,790	250	\$ 23,790
Balance, end of period	250	\$ 23,790	250	\$ 23,790
	June 30, 2011		December 31, 2010	
Issued First Preferred Series 4 Shares, recorded as share capital				
Balance, beginning of period	200	\$ 18,963	200	\$ 18,963
Balance, end of period	200	\$ 18,963	200	\$ 18,963
	June 30, 2011		December 31, 2010	
Issued First Preferred Series 5 Shares, recorded as share capital				
Balance, beginning of period	354	\$ 33,526	355	\$ 33,576
Converted to common shares	(106)	\$ (10,617)	(1)	\$ (50)
Balance, end of period	248	\$ 22,909	354	\$ 33,526
	June 30, 2011		December 31, 2010	
TOTAL SHARE CAPITAL		Amount		Amount
Ordinary shares		\$ 189,629		\$ 143,493
Preferred shares		65,662		89,669
Balance, end of period		\$ 255,291		\$ 233,162

During the six month period ended June 30, 2011, the Company's Board of Directors approved the following:

Ordinary shares:

- March 23, 2011 - a dividend of \$0.0107 per share paid on April 15, 2011 to the shareholders of record as of March 31, 2011
- June 15, 2011 – a dividend of \$0.0107 per share paid on June 30, 2011 to the shareholders of record as of June 24, 2011

First Preferred Shares Series 2:

- June 15, 2011 – a dividend of \$3.3750 per share paid on June 30, 2011 to the shareholders of record as of June 24, 2011

First Preferred Shares Series 3:

- May 24, 2011 – a dividend of \$3.3750 per share paid on June 16, 2011 to the shareholders of record as of June 1, 2011

First Preferred Shares Series 4

- May 24, 2011 – a dividend of \$3.3750 per share paid on June 16, 2011 to the shareholders of record as of June 1, 2011

First Preferred Shares Series 5:

- March 23, 2011 - a dividend of \$4.50 per share paid on April 15, 2001 to the shareholders of record as of March 31, 2011

WESTERN FINANCIAL GROUP INC.

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NOTE 21 ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss as at June 30 and other comprehensive income for the six month period then ended were as follows.

	June 30, 2011			June 30, 2010		
	Opening balance	Net Change	Ending Balance	Opening balance	Net Change	Ending Balance
(Losses) gains from change in fair value on available-for-sale securities	\$ (432)	\$ 250	\$ (182)	\$ (206)	\$ 76	\$ (130)
Change in fair value of interest rate swap	(120)	120	-	68	(195)	(127)
	\$ (552)	\$ 370	\$ (182)	\$ (138)	\$ (119)	\$ (257)

NOTE 22 EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
(Loss) profit attributable to equity holders of the Company	\$ (7,755)	\$ 3,541	\$ (31,198)	\$ 3,916
Weighted average number of ordinary shares in issue (thousands)	66,655	49,507	66,655	49,507
Basic (loss) earnings per share	\$ (0.12)	\$ 0.07	\$ (0.47)	\$ 0.08

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For 2010 and up until May 24, 2011, the Company had two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares. The net result is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Loss (profit) attributable to equity holders of the Company	\$ (7,755)	\$ 3,541	\$ (31,198)	\$ 3,916
Weighted average number of ordinary shares in issue (thousands)	66,655	49,507	66,655	49,507
Adjustments for:				
Share options (thousands)	-	-	-	46
Weighted average number of ordinary shares for diluted earnings per share (thousands)	66,655	49,507	66,655	49,553
Diluted (loss) earnings per share	\$ (0.12)	\$ 0.07	\$ (0.47)	\$ 0.08

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At June 30, 2011, convertible redeemable series 3, 4 and 5 preferred shares were not included in the computation of diluted earnings per share because the impact was anti-dilutive. Also at June 30, 2011, convertible redeemable series 2 preferred shares and convertible debentures were not included in the computation of diluted earnings per share because none existed at June 30. At June 30, 2010, convertible redeemable series 2, 3, 4 and 5 preferred shares and convertible debentures were not included in the computation of diluted earnings per share because the impact was anti-dilutive.

NOTE 23 INSURANCE PREMIUM INCOME

WESTERN LIFE

Premiums for individual and group insurance contracts, and contracts with limited mortality or morbidity risk, are recognized as revenue when due. Premiums relating to specific program contracts (Whole Life, Group Critical Illness, Group Accidental Death & Dismemberment and Creditor) are recognized as revenue when earned. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

WESTERN FINANCIAL INSURANCE

Premiums are taken into income on a monthly pro-rata basis over the policy term. Unearned premiums represent the portion of premiums written that relates to the unexpired term of the policies in force.

	Three months ended June 30					
	2011			2010		
	Western Life Assurance	Western Financial Insurance	Total	Western Life Assurance	Western Financial Insurance	Total
Insurance premium income	\$ 20,797	\$ 9,296	\$ 30,093	\$ 15,243	\$ 8,951	\$ 24,194
Insurance premium ceded to reinsurers	(6,377)	-	(6,377)	(4,371)	-	(4,371)
Net insurance premium income	\$ 14,420	\$ 9,296	\$ 23,716	\$ 10,872	\$ 8,951	\$ 19,823

	Six months ended June 30					
	2011			2010		
	Western Life Assurance	Western Financial Insurance	Total	Western Life Assurance	Western Financial Insurance	Total
Insurance premium income	\$ 38,960	\$ 18,898	\$ 57,858	\$ 27,918	\$ 17,694	\$ 45,612
Insurance premium ceded to reinsurers	(11,675)	-	(11,675)	(7,769)	-	(7,769)
Net insurance premium income	\$ 27,285	\$ 18,898	\$ 46,183	\$ 20,149	\$ 17,694	\$ 37,843

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NOTE 24 OPERATING EXPENSES

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Salaries and benefits	\$ 27,791	\$ 18,410	\$ 48,110	\$ 36,036
Commission expense	5,410	3,305	9,726	5,941
Professional and consulting fees	3,439	1,074	4,535	1,870
Advertising, marketing and public relations	2,641	1,821	4,500	3,135
Information technology and telecommunication	1,984	1,706	3,871	3,273
Operating lease payments	1,699	1,768	3,399	3,365
Regulatory fees	1,888	1,041	2,972	1,835
Other operating expenses	8,734	5,122	13,434	9,024
	\$ 53,586	\$ 34,247	\$ 90,547	\$ 64,479

NOTE 25 INCOME TAXES

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the respective jurisdiction that the Company's subsidiaries and associates operate in and generate taxable income.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent it is probable that future taxable profit will be available against which these temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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The tax on the Company's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated entities as follows:

	Three months ended June 30, 2011	Six months ended June 30, 2011
Loss before tax	\$ (5,081)	\$ (28,594)
Expected income tax recovery	(1,357)	(7,587)
Tax effects of:		
Income not subject to tax	91	88
Expenses not deductible for tax purposes	165	4,942
Tax losses for which no deferred income tax asset was recognized	1,206	1,206
Income tax rate and other adjustments	869	876
Adjustment in respect of prior years	100	100
Tax expense (recovery)	\$ 1,072	\$ (376)

NOTE 26 CASH FLOW FROM OPERATIONS

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Adjustments for:				
Change in fair value of held-for-trading securities	\$ (2,028)	\$ (2,240)	\$ (1,030)	\$ (3,272)
Realized net loss - held-for-trading and available-for-sale securities	(14)	(20)	(26)	(95)
Other net investment income	(789)	(643)	(1,476)	(1,249)
Loan impairment charges	177	748	581	924
Income from investment in associates	(364)	(449)	(542)	(592)
Loss on write-down of held for sale asset	-	-	8,970	-
Depreciation of property and equipment	544	701	1,164	1,330
Amortization of intangible assets	913	970	2,009	1,919
Impairment of goodwill and intangibles	-	-	16,835	-
Future income taxes	(1,690)	439	(4,251)	28
Stock based compensation	329	98	403	177
Other non-cash expenses	15,947	8,004	17,218	(162)
Change in non-cash operating assets and liabilities				
Accounts receivable	(1,218)	(1,499)	155	1,470
Prepaid expenses	2,831	(989)	2,392	(1,163)
Trade and other payables	5,926	5,056	6,368	22,174
Reinsurance contracts	(4,362)	(4,005)	(6,122)	(6,240)
Insurance liabilities	7,602	7,070	9,814	11,061
Due to policyholders	(2,359)	(248)	(3,692)	(1,008)
Income taxes	5,748	2,572	6,840	4,209
	\$ 27,193	\$ 15,565	\$ 55,610	\$ 29,511

NOTE 27 CONTINGENCIES

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from contingent liabilities other than those provided for.

WESTERN FINANCIAL GROUP INC.

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NOTE 28 BUSINESS COMBINATIONS

All business combinations are accounted for using the acquisition method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase.

On January 1, 2011 the Company acquired 100% of the outstanding shares of Keenleyside Insurance Services Ltd. an insurance brokerage located in Terrace, BC for cash consideration of \$3,158. The acquired company contributed profit of \$204 to the Company from the period January 1 to June 30, 2011.

On June 2, 2011 the Company acquired 100% of the outstanding shares of Bell and Cross Insurance Agency Ltd. an insurance brokerage located in Winnipeg, MB. This purchase is estimated to be \$2,660. The Company has not completed its purchase price allocation and therefore the initial accounting for this business combination has been determined only provisionally.

Details of net assets acquired and goodwill are as follows:

	June 30, 2011	
Purchase consideration:		
Cash paid	\$	5,815
Direct costs relating to the acquisition		-
Fair value of shares issued, net of issuance costs		-
Total purchase consideration paid	\$	5,815

The assets and liabilities arising from the acquisition are as follows:

	June 30, 2011	
	Fair Value	Acquirees' carrying amount
Cash and cash equivalents	\$ 253	\$ 253
Other investments	-	421
Other assets	81	81
Property and equipment	10	10
Intangible assets	2,116	-
Trade and other payables	(235)	(235)
Deferred income taxes receivable (payable)	4	4
Fair value of net assets	2,229	\$ 533
Goodwill	3,586	
Total purchase consideration paid	\$ 5,815	
Total purchase consideration paid	\$ 5,815	
Cash and cash equivalents in subsidiary acquired	(253)	
Cash outflow on acquisition	\$ 5,562	

There were no acquisitions in the first six months ended June 30, 2010.

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NOTE 29 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

a) *Sales of services*

	June 30, 2011		June 30, 2010	
Sales of services:				
Associates	\$	1	\$	-
Key Management		25		12
	\$	26	\$	12

Sales of services with related parties are in accordance with normal business practice and are recorded at the exchange amount.

b) *Purchases of goods and services*

There were no purchases of goods and services with related parties during the first six months of 2011 and 2010.

c) *Key management compensation*

Key management includes directors and the following:

- President & CEO, Western Financial Group Inc.
- Executive VP & CFO, Western Financial Group Inc.
- Executive VP, Western Financial Group Inc.
- President & CEO, Western Financial Group (Network) Inc.
- President & CEO, Bank West
- President & CEO, Western Life Assurance Company
- President & CEO, Western Financial Insurance Company

The compensation paid or payable to key management for employee services is shown below.

	June 30, 2011		June 30, 2010	
Salaries and other short-term employee benefits including payments on closing of purchase by				
Desjardins	\$	4,804	\$	1,706
Post-employment benefits		3		11
Share-based payments		2,810		292
	\$	7,617	\$	2,010

d) *Period end balance arising from sales/purchases of goods/services*

There were no period end balances arising from sales/purchases of goods/services for the first six months of 2011 and 2010.

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e) Loans to related parties

	June 30, 2011		December 31, 2010	
Loans to key management of the company (and their families):				
At January 1	\$	125	\$	225
Loans advanced during the year		125		-
Loan repayments received		(126)		(100)
	\$	124	\$	125
Loans to associates:				
At January 1	\$	2,128	\$	1,890
Loans advanced during the year		-		1,538
Loan repayments received		(2,128)		(1,300)
	\$	-	\$	2,128
Total loans to related parties:				
At January 1	\$	2,253	\$	2,115
Loans advanced during the year		125		1,538
Loan repayments received		(2,254)		(1,400)
	\$	124	\$	2,253

The loans to associates are due on demand and non-interest bearing. The loans advanced to key management have the following terms and conditions:

	Amount of loan	Term	Interest rate
2010	\$ 125.00	Unspecified	0.0%
2011	\$ 125.00	60 months	6.5%

No provision has been required in 2011 and 2010 for the loans made to key management personnel and associates.

f) Loans from related parties

During the period the Company received an advance from Desjardins of \$55,000 and two credit facilities (Note 18).

Immediately prior to the closing of the purchase by Desjardins, all outstanding options and all outstanding Employee Share Ownership Plan ("ESOP") shares vested. In addition, certain executives of the Company and its subsidiaries, as listed in the offer, had change of control clauses in their employment agreements. The aggregate obligation of the Company pursuant to the Change of Control Agreements in the circumstances of an involuntary termination or an election to terminate employment following a Change of control, including amounts that were payable under the Long Term Incentive Plan were paid on or about April 26, 2011 and amounted to \$3,167.

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

On July 1, 2011 the Company acquired 100% of the outstanding shares of Dave Duncan Insurance Agency Ltd. an insurance brokerage located in Gilbert Plains, MB. This purchase is estimated to be \$1,000.

At a special meeting held July 7, 2011, the Company's shareholders approved the amalgamation of the Company and 1610838 Alberta Ltd., a wholly-owned subsidiary of Desjardins in accordance with the provisions of the ABCA. The special resolution was approved by 99.97% of the votes cast by shareholders and by 100% of the votes cast by holders of the Company's ordinary shares entitled to vote in order to meet the minority approval requirements set out in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* present in person or represented by proxy at the Special Meeting.

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Pursuant to the amalgamation, each issued and outstanding ordinary share of the Company, other than those held by Desjardins and its affiliates and any dissenting shareholders, were converted into one redeemable preferred share of the amalgamated corporation (an "Amalco redeemable preferred share") which were immediately redeemed upon the coming into effect of the amalgamation for a redemption amount of \$4.15 per share. Also, pursuant to the amalgamation, each of the first preferred shares, series three, series four and series five of the Company were converted into one first preferred shares, series three, series four and series five, respectively, of the amalgamated corporation (the "Amalco first preferred shares"). These preferred shares have the same attributes as the first preferred shares of the Company in all respects, except that the provisions of the Amalco first preferred shares are consistent with and reflect the fact that the amalgamation constitutes a "Capital Reorganization" under the terms of the first preferred shares and that the ordinary shares will no longer be listed on the Toronto Stock Exchange ("TSX") following the amalgamation. Consequently, among others, following the amalgamation, a holder of Amalco first preferred shares received upon their conversion a number of Amalco redeemable preferred shares equal to the number of common shares such holder would have been entitled to receive upon conversion of his first preferred shares of the Company prior to the amalgamation, and received \$4.15 in cash upon the immediate subsequent redemption of each such Amalco redeemable preferred share.

The corporation resulting from the amalgamation remains a reporting issuer and the Amalco first preferred shares remain listed on the TSX. As a result of the amalgamation, Desjardins owns, directly and indirectly, all of the outstanding common shares of the amalgamated corporation.

The amalgamation closed July 12, 2011 and the ordinary shares were de-listed on July 14, 2011 (Note 1).