2008 Annual Report

Financial Corporation Limited and subsidiary companies

The Year at a Glance

40th Annual Report	**2008**	2007
Total Premiums	**$ 1,709,435,000**	$ 1,630,208,000
Total Revenues	**1,600,148,000**	2,162,946,000
Net Operating Income [1]	**111,604,000**	91,717,000
Net (Loss) Income	**(126,963,000)**	210,688,000
Total Assets (including segregated funds)	**10,914,994,000**	12,835,288,000
Shareholders' Equity:		
Beginning	**2,700,446,000**	2,397,721,000
Impact of change in accounting standards	**—**	233,566,000
Comprehensive (loss) income:		
Net (loss) income	**(126,963,000)**	210,688,000
Other comprehensive loss	**(343,272,000)**	(128,828,000)
	(470,235,000)	81,860,000
Dividends	**(12,060,000)**	(12,060,000)
Other	**(952,000)**	(641,000)
Ending	**2,217,199,000**	2,700,446,000
Per Share Information:		
Net Operating Income [1]	**30.53**	24.54
Net (Loss) Income		
- basic	**(41.20)**	60.29
- diluted	**(41.20)**	57.37
Comprehensive (Loss) Income [1]	**(144.42)**	21.58

[1] See Management's Discussion and Analysis for use of non-GAAP measures

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:45 a.m. on Friday, May 8, 2009, in the Meeting Room of The Dominion of Canada General Insurance Company, 4th Floor, 165 University Avenue, Toronto. All shareholders are invited to attend.

E-L Financial Corporation Limited and subsidiary companies

Board of Directors

J. Christopher Barron,
Corporate Director

James F. Billett,
President, J.F. Billett Holdings Ltd.

George L. Cooke, LL.D.,
President and Chief Executive Officer, The Dominion of Canada General Insurance Company

William J. Corcoran, LL.B.,
Vice-Chairman, Jarislowsky Fraser Limited

Leslie C. Herr, M.B.A., C.F.P., C.L.U., CH.F.C.,
President and Chief Executive Officer, The Empire Life Insurance Company

Duncan N.R. Jackman,
Chairman, President and Chief Executive Officer, E-L Financial Corporation Limited

The Honourable Henry N.R. Jackman,
Honorary Chairman, The Empire Life Insurance Company

Mark M. Taylor,
Executive Vice-President and Chief Financial Officer, E-L Financial Corporation Limited

Douglas C. Townsend, F.S.A., F.C.I.A.,
President, Townsend Actuarial Consulting Ltd.

Officers

Chairman, President and Chief Executive Officer
Duncan N.R. Jackman

Executive Vice-Presidents
George L. Cooke
Leslie C. Herr
Mark M. Taylor

Vice-President, General Counsel and Secretary
Richard B. Carty

Treasurer
Susan C. Clifford

Management's Discussion and Analysis
Report on E-L Financial Corporation Limited

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for the years ended December 31, 2008 and 2007. This MD&A should be read in conjunction with the Company's December 31, 2008 year-end consolidated financial statements, which form part of the E-L Financial Corporation Limited 2008 Annual Report dated March 9, 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and unless otherwise noted, the reporting currency for the Company is the Canadian dollar, and all amounts in the consolidated financial statements and this MD&A are in Canadian dollars.

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them. All per share amounts are based on the number of Common Shares outstanding at December 31, 2008, adjusted for the Company's proportionate interest in its own shares ("Adjusted Common Shares").

Additional information relating to the Company, including its Annual Information Form, may be found at www.sedar.com.

Use of non-GAAP measures

MD&A contains reference to net operating income, net operating income per share and comprehensive (loss) income per share. These terms do not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. The Company believes that these measures provide information useful to its shareholders in evaluating the Company's financial results. Net operating income is net income excluding realized loss on available for sale investments of $132.5 million (2007 – gain of $133.6 million) and loss from equity method investment of $106.1 million (2007 – loss of $14.6 million), all net of tax. Net operating income per share is net operating income less preferred dividends divided by the average number of Adjusted Common Shares outstanding. Comprehensive income per share is comprehensive income less preferred dividends divided by the average number of Adjusted Common Shares outstanding.

The Company

E-L Financial Corporation Limited (the "Company" or "E-L Financial") operates as an investment and insurance holding company. The Company owns 100% of The Dominion of Canada General Insurance Company ("The Dominion") and 80% of The Empire Life Insurance Company ("Empire" or "Empire Life"). The Company also owns investments in equities and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies ("Corporate Investments").

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend income from its investments. E-L Financial manages its investments through representation on the boards of directors of the two insurance subsidiaries and the other investment companies in which the Company has shareholdings.

Overview of results

The consolidated financial statements that follow include E-L Financial's share in the results and financial position of the two insurance subsidiaries and the Company's Corporate Investments. Additional information is provided in the notes to the consolidated financial statements and the five year summary of results on pages 71 to 73.

The Company reported net operating income of $28.5 million for the fourth quarter of 2008, compared with $28.2 million for the fourth quarter of 2007. For the year, net operating income was $111.6 million or $30.53 per share compared with $91.7 million or $24.54 per share in 2007. The Life Insurance segment

increase in net operating income was primarily due to the net release of policy liabilities resulting from the annual update of actuarial assumptions and the effect of applying updated guidance regarding the calculation of the Discounted Future Tax Liability ("DFTL") under Financial Instrument accounting rules. The General Insurance segment reported a decrease in net operating income during the year due to higher underwriting losses resulting from higher weather-related property losses and the deterioration in Facility Association's automobile insurance results.

For the fourth quarter and the year, net income declined sharply relative to the comparable periods in 2008 as the decline in the global stock markets resulted in realized losses on the sale of investments during 2008 compared to the realized gains that were recorded last year. A net loss of $119.4 million or $36.66 per share was reported for the fourth quarter of 2008 compared with net income of $106.4 million or $31.22 per share in 2007. For the year, a net loss of $127.0 million or $41.20 per share was reported compared with net income of $210.7 million or $60.29 per share in 2007.

On a consolidated basis, after tax, the Company reported a realized loss on available for sale investments of $132.5 million for the year compared with a gain of $133.6 million in the prior year. Corporate Investments' equity method investment, United Corporations Limited, decreased in value by $106.1 million after tax, due to negative global stock markets, compared to a decrease of $14.6 million in 2007.

During the year, E-L Financial purchased a $125 million subordinated debenture from Empire Life. The 6.10% subordinated debenture was issued on market terms to strengthen Empire Life's capital position and to enable Empire Life to continue the significant growth it has experienced in recent years. This debenture is fully eliminated in the consolidated financial statements.

The following table summarizes the results of the Company's business segments:

	Corporate Investments		General Insurance		Life Insurance		Total	
(millions of dollars)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net (loss) income:								
Operating income	**$ 18**	$ 25	**$ 29**	$ 45	**$ 65**	$ 22	**$ 112**	$ 92
Realized (loss) gain on available for sale investments	**(73)**	12	**(33)**	100	**(27)**	22	**(133)**	134
Loss from equity method investment	**(106)**	(15)	**—**	—	**—**	—	**(106)**	(15)
	$ (161)	$ 22	**$ (4)**	$ 145	**$ 38**	$ 44	**$ (127)**	$ 211

Consolidated comprehensive (loss) income

Comprehensive income (loss) combines net income (loss) and other comprehensive income (loss) ("OCI" or "OCL") for the year. The change in fair value of assets classified as available for sale ("AFS") with a quoted price in an active market is recorded in OCI or OCL. When gains or losses are realized on these assets the gains or losses are reclassified out of OCI into net income. The change in fair value of AFS assets without a quoted price in an active market is not permitted to be recognized until realized and accordingly, is not reflected in OCI. In the fourth quarter, E-L Financial had OCL of $165.8 million (2007 - $99.6 million) which, when combined with a net loss of $119.4 million (2007 – net income of $106.4 million) resulted in a comprehensive loss of $ 285.2 million (2007 – income of $ 6.8 million). For the year, E-L Financial had OCL of $ 343.2 million (2007 - $128.8 million) reflecting the decrease in market values of investments, which when combined with a net loss of $127.0 million (2007 – net income of $ 210.7 million) resulted in a comprehensive loss of $ 470.2 million (2007 – income of $81.9 million).

Corporate investments

During the last quarter of calendar 2008 global stock markets continued to be very volatile and suffered significant losses, ending one of the worst stock market years in recent history. Most sectors experienced considerable declines reflecting the deepening financial crisis and rapidly deteriorating economic prospects. In Canadian dollar terms, during the fourth quarter of 2008, the S&P/TSX Composite decreased 22.7%, the MSCI World Index decreased 9.6% and the S&P 500 Index declined 9.8%. On a year to date basis, the S&P/TSX Composite declined 33.0%, the MSCI World Index decreased 26.5% and the S&P 500 Index declined 21.9%. United Corporations Limited, the Company's equity method investment, on a before tax basis, lost $44.9 million for the fourth quarter (2007 - $10.1 million) and year to date lost $106.1 million (2007 – $14.6 million), reflecting the movements in global equity markets. The decline in stock markets is also reflected in the after tax realized loss on available for sale investments of $103.5 million in the fourth quarter of 2008 (2007 – an after tax realized gain of $88.7 million) and $132.5 million (2007 - an after tax realized gain of $133.6 million) on a year to date basis.

The Company's portfolio investments include $453.8 million (2007 - $520.1 million) of investments in entities that can be significantly influenced by a party that can significantly influence the Company. In management's view, investments in these companies are consistent with the investment strategy and contribute to achieving the investment objective of the Company. Included in investment and other income in the consolidated statements of income are cash dividends from these companies amounting to $11.5 million (2007 - $10.7 million).

The Company does not hold any asset backed commercial paper.

From time to time, the Company places a portion of its portfolio with investment managers. The Company selects managers whose investment strategies align with the Company's strategy of long-term capital appreciation.

All Corporate Investments have market risk as they are subject to volatility and present a risk of capital loss. Market risk also includes foreign currency, interest rate, liquidity and credit risks. The management and the Board of the Company review the Corporate Investments on a quarterly basis.

Critical accounting estimates

The Company's significant accounting policies are described in Note 3 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these estimation processes for Corporate Investments is the determination of allowances for impaired investments.

Available for sale securities are subject to a regular review for losses that are other than temporary. If a security is assessed to have a loss that is other than temporary, the loss is then recognized in the consolidated statements of income. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer and the ability and intent to hold the investment for a period of time sufficient to allow for recovery. During 2008, the Corporate Investments portfolio recognized other than temporary impairment of $34.4 million (2007 – $1.0 million) on securities with a carrying value of $79.7 million (2007 - $1.9 million). These assets were written down since the fair value was less than cost and management intended to sell during the first quarter 2009.

Liquidity and capital resources

Liquidity refers to the Company's ability to maintain cash flow adequate to fund operations as well as to provide resources for additional investments.

The Company's corporate obligations, primarily dividend payments on its outstanding Common and Preference Shares, are funded by cash flows arising from its equity and fixed income portfolio as well as dividends from its subsidiaries. The per share dividend amounts declared during the year were as follows: Common Shares: $0.50 (2007 - $0.50), Series A Convertible Preference Shares: $0.50 (2007 - $0.50), First Preference Shares, Series 1: $1.325 (2007 - $1.325) and First Preference Shares, Series 2: $1.1875 (2007 - $1.1875). Excess cash flows are invested in additional investments as appropriate opportunities become available.

During 2008, the Company entered into a 364 day revolving credit facility of $65 million, which matures on September 30, 2009. Borrowings are at variable interest rates that are based on 90 day banker's acceptances. At December 31, 2008, $25 million was drawn on this facility.

Composition of consolidated cash flows:

	Corporate Investments		General Insurance		Life Insurance		Total	
(millions of dollars)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Cash flows from:								
Operating activities	**$ 20**	$ 17	**$ 137**	$ 119	**$ 107**	$ 53	**$ 264**	$ 189
Financing activities								
-banker's acceptances	**25**	—	**—**	—	**—**	—	**25**	—
-cash dividends	**(12)**	(12)	**—**	—	**—**	—	**(12)**	(12)
Investing activities	**38**	(63)	**(67)**	(9)	**(244)**	20	**(273)**	(52)
Increase (decrease) in cash and cash equivalents	**$ 71**	$ (58)	**$ 70**	$ 110	**$ (137)**	$ 73	**$ 4**	$ 125

The Company's insurance subsidiaries meet their cash requirements primarily through funds generated by insurance operations. Each insurance subsidiary carries sufficient excess capital to provide for additional cash requirements in the event of reasonably possible adverse claims experience or investment results.

At December 31, 2008, The Dominion of Canada General Insurance Company's Minimum Capital Test was 182% and The Empire Life Insurance Company's Minimum Continuing Capital and Surplus Requirements measure was 201%.

The Company receives dividends from its insurance subsidiaries. Such dividends are subject to restrictions imposed by the Insurance Companies Act, Canada to ensure that sufficient excess capital remains on hand to fulfill policyholder obligations.

Dividends received by the Company from its insurance subsidiaries:

(millions of dollars)	**2008**	2007
The Dominion	**$ 40**	$ 60
Empire	**—**	9
Total	**$ 40**	$ 69

The Company's corporate operating cash flows consist of net investment income from its Corporate Investments of $20 million (2007 - $17 million) and cash dividends received from its insurance subsidiaries of $40 million (2007 - $69 million). These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $12 million (2007 - $12 million) and cash inflow from banker's acceptances of $25 million (2007 – nil), made available $73 million (2007 - $74 million) for investment opportunities in 2008. The Company's Corporate Investments liquidity position is $11.5 million in cash and cash equivalents at December 31, 2008 (2007 - $25.1 million).

Selected annual information

A summary of various financial data for each of the last three years is as follows:

(millions of dollars, except per share amounts)

	2008	2007	2006
Revenue			
Corporate Investments	**$ (181)**	$ 30	$ 224
General Insurance	**1,093**	1,215	1,174
Life Insurance	**688**	918	923
	$ 1,600	$ 2,163	$ 2,321
Net (loss) income			
Corporate Investments	**$ (161)**	$ 22	$ 177
General Insurance	**(4)**	145	150
Life Insurance	**38**	44	46
	$ (127)	$ 211	$ 373
Assets			
Corporate Investments	**$ 1,125**	$ 1,435	$ 1,373
General Insurance	**2,650**	2,817	2,630
Life Insurance - general fund	**3,791**	3,989	3,355
- segregated funds	**3,349**	4,594	3,848
Total assets, including segregated funds	**$ 10,915**	$ 12,835	$ 11,206
Per Common Share			
Net (loss) income - basic	**$ (41.20)**	$ 60.29	$ 109.97
- diluted	**$ (41.20)**	$ 57.37	$ 104.21
Cash dividends	**$ 0.60**	$ 0.60	$ 0.60

Revenue

The revenue for the Company has decreased over the past two years primarily due to declines in the global stock markets in 2008 and the effect of the adoption of the Financial Instrument accounting standards effective January 1, 2007.

The Company's equity method investment was significantly impacted by the stock market volatility recording losses of $117.3 million in 2008 compared to a loss of $20.1 million in 2007 and income of $56.9 million in 2006. Revenue from the General Insurance operation in 2008 declined due to realized investment losses of $31.9 million compared to gains of $120.5 million in 2007 and $55.9 million in 2006.

Due to the Financial Instrument accounting standards changes in 2007, the change in unrealized appreciation of portfolio investments is no longer recorded in the consolidated statements of income, whereas in 2006, an increase in unrealized appreciation of portfolio investments of $125.0 million was included. Corporate Investments net income declined over the past two years as $91.0 million in realized losses were recognized in 2008 compared with gains of $20.2 million in 2007 and $17.4 million in 2006. The fair value change in held for trading assets had a significant impact on the Life Insurance operation's revenue where losses of $244.4 million were recorded in 2008 compared with a loss of $84.3 million in 2007.

Net loss

The net income of the Company has declined for the past two years. Each of the segments was negatively impacted by the decline in global stock markets in 2008.

Corporate Investments net income is directly related to its revenue, which declined significantly as previously discussed.

Underwriting income for the General Insurance operations declined in 2006 and became underwriting losses in both 2007 and 2008. Realized investment gains in 2006 and 2007 increased in contrast to a realized investment loss in 2008. The overall net income for the Life Insurance operations decreased due to realized losses on the sale of investments during 2008 compared with realized gains that were recorded last year. This was partly offset by the overall net income from the Life Insurance operation's three product lines which increased in 2008 relative to 2007 as the increase in Individual Insurance net income more than offset declines in Wealth Management and Employee Benefits net income. The increase in the Individual Insurance product line's operating earnings overall was primarily attributable to the net release of reserves from the annual assumption update during 2008, including an updated approach for establishing the insurance mortality assumption and the effect of applying updated guidance regarding the calculation of the DFTL under Financial Instrument accounting rules.

Assets

On an overall basis, total assets of the Company have decreased in 2008 due to the decline in the global stock markets. Total assets increased in 2007 because they were adjusted to fair value as a result of the adoption of the Financial Instrument accounting standards as most financial assets are now recorded at fair value commencing January 1, 2007.

Declining global stock markets resulted in the portfolio investments decreasing from $1,097.9 million at December 31, 2007 to $878.9 million at December 31, 2008 and equity investment decreasing from $309.9 million at December 31, 2007 to $221.2 million at December 31, 2008.

The total assets of the General Insurance operations had increased in 2006 and 2007 as a result of investing retained earnings and, in 2007, as a result of adopting new financial instrument accounting standards. In 2008, fair values on investments decreased, leading to a decrease in total assets.

Total assets for Life Insurance decreased during 2008 as assets under management declined by 16% during the year to $7.1 billion. Segregated fund assets were down 27% due primarily to the sharp decline in stock market prices partly offset by positive net sales results. Segregated fund assets for 2007 were up 19% due primarily to positive net sales results throughout the year. General fund assets for 2007 increased significantly as a result of adopting new Financial Instrument accounting standards.

Summary of quarterly results

The following table summarizes various financial results on a quarterly basis for the current and prior year:

(millions of dollars, except per share amounts)

	March 31		June 30		September 30		December 31		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Revenue	**$ 476**	$ 513	**$ 487**	$ 415	**$ 266**	$ 512	**$ 371**	$ 723	**$ 1,600**	$2,163
Net income	**$ (21)**	$ 31	**$ 39**	$ 53	**$ (25)**	$ 20	**$ (120)**	$ 107	**$ (127)**	$ 211
Net income per share										
- basic	**$(7.17)**	$ 8.43	**$10.91**	$15.30	**$(8.28)**	$ 5.34	**$(36.66)**	$31.22	**$(41.20)**	$60.29
- diluted	**$(7.17)**	$ 8.32	**$10.91**	$14.55	**$(8.28)**	$ 5.34	**$(36.66)**	$29.16	**$(41.20)**	$57.37

The net income of the Company is expected to fluctuate on a quarterly basis given its various segments. In particular, equity market movements, changes in interest rates and policy liability discount rates and policy reserve adjustments are likely to cause fluctuations.

During the first quarter of 2008, the General Insurance operation's underwriting income was negatively impacted by the high number of large property losses, a higher frequency of weather-related claims on personal property and automobile and a general increase in automobile claims frequency. The Corporate Investments portfolio decreased during the first quarter of 2008 due to an $18 million loss from the equity method investment.

The increase in net operating income for the second quarter of 2008 was primarily due to improved investment spreads in both the Wealth Management and Individual Insurance lines of the Life Insurance operations.

During the third quarter of 2008, the increase in net operating income was primarily due to improved investment spreads in the Individual Insurance line and a reserve release related to discounted future tax liabilities in the Life Insurance operation. The Corporate Investments segment showed increased losses in the third quarter of 2008 due to the decline in global stock markets.

Quarterly net income for the fourth quarter of 2007 was increased by the realization of significant investment gains in the General Insurance operation compared to losses in the fourth quarter of 2008.

Share data

There are 4,019,409 Common Shares and 258 Series A Convertible Preference Shares issued and outstanding and each share is entitled to one vote. In addition, there are 4,000,000 First Preference Shares, Series 1 and 4,000,000 First Preference Shares, Series 2 issued and outstanding, which are non-voting.

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2008. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2008.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2008. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2008. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Conversion to IFRS

IFRS will replace Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company will begin to report its financial results, including comparative information, in accordance with IFRS in the first quarter of 2011.

A steering committee comprised of senior management from the Company and its subsidiaries oversees the project and provides quarterly reports to the Company's Audit Committee. Steering committee members and project staff continue to develop financial reporting expertise in IFRS.

Significant changes to IFRS accounting standards are expected to be issued during the next two years and as a result, there is uncertainty regarding the expected accounting standards that will be in place in 2011. In addition, the Company's subsidiaries are federally regulated financial institutions, and regulatory and capital requirements may also change in advance of 2011. The following disclosures reflect the Company's current expectations based on the information that is available as of this report's date. As a result of changing circumstances during our transition, the Company may change accounting policy choices or elections initially selected.

The Company's project plan includes four phases: analysis, design and planning, solution development and implementation. The analysis phase has been completed and the standards that are expected to have a significant impact on the Company's recognition, measurement, presentation and disclosure of its financial statements have been identified. During 2009, preliminary accounting policy choices will be made based on the expected accounting requirements in 2011. Model financial statement presentation and disclosures will be prepared in 2009 and system changes will be identified. The Company is currently reviewing system changes resulting from the changeover to IFRS. Changes to internal controls over financial reporting and disclosure controls and procedures will be identified starting in 2009. At this point in the project, the Company is not able to reasonably estimate the financial reporting impact of the transition to IFRS.

Outlook

The Company's future earning prospects are dependant on the successful management of its Corporate Investments portfolio and on the continued profitability of the two insurance company subsidiaries. The performance of the Corporate Investments portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend income. More information on the outlook for the insurance subsidiaries is provided in the Outlook sections of each of the insurance operation's reports in the MD&A.

Management's Discussion and Analysis
Report on General Insurance Operations

The Dominion of Canada General Insurance Company ("The Dominion") is a wholly owned subsidiary of E-L Financial Corporation Limited and is licensed to underwrite property and casualty ("P&C") insurance in all jurisdictions in Canada.

Overview

The sharp decline in global equity markets in 2008 adversely affected The Dominion's earnings and caused a significant unrealized loss in the value of its investments in the fourth quarter and for the year. The Dominion incurred a net loss for 2008 of $4.0 million compared to net income of $144.6 million in 2007. This decrease in earnings reflects realized net investment losses in 2008 of $32.7 million (after tax) in contrast to realized investment gains of $99.5 million (after tax) in 2007, and deterioration in underwriting results. The combined ratio of 106.2 in 2008 deteriorated 3.3 points from 102.9 in 2007 mainly due to an increase in weather-related property losses. Net unrealized loss on available for sale ("AFS") investments (which comprise most of The Dominion's investments) was $211.9 million (after tax) for 2008, compared to a net unrealized loss on AFS investments of $7.9 million (after tax) in 2007.

In the fourth quarter of 2008, The Dominion incurred a net loss of $46.8 million compared to net income of $75.3 million in the fourth quarter of 2007. This change reflects a net realized investment loss of $39.9 million (after tax) in the fourth quarter of 2008, versus net realized investment gains of $64.9 million (after tax) in the prior year fourth quarter, as well as very poor underwriting results for the fourth quarter of 2008. The combined ratio for the fourth quarter of 2008 was 114.5, compared to 102.9 in the fourth quarter of 2007. The significant underwriting loss for the fourth quarter in 2008 reflects a sharp increase in weather-related property losses and increases in automobile claims frequency and severity, compared to the prior year's fourth quarter.

Page 72 provides an overview of financial results and position for the five-year period from 2004 to 2008.

Results of operations

The Dominion uses generally accepted accounting principles ("GAAP") and "non-GAAP" measures for assessing financial performance. The "loss ratio" equals claims expense divided by net premiums earned. The "expense ratio" equals underwriting expenses (commissions, premium taxes and operating expenses) divided by net premiums earned. The "combined ratio" is the sum of the loss and expense ratios and is equal to the sum of claims and underwriting expenses divided by net premiums earned. These three ratios indicate how much of each net premium dollar earned in a period is used for claims and delivery costs. Provisions for unpaid claims are discounted, based on the market yields of supporting investments. Changes in the market yields of an insurer's investments can lead to changes in the selected claims discount rate, which in turn results in unrealized gains or losses in unpaid claims and claims expense. Therefore, modified loss and combined ratios, excluding the effects of changes in the claims discount rate, are also used to isolate underwriting results from the distorting effects of market interest rate volatility. These modified ratios are non-GAAP measures that are not standardized and may not be comparable with measures used by other entities.

Report on General Insurance Operations (cont'd)

The Dominion's financial results for 2008 and 2007, by major line of business, are summarized as follows:

	Automobile		Personal Property		Commercial Property & Casualty		Total	
(dollars in millions)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Gross premiums written	**$ 666**	$ 633	**$ 216**	$ 201	**$ 210**	$ 205	**$1,092**	$1,039
Growth rate %	**5.2**	(2.5)	**7.3**	(0.6)	**2.5**	(0.9)	**5.1**	(1.8)
Mix of business %	**61**	61	**20**	19	**19**	20	**100**	100
Loss ratio %	**76.7**	74.8	**89.9**	73.0	**53.9**	58.8	**75.1**	71.5
Loss ratio % - excluding change in discount rate	**76.7**	74.9	**89.0**	73.0	**52.5**	58.9	**74.6**	71.6

	2008	2007
Revenue		
Net premiums earned	**$1,023**	$ 999
Premium finance fee	**13**	13
Investment income	**89**	83
Net realized (loss) gains on sale of investments	**(32)**	120
	1,093	1,215
Expenses		
Claims expense	**769**	715
Other expenses, including premium taxes	**319**	313
Income taxes	**9**	42
	1,097	1,070
Net (loss) income	**$ (4)**	$ 145

The Dominion underwrites standard general insurance products concentrated in three geographic areas. The geographic mix of premiums in 2008 is unchanged from the prior year and is as follows: Ontario region 69%, Western region 20% and Atlantic region 11%. Product mix is fairly consistent across the regions, except that Western region has a higher proportion of property and casualty, due to British Columbia's monopoly on basic automobile insurance coverage in that province.

Total gross premiums written increased by 5.1% in 2008 (decrease of 1.8% in 2007) consisting of a 2.7% increase in policies written (1.2% increase in 2007), a 2.7% increase in average premiums (1.3% decrease in 2007) and a 0.3% decrease from The Dominion's share of Facility Association premiums (1.7% decrease in 2007). The net increase in policies written of 2.7% consists of 4.4% growth from brokers with whom The Dominion has an ongoing relationship, less a decrease of 1.7% in policies from brokers whose relationship with The Dominion has been terminated because they have become owned or controlled by competitor insurers. The Dominion's strategy is to distribute solely through independent brokers who work in the best interests of their customers, free of conflict, by providing independent advice, personalized service and a competitive choice of products, pricing and service from multiple insurers. In 2008, an increase in average premiums for personal lines out-weighed ongoing decreases in average premiums on commercial lines which remained soft in 2008. Despite the business lost in recent years from terminations of competitor-controlled brokers, The Dominion achieved its highest ever gross premiums written in 2008, excluding Facility business.

Net premiums earned reflects the earning of net premiums written on a straight-line basis over the terms of the individual policies. Approximately half of the premiums written in a calendar year are earned in that year and the rest are deferred as unearned premium, to be earned in the following year.

The increase in the total company loss ratio mainly reflects an increase in weather-related property damage claims and an increase in the Facility Association's loss ratio. Net changes in the claims discount rates did not significantly affect the total company loss ratios for both 2008 and 2007, nor the year over year change in the total company loss ratio from 2007 to 2008.

Automobile

Gross premiums written for automobile increased 5.2% in 2008 (decrease of 2.5% in 2007) consisting of a 1.8% increase in average premiums (0.9% decrease in 2007) and a 3.9% increase in policies written (1.3% increase in 2007), partly offset by a 0.5% decrease from Facility Association premiums (2.9% decrease in 2007). An increase in personal auto average premiums of 2.7% out-weighed decreases in commercial auto average premiums (a decrease of 3.6% in 2008) for an overall increase of 1.8% in total average premiums for auto insurance in 2008. Industry prices are beginning to increase for personal auto. Commercial price decreases are expected to subside and possibly reverse in 2009. The increase in policies written reflects growth with existing and newly appointed brokers of 5.6% (3.9% increase in 2007), partly offset by a 1.7% decrease from the cancellation of contracts with brokers who became controlled by competitor insurers (2.6% decrease in 2007).

The 1.9 point increase in the 2008 automobile loss ratio compared to the prior year is due to deterioration in Facility Association's results. The loss ratio on The Dominion's share of Facility Association business was 119.7% in 2008 compared to 72.3% in 2007, which increased The Dominion's overall automobile loss ratio by 2.3 points. Facility Association business is suffering from inadequate pricing and a decline in favourable claims development in 2008 versus 2007. Excluding Facility business, The Dominion's automobile loss ratio improved slightly as a result of reductions in estimates for prior year claims recognized in 2008 that were greater than reductions recognized in 2007. Prior year claims development reduced automobile claims expense by $40.3 million in 2008 (6.6 points reduction to The Dominion's loss ratio, excluding Facility Association business) compared to a reduction of $32.1 million (5.4 points) in 2007. The reduction in claims estimates recognized in 2008 is attributed to a changed view of uncertainty in the claims estimates for accident benefit claims (injury benefits paid to our insureds) and third-party bodily injury claims (paid to persons injured by the actions of The Dominion's at-fault policyholders), in both cases on claims occurring mainly in years 2005 to 2007. The favourable development recognized in 2007 was mainly in relation to accident benefit claims and third-party bodily injury claims arising in accident years 2001 to 2006. Although we expect that the industry will continue to increase rates for automobile insurance in 2009, we also expect claims costs to continue to rise which may delay or dampen improvement in loss ratios.

Personal property

Personal property premiums increased 7.3% in 2008 (decrease of 0.6% in 2007), consisting of a 6.1% increase in average premium (0.9% decrease in 2007) and a 1.2% increase in policies written (increase of 0.3% in 2007). The increase in average premiums reflects brokers' and underwriters' efforts to increase policyholders' coverage limits to match property values and increases in construction costs. This ongoing industry challenge of achieving "insurance to value" and the related increases in average premiums has been exacerbated by the industry's recent price-competitive phase. The 1.2% increase in written policies consists of an increase of 3.0% from growth with existing brokers (2.4% increase in 2007) and a 1.8% reduction from cancelled contracts with competitor-controlled brokers (2.1% decrease in 2007).

The 16.9 point deterioration in the 2008 loss ratio reflects an increase in weather-related property damage claims (adding approximately 11 points to the 2008 loss ratio) and increasing claims frequency (adding approximately 5 points). Favourable prior year claims development reduced personal property claims expense in 2008 by $5.0 million (2.6 points), compared to a reduction of $4.3 million (2.3 points) in 2007. Favourable development in 2008 reflects better than expected experience from recent years in general and some large personal liability claims in particular. The 2007 development reflected better than expected experience from various accident years.

Commercial property and casualty

Commercial coverages are generally sold together in package policies. The Dominion's commercial business is typically main-line, small to mid-sized exposures on the conservative end of the risk spectrum. Gross premiums written increased by 2.5% (decrease of 0.9% in 2007) reflecting an increase in policies written of 4.7% (increase of 7.1% in 2007), partly offset by an average premium decrease of 2.2% (decrease of 8.0% in 2007). The 4.7% increase in policies written consists of 5.8% growth with existing brokers (9.2% increase in 2007), partly offset by a 1.1% decrease due to cancellations of contracts with competitor-controlled brokers (2.1% decrease in 2007). The strong policy growth reflects continued market penetration of The Dominion's E-Clips product package for small commercial business. The Dominion's average premiums declined due to the increased proportion of E-Clips policies, which have lower average premiums than The Dominion's overall average commercial premiums, and due to ongoing soft market price competition.

The 2008 loss ratio decreased by 4.9 points compared to the loss ratio of 2007. The year over year improvement reflects a decrease in claims expense for large losses (reducing the loss ratio by 5.5 points versus the prior year) and a larger reduction in prior year claims estimates recognized in 2008 than the reduction recognized in 2007 (4.3 point decrease), partly offset by an increase in weather-related water damage property claims (adding 2.7 points), a net decrease in the claims discount rate (adding 1.5 points) and a general increase in claims frequency (adding 0.7 points). Favourable claims development of $26.2 million (reduction in the 2008 loss ratio of 14.2 points) was recognized in 2008 from better than expected experience and a changed view of uncertainty in general liability claims estimates, mostly from recent accident years. Favourable development of $18.0 million recognized in 2007 (reduction in the 2007 loss ratio of 9.9 points) arose partly from better than expected experience on property and general liability claims occurring in various recent years and partly from positive developments related to the settlement of sexual abuse claims arising in the years 1950 to 1980.

Expenses

The Dominion's expense ratio decreased in 2008 by 0.3 points to 31.1, from 31.4 in 2007, due mainly to a decrease in broker commissions. Contingent profit bonuses earned by brokers declined in 2008 as a result of an increase in loss ratios in 2008.

Investments, liquidity and capital resources

Investment income (interest and dividends) before income tax was $88.5 million in 2008, compared to $82.6 million in 2007 as a result of an increase in the average portfolio balance. The average of cash and investments (measured at cost or amortized cost) grew 8.0% in 2008 (8.3% increase in 2007) as a result of positive cash flow from operations. The average investment yield on an amortized cost basis remained unchanged at 3.8%.

The net realized investment loss before tax was $31.9 million in 2008, compared to a net realized gain of $120.5 million in 2007. Realized investment gains and losses generally result from trading decisions which are intended to maximize the ongoing economic return of The Dominion's portfolios and, accordingly, do not follow a predictable pattern from year to year. The majority of The Dominion's realized investment gains and losses arise from its investments in several pooled funds which invest in common equities and are managed by third party investment managers. The net loss realized in 2008 was mostly from the redemption of all of The Dominion's units in one international equity pooled fund that was first acquired in the third quarter of 2007. This fund's loss in value mainly arose in 2008. The Dominion decided to redeem these units as a result of the fund's recent investment decisions and resulting performance. The 2007 net realized gains arose from both capital gain distributions received from the pooled funds in the normal course and from redeeming some mutual fund units and investing the proceeds in units in other mutual funds managed by the third party manager; The Dominion has continued to own these units to the date of this report.

During 2008 and to the date of this report, The Dominion has not held any asset backed commercial paper.

Positive cash flow from operations remained high in 2008 at $137.5 million, compared to $119.0 million in 2007. The Dominion paid dividends of $40.0 million in 2008 to E-L Financial, the sole shareholder ($60.0 million in 2007). The Dominion's investment maturity profile allows for ongoing liquidity to be maintained such that The Dominion can operate for some time with minimal need to liquidate securities and thus minimize realized losses from disposal at unfavourable market values. At December 31, 2008, the investment portfolio mix included 13% in cash and short-term investments (2007 – 8%), 56% in bonds (2007 – 55%) and 28% in preferred stocks and in pooled funds that invest in common equities (2007 – 35%). As at December 31, 2008, in addition to cash and short-term investments, 14% of The Dominion's bonds have a maturity date within one year (2007 – 15%).

The Dominion's shareholder capital consists mainly of retained earnings and is invested 86.7% in third-party pooled funds that hold common stock; the remainder is invested in bonds. The Dominion's capital has exceeded the requirements of the Insurance Companies Act and regulations throughout 2008 and to the date of this report. Capital adequacy is predominantly determined by the Minimum Capital Test ("MCT"), a calculation defined by the Office of the Superintendent of Financial Institutions, the regulator of federal financial institutions. The MCT is the ratio of regulatory capital available divided by regulatory capital required and is reported to the federal regulator in a prescribed filing each quarter. The federal regulator has established a supervisory target MCT result of 150% to provide a safety buffer above the legally required minimum MCT of 100%. At December 31, 2008, The Dominion's MCT was 182% (which equates to over $100 million of excess capital above the regulator's supervisory target), compared to an MCT of 227% at the end of 2007. The decrease reflects the 2008 dividend and the significant unrealized loss on the investments in pooled funds, reflecting the decline in global stock markets. Management regularly monitors the sensitivity of The Dominion's capital to potential threats from negative claims development, declines in investment values and operating leverage (ratio of premiums to capital). The Dominion's decisions regarding investments and declaration of dividends will continue to be made with the intention of maintaining sufficient regulatory capital.

Other comprehensive loss

In 2008 The Dominion incurred an other comprehensive loss after tax ("OCL") of $215.0 million ($110.6 million OCL in 2007), consisting of net unrealized losses after tax of $211.9 million (net losses of $7.9 million in 2007) and a $3.1 million after tax reclassification adjustment for the net realized investment gains recognized in net income in the year (net loss of $102.7 million in 2007). Most of the net unrealized losses relate to the pooled fund units that The Dominion continues to own, which decreased in value as a result of the decline in global equity markets in 2008. Comprehensive loss, which is the sum of net income and the other comprehensive loss, was $219.1 million after tax in 2008 (comprehensive income of $34.0 million in 2007).

Unused tax losses

The realized loss on the sale of pooled fund units recognized in net income in 2008 (discussed above under "Investments, liquidity and capital resources") and the unrealized losses on the remaining pooled fund units recognized in other comprehensive income in 2008 (discussed in the previous paragraph) resulted in unused capital losses for tax purposes, and deductible temporary differences that will become unused capital losses for tax purposes when realized (collectively referred to as "unused tax losses"). To the extent that these unused tax losses are considered more likely than not to be recoverable, they are to be recognized in the future tax asset on the balance sheet and as tax recoveries in net income and other comprehensive income, as applicable. Due to uncertainty in the current economic environment regarding the earning of future taxable capital gains, against which to offset the losses, these unused tax losses have not been recognized in the consolidated financial statements at December 31, 2008.

Based on tax laws and tax rates in effect on December 31, 2008, management estimated that the unrecognized tax recoveries, if they had been recognized in 2008, would have increased net income by $4.7 million, increased other comprehensive income by $28.3 million, and increased the future tax asset by $33.0 million.

On March 4, 2009, proposed amendments to the Income Tax Act passed third reading in the Canadian House of Commons. According to Canadian GAAP, once proposed tax amendments have passed third reading under a minority government, they are considered substantively enacted and their effect is to be recognized in an entity's financial statements. The effects of this subsequent event will be reflected in the first quarter of 2009. Under the amendments, the unrecognized capital losses described in the previous paragraph are re-characterized as income losses which may, therefore, be carried forward against future regular taxable income, such as underwriting income and interest income. Management's assessment is that the unused tax losses are now, therefore, recoverable and will be recognized in the Company's financial statements in the first quarter of 2009. In addition, the unused losses have become 100% deductible as income losses, instead of being 50% deductible as capital losses. Based on the December 31, 2008 fair value of the pooled fund units, management estimates that The Dominion's future tax asset and net income would both increase by $66.0 million, which reflects the fact that the unused tax losses are now 100% deductible. (The estimated $33.0 million unrecognized future tax asset referred to in the previous paragraph, was based on 50% deductibility in accordance with the tax rules in effect at December 31, 2008). Although the majority of the unused tax losses arise from unrealized losses recorded in other comprehensive loss, under GAAP the recognition of these previously unrecognized tax losses will be reflected in net income, not in other comprehensive income.

Industry dynamics and management's strategy

The function of a P&C insurer is to pool the risks of its policyholders, collecting a premium from each in order to fund the covered claims of the few. Premiums, less underwriting expenses (commissions, operating expenses and premium taxes), are invested (the "insurance float") until they are used to pay claims. In most years, the Canadian P&C industry produces an underwriting loss, which is the excess of claims and underwriting expenses over net premiums earned. An insurer generates a margin on insurance operations by earning investment income on the insurance float that exceeds the underwriting loss. This margin on the insurance float is in addition to the investment return earned on other investments which are held in support of shareholder capital. P&C insurers generally require relatively little working capital as a result of collecting premiums in advance of paying claims. The function of shareholder capital is to provide a buffer for large unusual losses or in the event that existing provisions for net unpaid claims prove to be inadequate. Regulators establish minimum capital requirements for insurers to maintain.

The industry's annual profitability improves and deteriorates progressively in a wave-like fashion, commonly referred to as the insurance cycle. The key drivers of the insurance cycle are (i) the lag in measuring the ultimate cost of each year's claims, and the resultant challenge of adjusting prices until they are adequate, (ii) fluctuations in investment returns, which subsidize underwriting results, and (iii) the relentless downward pressure on margins from a high level of price competition in this mature industry. Price competitiveness intensifies when profits are high, or are expected to be, and when capital is strong and vice versa. The average duration of an insurance cycle in Canada is seven years. As a result of the large cyclical swings in annual earnings, a P&C insurer's results must be assessed over the course of a cycle, and not strictly on an annual basis.

The global financial crisis has adversely impacted The Dominion's investments in pooled funds that invest in common equities and has caused management to moderate increases in staff and compensation costs. However, the emerging recession is not expected to prevent the industry's transition from a soft to hard market in the short term. Signs of price hardening in the industry were emerging during 2008.

Management expects that the current economic situation will allow industry prices to increase in most lines in 2009. However, as Canadian business activity declines during the recession, it is likely that the effect of price increases will be muted by a reduction in the amount of insurance coverage sold.

The Dominion's growth strategy is to maintain sufficient size and presence in the marketplace in order to be relevant to brokers so that they continue to grow their business with us. Accordingly, premium growth is subject to optimizing earnings growth over time, while maintaining a relevant presence with independent brokers, our sole distribution channel. The Dominion's relationship with brokers is important for success. Management seeks to grow its goodwill with brokers by being a supportive partner in supplying their customers with reliable, consistent service at a fair price. An important goal in The Dominion's technology development activities is improving brokers' ease of doing business with The Dominion. As a Canadian-owned and managed insurer, The Dominion seeks to provide brokers with responsive, regionally-sensitive, "made-in-Canada" decision-making, in contrast to the many foreign-controlled insurers that comprise a large portion of the Canadian market.

The Dominion seeks to deliver high quality claims service in order to attract and retain policyholders and preserve the support of our brokers. Management's claims settlement philosophy is to consistently provide quality service in every interaction with a claimant, regardless of the size or type of claim. We emphasize pro-active communication to claimants regarding the claims process and what they can expect, as well as providing an empathetic and comfortable experience. We will not overpay a claim in the name of service, since that unfairly increases the cost of insurance to all policyholders. To meet ever-increasing service expectations, claims management continues to build a culture where quality service and continuous improvement are valued and rewarded.

Risk management

The key risk exposures and performance drivers of a P&C insurer are appropriate pricing, competent and efficient distribution, effective underwriting (the acceptance of "risks" and properly classifying them), product management (policy terms and conditions), appropriate response to political and regulatory developments, customer service to policyholders and claimants, conservative claims provisioning, skilled human resources, cost control, sensible use of technology, and successful management of capital, comprising investments and reinsurance. Some insurers write specialized, less understood risks and generate their margin from being a niche supplier. The majority of insurers, including The Dominion, focus on standard price-sensitive products and generate a margin from strong risk selection and efficient execution. One notable complication to the otherwise commodity nature of automobile insurance is that the product is frequently changed by provincial governments, making it more difficult to estimate claims and determine pricing assumptions. Management continuously reassesses and adapts its strategies in response to industry dynamics and in anticipation of emerging trends. The Dominion's strategies and results for the key performance drivers are discussed in the relevant sections of this MD&A.

For personal lines and some commercial products, The Dominion sets premium rates based on actuarial analysis and consideration of competitive market forces. Personal and some commercial automobile premium rates are subject to provincial regulatory approval which in most provinces involves varying degrees of review of supporting assumptions. Some commercial products are priced by individual underwriters, as part of the underwriting process. Our pricing strategy is to maintain stable prices for our policyholders, as much as possible, while obtaining price adequacy in each segment, as the market allows. Standard P&C products are, however, very price sensitive and management carefully considers the impact of price increases on policyholders whom we seek to retain.

The Dominion distributes solely through independent brokers, the largest distribution channel for P&C insurance products in Canada. Accordingly, The Dominion's success in the short-term is contingent on the ongoing success of brokers and on management's ability to respond to threats to the broker distribution channel. The Dominion continues to terminate relationships with brokers that become controlled or acquired by competitor insurers. Truly independent brokers advocate the interests of their customers and offer genuine product choice, in contrast to captive agents or brokers working for, or owned by, an insurer.

Accurate estimation of unpaid claims and reinsurance recoverable is important for measuring financial results, understanding claims costs and trends, establishing appropriate prices and for developing or changing insurance products. Management's provisions for unpaid and unreported claims and reinsurance recoverable are based on actuarially determined estimates for all costs of investigation and settlement of claims occurring prior to year end. Ultimate costs incurred will inevitably vary from current estimates. A detailed description of The Dominion's claims provisioning process is provided below under "Critical accounting estimates."

The Dominion enters into reinsurance agreements with other insurers in order to limit its exposure to significant losses. Reinsurance does not relieve The Dominion of its primary liability as the originating insurer. The Dominion's reinsurance coverage is in the form of excess of loss treaties that provide coverage above a deductible ("retention") up to the treaty limits, per claim or, in the case of the catastrophe treaty, for the aggregate loss of series of claims arising from a single event up to a specified limit. Management selects the catastrophe treaty limit based on analysis using several catastrophe models. The catastrophe limit has been increased from $500 million for 2008 to $600 million for 2009. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by the reinsurance committee and reported to The Dominion's Board. Management reviews the financial performance and condition of reinsurers annually and only reinsurers that have an 'A' credit rating, or better, are accepted on our reinsurance program as it renews each year. In the 2009 renewal process, management's review of the investment profiles of reinsurers paid particular attention to those who have been reported to have suffered, or may be exposed to, large investment losses. Management is satisfied that reinsurers on its program continue to have acceptable financial strength. The Dominion writes personal and commercial property business in British Columbia and, accordingly, is exposed to loss from a major earthquake. In addition to carrying appropriate reinsurance coverage, management mitigates this exposure through strict underwriting guidelines, effective use of deductibles, adequate pricing and management of the earthquake exposure capacity allocated to each broker. The Dominion's financial preparedness for an earthquake exceeds the federal regulator's requirements.

Facility Association is a mandatory insurance pool that is funded by all private automobile insurers to provide insurance to drivers who cannot obtain coverage from private insurers. Facility also operates risk sharing pools ("RSP") in some provinces into which insurers may transfer qualifying policies which they have issued directly. Each insurer services its RSP policies and settles any claims, but the financial results are combined in the risk sharing pools. Facility determines the results of its operations based on its own actuarial valuations and allocates its results to private insurers, mainly based on market share. Insurers rely on Facility's reports in recording their share of Facility results. Given the nature of Facility's business, its results are volatile and can have a material effect on The Dominion's net income.

The Dominion settles certain claims involving a long-term payment stream by purchasing an annuity from a life insurer that will pay out the claim to the claimant. Most of these claims involve long-term payments for those injured in an automobile accident. These "structured settlements" result in the removal of the liability from the consolidated balance sheet. However, on most of these structured settlements, The Dominion retains a residual off-balance sheet contingent liability in that it guarantees to pay the remaining obligations of the annuity in the event that the life insurer cannot. The Dominion uses only credit-worthy federally-regulated life insurers and considers this credit risk to be negligible.

The Property and Casualty Insurance Compensation Corporation ("PACICC") is a regulated entity that funds losses sustained by policyholders, within limits, in the event of an insurer insolvency. The Dominion has ongoing exposure to fund its portion, based on market share, of covered losses of an insolvent insurer. The Dominion accrues its obligations at the time they become known. Occasionally PACICC refunds to insurers recoveries from the assets of entities in liquidation, which are recorded as reductions to expenses. The Dominion's contingent obligation to PACICC results in an ongoing exposure that could have a material impact on net income.

Underwriting expenses consist of broker commissions, premium taxes and operating expenses. Broker commissions and premium taxes comprise approximately two thirds of underwriting expenses; most commissions and all premium taxes are based on fixed percentages of the applicable premiums and, therefore, provide no opportunity for economies of scale. Included in commissions are contingent profit bonuses which are earned by brokers, based mainly on the profitability of their business to The Dominion, and which can produce variation in annual expense ratios. Operating expenses mainly consist of salaries and benefits and information technology costs which vary indirectly with business volume. Managing these operating expenses is important in this competitive industry. P&C insurance is a knowledge-based service. Skilled, experienced and effective personnel are important to The Dominion's success. The Dominion's human resource management practices focus on providing a positive work experience and maintaining a performance-based compensation program that is in line with the industry. Annual performance appraisals, annual salary reviews and bonus programs covering all levels of staff are geared toward promoting and rewarding employees.

Technology is the other significant operating expense for The Dominion. Beginning with its claims system in 2007, The Dominion has begun a multi-year project to replace its legacy systems in discrete phases that produce incremental improvements within a disciplined annual budget. In addition, ongoing development effort is focused on complying with regulatory changes, enhancing "ease of doing business" for brokers, product enhancement and development, and improving operating efficiency.

The Dominion manages its investments to provide for the payment of policy liabilities and to provide a return on shareholder's equity. Investing activities are governed by the Insurance Companies Act and by investment guidelines established by the Investment Committee of The Dominion's Board of Directors. Investment managers report quarterly to the Investment Committee on investment performance and outlook. Policy liabilities are supported by fixed income investments, predominantly government bonds and high quality corporate bonds and preferred shares. The focus of these investments is on safety of principal and generating a reasonable interest yield. Given the relatively short average duration of The Dominion's policy liabilities (which is approximately four years), strict asset and liability matching is not optimal since it would result in a relatively low investment yield from short-duration assets. Instead, The Dominion manages the average duration of its bond portfolio within a broad range, between 50% to 300% of the duration of claims liabilities, to permit the pursuit of higher yields which are usually available in the longer portion of a normal yield curve. At December 31, 2008, the bond duration of 3.3 years (2007 – 3.7 years) is 85% (2007 - 90%) of the net unpaid claims average duration of 3.9 years (2007 - 4.1 years). Volatility in market interest rates and stock market prices can have a significant impact on the market value of the investment portfolio. The Dominion's fixed income investment managers proactively monitor market conditions and make portfolio mix adjustments in anticipation of significant market changes. Shareholder capital is invested mostly in third-party pooled funds which invest in common stocks and some fixed income securities which are managed from a longer term perspective. Emphasis is on quality and capital appreciation for stocks and on quality and higher yields for bonds.

For a P&C insurer, maintaining adequate liquidity means earning sufficient premiums and investment income to fund underwriting expenses and policy liabilities as they come due. The Dominion maintains liquidity in its investment portfolio by managing the maturity profile to provide a steady cash flow from maturities; by holding high quality marketable investments that may easily be sold prior to maturity, if necessary (risk-free government bonds comprise approximately one quarter of the bond portfolio); and by maintaining a portion of investments in cash and short-term investments.

The Dominion has not altered its overall investment strategy as a result of the current global credit crisis and the general decline in global stock prices. Investments held in support of insurance liabilities have not been significantly affected. Consisting mainly of bonds, preferred shares and short-term securities, these investments continue to have a similar asset mix, diversification and high liquidity profile as in recent years. The main impact of the global financial situation on The Dominion is a decline in the value of its pooled fund units (which hold common equities), which are held over the long term in support of shareholder's equity. In 2008, these units sustained realized and unrealized losses totaling $225.9 million (32.2% of their prior year end market values). Management's long term strategy of investing shareholder equity mainly in investments exposed to common equities remains unchanged. The Dominion continues to hold pooled fund units and anticipates eventual recovery in their value and continued capital appreciation over the mid-to-long term.

Management regularly monitors and reports to The Dominion's Board of Directors on the potential impact on capital adequacy of the main threats to financial condition from increases in market interest rates, declines in common stock market values, deterioration in underwriting results and an increase in the ratio of premium to capital. Annually, the Appointed Actuary performs an analysis of the impact on capital adequacy of severe adverse scenarios as required by the federal regulator. This report is reviewed by management and The Dominion's Board of Directors and is filed with the regulator. These analyses demonstrate that The Dominion has sufficient resources to withstand significant adverse events. Management incorporates the implications of these analyses regarding changing risk factors in planning and forecasting.

Critical accounting estimates

The financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the financial statements. Note 3 to the consolidated financial statements describes the significant accounting policies.

Policy liabilities

The most important accounting estimates arising from The Dominion's business are the provisions for claims liabilities, consisting of the provisions for unpaid claims and for reinsurance recoverable. The provision for unpaid claims reflects an estimate of the net present value of the ultimate cost of claims that have happened by the balance sheet date and the related expenses expected to be incurred to settle those claims. Reinsurance recoverable represents the amounts expected to be recovered from reinsurers for their share of The Dominion's claims costs, in accordance with the terms and conditions of the reinsurance contracts. Many assumptions underlie these estimates such as claims frequency and severity, claims payment trends, inflation and interest rates, potential changes in legislation, the interpretation of liability by the courts and reinsurers' interpretations of coverage. Ultimate costs incurred will inevitably vary from current estimates.

On a case-by-case basis, our claims adjusters use their experience and judgment and follow The Dominion's documented claims reserving philosophy to enter a "case" reserve for each claim in our claims system (for certain claims the system automatically applies an average reserve established by our actuaries). Reserves are adjusted promptly as additional information becomes known that changes the adjuster's view. The terms of the reinsurance treaties are applied to the case reserves, where applicable.

The Dominion's Appointed Actuary performs ongoing valuations to establish the provisions for unpaid claims and reinsurance recoverable. The actuarial valuations include analyzing case and average reserves, historical settlement patterns, estimates of trends in frequency and severity, trends in legal interpretations and other internal and external information. Projection techniques are applied to the company's claims data to determine the ultimate costs, including a provision for claims that have occurred but have not yet been reported. The actuary's valuation work is governed by accepted actuarial practice as established by the Canadian Institute of Actuaries. The provisions are discounted using discount rates that reflect expected yields from supporting investments and include provisions for adverse deviation. When discount rates are decreased, the net unpaid claims balance increases (and vice versa) and this adjustment is included in claims expense in the period the discount rate is changed. Since most of the investments supporting The Dominion's policy liabilities are valued at fair value on the consolidated balance sheet, the claims discount rate is based mainly on market interest rates which change frequently, resulting in frequent changes in the claims discount rate and in claims expense. Provisions for unpaid claims arising in prior years are also changed as a result of ongoing actuarial re-evaluations of expected ultimate payments and such changes are reflected in the period in which they are determined. As required by the federal regulator, the Appointed Actuary's valuation work is reviewed by an external actuary at least once every three years. Measurement uncertainty in these estimates arises from many internal and external factors, including changes to the product, regulations, internal claims handling procedures, economic inflation and legal trends. The knowledge and judgment of senior management on these factors is taken into account in the actuary's selection of assumptions where appropriate.

A 5% variation in the net unpaid and unreported claims is a reasonably likely net change that could result from changes in the many assumptions that underlie these critical accounting estimates. A 5% change in the net unpaid claims balance (that is, unpaid and unreported claims less Reinsurance recoverable) would result in a change in claims expense of $70.8 million ($47.5 million after tax). One assumption with a pervasive effect on the net claims balance is the claims discount rate. A 1% change in the selected average discount rate results in a change in net unpaid claims of $37.4 million.

Another important measurement uncertainty is the possible existence and magnitude of a "premium deficiency" associated with premium liabilities. The Appointed Actuary determines whether unearned premiums reported on the balance sheet is a sufficient provision for premium liabilities, that is, to cover the unrecorded claims and deferred acquisition costs that relate to the unexpired portion of the policies in force at the balance sheet date. If not, a "premium deficiency" provision would be recognized as an expense in the income statement and, on the balance sheet, as a reduction to unamortized deferred policy acquisition expenses plus a separate liability for the amount of the deficiency, if any, that exceeded deferred policy acquisition expenses. No premium deficiency exists in 2008 and 2007.

Valuation of investments

As a result of the recent decline in global stock prices, The Dominion's investments in pooled funds that hold common shares declined in value by $193.1 million during 2008. These pooled fund units are classified as available for sale and are reflected at fair value on the balance sheet. The underlying shares held by these pooled funds are well diversified by industry and country and are issued by high quality "large cap" entities that are actively traded on internationally recognized stock exchanges. Approximately half of the exposure is from Canadian issuers, one quarter from U.S. issuers and the rest from issuers in Europe, Japan and Asia. Management has reviewed its investment in pooled fund units for impairment and concludes that the unrealized losses on these units is temporary and that their values will recover when the current recession abates and investor confidence returns to global equity markets. Accordingly, no impairment charge has been recorded in net income.

Outlook

Much needed price hardening in the Canadian P&C industry is beginning to emerge in personal lines and is expected to continue in 2009; commercial lines industry prices are expected to begin to harden in 2009. However, price increases may be partly offset by a decrease in the amount of insurance coverage sold, resulting from a recessionary decline in Canadian business activity. Claims costs are expected to continue to increase in 2009 and may still outpace earned price increases, resulting in flat or deteriorating loss ratios. Investment income will likely be depressed while a global recession runs its course. Management expects that improvement in industry results will likely occur in 2010, if not in late 2009. The Dominion's goal remains to pursue long term earnings growth by maintaining underwriting discipline and reasonable pricing throughout all phases of the market cycle.

Management's Discussion and Analysis
Report on Life Insurance Operations

The Empire Life Insurance Company provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors ("IFA"), Managing General Agents ("MGA"), National Account firms and Employee Benefits brokers and representatives.

Overview

Empire Life reported shareholders' net income of $3.4 million for the fourth quarter of 2008, compared to $24.4 million for the fourth quarter of 2007. For the year shareholders' net income was $48.4 million compared to $54.7 million in 2007.

For the fourth quarter, and the year, Capital and Surplus net income declined sharply relative to the comparable periods in 2007 as the declines in global stock markets resulted in realized losses on the sale of investments during 2008 compared to the realized gains that were recorded last year.

Empire Life has three product lines (Wealth Management, Employee Benefits and Individual Insurance). For the fourth quarter, and the year, product line net income increased relative to the same periods in 2007 as the increase in Individual Insurance net income more than offset declines in Wealth Management and Employee Benefits net income.

The net contribution to E-L Financial's 2008 earnings, after adjustment for minority interests, was $38.5 million ($43.6 million for 2007).

The risk based capital ratio at Empire Life, as measured by Minimum Continuing Capital and Surplus Requirements ("MCCSR"), at 201% at the end of the year was well above minimum requirements. During 2008 the Office of the Superintendent of Financial Institution ("OSFI") issued updated guidelines and advisories for the calculation of MCCSR. Similar to most companies in the life insurance industry, the MCCSR ratio at Empire Life increased relative to the ratio that would have resulted under former guidelines and advisories.

During the fourth quarter, Empire Life completes its annual review and update of the actuarial assumptions underlying policy liabilities. E-L Financial's net income after tax in 2008 was increased by $26.5 million due to the net release of policy liabilities resulting from the annual update of assumptions. Of this amount, $23.3 million is non-recurring as it relates to an updated approach for establishing the insurance mortality assumption. While this amount is non-recurring regarding the existing block of business, the sales strain rate on new business in future years is expected to be reduced as a result of this approach to mortality assumptions. Otherwise, the net release was primarily a result of a reserve release resulting from improved mortality experience partially offset by reserve strengthening to reflect lower future expected reinvestment rates. The net income increase in 2008 was an improvement over the 2007 increase in earnings of $0.6 million that resulted from the annual assumption revision conducted during the fourth quarter of 2007.

Global credit and stock market conditions worsened during the second half of 2008, causing many companies to record impairment write-downs related to investments in global financial services companies. While Empire Life reported unrealized losses in other comprehensive loss related to stocks and bonds, these losses were determined to be temporary. Empire Life had no impairment write-downs in 2008 related to "other than temporary" impairment of stocks or bonds and only a minor impairment provision change related to mortgages. Empire Life has minimal exposure to financial services companies outside of Canada, with no direct exposure to the following: asset backed commercial paper, US mortgages or US mortgage related derivatives.

During 2008 there was uncertainty regarding the nature of, and the timing of substantive enactment of, proposed new federal income tax rules related to Financial Instrument accounting adopted in 2007.

Report on Life Insurance Operations (cont'd)

While there was uncertainty regarding the proposed new federal income tax rules in 2008, there has been a development regarding actuarial guidance. The Canadian Institute of Actuaries' ("CIA") Committee on Life Insurance Financial Reporting ("CLIFR") has updated its guidance to Appointed Actuaries with regard to the calculation of the Discounted Future Tax Liability ("DFTL") under Financial Instrument accounting rules. Previously, DFTL was determined using existing tax law and pre-2007 Financial Instrument accounting rules. Actuarial standards now permit recording the more conservative of the following:

(i) DFTL under existing tax law, and existing Financial Instrument accounting rules,

(ii) DFTL under proposed tax law, and existing Financial Instrument accounting rules.

For Empire Life, item (i) is the more conservative of the two. However it is more favourable than the previous approach and accordingly Empire Life's 2008 shareholders' net income includes an after-tax gain of $15.0 million and policyholders' net income includes an after-tax gain of $0.6 million related to this change in approach. These items were recorded in the third quarter.

On March 4, 2009 the above mentioned tax rules were substantively enacted. As a result, Empire Life's first quarter 2009 net income is expected to include an after tax gain of $19.7 million for shareholders ($15.7 million net contribution to E-L Financial's earnings) and $13.5 million for policyholders.

Total assets under management declined by 16% during 2008 to $7.1 billion. Segregated fund assets were down 27% due primarily to the sharp decline in stock market prices partly offset by positive net sales results throughout the year. General fund assets decreased by 3% primarily due to declines in the fair value of invested assets due to rising corporate bond interest rates and falling stock markets. A decline in stock markets can impact the management fees collected on segregated fund contracts and on index funds within universal life contracts, and policy liabilities in respect of segregated fund guarantees.

Overall premium revenue in 2008 was up 9% from last year's level as insurance premiums rose by 5% and annuity premiums increased by 29%.

During the fourth quarter of 2008, Empire Life introduced a new Guaranteed Minimum Withdrawal Benefit segregated fund product, invested in risk management capabilities by developing a stochastic model approach and obtained OSFI approval for use of this model in support of this business line. Empire Life also developed a Tax Free Savings Account product for launch in early 2009.

The Summary of Life Insurance Operations on page 73 of this Annual Report provides an overview of results for the five-year period from 2004 to 2008. The analysis and discussion which follow focus on the 2008 and comparative 2007 results for each of the major lines of business.

Report on Life Insurance Operations (cont'd)

Financial analysis

The following table and commentary analyze Empire's financial results for 2008 and 2007:

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Revenue										
Premium income	**$ 116**	$ 91	**$ 270**	$ 254	**$ 299**	$ 286	**$ —**	$ —	**$ 685**	$ 631
Fee and other income	**94**	97	**6**	5	**2**	2	**1**	1	**103**	105
Investment income	**50**	52	**6**	5	**90**	84	**25**	24	**171**	165
Realized gain on held for trading investments	**4**	6	**1**	1	**15**	55	**—**	—	**20**	62
Realized gain (loss) on available for sale investments	**1**	—	**—**	—	**(5)**	4	**(43)**	35	**(47)**	39
Fair value change in HFT assets	**(40)**	(20)	**(5)**	(1)	**(199)**	(63)	**—**	—	**(244)**	(84)
	225	226	**278**	264	**202**	368	**(17)**	60	**688**	918
Expenses										
Benefits and expenses	**220**	214	**267**	246	**114**	377	**2**	1	**603**	838
Income and other taxes	**(3)**	2	**8**	10	**40**	—	**(5)**	17	**40**	29
	217	216	**275**	256	**154**	377	**(3)**	18	**643**	867
Net income (loss) after tax	**$ 8**	$ 10	**$ 3**	$ 8	**$ 48**	$ (9)	**$ (14)**	$ 42	**$ 45**	51
Policyholders' portion									**(3)**	(4)
Shareholders' net income									**48**	55
Minority shareholders' portion of net income									**10**	11
Net profit contribution to E-L Financial									**$ 38**	$ 44
Assets under management										
General fund assets	**$ 876**	$ 931								
Segregated fund assets	**$ 3,349**	$ 4,594								
Annualized premium sales			**$ 40**	$ 46	**$ 72**	$ 88				

Wealth management

Assets in Empire Life segregated funds decreased by 27% during the last twelve months. The decrease was attributable to overall negative investment returns, primarily in the second half, which more than offset positive net sales in each of the last four quarters. Net sales during 2008 were positive despite decreased gross sales, which were down 31% from 2007. General fund assets in this product line decreased by 6% during the past year.

Premium income for this product line is comprised solely of new deposits on products with a guaranteed rate of return and excludes deposits on segregated fund products. Premium income in this product line was up 29% compared to 2007 due to increased sales of both deferred and immediate annuities. Fee and other income declined in 2008 relative to 2007 as management fees earned on segregated funds declined due to the impact of falling stock markets on assets under management. Revenue also declined relative to 2007 due to the negative fair value change in assets that resulted primarily from a rise in market interest rates since the beginning of the year. The fair value change in assets was primarily related to bonds matched to policy liabilities and did not have a significant impact on net income due to the corresponding change in policy liabilities.

Net income was slightly lower than the level this product line achieved in 2007. Net income on in-force business was down $6.9 million from 2007 as a result of the decline in segregated funds under management and down $5.4 million primarily due to experience losses on segregated fund death benefit guarantees. These unfavourable items were partially offset by improved net income from additional investment spreads of $5.9 million on guaranteed interest products, a one-time increase in net income of $3.0 million during the second quarter resulting from an industry change in the taxation of segregated fund deferred acquisition expenses and a reserve release related to DFTL that improved this product line's net income by $2.5 million (see Overview for further details).

Employee benefits

Weaker sales throughout the year resulted in annual sales for this product line that were 13% lower than 2007. Despite this decline, this product line's year-to-date premium income increased by 6% relative to 2007 due to continued favourable persistency.

Earnings for this product line declined versus the comparable period in 2007 due to unfavourable claims results during the first half of the year. For the year, claims results were down $5.1 million from the favourable level of claims results in 2007

Individual insurance

Sales in this product line were 19% lower than in 2007, primarily as a result of decreased investment deposits on universal life sales. Premium revenue for this product line was 4% higher than 2007 as the impact of the decline in sales for the current year was more than offset by the ongoing premium revenue from the increased sales during the latter portion of 2007. For this product line, realized gains or losses on assets sold and fair value changes in assets are primarily related to gains or losses on bonds and stocks matched to policy liabilities and do not have a significant impact on net income due to corresponding changes in policy liabilities.

This product line's 2008 net income increased relative to 2007. This increase was primarily a consequence of actuarial assumption updates. During the fourth quarter, Empire Life completes its annual review and revision of the actuarial assumptions underlying policy liabilities. Current year net income for this line of business was increased by $35.3 million relative to last year due to the net release of policy liabilities resulting from the annual update of assumptions. Of this amount, $29.3 million for shareholders and $0.4 million for policyholders is non-recurring as it relates to an updated approach for establishing the insurance mortality assumption. While this amount is non-recurring regarding the existing block of business, the sales strain rate on new business in future years is expected to be reduced as a result of this approach to mortality assumptions. The balance of the net release was primarily a result of a reserve release resulting from improved mortality experience over the past several years partially offset by reserve strengthening to reflect lower future expected reinvestment rates. The net income increase in 2008 was an improvement over the 2007 increase in earnings of $1.4 million that resulted from the annual assumption update conducted during the fourth quarter of 2007.

Earlier this year net income for this product line increased relative to the comparable periods of 2007 due to a reserve release related to DFTL that improved this product line's net income by $13.1 million (see Overview for further details). The balance of the increase in net income was primarily attributable to $18.9 million from improved future investment returns on assets acquired during the year and the reduction in new business strain of $9.4 million relative to 2007 due to the decline in sales.

These favourable items were partially offset by a decrease in net income of $17.9 million relative to 2007 due to experience losses primarily resulting from both unfavourable mortality results in 2008 and unfavourable universal life results due to the impact of poor stock market conditions in 2008 on the outlook for management fee spreads.

Capital and surplus

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Policyholders' Surplus and to Shareholders' Capital and Surplus. 2008 Capital and Surplus earnings decreased relative to the comparable period of 2007 as a result of the realized losses incurred on the sale of investments during 2008 compared to the realized gains recorded during 2007.

Liquidity and capital resources

Empire Life maintains a high level of liquid assets in its general fund so that cash demands can be readily met. At the end of 2007 and 2008, total liquid assets were more than double total demand liabilities.

During 2008, cash provided by operations was $106.6 million compared to $56.0 million in 2007. The increase in cash provided was primarily as a consequence of reduced commission expenses due to lower sales, and lower tax instalments.

Cash used for investment activities was $244.1 million in 2008 compared to cash provided by investment activities of $19.8 million in 2007. The increase in cash used for investment activities relative to 2007 was primarily due to the investment of proceeds of the $125.0 million subordinated debt issue described below and investment of increased cash provided by operations. In addition, there have been increased net investment purchases in 2008 to take advantage of favourable investment spreads and reduced sales of portfolio investments in 2008 due to poor stock market conditions.

Cash provided from financing activities during 2008 was $125.0 million versus cash used in 2007 of $11.8 million regarding the payment of dividends. The change relative to 2007 was due to the aforementioned debt issue and Empire Life's decision to retain cash to finance operations growth rather than paying a dividend to common shareholders. Empire Life's subordinated debt issued to E-L Financial and dividends paid to E-L Financial are fully eliminated in the consolidated financial statements of E-L Financial.

Empire Life has a defined benefit pension plan that moved into a deficit position during 2008 as a result of the declines in global stock markets. Empire Life estimates that pension funding requirements will rise by $7.0 million during 2009 and remain at the 2009 level for the years 2010 to 2013. The annual funding level is then expected to drop slightly beyond 2013.

Empire Life continues to maintain a strong balance sheet and capital position. With a ratio of 201%, capital is well in excess of minimum regulatory requirements as measured by the Minimum Continuing Capital and Surplus Requirements ("MCCSR"). The "A (Excellent)" rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength.

During 2008 OSFI issued updated guidelines and advisories for the calculation of MCCSR. Similar to most companies in the life insurance industry, Empire Life's MCCSR ratio increased relative to the ratio that would have resulted under former guidelines and advisories

Other comprehensive income

All unrealized gains and losses on Capital and Surplus financial assets are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). For the fourth quarter, and the year, net unrealized losses on these assets resulting from the large decline in global stock markets, net of the realized losses reclassified from OCL to net income, resulted in an increased OCL relative to the comparable periods last year. After consideration of minority interests and participating policyholders' interests, the net result was OCL of $33.7 million for the fourth quarter and OCL of $79.0 million for the full year.

Industry dynamics and management's strategy

Empire Life operations are organized by product line with each line of business having responsibility for product development, marketing, distribution and customer service within their particular markets. This structure recognizes that there are distinct marketplace dynamics in each of the three major product lines. Management believes this structure enables each line of business to develop strategies to achieve the enterprise-wide objectives of business growth and expense management while recognizing the unique business environment in which each operates. The lines of business are supported by corporate units that provide product pricing, administrative and technological services to the lines of business, manage invested assets, and oversee enterprise risk management policies.

Based on revenue, Empire Life is among the ten largest life insurance companies in Canada. Empire Life has less than six per cent market share in all three of its product lines. To be priced reasonably competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on steady growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to a shrinking number of broadly focused competitors, we believe these solid relationships will enable sustainable growth at above industry average levels and ultimately result in competitive unit expenses.

The Wealth Management product line at Empire Life is comprised of segregated fund products and guaranteed interest products. These products compete against those offered not only by other life insurers but also by a variety of other financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has resulted in an above average long-term return track record in the fund marketplace. We are expecting to continue to take advantage of this competitive track record and thus grow our market share through broadened distribution reach coupled with the addition of new funds and fund products.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group market comprised of employers with fewer than two hundred employees. This niche strategy coupled with an ongoing focus on balancing growth and profit has enabled Empire Life to be cost competitive within this market segment and is expected to enable this product line to continue to grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to significant levels of new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create significant new business strain that has a negative impact on short-term earnings. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Because of the reasonable long-term returns of this product line, we continue to focus on steady growth, technology development and process improvement in order to continue to improve this product line's unit expenses and maintain a competitive market position while generating acceptable long-term financial contribution.

Risk management

Empire Life faces a broad range of risks and uncertainties in its day-to-day operations. The main risks can be classified into three categories: investment risks, insurance risks and other risks. As part of our risk management practices, we have implemented and maintained a program based upon the standards of sound business and financial practices that was previously prescribed by regulatory authorities.

Investment risks are centred on the performance of Empire Life's investment portfolio, which is affected by general economic and stock market conditions. Empire Life's general fund investments are subject to Investment Guidelines that are reviewed and approved by the Investment Committee of the Board. The Guidelines are intended to limit overall investment risk by setting out eligible investments, diversification criteria and investment objectives for various asset classes. A decline in stock markets can impact the return on assets backing capital, the management fees collected on segregated fund contracts and on index funds within universal life contracts, and policy liabilities in respect of segregated fund guarantees. Empire Life also makes use of stochastic models to monitor and manage risk associated with segregated fund guarantees. For all items other than segregated fund guarantee policy liabilities, Empire Life estimates that without considering subsequent market returns, an immediate ten per cent decline in the stock market as at December 31, 2008 would result in a decrease to E-L Financial's net income of approximately $4.9 million and a decrease to E-L Financial's OCI of approximately $15.7 million. For segregated fund guarantee policy liabilities the direction of the stock market change impacts the amount, such that a 10% increase in market prices would have a positive impact of approximately $3.7 million on E-L Financial's net income, while a 10% decrease in market prices would have a negative impact of approximately $16.2 million on E-L Financial's net income. For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. At lower market starting points the sensitivity is increased, while higher starting points have the opposite effect.

Investment risks also include credit, interest rate, liquidity and foreign exchange risks. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Empire Life has an asset-liability management committee, which reports regularly to the Investment Committee of the Board, and monitors the matched position of investments to the liabilities within the various segments of Empire Life's operations. The matching process ensures that assets supporting policy liabilities closely match the timing and amount of policy obligations as well as provide the appropriate amount of liquidity. This process addresses the management of interest rate risk, which is the risk of economic losses due to the need to reinvest or divest during periods of changing interest rates, and liquidity risk. The matching process also monitors and aligns the foreign currency position of the assets with the liabilities within the various segments thus managing the risk emanating from changes in foreign exchange rates. As part of its matching program, Empire Life uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage interest rate and foreign exchange risks. To manage the risk associated with the use of these instruments Empire Life's asset-liability matching committee has established policies and procedures including the establishment of authorized types and applications for derivatives, monitoring systems, and authorization limits for specific personnel. Empire Life estimates that an immediate one per cent parallel decrease in interest rates as at December 31, 2008 would result in a decrease to E-L Financial's net income of approximately $23.7 million and an increase to E-L Financial's OCI of approximately $4.3 million.

Insurance risks, which include product design, pricing, underwriting and liability risks, are based on the risk that actual experience in the future will not develop as estimated. In addition to the possibility that investment returns will differ from expected returns due to the investment risks noted above, Empire Life is subject to the risk that experience on claims, policy lapse rates and operating expenses will not emerge as expected. As prescribed by regulatory authorities, the Appointed Actuary reports annually to the Audit Committee of the Board on Empire Life's financial condition, outlining the impact on capital levels should future experience

be adverse. As part of the standards of sound business practices program, management has developed a product design and pricing policy as well as an underwriting and liability management policy for each of its major product lines. Reinsurance is used to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and the Board of Directors approves changes to these retention limits. As reinsurance does not release a company from its primary commitments to its policyholders, Empire Life reviews the financial soundness of reinsurers before entering into any reinsurance treaty and thereafter once a treaty is in place.

Other risks include internal control, business interruption and regulatory risks. An internal audit function monitors the effectiveness of the internal controls developed by management and reports its findings to the Audit Committee of the Board. A business continuity program, including the availability of off-site system recovery facilities, is in place to minimize the impact in the event of a major disruption (including the onset of a pandemic in Canada) so that key business functions can continue and normal operations can resume efficiently. Management has established a compliance program and has appointed a chief compliance officer and compliance officers in each business unit to manage regulatory risk, and provides a regular report to the Audit Committee of the Board on regulatory compliance.

Critical accounting estimates

The Company's significant accounting policies are described in Note 3 to the financial statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these estimation processes for Empire Life are the valuation of policy liabilities and the determination of allowances for impaired investments.

Policy liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life has estimated that a decrease (increase) in the individual insurance mortality rate assumption equal to 3% of the base table would result in an increase (decrease) in E-L Financial's net income of approximately $20.5 million.

Allowances for impaired investments

Empire Life maintains a prudent policy in setting the allowance for impaired investments. When there is no longer reasonable assurance of full collection of loan principal and loan interest related to a mortgage or policy contract loan, management establishes a specific allowance for loan impairment and charges the corresponding reduction in carrying value to income in the period the impairment is identified. In determining the estimated realizable value of the investment, management considers a number of events and conditions. These include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. Changes in these circumstances may cause subsequent changes in the estimated realizable amount of the investment and thus to the specific allowance for impairment.

Available for sale securities are subject to a regular review for losses that are other than temporary. If a security is assessed to have a loss that is other than temporary, the security is written down to fair value in the statement of general fund operations. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

Outlook

The economic turmoil of 2008 mainly impacted Empire Life's Wealth Management product line. Looking forward the impact on Wealth Management is expected to continue in 2009 and the Employee Benefits product line could also be negatively impacted depending on the severity and duration of the economic downturn. However, the Individual Insurance product line is less sensitive to stock market and employment conditions than these two product lines. This diversification places Empire Life in a more favourable position than some financial services companies that depend exclusively on the wealth management business.

The landscape of the Canadian life insurance marketplace has changed dramatically since the beginning of the millennium as a result of demutualization and industry consolidation. While Empire Life, as a mid-sized life insurance company, has become more sensitive to pricing and strategic actions that can be employed by the three largest carriers who now have in excess of 60% of all major industry segments, the industry changes have also created opportunities. The demutualizations of five Canadian mutual insurance companies that were completed in early 2000 have had a permanent effect on the industry as investor demand for immediate earnings growth has altered the way life insurance companies approach the business. Gone are the days where some product lines could get by without demonstrating a reasonable rate of return. Additionally, the downward pressure that new business strain puts on immediate earnings growth means that most companies have to choose between slowing down their individual life insurance growth and reinsuring a large portion of their new business to avoid the suppression of short-term earnings.

Nowhere has the impact of these industry changes been more evident than in the employee benefits product line. The trend to fewer players and ongoing pressure for reasonable rates of return on investments from each product line has led to higher prices and profit margins in the employee benefits marketplace. As consolidation activity continues to slow down, employee benefits profit margins should remain level provided a company can continue to improve operating efficiency and offer the resultant economies of scale to the marketplace through lower expense charges. The focus at Empire Life on balanced growth and profit, and its demonstrated impact in reducing unit expenses, coupled with a focus on building strong relationships with our producing partners, should continue to enhance our strong presence in the small group marketplace while simultaneously achieving acceptable returns. However, much will depend on the severity and duration of the economic downturn we are currently experiencing as Empire Life's target market is primarily small businesses, and these businesses are being hit hard by the current economic conditions.

The individual life insurance marketplace in Canada continues to be competitively priced. This is partly due to the ongoing improvements in mortality and in operating efficiencies, most of which have been passed on to the consumer. It is also partly due to the availability of competitive reinsurance rates that enable companies that use higher levels of reinsurance to reduce new business strain and thus avoid having sales growth suppress short-term earnings. Industry consolidation has offered opportunities for companies such as Empire Life to grow by filling the void left in independent advisors' product portfolios when the products of acquired companies are no longer offered. We will continue to take advantage of the growth resulting from the strong relationships that have been built with members of both the IFA and MGA distribution networks, and will continue to broaden our distribution reach into the National Account network. Despite modest overall industry growth in this product line over the last five years, Empire Life has experienced significant sales growth over the same period despite the decline during 2008. This, in turn, has resulted in significant improvements in cost ratios. While expecting to continue to grow this line of business at above the forecast

modest industry average rates, this past improvement in unit expenses means that we can continue to take a more balanced approach to growth and profit and focus on those market segments where our core products are both competitive and provide an acceptable rate of return. Aside from the impact of poor stock market conditions on the outlook for management fee spreads on universal life equity index products, the life insurance business is less sensitive to stock market and employment conditions than Empire Life's other product lines.

On the wealth management side of the business, five straight years of positive returns from Canadian stock markets came to an end in 2008 as markets dropped 35%. This has hurt sales, lowered the market value of assets under management and lowered management fee revenue for all players in the Canadian pooled fund marketplace and led to weaker, but still positive net sales for Empire Life in 2008. Our focus continues to be growing our market share in the segregated fund business. During the fourth quarter of 2008, Empire Life introduced a new Guaranteed Minimum Withdrawal Benefit segregated fund product, invested in risk management capabilities by developing a stochastic model approach and obtained OSFI approval for use of this model in support of this business line. Empire Life also developed a Tax Free Savings Account product for launch in early 2009. Looking forward, it is expected that the continued development of new product offerings and features coupled with a strong sales account management team will enable a continuation of the market share growth we have experienced in the last several years. Empire Life believes that segregated fund products will be even more appealing to customers after their personal experiences with market turmoil, and that Empire Life is well positioned to benefit from this. An eventual stock market recovery will reward customers and lead to a recovery of fee revenues for Empire Life.

Empire Life remains committed to the distribution of its products through qualified intermediaries who can provide the counsel consumers need to fulfil their financial security and wealth management goals. It is our intention to continually enhance the product, technology and service support that these advisors need to satisfy their clients. We believe that the strengthening of our relationships with our distribution partners and a focus on developing new relationships with quality advisors are the key elements in achieving our growth goals.

March 9, 2009

Management Report

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements necessarily include amounts that are based on judgments, which are applied consistently and are considered appropriate in the circumstances.

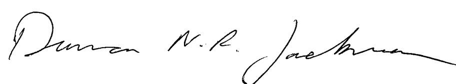
The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the consolidated financial statements.

The Company and its subsidiaries maintain systems of internal control over financial reporting which are designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded and that financial records are reliable for preparing the consolidated financial statements in accordance with Canadian generally accepted accounting principles. Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2008. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2008.

The Board of Directors carries out its responsibility for the consolidated financial statements in this Annual Report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committees of the subsidiaries also meet periodically with the Appointed Actuaries.

The Appointed Actuaries are appointed by the Boards of Directors of the insurance subsidiaries to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiaries' financial statements. The Appointed Actuaries use the work of the external auditors in verifying data used for valuation purposes.

Deloitte & Touche LLP has been appointed external auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual consolidated financial statements. In carrying out their audit, the external auditors also consider the work of the actuaries and their reports on policy liabilities. The external auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Auditors' Report outlines the scope of their examination and their opinion.



Duncan N.R. Jackman
Chairman, President and
Chief Executive Officer

Mark M. Taylor
Executive Vice-President
and Chief Financial Officer

March 9, 2009

Auditors' Report

To the Shareholders of

E-L Financial Corporation Limited

We have audited the consolidated balance sheets of E-L Financial Corporation Limited as at December 31, 2008 and 2007 and the consolidated statements of (loss) income, comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

March 3, 2009, except as to Note 29 which is as of March 9, 2009

Consolidated Balance Sheets
(thousands of dollars)

	As at December 31,	
Assets	**2008**	2007
Cash and cash equivalents (Note 21)	**$ 357,294**	$ 364,785
Portfolio investments (Note 4)	**878,947**	1,097,886
Equity method investment (Note 5)	**221,205**	309,861
Investments - insurance operations (Note 6)	**5,398,721**	5,687,639
Premiums receivable	**276,911**	259,894
Accrued investment income	**26,140**	27,612
Deferred acquisition expenses	**101,320**	95,838
Reinsurance recoverable (Note 8)	**104,867**	199,957
Income taxes receivable	**97,306**	81,697
Future income taxes (Note 13)	**19,489**	20,180
Other assets (Note 9)	**83,967**	95,639
	$ 7,566,167	$ 8,240,988
Segregated funds assets	**$ 3,348,827**	$ 4,594,300

Consolidated Balance Sheets (continued)
(thousands of dollars)

Liabilities	As at December 31, 2008	2007
Policy liabilities (Note 8)	**$ 4,885,506**	$ 5,050,514
Policyholders' funds on deposit	**30,982**	30,620
Income and other taxes payable	**10,436**	6,366
Provision for profits to policyholders	**17,186**	15,888
Deferred realized net gains on investments	**—**	24
Other liabilities (Note 10)	**200,156**	177,345
Future income taxes (Note 13)	**39,842**	73,346
	5,184,108	5,354,103
Non-controlling interest in subsidiaries	**122,738**	133,095
Participating policyholders' interest	**42,122**	53,344
	164,860	186,439
Shareholders' equity		
Capital stock (Note 12)	**272,388**	272,388
Retained earnings	**2,259,739**	2,399,714
Accumulated other comprehensive (loss) income	**(314,928)**	28,344
	2,217,199	2,700,446
	$ 7,566,167	$ 8,240,988
Segregated funds liabilities	**$ 3,348,827**	$ 4,594,300

Approved by the Board

Duncan N.R. Jackman, Director

Douglas C. Townsend, Director

Financial Corporation Limited and subsidiary companies

Consolidated Statements of (Loss) Income
(thousands of dollars except per share amounts)

	Years ended December 31,	
	2008	2007
Revenue		
Insurance premiums (Note 11)	**$ 1,591,730**	$ 1,539,125
Annuity premiums	**117,705**	91,083
Investment and other income (Note 7)	**403,755**	394,861
Loss from equity method investment (Note 5)	**(117,313)**	(20,119)
Change in fair value of held for trading investments (Note 7)	**(245,544)**	(83,317)
Realized gain on held for trading investments	**16,986**	65,916
Realized (loss) gain on available for sale investments	**(167,171)**	175,397
	1,600,148	2,162,946
Expenses		
Claims and policy benefits	**1,106,568**	1,273,824
Commissions	**324,060**	344,536
Operating	**227,331**	217,378
	1,657,959	1,835,738
(Loss) income before the undernoted items	**(57,811)**	327,208
Taxes		
Income (Note 13)	**12,651**	59,805
Premium	**46,400**	45,322
Investment and capital	**3,536**	4,283
	62,587	109,410
(Loss) income before policyholders' and non-controlling interest	**(120,398)**	217,798
Policyholders' and non-controlling interest's portion of income	**6,565**	7,110
Net (loss) income (Note 15)	**$ (126,963)**	$ 210,688
Net (loss) income per share (Note 12)		
- basic	**$ (41.20)**	$ 60.29
- diluted	**$ (41.20)**	$ 57.37

Consolidated Statement of Comprehensive (Loss) Income

(thousands of dollars)

	Years ended December 31,	
	2008	**2007**
Net (loss) income	**$ (126,963)**	$ 210,688
Other comprehensive (loss) income, net of tax		
Unrealized fair value change on available for sale investments (Note 14)	**(427,553)**	7,939
Less: Realized (loss) gain on available for sale investments (Note 14)	**(87,051)**	136,767
Net unrealized fair value decrease	**(340,502)**	(128,828)
Change in unrealized gain/loss on derivative investments designated as cash flow hedges (Note 14)	**(2,885)**	—
Less: Change in unrealized gain/loss on derivative investments designated as cash flow hedges reclassified to net income (Note 14)	**(115)**	—
Net unrealized fair value decrease	**(2,770)**	—
Other comprehensive loss, net of tax	**(343,272)**	(128,828)
Comprehensive (loss) income	**$ (470,235)**	$ 81,860

Consolidated Statements of Changes in Shareholders' Equity

(thousands of dollars)

	Years ended December 31,	
	2008	**2007**
Capital stock	**$ 272,388**	$ 272,388
Retained earnings		
Balance at beginning of year	**2,399,714**	2,125,333
Impact of change in accounting standards	**—**	76,394
Net income (loss)	**(126,963)**	210,688
Recovery of refundable dividend taxes	**4,020**	4,020
Dividends (Note 12)	**(12,060)**	(12,060)
Provision for refundable dividend taxes	**(4,972)**	(4,661)
Balance at end of year	**2,259,739**	2,399,714
Accumulated other comprehensive (loss) income		
Balance at beginning of year	**28,344**	—
Impact of change in accounting standards	**—**	157,172
Other comprehensive loss	**(343,272)**	(128,828)
Balance at end of year (Note 26)	**(314,928)**	28,344
Shareholders' equity	**$ 2,217,199**	$ 2,700,446

Consolidated Statements of Cash Flows
(thousands of dollars)

Years ended December 31,	2008	2007
Net inflow of cash related to the following activities:		
Operating		
Net (loss) income	**$ (126,963)**	$ 210,688
Items not affecting cash resources:		
(Decrease) increase in net policy liabilities	**(69,918)**	214,707
Realized loss (gain) on sale of investments	**150,185**	(241,313)
Change in fair value of held for trading investments	**245,544**	83,317
Future income taxes, excluding items charged to retained earnings	**(18,946)**	(26,972)
Loss from equity method investment	**121,606**	24,137
Other items	**(29,587)**	(46,474)
	271,921	218,090
Net change in other assets and liabilities	**(7,985)**	(28,641)
	263,936	189,449
Financing		
Cash dividends to shareholders (Note 12)	**(12,060)**	(12,060)
Banker's acceptance	**24,838**	—
	12,778	(12,060)
Investing		
Purchases of investments	**(1,631,856)**	(2,494,190)
Proceeds from sale or maturity of investments	**1,450,213**	2,460,842
Net purchases of short-term investments	**(80,562)**	(19,779)
Net sales (purchases) of other assets	**(10,312)**	420
	(272,517)	(52,707)
Increase in cash and cash equivalents	**4,197**	124,682
Cash and cash equivalents, beginning of year	**321,270**	196,588
Cash and cash equivalents, end of year (Note 21)	**$ 325,467**	$ 321,270

1. Nature of the business

E-L Financial Corporation Limited (the "Company") is an investment and insurance holding company, publicly traded on the Toronto Stock Exchange and incorporated under the laws of Ontario.

The Company has two operating insurance subsidiaries, The Dominion of Canada General Insurance Company ("The Dominion") and The Empire Life Insurance Company ("Empire"). The Dominion underwrites property and casualty insurance ("General Insurance") while Empire underwrites life and health insurance policies and annuity contracts ("Life Insurance") for individuals and groups. Both subsidiaries are registered under the *Insurance Companies Act, Canada* and operate in most provinces and territories across Canada.

In addition, the Company owns investments in stocks and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies ("Corporate Investments").

2. Changes in accounting policies

a) Capital Disclosures

On January 1, 2008, the Company adopted the provisions of CICA Handbook Sections 1535, *Capital Disclosures.* This section requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This section also requires entities to disclose any externally imposed capital requirements, and the consequences of not complying with those requirements. This disclosure is provided in Note 25 to these consolidated financial statements.

b) Future Accounting Changes

Goodwill and intangible assets

The CICA issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company beginning January 1, 2009. The change in accounting policy will be applied retroactively with restatement of the 2008 comparative figures.

The Company has determined that capitalized software development costs in the amount of $2,786, net of amortization, will not meet the recognition criteria of Section 3064. The retroactive impact on the financial statements, as at January 1, 2009 will be a $2,786 decrease in capital assets, a $789 increase in future tax asset and a $1,997 decrease in retained earnings.

International financial reporting standards

In 2005, the Accounting Standards Board of Canada announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). In February 2008, the CICA confirmed the change over date from current Canadian generally accepted accounting principles ("GAAP") to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies and financial statement disclosures which must be addressed. The Company has not yet determined the future impact of these new standards on its financial statements.

3. Summary of significant accounting policies

These consolidated financial statements include the accounts of The Dominion (wholly-owned), E-L Financial Services Limited (81.0% owned) and its 98.3% owned subsidiary company, Empire.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates and changes in estimates are recorded in the accounting period in which they are determined.

Financial instruments

The Company's financial assets are classified as held for trading ("HFT"), available for sale ("AFS"), held to maturity ("HTM") or loans and receivables based on management's intentions or characteristics of the instrument. HFT instruments are carried at fair value in the consolidated balance sheets with changes in the fair value recorded in the consolidated statements of income in the period in which they occur. AFS instruments with a quoted price in an active market are carried at fair value in the consolidated balance sheets. Changes in the fair value of AFS instruments are recorded as other comprehensive income in the consolidated statements of comprehensive income until realized, or deemed to be other than temporarily impaired ("OTTI"), at which time, these gains and losses will be reclassified to the consolidated statements of income. AFS assets which do not have a quoted price in an active market are carried at cost less any OTTI losses. When an OTTI of AFS at cost assets occurs, it is recognized in net income. All transactions are recorded on the trade date. Transaction costs are expensed for HFT instruments and capitalized for all others. Loans and receivables may include mortgage loans, loans on policies, policy contract loans, and premiums receivable. Loans and receivables and HTM assets are recorded at amortized cost, using the effective interest method, net of provisions for impairment losses, if any.

Investments in securities for which the Company has the ability to exert significant influence over but does not control are accounted for using the equity method of accounting.

The Company classifies the majority of its Corporate Investments as AFS. Certain securities which form part of a portfolio with a recent actual pattern of profit-taking, and non-hedging derivatives have been designated as HFT.

The General Insurance operation has designated its investments in bonds and debentures, preferred shares and common shares, short-term investments and cash equivalents as AFS. Cash is classified as HFT. Commercial loans are classified as loans and receivables.

The Life Insurance operation classifies most financial assets supporting policy liabilities as HFT. These assets may be comprised of cash, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Most financial assets supporting capital and surplus and certain common share assets supporting policy liabilities that do not meet the OSFI criteria for HFT are classified as AFS. These assets may be comprised of cash, short-term investments, bonds and debentures or common and preferred shares.

Fair value of financial instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset quoted in an active market is generally the bid price and, for a financial liability quoted in an active market, the fair

value is generally the ask price. For securities designated as HFT, in the absence of an active market, fair values may be determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value. Due to the short-term nature of accrued investment income and premiums receivable, the fair value of these instruments is deemed to equal the carrying value.

Impairment

Management regularly reviews securities classified as AFS and loans and receivables, for evidence of impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income (“OCI”). OCI includes unrealized gains or losses on AFS financial assets, net of amounts reclassified to the consolidated statements of income, and the effective portion of the change in the fair value of cash flow hedging instruments, net of amounts reclassified to the consolidated statements of income, all net of taxes. The balance of accumulated other comprehensive income (“AOCI”) is shown as a separate component of shareholders’ equity.

Revenue recognition

In the General Insurance operation, premiums are earned on a straight-line basis over the term of the related policies. Premium finance fee income, included in investment and other income, is earned using the effective interest method over the term of the related policies.

In the Life Insurance operation, insurance premiums net of reinsurance and annuity premiums, as well as reinsurance assumed premiums, are generally recorded as revenue when due. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund products. Fee income earned for investment management and administration of the segregated funds, included in investment and other income, is generally calculated and recorded as revenue daily based on closing segregated funds asset market values.

Interest income, recognized using the effective interest method, and dividend income, recognized on the ex-dividend date, is included in investment income in the consolidated statements of income for all financial assets, regardless of classification.

Employee future defined benefit plans

The Company accrues its obligations for its employee defined benefit plans, net of plan assets. The cost of defined benefit pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and using management’s best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Income taxes

Future income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the asset and liability method. Under the asset and liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Deferred acquisition expenses

In the Life Insurance operation, distribution costs of segregated funds having a deferred sales charge, are deferred and amortized over the term of the related deposits or the applicable period of such sales charges, as appropriate. These deferred costs form part of policy liabilities on the consolidated balance sheets and the related amortization forms part of claims and policy benefits on the consolidated statements of income.

Deferred acquisition expenses for the General Insurance operation, comprised primarily of commissions and premium taxes, are amortized on the same basis as the related premiums are earned. The amount deferred is limited to the amount recoverable.

Policy liabilities

Policy liabilities are determined using accepted actuarial practices in accordance with the standards of the Canadian Institute of Actuaries. Annually, each insurance subsidiary obtains an actuarial opinion on the appropriateness of the policy liability amounts recorded in its financial statements. These opinions also incorporate related amounts for reinsurance recoverable and deferred acquisition expenses. The bases used for estimating each of General and Life Insurance policy liabilities are described below.

General Insurance policy liabilities include provisions for unearned premiums and unpaid and unreported claims. The provision for unpaid and unreported claims provides for all costs of investigation and settlement of insurance losses that have occurred prior to the year end, net of anticipated salvage and subrogation. Estimates must be made of the ultimate costs for known or reported claims as well as an estimate for those claims incurred but not yet reported. Many assumptions underlie these estimates, such as claims frequency and severity, claims payment trends, inflation and interest rates, as well as potential changes in legislation and in the interpretation of liability by the courts. Unpaid and unreported claims are valued on a discounted basis, in accordance with accepted actuarial practice.

Life Insurance policy liabilities represent the estimated amount which, together with estimated future premiums and investment income, will be sufficient to fund future benefits, dividends, expenses and taxes on policies in force. The liabilities incorporate management’s best estimate assumptions regarding such factors as mortality and morbidity, investment returns, rates of policy terminations, level of operating expenses, inflation, policyholder dividends and taxes. Due to the long-term risks and uncertainties inherent in the Life Insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities.

All changes in policy liability estimates are recorded in claims and policy benefits in the consolidated statements of income in the period in which they occur.

Reinsurance ceded

Reinsurance is ceded to other insurers in order to limit exposure to significant losses. Reinsurance ceded does not relieve the insurance operation of its primary liability. Ceded reinsurance premiums and reinsurance recoveries on claims and policy benefits incurred are recorded as a reduction of the respective income and expense amounts. Estimates of amounts recoverable from reinsurers in respect of insurance policy liabilities and their share of unearned premiums are recorded as reinsurance recoverable on the consolidated balance sheets. Reinsurance recoverable is valued on a discounted basis, in accordance with accepted actuarial practice.

Participating policyholders' interest

Certain life, disability and annuity policies are defined as participating policies by contractual provisions, and are eligible for periodic dividends. The distribution of dividends is made from the earnings attributed to the performance of the participating business.

Segregated funds

The segregated fund asset and liability amounts on the consolidated balance sheets are in respect of investment funds held on behalf of Life Insurance policyholders.

Investments held in the segregated funds are carried at their period end fair values.

Capital assets

Capital assets (furniture, equipment and computer software) are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the useful life of the capital assets, which varies from two to seven years. Leasehold improvements are amortized over the related remaining lease term. The General Insurance operation amortizes its building on a five per cent declining balance basis.

Foreign currency translation

Monetary assets and liabilities are translated at period-end exchange rates, and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Revenue and expense items are translated at actual rates prevailing during the period.

Hedge accounting

From time to time, the Life Insurance operations enters into hedging arrangements. Where the Life Insurance operations has elected to use hedge accounting, a hedging relationship is designated and documented at inception. The Life Insurance operations evaluates hedge effectiveness at the inception of the relationship and at least on a quarterly basis using a variety of techniques including the cumulative dollar offset method. Both at inception and throughout the term of the hedge, the Life Insurance operations expects that each hedging instrument will be highly effective in achieving offsetting changes in cash flows attributable to the risk being hedged. When it is determined that the hedging relationship is no longer effective, or the hedged item has been sold or terminated, the Life Insurance operations discontinues hedge accounting prospectively. In such cases, if the derivative hedging instrument is not sold or terminated, any subsequent changes in fair value of the derivative is recognized in investment income.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging instrument is recorded in OCI while the ineffective portion is recognized in investment income. Gains and losses accumulated in AOCI are reclassified and recognized in investment income during the periods when the variability in the cash flows hedged or the hedged forecasted transactions are recognized in income. Gains and losses on cash flow hedges accumulated in AOCI are reclassified immediately to investment income when either the hedged item is sold or the forecasted transaction is no longer expected to occur. When hedge accounting is discontinued, and the hedged forecasted transaction remains probable of occurring, then the amounts previously recognized in AOCI are reclassified and recognized in investment income in the periods during which variability in the cash flows hedged or the hedged forecasted transaction is recognized in income.

The Life Insurance operations enters into fair value hedging relationships associated with currency risk in available for sale assets. Changes in the fair value of the derivatives used for fair value hedges are recorded in investment income. The change in fair value of these available for sale investments related to the hedged risk is recorded in investment income. As a result, ineffectiveness, if any, is recognized in investment income.

4. Portfolio investments

The following table provides a comparison of carrying values and fair values for the Company's Corporate Investments segment as at December 31:

	2008				
	Required to be held for trading	Designated as held for trading	Total Available for sale	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 10,687	$ 10,687	$ 10,687
Bonds and debentures	—	—	36,826	36,826	36,826
Common and preferred shares	56	—	831,661	831,717	587,301
Derivatives (Note 20)	(283)	—	—	(283)	(283)
Total	$ (227)	$ —	$ 879,174	$ 878,947	$ 634,531

	2007				
	Required to be held for trading	Designated as held for trading	Available for sale	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 28,858	$ 28,858	$ 28,858
Bonds and debentures	—	—	35,425	35,425	35,425
Common and preferred shares	2,794	10,899	1,020,003	1,033,696	994,533
Derivatives (Note 20)	(93)	—	—	(93)	(93)
Total	$ 2,701	$ 10,899	$ 1,084,286	$ 1,097,886	$ 1,058,723

Included in the common and preferred shares classified as AFS are $714,436 (2007 - $717,184) of securities which do not have a quoted price in an active market and are therefore carried at cost for financial reporting purposes. These holdings are comprised of securities of investment companies and investment funds. The fair value for these entities, $470,020 (2007 - $678,021), reflects the net asset value per share multiplied by the number of shares held. The net asset values are determined based on the underlying fair values of the net assets within these entities. Realization of the fair value of these securities held is dependent in part on the timing of distribution of cash dividends by these entities or the ultimate disposition of the Company's interest in these entities. Management has conducted an evaluation of these investments and concluded that the unrealized losses on these securities are consistent with the decline in global markets. Accordingly, management does not consider these to be other than temporarily impaired.

The Corporate Investments segment includes investments in several widely held investment funds that are managed by independent third parties. These investments have a carrying value of $313,906 (2007 - $316,654) and represent significant variable interests in variable interest entities that the Company has not consolidated because it is not the primary beneficiary. In the ordinary course of its business, the Company has made these investments with the primary objective of accumulating shareholder value through the long-term appreciation in the equity holdings of their investment funds.

Notes to Consolidated Financial Statements
(all dollar figures expressed in thousands, except per share amounts)

Management regularly reviews securities classified as AFS for evidence of impairment. In 2008, management recognized other than temporary impairment of $34,394 (2007 - $1,033) on securities with a carrying value of $79,668 (2007 - $1,879). These assets were written down since the fair value was less than cost and management intended to sell during the first quarter 2009.

The following table summarizes the fair value and unrealized losses recognized in AOCI for investments held at December 31, 2008. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are consistent with the decline in global markets. Accordingly, management does not consider these to be other than temporarily impaired.

	2008		2007	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ 19,847	$ 1,910	$ 23,894	$ 451
Preferred shares	—	—	352	91
Common shares	53,292	66,200	84,693	20,715
Total	$ 73,139	$ 68,110	$ 108,939	$ 21,257

The concentration of the Corporate Investments segment's bond portfolio by investment grade is as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
AAA	$ 4,718	$ 4,718	$ 9,587	$ 9,587
AA	7,161	7,161	4,748	4,748
A	20,706	20,706	18,139	18,139
BBB	4,241	4,241	2,951	2,951
	$ 36,826	$ 36,826	$ 35,425	$ 35,425

Bonds and debentures by contractual maturity are as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
1 year or less	$ 2,020	$ 2,020	$ 751	$ 751
1-5 years	20,238	20,238	16,927	16,927
5-10 years	6,545	6,545	10,289	10,289
Over 10 years	8,023	8,023	7,458	7,458
	$ 36,826	$ 36,826	$ 35,425	$ 35,425

The financial assets of the Corporate Investments segment are exposed to a variety of market risks including interest rate, foreign currency and other price risk. The impact on net income and other comprehensive income of a reasonably possible change in each of these variables is described below:

- Interest rate – A 1% fluctuation in market interest rates would have an impact of approximately $ nil on net income and $1,196 on other comprehensive income.
- Foreign currency – The Corporate Investments segment's primary foreign currency exposure is the US dollar. A 10% fluctuation in the USD would have an impact of approximately $5 on net income and $476 on other comprehensive income.
- Other price risk - A 10% fluctuation in market prices would have an impact of approximately $19 on net income and $9,798 on other comprehensive income.

5. Equity method investment

The Company holds an investment in United Corporations Limited ("United"), a closed-end investment corporation that trades on the Toronto Stock Exchange. As at December 31, 2008, the Company holds 46.16% (2007 - 41.49%) of the outstanding common shares of United. Details of the investment are as follows:

	2008	2007
Balance, beginning of year	$ 309,861	$ 331,698
Purchase of additional shares during the year	32,949	2,300
Loss recognized for the year, using the equity method	(117,313)	(20,119)
Dividends received during the year	(4,292)	(4,018)
Balance, end of year	$ 221,205	$ 309,861

6. Investments - insurance operations

The carrying values of the investments held by the insurance operations are provided below:

	2008	2007
General Insurance	$ 1,943,279	$ 2,143,828
Life Insurance	3,455,442	3,543,811
	$ 5,398,721	$ 5,687,639

A detailed analysis of the investments of the insurance operations is provided in notes 6(a) and (b).

(a) General Insurance

The following table provides a comparison of carrying values and fair values for the Company's General Insurance operation:

2008	Required to be held for trading	Designated as held for trading	Available for sale	Loans, receivables and real estate	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 98,886	$ —	$ 98,886	$ 98,886
Bonds and debentures	—	—	1,194,336	—	1,194,336	1,194,336
Preferred shares	—	—	123,961	—	123,961	123,961
Common shares	—	—	476,082	—	476,082	476,082
Commercial loans	—	—	—	48,737	48,737	48,737
Real estate	—	—	—	1,277	1,277	4,838
Total	$ —	$ —	$1,893,265	$ 50,014	$ 1,943,279	$ 1,946,840

2007	Required to be held for trading	Designated as held for trading	Available for sale	Loans, receivables and real estate	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 40,747	$ —	$ 40,747	$ 40,747
Bonds and debentures	—	—	1,258,378	—	1,258,378	1,258,378
Preferred shares	—	—	93,057	—	93,057	93,057
Common shares	—	—	705,548	—	705,548	701,463
Commercial loans	—	—	—	44,760	44,760	44,760
Real estate	—	—	—	1,338	1,338	4,838
Total	$ —	$ —	$ 2,097,730	$ 46,098	$ 2,143,828	$ 2,143,243

The Dominion's investment in common shares consists of units in pooled funds which are managed by independent investment managers. These pooled funds contain a minor cash component in addition to the common share holdings. Pooled fund units are valued using Canadian dollar denominated net asset values provided by the custodians of the pooled fund units.

Commercial loans are made to certain independent insurance brokers with whom The Dominion conducts business. Substantially all of these loans are secured by the borrowers' assets, the primary asset being the borrowers' book of business. In some instances, guarantees may be provided by parties related to the borrower in order to enhance the credit quality of the loan. The loan portfolio is monitored throughout the year and an annual review of each borrower's credit worthiness is performed using analytical and other techniques as considered necessary. At the end of the year all commercial loans were in good standing. The maximum exposure to credit risk without any consideration of collateral is the carrying value of the commercial loans of $48,737 (2007 - $44,760).

Real estate is carried at amortized cost and the carrying value is net of accumulated amortization of $1,897 (2007 - $1,837).

The following table summarizes the fair value and unrealized losses recognized in AOCI for investments held at December 31, 2008. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are consistent with the decline in global markets. Accordingly, management does not consider these to be other than temporarily impaired and no impairment loss has been recorded.

	2008		2007	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ 509,835	$ 33,225	$ 595,439	$ 9,556
Preferred shares	72,616	17,430	35,125	1,841
Common shares	476,082	200,025	472,902	8,158
Total	$ 1,058,533	$ 250,680	$ 1,103,466	$ 19,555

The concentration of the General Insurance operation's bond and debenture portfolio by investment grade is as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
AAA	$ 158,307	$ 158,307	$ 325,779	$ 325,779
AA	369,734	369,734	377,262	377,262
A	576,413	576,413	473,678	473,678
BBB	85,155	85,155	76,715	76,715
BB	4,727	4,727	4,944	4,944
Total	$ 1,194,336	$ 1,194,336	$ 1,258,378	$ 1,258,378

Bonds and debentures by contractual maturity are as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
1 year or less	$ 165,294	$ 165,294	$ 192,624	$ 192,624
1-5 years	738,639	738,639	707,986	707,986
5-10 years	208,277	208,277	219,461	219,461
Over 10 years	82,126	82,126	138,307	138,307
Total	$ 1,194,336	$ 1,194,336	$ 1,258,378	$ 1,258,378

The financial assets of the General Insurance operation are exposed to a variety of market risks including interest rate, foreign currency and other price risk. The impact on net income and other comprehensive income of a reasonably possible change in each of these variables is described below:

- Interest rate – A 1% fluctuation in market interest rates would have an impact of approximately $ nil on net income and $29,633 on other comprehensive income.
- Foreign currency – The General Insurance operation's primary foreign currency exposure is the US dollar. A 10% fluctuation in the USD would have an impact of approximately $ nil on net income and $19,961 on other comprehensive income.
- Other price risk - A 10% fluctuation in market prices would have an impact of approximately $ nil on net income and $40,865 on other comprehensive income.

(b) Life Insurance

The following table provides a comparison of carrying values and fair values for the Company's Life Insurance operation as at December 31:

2008	Required to be held for trading	Designated as held for trading	Available for sale	Loans, receivables and real estate	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 75,895	$ —	$ 75,895	$ 75,895
Bonds	18,198	1,991,179	298,564	—	2,307,941	2,307,941
Mortgages	—	—	—	242,678	242,678	242,846
Preferred shares	—	171,710	76,173	—	247,883	247,883
Common shares	95,149	—	290,517	—	385,666	385,222
Real estate	—	—	—	15,355	15,355	14,090
Loans on policies	—	—	—	37,161	37,161	37,161
Policy contract loans	—	—	—	142,863	142,863	142,863
Total	$ 113,347	$ 2,162,889	$ 741,149	$ 438,057	$ 3,455,442	$ 3,453,901

2007	Required to be held for trading	Designated as held for trading	Available for sale	Loans, receivables and real estate	Total carrying value	Total fair value
Short-term investments	$ —	$ 1,998	$ 32,834	$ —	$ 34,832	$ 34,832
Bonds	14,859	2,057,169	234,476	—	2,306,504	2,306,504
Mortgages	—	—	—	248,041	248,041	253,697
Preferred shares	—	122,888	23,580	—	146,468	146,468
Common shares	146,711	—	463,289	—	610,000	610,037
Real estate	—	—	—	14,787	14,787	14,090
Loans on policies	—	—	—	34,812	34,812	34,812
Policy contract loans	—	—	—	148,367	148,367	148,367
Total	$ 161,570	$ 2,182,055	$ 754,179	$ 446,007	$ 3,543,811	$ 3,548,807

Real estate is carried at cost. Realized gains and losses on real estate are deferred, and amortized to income at 3% each quarter. The unamortized realized gains and losses are included in other liabilities in the balance sheet.

Due to the nature of loans on policies and policy contract loans, fair values are assumed to be equal to carrying value.

Assets classified as loans and receivables have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $9,301(2007 - $10,259), have been reduced by an allowance for impairment of $2,341 (2007 - $2,466) and policy contract loans with a recorded value of $813 (2007 - $813) have been reduced by an allowance for impairment of $599 (2007 – $618). The Life Insurance operation holds collateral of $7,355 (2007 - $8,221) in respect of these mortgages and $214 (2007 - $195) in respect of these policy loans. Policy loans are secured by a Life Insurance policy. The Life Insurance operation has recorded interest income of $890 (2007 - $983) on these assets.

Management regularly reviews securities classified as AFS for evidence of impairment. In 2008, management recognized other than temporary impairment of $ nil (2007 - $4,381) on securities with a carrying value of $ nil (2007 - $15,734).

The following table summarizes the fair value and unrealized losses recognized in AOCI for investments held at December 31, 2008. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are consistent with the decline in global markets. Accordingly management does not consider these to be other than temporarily impaired.

	2008		2007	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ 62,988	$ 6,452	$ 133,973	$ 1,466
Preferred shares	69,548	12,547	23,580	1,653
Common shares	198,391	87,152	134,596	7,025
Total	$ 330,927	$ 106,151	$ 292,149	$ 10,144

The concentration of the Life Insurance operation's bond portfolio by investment grade is as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
AAA	$ 90,759	$ 90,759	$ 112,290	$ 112,290
AA	935,933	935,933	1,025,060	1,025,060
A	1,166,574	1,166,574	1,084,590	1,084,590
BBB	109,939	109,939	79,614	79,614
BB	4,736	4,736	4,950	4,950
Total	$ 2,307,941	$ 2,307,941	$ 2,306,504	$ 2,306,504

Bonds and debentures by contractual maturity are as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
1 year or less	$ 70,210	$ 70,210	$ 18,489	$ 18,489
1-5 years	248,115	248,115	245,257	245,257
5-10 years	255,607	255,607	252,124	252,124
Over 10 years	1,734,009	1,734,009	1,790,634	1,790,634
Total	$ 2,307,941	$ 2,307,941	$ 2,306,504	$ 2,306,504

The financial assets of the Life Insurance operation are exposed to a variety of market risks including interest rate, foreign currency and other price risk. For financial assets matching policy liabilities, the exposure to these risks in its financial assets is generally offset by a corresponding exposure to these risks in its policy obligations. As the policy liability for these policy obligations is calculated based on market value, increases and decreases in these risk variables affect both investment income and the change in policy liabilities. The impact on net income and other comprehensive income of a reasonably possible change in each of these variables is described below:

- Interest rate – A 1% fluctuation in market interest rates would have an impact of approximately $ nil on net income and $4,337 on other comprehensive income.
- Foreign currency – The Life Insurance operation's primary foreign currency exposure is the US dollar. A 10% fluctuation in the USD would have an impact of approximately $ nil on net income and $3,969 on other comprehensive income. The Life Insurance operation has no significant foreign currency exposure in its financial liabilities.
- Other price risk - A 10% fluctuation in market prices would have an impact of approximately $4,924 on net income and $15,695 on other comprehensive income. For segregated fund guarantee policy liabilities the direction of the price change impacts the amount, such that a 10% increase in market prices would have a positive impact of approximately $3,775 on shareholders' net income, while a 10% decrease in market prices would have a negative impact of approximately $16,180 on shareholders' net income. For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. At higher market starting points the sensitivity is reduced, while lower starting points have the opposite effect.

7. Composition of certain revenue items

Investment and other income is comprised of the following:

	2008	2007
Interest income	$ 219,219	$ 214,135
Fee income	103,171	105,047
Dividend income	68,548	60,726
Real estate income	982	1,215
Other	11,835	13,738
	$ 403,755	$ 394,861

Included in interest income is $49,915 (2007 - $116,165) relating to assets not classified as HFT.

Composition of change in fair value of held for trading investments:

	2008	2007
Change in fair value of instruments required to be classified as HFT	$ (40,974)	$ (34,531)
Change in fair value of instruments designated as HFT	(204,570)	(48,786)
	$ (245,544)	$ (83,317)

8. Policy liabilities

Policy liabilities are comprised of:

	2008			2007		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
General Insurance unearned premiums provision	$ 530,018	$ 8,609	$ 521,409	$ 504,860	$ 7,951	$ 496,909
General Insurance unpaid and unreported claims provision	1,467,985	52,456	1,415,529	1,412,584	71,481	1,341,103
Life Insurance benefits and expense provision	2,887,503	43,802	2,843,701	3,133,070	120,525	3,012,545
	$4,885,506	$ 104,867	$4,780,639	$5,050,514	$ 199,957	$4,850,557

General Insurance unearned premiums provision represents the portion of premiums that relate to the unexpired term of underlying insurance policies. These amounts are determined to be sufficient to fund anticipated claims and expenses.

The General Insurance unpaid and unreported claims provision does not include amounts for claims where obligations to claimants have been settled by the purchase of annuities from life insurance companies. The General Insurance operation guarantees the life insurers' obligations under these annuities which are estimated to be $206,636 (2007 - $194,620) based on the net present value of the projected future cash flows of these guarantees in 2008. The Company considers the credit risk of such guarantees to be insignificant.

In the absence of an active market for the sale of claims liabilities, the actuarially discounted carrying values for the General Insurance unpaid and unreported claims and reinsurance recoverable provide a reasonable approximation of fair value.

The change in net policy liabilities, excluding the General Insurance unearned premium provision, related to General Insurance is outlined below:

	2008	2007
General Insurance		
Balance, beginning of year	$1,341,103	$1,228,415
Impact of change in accounting standards	—	3,360
Change in prior years' claims estimates	(71,496)	(54,445)
Interest cost	51,255	45,086
Impact of change in discount rate	2,512	(510)
Current year claims incurred	786,308	724,524
Claims payments	(694,153)	(605,327)
Balance, end of year	$1,415,529	$1,341,103

The 2008 reduction in prior year claims estimates of $71,496 consists of: $40,264 favourable in automobile lines, attributable to a changed view of uncertainty in the claims estimates primarily relating to accident benefit claims and third-party bodily injury claims of recent accident years; $5,027 favourable in personal property reflecting better than expected experience from recent accident years; and $26,205 favourable in commercial property and casualty, arising mainly from better than expected experience and a changed view of uncertainty in the claims estimates on general

liability claims occurring in various accident years. The reduction in claims estimates of $54,445 recognized in 2007 consisted of: $32,080 favourable in automobile lines, attributable to better than expected experience primarily relating to accident benefit claims and third-party bodily injury claims arising in accident years 2001 to 2006; $4,310 favourable in personal property reflecting better than expected experience from various accident years; and $18,055 favourable in commercial property and casualty, arising partly from better than expected experience on property and general liability claims occurring in various recent years, and partly from further positive developments related to the claims that accounted for most of the favourable development recognized in 2006 relating to the abuse claims from residential schools from mainly 1959 to 1967.

Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of “A” or better and that the Company considers credit-worthy. Based on ongoing monitoring of independent credit ratings, the Company assesses the credit risk associated with reinsurance recoverable to be insignificant.

Unpaid and unreported claims and reinsurance recoverable are discounted in accordance with accepted actuarial practice in Canada for the General Insurance operations. The weighted average discount rate used for 2008 was 4.6% (2007 – 4.6%). The average discount rate used by the Facility Association was 2.8% (2007 – 4.2%). The impact of a 1% decrease (increase) in the weighted average discount rate is an increase (decrease) in the 2008 net unpaid and unreported claims carrying value of $37,364 (2007– $34,079).

The change in net policy liabilities related to Life Insurance operations is outlined below:

	2008	2007
Life Insurance		
Balance, beginning of year	$ 3,012,545	$ 2,360,032
Impact of change in accounting standards	—	544,736
Changes in methods and assumptions	(47,741)	2,131
Normal changes - new business	120,834	145,073
- in-force business	(241,937)	(39,427)
Balance, end of year	$ 2,843,701	$ 3,012,545

The changes in actuarial methods and assumptions in 2008 include a net decrease of $22,712 (2007 - $21,376) to reflect improving mortality/morbidity experience, a net increase of $14,278 (2007 - $19,970) to reflect decreases in the investment return assumptions, and a net decrease of $43,853 (2007 - $ nil) to reflect an updated approach for establishing the insurance mortality assumption. The net impact of other changes amounted to a net increase of $4,546 (2007 - $3,537).

The provisions described above are estimates and accordingly, the actual amounts that are ultimately incurred will differ. The likelihood of significant differences from amounts currently provided increases with the length of the time until the settlement amounts of claims and the timing of other benefits are established. A significant proportion of the Company’s policy liabilities are long-term. Management of the Company is satisfied that current estimates constitute a prudent assessment of these liabilities. Valuation assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change.

Based on recent experience, the Company has estimated that a decrease (or increase) in the individual insurance mortality assumption equal to 3% of the base table would result in an increase (or decrease) of approximately $20,468 (2007 - $19,433) in net income and that the decrease in reinvestment rates caused by a decrease of 1% in current market interest rates would result in a decrease of approximately $23,654 (2007 - $29,707) in net income and that net income is not sensitive to likely short term swings in expenses.

9. Other assets

Other assets are comprised of the following:

	2008	2007
Due from Facility Association	$ 7,114	$ 9,059
Capital assets, at cost (net of accumulated amortization of $68,909 (2007 - $61,518))	44,949	43,119
Due from reinsurance companies	10,025	21,510
Pension asset (Note 16)	6,791	3,363
Other	15,088	18,588
	$ 83,967	$ 95,639

The Facility Association is an automobile insurance market of last resort for higher risk drivers. Results are pooled and mandatorily shared among auto insurers. Due from Facility Association represents the General Insurance operation's share of the assets of the Facility Association which are available to fund a portion of the General Insurance operation's share of Facility Association policy liabilities which are included in policy liabilities and deferred acquisition expenses in the consolidated balance sheets.

10. Other liabilities

	2008	2007
Accounts payable	$ 64,903	$ 64,434
Bank indebtedness (Note 20)	31,827	43,515
Short term debt (Note 27)	24,838	—
Accrued employee future benefit liabilities (Note 16)	25,539	21,630
Unearned premium finance fee income	3,444	4,658
Other	49,605	43,108
	$ 200,156	$ 177,345

11. Reinsurance

In the normal course of business, the insurance subsidiaries cede reinsurance to other insurers in order to limit exposure to significant losses. Reinsurance does not relieve the insurance subsidiaries of their primary liability as the originating insurer. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by senior management and reported to the insurance subsidiaries' Boards. Only reinsurers with an acceptable credit rating are accepted in the reinsurance programs. Based on ongoing monitoring, the insurance subsidiaries assess the credit risk associated with the reinsurance recoverable to be insignificant.

The General Insurance operation's exposure to claims was limited as follows: $3,000 for an automobile claim; $2,000 for personal and commercial property claims; $1,750 for a casualty claim; and $2,500 for a surety claim. The General Insurance operation also has a catastrophe reinsurance arrangement providing coverage up to $500,000, in the event of a series of claims arising out of a single occurrence, under which the General Insurance operation is responsible for the first $15,000 plus 2.5% of the first $60,000 of claims exceeding that retention level. The Life Insurance operation's exposure to claims is limited to $500 on any one life. These reinsurance arrangements are reflected in the consolidated statements of income as a reduction of $106,447 (2007 - $95,281) in insurance premiums.

12. Shareholders' equity

The authorized classes of share capital at December 31, 2008 are as follows:

- 402,733 Preference Shares, issuable in series;
- Unlimited First Preference Shares, issuable in series; and
- Unlimited Common Shares.

The directors have designated the first series of Preference Shares as Series A Convertible ("Series A Preference Shares"). The Series A Preference Shares are convertible, at the shareholder's option, in perpetuity into Common Shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum.

The Series A Preference Shares and Common Shares are each entitled to one vote per share.

The First Preference Shares of each series rank pari passu with every other series of First Preference Shares and in priority to the Common Shares and the Series A Preference Shares of the Company with respect to the payment of dividends and the distribution of assets on the dissolution, liquidation or winding up of the Company. As of December 31, 2008 there were two series of First Preference Shares outstanding, the First Preference Shares, Series 1 and the First Preference Shares, Series 2. The First Preference Shares, Series 1 and the First Preference Shares, Series 2, are non-voting unless there has been a specified default in the payment of dividends or to approve of modifications attending to the series of shares.

The First Preference Shares, Series 1 are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.325 per share per annum. On and after October 17, 2009, the Company may redeem for cash the First Preference Shares, Series 1 in whole or in part, at the Company's option, at $26.00 per share if redeemed prior to October 17, 2010, $25.75 if redeemed thereafter and prior to October 17, 2011, $25.50 if redeemed thereafter and prior to October 17, 2012, $25.25 if redeemed thereafter and prior to October 17, 2013 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2009, the Company may convert all or any part of the outstanding First Preference Shares, Series 1 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion dates.

The First Preference Shares, Series 2 are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.1875 per share per annum. First Preference Shares, Series 2 will not be redeemable prior to October 17, 2011. On and after October 17, 2011, the Company may redeem for cash the First Preference Shares, Series 2 in whole or in part, at the Company's option, at $26.00 per share if redeemed prior to October 17, 2012, $25.75 if redeemed thereafter and prior to October 17, 2013, $25.50 if redeemed thereafter and prior to October 17, 2014, $25.25 if redeemed thereafter and prior to October 17, 2015 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2011, the Company may convert all or any part of the outstanding First Preference Shares, Series 2 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion dates.

The share capital of the Company is as follows:

	2008	2007
4,019,409 Common Shares	$ 72,387	$ 72,387
4,000,000 First Preference Shares, Series 1	100,000	100,000
4,000,000 First Preference Shares, Series 2	100,000	100,000
258 Series A Convertible Preference shares	1	1
	$ 272,388	$ 272,388

Dividends during the year are as follows:

	2008	2007
First Preference Shares, Series 1, $1.325 per share	$ 5,300	$ 5,300
First Preference Shares, Series 2 $1.1875 per share	4,750	4,750
Common Shares, $0.50 per share	2,010	2,010
	$ 12,060	$ 12,060

Shareholders' entitlement to $3,727 (2007 - $4,719) of shareholders' equity is contingent upon future payment of dividends to participating Life Insurance policyholders.

Net income per share has been calculated by dividing net income for the year, less dividends paid on preference shares, by the amount equal to the total number of Common Shares outstanding of 4,019,409 less 693,819 (2007 - 691,814), which is the Company's proportionate interest in its own common shares held indirectly. For the year, the Company paid out a dividend of $0.50 per share on each of its Common Shares. When calculated on the basis of the reduced number of Common Shares caused by the elimination of the reciprocal holdings, the dividend is $0.60 (2007 - $0.60) per share.

The following is a reconciliation of the numerators and the denominators of the basic and diluted (loss) income per Common Share computations:

	2008	2007
Net (loss) income	$ (126,963)	$ 210,688
Dividends on First Preference Shares	(10,050)	(10,050)
Net (loss) income available to Common Shareholders	$ (137,013)	$ 200,638
Weighted number of Adjusted Common Shares outstanding - basic	3,325,848	3,327,853
Dilutive effect of convertible First Preference Shares into Common Shares	387,518	344,800
Weighted number of Adjusted Common Shares outstanding - diluted	3,713,366	3,672,653

13. Income taxes

The combined statutory Canadian federal and provincial tax rate applicable to the Company and its subsidiaries in 2008 approximates 34.3% (2007 - 35.4%). Income taxes are assessed on operating income after deducting premium taxes and investment taxes. The effective tax rate varies from the combined statutory rate as follows:

	2008	2007
Income taxes at statutory rate	$ (36,990)	$ 98,145
Variance as a result of:		
Tax-paid dividends	(14,325)	(15,983)
Non-taxable portion of losses (capital gains)	57,403	(23,632)
Unused realized losses not recognized for accounting purposes	5,402	—
Substantively enacted changes in income tax rates	489	(416)
Other	672	1,691
Income tax provision	$ 12,651	$ 59,805

The Company's income tax expense includes provisions for current and future taxes as follows:

	2008	2007
Current	$ 32,239	$ 86,777
Future	(19,588)	(26,972)
	$ 12,651	$ 59,805

The General Insurance operation has unused capital tax losses and deductible temporary differences totaling $232,853 which have not been recognized in the future tax asset due to the uncertainty of future taxable capital gains against which to offset the losses. These capital losses do not expire and may be carried forward indefinitely.

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences which will give rise to future income taxes are reflected in the consolidated balance sheet as follows:

	2008	2007
Investments	$ (123,349)	$ (198,813)
Policy liabilities	81,426	131,919
Losses recoverable in future years	19,048	6,228
Other	2,522	7,500
Future income taxes receivable (payable)	$ (20,353)	$ (53,166)

Recorded as:

	2008	2007
Future income tax asset	$ 19,489	$ 20,180
Future income tax liability	(39,842)	(73,346)
	$ (20,353)	$ (53,166)

During 2008, the Company and its subsidiaries paid income tax instalments and assessments totaling $31,158 (2007 - $92,464) and received income tax refunds totaling $36,199 (2007 - $8,106).

Under the *Income Tax Act*, the Company is subject to a 33 1/3% refundable tax on certain Canadian dividends received. This tax will be refunded to the Company at a rate of $1.00 for every $3.00 of taxable dividends paid in the future. The accumulated amount of refundable dividend tax at December 31, 2008 amount to $9,141 (2007 - $8,189). The potential benefit of this amount has not been reflected in these consolidated financial statements.

14. Items included in other comprehensive (loss) income

Other comprehensive (loss) income is presented net of income taxes, non-controlling interests ("NCI") and participating policyholders ("PAR") portion. The following amounts are included in each component of shareholders' OCI.

	Income Taxes		NCI/PAR	
	2008	2007	2008	2007
Unrealized fair value change on available for sale investments	$ (80,212)	$ (12,265)	$ (38,187)	$ 647
Fair value change on available for sale investments reclassified to net income	22,535	(30,990)	10,752	(7,640)
Gain/loss on derivative investments designated as cash flow hedges	(1,727)	—	(739)	—
Gain/loss on derivative investments designated as cash flow hedges reclassified to net income	69	—	30	—
Total expense (recovery) included in OCI	$ (59,335)	$ (43,255)	$ (28,144)	$ (6,993)

The Life Insurance operations entered into a bond forward derivative with a notional amount of $75,000 maturing January 16, 2009. This derivative has been accounted for as a hedging item in a cash flow hedging relationship.

The Company reclassified ($171) (2007 - $ nil) from OCI to investment income on the consolidated statement of income resulting from cash flow hedge ineffectiveness. The Company expects to reclassify ($637) from AOCI to net income before taxes on the consolidated statement of income in the next twelve months. The hedged transaction is expected to occur in 2009.

15. Analysis of net (loss) income

Components of net (loss) income, each net of policyholders' and minority shareholders' interest, is as follows:

	2008	2007
Income excluding undernoted	$ 111,604	$ 91,717
Realized (loss) gain on available for sale investments	(132,456)	133,562
Loss from equity method investment	(106,111)	(14,591)
	$ (126,963)	$ 210,688

16. Employee future benefit plans

Pension benefit plans include defined benefit plans available to certain employee and executive groups, as well as certain defined benefits elected to be retained on conversion of The Dominion's defined benefit plan to a money purchase plan in 1994. The Company and its subsidiaries also provide for post-retirement health and dental care coverage and other future benefits to qualifying employees and retirees.

Total cash payments by the Company and its subsidiaries for employee future benefits for 2008, consisting of cash contributed to its funded pension plans, cash payments directly to beneficiaries under its unfunded other benefit plans, cash contributed to its defined contribution plan and payments to third party service providers on behalf of the employees was $11,740 (2007 - $5,642).

Notes to Consolidated Financial Statements
(all dollar figures expressed in thousands, except per share amounts)

The following tables present financial information for the Company and its subsidiaries' defined benefit plans:

	Pension Benefit Plans		Other Benefit Plans	
	2008	2007	2008	2007
Accrued benefit obligation				
Balance at beginning of year	$ 145,572	$ 145,308	$ 23,311	$ 27,631
Current service cost	5,038	6,015	698	1,307
Employee contributions	1,926	1,768	—	—
Interest cost	8,162	7,492	1,200	1,412
Benefits paid	(8,440)	(5,238)	(1,044)	(759)
Actuarial loss (gain)	(29,444)	(10,908)	(4,164)	(669)
Curtailment loss (gain)	—	(169)	—	(3,379)
Special termination benefit costs	2,523	1,304	—	—
Plan amendments	—	—	—	(2,232)
Settlement	—	—	—	—
Balance at end of year	$ 125,337	$ 145,572	$ 20,001	$ 23,311
Plan assets				
Fair value at beginning of year	$ 147,339	$ 144,184	$ —	$ —
Actual return on plan assets	(25,276)	4,856	—	—
Employer contributions	7,275	1,770	—	—
Employee contributions	1,926	1,768	—	—
Purchase of annuity for ad-hoc pension increase	—	(263)	—	—
Benefits paid	(8,440)	(4,976)	—	—
Settlement	—	—	—	—
Fair value at end of year	$ 122,824	$ 147,339	$ —	$ —
Funded status - plan surplus (deficit)	$ (2,513)	$ 1,767	$ (20,001)	$ (23,311)
Unamortized net actuarial loss (gain)	7,122	2,415	(429)	3,926
Unamortized transitional obligation (asset)	(3,647)	(4,223)	720	1,159
Accrued benefit asset (liability)	$ 962	$ (41)	$ (19,710)	$ (18,226)
Recorded in the consolidated balance sheet as:				
Other assets	$ 6,791	$ 3,363	$ —	$ —
Other liabilities	(5,829)	(3,404)	(19,710)	(18,226)
Accrued benefit asset (liability)	$ 962	$ (41)	$ (19,710)	$ (18,226)

Included in the previous figures are defined benefit obligations in excess of plan assets as at December 31:

	Pension Benefit Plans		Other Benefit Plans	
	2008	2007	2008	2007
Accrued pension obligation	$ 107,000	$ 15,805	$ 20,001	$ 23,311
Plan assets at fair value	$ 96,960	$ 11,707	$ —	$ —

The employee future benefit costs concerning the Company and its subsidiaries' defined benefit plans included in the Company's consolidated statements of income are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2008	2007	2008	2007
Annual net benefit cost (income)				
Current service cost	$ 5,038	$ 6,015	$ 698	$ 1,307
Interest cost	8,162	7,492	1,200	1,412
Actual return on plan assets	25,276	(4,856)	—	—
Actuarial loss (gain)	(29,444)	(10,908)	(4,164)	(669)
Curtailment loss (gain)	—	(169)	—	(473)
Special termination benefit costs	2,523	1,304	—	—
Plan amendments	—	—	—	(2,232)
Settlement (loss) gain	—	—	—	—
Employee future benefit cost (income) prior to adjustments to recognize long-term nature	11,555	(1,122)	(2,266)	(655)
Adjustments to recognize long-term nature:				
Difference between expected return and actual return on plan assets	(34,538)	(4,109)	—	—
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain)	29,832	11,371	4,355	1,076
Difference between plan amendments recognized and actual plan amendments	—	—	—	2,232
Amortization of transitional obligation (asset)	(577)	(576)	439	665
Net benefit cost recognized for the year	$ 6,272	$ 5,564	$ 2,528	$ 3,318

For pension benefit plans, the net benefit cost recognized for the period includes a special termination benefit of $2,523 (2007 - 1,304) and a curtailment gain of $ nil (2007 - $169) in connection with a voluntary early retirement offered to eligible employees.

For other benefit plans, the net benefit cost recognized for the period includes a curtailment gain of $ nil (2007 - $473) in connection with 2007 changes to post-retirement health and dental care coverage offered to eligible employees retiring in the years 2013-2017, and the change to fully retiree paid benefits for employees retiring thereafter. These changes also resulted in a reduction of the accrued benefit obligation due to a curtailment gain of $ nil (2007 - $3,379) and a plan amendment gain of $nil (2007 - $2,232).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent and next required actuarial valuations of the Company and its subsidiaries' employee future benefit plans for funding purposes are as follows:

	Recent Valuation Date	Next Valuation Date
Staff Pension Plan (The Dominion)	January 1, 2006	January 1, 2009
Staff Pension Plan (other than The Dominion)	December 31, 2005	December 31, 2008
Executive Pension Plan (The Dominion)	September 30, 2008	September 30, 2009
Supplemental Employee Retirement Plan	December 31, 2008	December 31, 2009
Retiree Health Benefits (The Dominion)	January 1, 2006	January 1, 2009
Retiree Health Benefits (other than The Dominion)	December 31, 2005	December 31, 2008

The actuarial valuations as at December 31, 2008 are scheduled to be completed by mid 2009 and are therefore not reflected in these financial statements.

The average remaining service period of the active employees covered by the pension benefit and other benefit plans as at December 31 is as follows:

	2008	2007
Staff Pension Plan (The Dominion)	7 years	7 years
Staff Pension Plan (other than The Dominion)	22 years	22 years
Executive Pension Plan (The Dominion)	14 years	15 years
Supplemental Employee Retirement Benefit Plan	14 years	14 years
Retiree Health Benefits (The Dominion)	11 years	11 years
Retiree Health Benefits (other than The Dominion)	8 years	16 years

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Benefit Plans	
	2008	2007	2008	2007
Accrued benefit obligation as of December 31:				
Discount rate	7.3%	5.5%	7.3%	5.4%
Rate of compensation increase	3.6%	4.1%	N/A	N/A
Benefit costs for years ended December 31:				
Discount rate	5.5%	5.0%	5.4%	5.2%
Expected long-term rate of return on plan assets	6.1%	6.3%	N/A	N/A
Rate of compensation increase	4.1%	4.1%	N/A	N/A
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	N/A	N/A	6.4%	6.5%
Cost trend rate declines to	N/A	N/A	4.3%	4.3%
Year ultimate rate reached	N/A	N/A	2019	2011

A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2008:

	Increase	Decrease
	(000s)	
Annual total service and interest cost	$ 330	$ (261)
Accrued benefit obligation	2,834	(2,308)

Plan assets consist of the following asset categories:

	Percentage of Plan Assets	
	2008	2007
Equity securities	47%	54%
Debt securities	36%	36%
Refundable tax deposits and cash	17%	10%
	100%	100%

The Company and its subsidiaries also maintain money purchase staff pension plans available to employees. The total cost recognized for the period relating to these plans was $3,410 (2007 - $3,101).

17. Segmented information

In managing its investments, the Company distinguishes between its Corporate Investments, its investment in General Insurance ("The Dominion") and its investment in Life Insurance ("Empire").

	2008			
	Corporate Investments	The Dominion	Empire	Total
Premium income	$ —	$1,023,257	$ 686,178	$1,709,435
Change in fair value of held for trading investments	(1,160)	—	(244,384)	(245,544)
Realized (loss) gain on investments held for trading	(2,934)	—	19,920	16,986
Realized loss on available for sale investments	(88,055)	(31,909)	(47,207)	(167,171)
Investment and other income	28,243	101,641	273,871	403,755
Loss from equity method investment	(117,313)	—	—	(117,313)
Taxes	(22,362)	44,660	40,289	62,587
Policyholders' and minority shareholders' portion of income	—	—	6,565	6,565
Segment net (loss) income	(161,457)	(4,029)	38,523	(126,963)
Segment assets	1,125,298	2,650,261	3,790,608	7,566,167

	2007			
	Corporate Investments	The Dominion	Empire	Total
Premium income	$ —	$ 998,882	$ 631,326	$1,630,208
Change in fair value of held for trading investments	1,032	—	(84,349)	(83,317)
Realized gain on investments held for trading	4,082	—	61,834	65,916
Realized gain on available for sale investments	16,158	120,361	38,878	175,397
Investment and other income	29,399	95,599	269,863	394,861
Loss from equity method investment	(20,119)	—	—	(20,119)
Taxes	3,512	76,898	29,000	109,410
Policyholders' and minority shareholders' portion of income	—	—	7,110	7,110
Segment net income	22,497	144,589	43,602	210,688
Segment assets	1,435,166	2,817,234	3,988,588	8,240,988

18. Commitments

Future minimum payments under operating leases and other commitments are as follows:

2009	$ 16,548
2010	13,028
2011	11,097
2012	8,297
2013	6,760
Thereafter	14,709
	$ 70,439

19. Risk management

The Company and its subsidiaries, The Dominion and Empire, face various risk factors, inherent in their activities, including risk factors unique to insurance operations. These risk factors and their management are described below.

Credit risk, liquidity risk, and market risk

Credit risk is the risk of financial loss resulting from a counterparty's failure to discharge an obligation. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Market risk includes exposure to fluctuations in interest rates, currency rates and the fair value or cash flows of the Company's investments.

The management of investments is conducted in accordance with investment policies that are approved by the Board of Directors. Management's application of these policies is regularly monitored by Board committees. Management and Board committees review credit quality of investment purchases and also monitor the credit quality of invested assets over time.

The management of investments is key to matching policy liabilities and earning an appropriate return on investments matched to equity.

The Dominion's executives manage liquidity relative to the anticipated pay-out patterns of General Insurance claims and, within those constraints, aim to maximize investment income.

Empire's financial, actuarial and investment executives meet regularly throughout each year to monitor the matching of investments to policy liabilities. This process is designed to ensure that interest rate and liquidity risks are managed appropriately.

Pricing risk

The Dominion and Empire price their products with the intention of achieving appropriate profitability in the course of assuming obligations that are uncertain due to a number of factors, including the prospect that they may take many years to settle.

The Dominion is exposed to uncertainties involving claims frequency and severity, claims payment trends, investment returns as well as potential changes in legislation and in the interpretation of liability by the courts. Empire is exposed to uncertainties involving mortality, investment returns, expense levels and lapsing of policies.

Product pricing is established through consideration of the companies' actuarial assessments of current claims exposures and anticipated trends in the risk factors described above.

In addition, The Dominion and Empire establish policies regarding the amount of risks underwritten which they are prepared to retain, taking into consideration the risk to their available equity. Amounts in excess of that retention are reinsured with external reinsurers.

20. Derivative financial instruments

In the ordinary course of business, the Life Insurance operation has policy obligations which have a savings component that varies with a variety of indices and currencies. The financial instruments used for matching this liability include various futures contracts and foreign currency forward contracts. In addition, the Life Insurance operation may use futures contracts and foreign currency forward contracts in its shareholders' and policyholders' equity account. The Life Insurance operation may also use other equity derivative contracts as part of a portfolio of assets to match policy liabilities as to duration and amounts. The Life Insurance operation uses bond forward contracts for cash flow hedging purposes. Fair value positive amounts and fair value negative amounts are reported on the balance sheet as other assets and other liabilities respectively.

In addition, Corporate Investments includes foreign currency forwards and equity options in invested assets. The notional value of these contracts was $10,994 (2007 - $33,822).

The notional amounts of these financial instruments are not recognized on the balance sheet. Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposures.

All contracts mature in less than 1 year except for other equity contracts which mature in 1 to 5 years.

In the Company's opinion, these positions, which are actively monitored, do not represent any unusual risk and no significant losses are anticipated.

	2008			2007		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Positive	Negative	Amount	Positive	Negative
Exchange-traded						
Equity index futures	$ 9,312	$ 206	$ 44	$ 15,387	$ 165	$ 162
Equity options	92	9	22	—	—	—
Over-the-counter						
Foreign currency forwards	8,387	239	2,148	86,019	1,054	885
Other equity contracts	15,515	5,302	—	12,756	1,137	—
Bond forward contracts	75,000	—	5,351	—	—	—
Total	$ 108,306	$ 5,756	$ 7,565	$ 114,162	$ 2,356	$ 1,047

21. Cash and cash equivalents

Cash equivalents are comprised of treasury bills, commercial paper and bankers' acceptances with maturities of three months or less at the date of acquisition. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

	2008	2007
Cash	$ (10,740)	$ 6,116
Cash equivalents	368,034	358,669
	357,294	364,785
Bank indebtedness	(31,827)	(43,515)
	$ 325,467	$ 321,270

22. Government regulation of automobile insurance

The Dominion's generation of revenue from underwriting automobile risks is impacted by the regulation of certain automobile premium rates by the governments of Alberta, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

Provincial government rate regulatory approval processes can result in the prescription of premium rates other than those The Dominion deems appropriate for the risks to be underwritten. The Dominion's exposure to such prescribed rates is increased in the provinces of Ontario, Alberta and Newfoundland where The Dominion is required to provide coverage for substantially all risks presented to it, commonly referred to as the "all comers rules".

The Dominion is required by regulation to assume a share of automobile insurance underwritten through the Facility Association, which operates insurance pools in several provinces. Such pools are designed to insure higher risk drivers that might otherwise be unable to obtain insurance. The Dominion's share of pool premiums and costs are generally determined in relation to its share of total automobile premiums written by all insurers in each relevant province. Pool premium rates are regulated by provincial governments.

The Dominion's net written automobile insurance premiums are $660,004 (2007 - $627,599), the majority of which are subject to rate regulation. The extent to which net premiums written would have differed in the absence of regulation is not determinable.

Amounts related to premiums subject to rate regulation are accounted for in these consolidated financial statements in the same manner as amounts related to other premiums.

The Dominion's claims costs are influenced by provincial governments to the extent they pass legislation or regulations that specify the nature and extent of benefits and other requirements that impact claims costs and the settlement process.

23. Guarantees and other contingencies

The Company by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to the Company. The broad general nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability.

In connection with its operations, the Company is from time to time named as a defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

24. Related party transactions

In the normal course of business, the Company enters into transactions with investees involving administration services. These transactions are made on the same basis and terms as with unrelated parties, and are recorded at exchange amounts.

The Company's investments in common and preferred stock include $453,822 (2007 - $520,134) of investments in entities that can be significantly influenced by a party that can significantly influence the Company. Included in investment and other income in the consolidated statements of income are cash dividends from these companies amounting to $11,508 (2007 - $10,718).

25. Capital

The Company's capital is comprised of its shareholders' equity. These funds are mainly invested in equities and the two insurance subsidiaries and are managed to provide long-term capital appreciation as well as to fund dividends to shareholders.

The Dominion, as a regulated financial institution, must comply with the capital adequacy requirements of the *Insurance Companies Act, Canada* as implemented and monitored by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). OSFI expects property and casualty insurers to exceed its target result for the prescribed Minimum Capital Test ("MCT"), which calculates a ratio of capital available to capital required. As at December 31, 2008, The Dominion exceeded OSFI's regulatory target level of 150%. Management of The Dominion regularly monitors the sensitivity of existing capital to potential threats including negative claims development, declines in investment values and operating leverage (ratio of premiums to capital).

Empire Life also aims to manage its capital in order to meet the capital adequacy requirements of the *Insurance Companies Act, Canada* as established by OSFI. Under the guidelines established by OSFI, Empire's capital consists of two tiers. Empire's Tier 1 Capital includes common shares, contributed surplus, retained earnings and participating policyholders equity. Tier 2 Capital includes the accumulated unrealized gains on AFS securities, net of tax, subordinated debt, and negative reserves on policy liabilities. OSFI's supervisory target Tier 1 and total capital ratios for Canadian life insurance companies are 105% and 150% respectively (with a regulatory minimum of 60% and 120%, respectively). As at December 31, 2008, Empire exceeded all of these requirements.

26. Accumulated other comprehensive (loss) income

Shareholders' accumulated other comprehensive (loss) income is comprised of unrealized (losses) gains net of income tax on available for sale assets of ($312,158) (2007 - gains of $28,344) and unrealized (losses) gains net of income tax on derivatives designated as cash flow hedges ($2,770) (2007 - $ nil).

27. Short term debt

During 2008, the Company entered into a 364 day revolving committed credit facility of $65,000, which matures on September 30, 2009. Borrowings are at variable interest-rates that are based on 90 day banker's acceptances. At December 31, 2008, $25,000 was drawn on this facility, in the form of banker's acceptances which mature on January 20, 2009.

28. Comparative information

Certain comparative information has been reclassified to conform to the basis of presentation adopted in the current year.

29. Subsequent event

On March 4, 2009, proposed amendments to the Income Tax Act passed third reading and became substantively enacted under Canadian GAAP. Under these amendments, certain capital losses have been re-characterized as income losses for tax purposes. These amendments also result in most insurance investments and policy liabilities being taxed on a fair value basis, consistent with changes in accounting rules for financial instruments adopted in 2007. The estimated impact of these amendments using fair values as of December 31, 2008 would be to increase net income by $82,450, increase the future income taxes asset by $76,630, decrease income taxes receivable by $11,562, decrease income and other taxes payable by $3,490, increase non-controlling interest in subsidiaries by $4,017, increase participating policyholders' interest by $13,491 and decrease policy liabilities by $31,400. The actual amounts, which will be recorded in the first quarter 2009 financial statements, may differ from these estimates due to fluctuations in the underlying fair value of the investments and updated actuarial calculations.

Summary of Consolidated Results

(all dollar figures expressed in thousands except per share amounts)

(Unaudited)

	2008	2007	2006	2005	2004
Premium income	$ 1,709,435	$ 1,630,208	$ 1,628,870	$ 1,600,708	$ 1,543,086
Gain on sale of investments	—	—	73,289	36,356	17,013
Amortization of investment gains	—	—	61,967	51,795	43,972
Income (loss) from equity method investment	(117,313)	(20,119)	56,850	52,432	27,635
Change in unrealized appreciation of portfolio investments	—	—	124,951	132,094	64,543
Change in fair value of held for trading investments	(245,544)	(83,317)	—	—	—
Realized gain on held for trading investments	16,986	65,916	—	—	—
Realized (loss) gain on available for sale investments	(167,171)	175,397	—	—	—
Investment and other income	403,755	394,861	374,867	327,806	285,688
Total revenues	1,600,148	2,162,946	2,320,794	2,201,191	1,981,937
Claims and policy benefits	1,106,568	1,273,824	1,220,550	1,194,593	1,219,167
Expenses (including commissions)	551,391	561,914	527,023	497,423	447,185
Taxes	62,587	109,410	167,573	165,464	96,264
	(120,398)	217,798	405,648	343,711	219,321
Policyholders' and minority shareholders' portion of income	6,565	7,110	33,128	50,008	9,126
Net (loss) income	$ (126,963)	$ 210,688	$ 372,520	$ 293,703	$ 210,195
Net (loss) income per share - basic	$ (41.20)	$ 60.29	$ 109.97	$ 86.68	$ 62.67

	2008	2007	2006	2005	2004
Assets					
Cash and cash equivalents	$ 357,294	$ 364,785	$ 219,400	$ 318,183	$ 269,407
Equity method investment	221,205	309,861	331,698	271,712	190,934
Portfolio investments	878,947	1,097,886	1,026,175	1,085,173	651,659
Investments - insurance operations	5,398,721	5,687,639	4,983,381	4,422,214	4,048,984
Reinsurance recoverable	104,867	199,957	183,598	249,836	197,136
Premiums receivable	276,911	259,894	258,004	258,779	258,636
Other assets	328,222	320,966	356,356	349,287	390,659
	7,566,167	8,240,988	7,358,612	6,955,184	6,007,415
Segregated funds	3,348,827	4,594,300	3,847,800	2,875,800	2,233,635
	$10,914,994	$12,835,288	$11,206,412	$ 9,830,984	$ 8,241,050
Liabilities					
Policy liabilities	$ 4,885,506	$ 5,050,514	$ 4,271,352	$ 4,097,529	$ 3,813,098
Other liabilities	298,602	303,589	549,371	575,857	427,738
Policyholders' and minority shareholders' interest	164,860	186,439	140,168	366,128	114,750
	5,348,968	5,540,542	4,960,891	5,039,514	4,355,586
Capital stock	272,388	272,388	272,388	150,887	172,388
Retained earnings	2,259,739	2,399,714	2,125,333	1,764,783	1,479,441
Accumulated other comprehensive income (loss)	(314,928)	28,344	—	—	—
	2,217,199	2,700,446	2,397,721	1,915,670	1,651,829
	7,566,167	8,240,988	7,358,612	6,955,184	6,007,415
Segregated funds	3,348,827	4,594,300	3,847,800	2,875,800	2,233,635
	$10,914,994	$12,835,288	$11,206,412	$ 9,830,984	$ 8,241,050

Summary of General Insurance Operations

(all dollar figures expressed in thousands)

(Unaudited)

	2008	2007	2006	2005	2004
Premium income	$ 1,023,257	$ 998,882	$ 1,026,997	$ 1,062,156	$ 1,071,274
Other income	13,132	12,921	13,888	13,754	12,630
Claims	(768,579)	(714,655)	(644,017)	(645,448)	(727,252)
Operating expenditures including commissions and premium taxes	(318,559)	(312,873)	(316,512)	(319,101)	(312,060)
Underwriting income (loss)	(50,749)	(15,725)	80,356	111,361	44,592
Realized (loss) gain on available for sale investments	(31,909)	120,361	—	—	—
Gain on sale of investments	—	—	55,924	25,080	15,647
Investment income	88,509	82,678	77,578	67,274	59,065
Income before taxes	5,851	187,314	213,858	203,715	119,304
Income taxes	(9,880)	42,725	64,335	64,519	35,613
Net (loss) income	$ (4,029)	$ 144,589	$ 149,523	$ 139,196	$ 83,691
Claims ratio (to net premiums earned)	75.1%	71.5%	62.7%	60.8%	67.9%
Expense ratio (to net premiums earned)	31.1%	31.4%	30.8%	30.0%	29.1%
Combined ratio	106.2%	102.9%	93.5%	90.8%	97.0%
Gross premiums written					
Automobile	$ 666,175	$ 633,082	$ 649,637	$ 659,961	$ 703,521
Property	335,340	315,356	317,839	328,256	330,635
Casualty	90,594	90,719	91,250	92,318	91,687
	$ 1,092,109	$ 1,039,157	$ 1,058,726	$ 1,080,535	$ 1,125,843
Assets	$ 2,650,261	$ 2,817,289	$ 2,629,599	$ 2,516,012	$ 2,244,990

Summary of Life Insurance Operations

(all dollar figures expressed in thousands)

(Unaudited)

	2008	2007	2006	2005	2004
Premium income	$ 686,178	$ 631,326	$ 601,873	$ 538,552	$ 471,812
Amortization of investment gains	—	—	61,967	51,795	43,972
Change in fair value of held for trading investments	(244,384)	(84,349)	—	—	—
Realized gain on held for trading investments	19,920	61,834	—	—	—
Realized (loss) gain on available for sale investments	(47,207)	38,878	—	—	—
Investment and other income	273,871	269,863	258,837	220,566	194,730
	688,378	917,552	922,677	810,913	710,514
Policy benefits	337,989	559,169	576,533	549,145	491,915
Expenses and commissions	265,012	278,671	241,089	209,747	165,933
Taxes	40,289	29,000	42,901	16,557	15,625
Profits allocated to policyholders	(3,282)	(4,035)	4,687	4,832	1,991
Profits to minority shareholders	9,847	11,145	11,699	6,236	7,135
Net contribution to E-L	$ 38,523	$ 43,602	$ 45,768	$ 24,396	$ 27,915
Premium income by line					
Individual:					
Insurance	$ 283,981	$ 272,859	$ 243,153	$ 209,802	$ 182,706
Annuities	113,731	87,281	116,774	104,499	86,574
Health	14,930	13,569	11,826	10,165	8,362
	412,642	373,709	371,753	324,466	277,642
Group:					
Insurance	23,470	23,002	20,724	19,535	17,515
Annuities	3,974	3,802	3,651	4,969	3,498
Health	246,092	230,813	205,745	189,582	173,157
	273,536	257,617	230,120	214,086	194,170
	$ 686,178	$ 631,326	$ 601,873	$ 538,552	$ 471,812
Assets, including segregated funds	$ 7,095,633	$ 8,449,823	$ 7,096,748	$ 5,826,121	$ 5,049,120

Summary of Financial Progress Since the Company's Inception

(all dollar figures expressed in thousands except per share amounts)

(Unaudited)

Year Ending December 31	Total Assets	Net Premiums	Total Revenues	Net Shareholders' Equity	Net Income	Net Income Per Share-Basic
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ .58
1970	178,204	48,024	57,637	24,656	2,607	.75
1971	192,863	52,386	62,985	27,007	2,504	.72
1972	212,319	57,570	69,404	30,824	4,352	1.25
1973	234,926	67,732	81,221	34,707	4,278	1.22
1974	257,732	76,487	92,117	37,155	2,118	.60
1975	282,000	88,314	105,793	39,741	2,990	.85
1976	323,131	111,484	131,560	45,824	6,375	1.82
1977	376,428	134,419	158,446	55,047	9,970	2.86
1978	450,606	150,607	179,995	70,323	7,252	2.08
1979	487,206	147,330	181,869	82,604	13,084	3.26
1980	536,926	164,708	204,357	97,422	11,300	2.81
1981	585,110	195,967	242,631	92,162	(1,860)	(.46)
1982	630,645	218,042	273,265	100,691	8,662	2.15
1983	706,425	219,067	281,979	129,134	28,464	7.08
1984	777,270	230,445	300,345	150,766	26,954	6.71
1985	1,118,141	356,232	441,180	140,111	(9,671)	(2.41)
1986	1,400,171	435,795	537,969	154,593	18,436	4.59
1987	1,545,769	480,742	602,617	187,455	21,846	5.44
1988	1,666,086	477,787	610,928	222,944	36,097	8.98
1989	1,832,250	547,353	696,924	256,575	40,258	10.01
1990	1,928,160	568,217	727,841	255,463	7,208	1.80
1991	2,341,396	667,477	820,109	276,464	31,725	7.89
1992	2,783,297	737,292	933,083	322,706	18,700	4.65
1993	2,944,319	706,822	914,718	362,925	41,619	10.36
1994	3,029,425	637,915	812,062	402,734	41,055	10.21
1995	3,052,601	723,330	900,179	443,953	43,555	10.83
1996	3,598,443	766,606	964,533	498,320	57,814	14.38
1997	5,130,087	805,187	1,135,463	667,634	166,386	41.39
1998	5,522,285	822,513	1,109,457	951,114	57,165	14.22
1999	5,756,343	875,594	1,185,846	1,001,548	52,599	13.09
2000	6,253,408	918,065	1,267,189	1,139,691	73,389	18.26
2001	6,385,555	966,826	1,306,988	1,250,974	77,480	19.27
2002	6,433,194	1,107,295	1,380,163	1,267,385	51,512	12.81
2003	7,308,559	1,358,119	1,652,951	1,375,394	46,870	11.66
2004	8,279,929	1,543,086	1,893,119	1,682,143	129,886	31.91
2005	9,830,984	1,600,708	2,201,191	1,915,670	293,703	86.68
2006	11,206,412	1,628,870	2,320,794	2,397,721	372,520	109.97
2007	12,835,288	1,630,208	2,162,946	2,700,446	210,688	60.29
2008	10,914,994	1,709,435	1,600,148	2,217,199	(126,963)	(41.20)

This chart is drawn from the individual annual reports and therefore has not been restated for any subsequent changes in accounting policies.

Note: 1985 - The Canadian Indemnity Company was acquired
1986 - Montreal Life Insurance Company was acquired
1991 - Canadian operations of SAFECO Corporation were acquired
1997 - Colonia Life Insurance Company was acquired
- Investment in National Trustco Inc. was sold
1998 - E-L Financial's Corporate Investments were recorded at market value versus cost basis
2006 - Changes in fair value of E-L Financial's Corporate Investments are recognized in income in the period in which the change occurs

Corporate Management

President and
Chief Executive Officer
GEORGE L. COOKE

Vice-President and
Chief Information Officer
JANET E. BABCOCK

Vice-President
and Chief Actuary
NATHALIE BÉGIN

Vice-President
Head Office Operations
JERRY DALLA CORTE

Vice-President
Field Operations
ALAN J. HANKS

Senior Vice-President
and Chief Financial Officer
R. DOUG HOGAN

Vice-President
Claims Operations
NORA P. HOHMAN

Vice-President
Chief Compliance Officer and Corporate Secretary
WENDY E. MILLS

Senior Vice-President
BRIGID MURPHY

Vice-President and General Counsel
KATHLEEN A. NICCOLS

Vice-President, Human Resources
SHELLY A. RAE

Vice-President, Risk and Control Services
KATHLEEN E. THOMAS

Vice-President
Underwriting and Claims, Head Office
STEVEN WHITELAW

Empire Life

Corporate Management

President and
Chief Executive Officer
LESLIE C. HERR

Senior Vice-President
General Counsel and Corporate Secretary
ANNE E. BUTLER

Senior Vice-President
Information Technology
RICHARD CLEAVER

Senior Vice-President and
Chief Investment Officer
DEBORAH K. FRAME

Senior Vice-President
and Chief Actuary
J. EDWARD GIBSON

Senior Vice-President, Strategy,
Human Resources and Corporate Initiatives
TIMO J. HYTONEN

Senior Vice-President
and Chief Financial Officer
GARY J. McCABE

Senior Vice-President
Group Products
STEVE S. PONG

Executive Vice-President
Finance
MICHAEL C. SCHNEIDER

Executive Vice-President
Retail
DREW E. WALLACE

CORPORATE INFORMATION

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AUDITORS	Deloitte & Touche LLP, Toronto
TRANSFER AGENT AND REGISTRAR	Computershare Investor Services Inc. 100 University Avenue, 9th Floor Toronto, Ontario M5J 2Y1 Telephone: 416-981-9633 Toll Free: 1-800-564-6253

STOCK EXCHANGE LISTINGS

Common Shares	ELF
First Preference Shares, Series 1	ELF.PR.F
First Preference Shares, Series 2	ELF.PR.G

REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. Douglas Townsend
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
M5H 3B8
Email: auditchair@tkactuarial.ca
Phone: 613-384-0884

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting or auditing matters.