

Open minds. Better results.

It is a great pleasure to share the results of what was nothing short of a tremendous year for The Sovereign. Our success is greatly due to the continuous hard work of our employees and the great support of our like-minded broker partners who truly believe in our vision and strategy.

We are being recognized now, more than ever before, as a strong market to find solutions for our insureds' specialized and complex insurance needs. This year also marks a monumental milestone, as The Sovereign now enjoys a financial A-rating from A.M. Best. This in turn, has solidified The Sovereign as a fierce competitor in an extremely challenging marketplace.

A record breaking combined ratio of 91.1% was recorded along with a pre-tax operating profit of \$36M. 2011 also marks the third consecutive year of combined ratio improvement for The Sovereign. This track record of solid operating results has led to substantial capital growth. We ended 2011 with a robust MCT of 271%, a 27% increase over the prior year end and shareholders equity of \$201M up from \$173M in the prior year. Our 14.9% ROE is well ahead of the industry average for the period.

Earned premium growth of 10.0% is more than double that of the broader market. This growth is a direct result of growing internal capabilities and stronger partnerships with our brokers.

As we look to 2012, we will continue to focus on our core competencies, building our technical capabilities in areas such as underwriting, claims and loss prevention. At the same time we will seek to strengthen our broker partnerships by using these capabilities to find solutions for specialized and complex insurance needs of their clients.

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Rob Wesseling
Chief Operating Officer

*Partners Making
Wishes Come True*

Children's Wish

YEAR IN REVIEW 2011



BALANCE SHEET

As at December 31, 2011 (Thousands)

ASSETS	2011	2010
Cash	18,754	19,109
Bonds	388,866	342,295
Stocks	59,957	62,775
Mortgages	0	0
Investment income due	2,157	2,001
Investment in partially owned company	0	998
Reinsurers' share of unearned premiums	7,097	18,701
Reinsurers' share of unpaid claims	60,801	72,663
Salvage and subrogation	0	0
Future income taxes	0	2,951
Deferred acquisition	53,248	51,887
Due from risk sharing pools	556	460
Deposits of reinsurers	1,202	1,566
Other assets	73,781	65,349
Total Assets	666,419	640,755
LIABILITY		
Unearned premiums	172,802	167,278
Unpaid claims	268,083	278,528
Unearned commissions	2,161	5,332
Due to reinsurers	1,527	2,380
Deposits of reinsurers	1,202	1,566
Employee future benefits	3,202	2,899
Other liabilities	16,144	9,982
Total Liabilities	465,121	467,965
SHAREHOLDERS EQUITY		
Share capital	45,953	45,953
Retained earnings	140,688	114,729
Accumulated other comprehensive income	14,657	12,108
Total Shareholder's Equity	201,298	172,790
Total Liabilities & Shareholder's Equity	666,419	640,755

We ended 2011 with a robust MCT of 271%, a 27% increase over the prior year end and shareholders equity of \$201 M up from \$173 M in the prior year.

YEAR IN REVIEW 2011



STATEMENT OF OPERATIONS

As at December 31, 2011 (Thousands)

REVENUE	2011	2010
Gross written	287,849	283,324
Reinsurance ceded	-33,397	-55,028
Change in unearned	-19,711	-14,889
Net Earned	234,741	213,407
EXPENSE		
Claims	89,335	88,847
Adjustment expenses	30,437	28,389
Premium and other taxes	9,734	11,546
Broker and other commissions	58,025	51,386
General expenses	29,770	27,103
Total Expenses	217,301	207,271
NET EARNINGS		
Net Underwriting	17,440	6,136
Investment Income — Net Of Expenses	18,364	17,834
Operating Income Before The Following	35,804	23,970
Income From Partially Owned Company		-111
Income Before Taxes	35,804	23,859
Income Taxes		
<i>Current</i>	10,217	6,457
<i>Future</i>	-373	-302
<i>Total</i>	9,844	6,155
Income Before Other Comprehensive Income	25,960	17,704
Other Comprehensive Income — Net Of Taxes	2,547	6,320
Total Comprehensive Income	28,507	24,024

Earned premium growth of 10.0% is more than double that of the broader market. This growth is a direct result of growing internal capabilities and stronger partnerships with our brokers.

YEAR IN REVIEW 2011



KEY OPERATING STATISTICS

As at December 31, 2011 (Thousands)

	2011	2010
OPERATING PROFIT (PRE-TAX)	35,804	23,859
OVERALL LOSS RATIO	51.0%	54.9%
COMBINED OPERATING RATIO	92.6%	97.1%
UNDERWRITING INCOME (LOSS)	17,440	6,136
INVESTMENT OPERATIONS	18,364	17,834

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A record breaking combined ratio of 91.1% was recorded along with a pre-tax operating profit of \$36M. 2011 also marks the third consecutive year of combined ratio improvement.