Financial Corporation Limited

2009 Annual Report

E-L Financial Corporation Limited and subsidiary companies

The Year at a Glance

41st Annual Report	2009	2008(1)
Total Premiums	**$ 1,925,902,000**	$ 1,709,435,000
Total Revenues	**2,153,506,000**	1,600,148,000
Net Operating Income(2)	**45,298,000**	111,254,000
Net Loss	**(184,535,000)**	(127,313,000)
Total Assets (including segregated funds)	**12,898,035,000**	10,912,997,000
Shareholders' Equity:		
Beginning of year	**2,215,202,000(1)**	2,698,799,000
Comprehensive income (loss):		
Net loss	**(184,535,000)**	(127,313,000)
Other comprehensive income (loss)	**434,411,000**	(343,272,000)
	249,876,000	(470,585,000)
Dividends	**(12,060,000)**	(12,060,000)
Net refundable dividend taxes	**(501,000)**	(952,000)
End of year	**2,452,517,000**	2,215,202,000
Per Share Information:		
Net Operating Income(2)	**10.62**	30.43
Net Loss		
- basic	**(58.64)**	(41.30)
- diluted	**(58.64)**	(41.30)
Comprehensive income (loss) (2)	**72.28**	(144.52)
Net equity value (2)	**681.51**	543.37

(1) Restated, see Note 3 on page 42
(2) 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 Wednesday, May 5, 2010, in the Meeting Room of The Dominion of Canada General Insurance Company, 4th Floor, 165 University Avenue, Toronto. All shareholders are invited to attend.

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 Corporate 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, 2009 and 2008. This MD&A should be read in conjunction with the Company's December 31, 2009 year-end consolidated financial statements, which form part of the E-L Financial Corporation Limited 2009 Annual Report dated March 8, 2010. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting currency for the Company is the Canadian dollar, and unless otherwise noted, 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 and Series A Convertible Preference Shares outstanding at December 31, 2009, 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

The MD&A contains reference to net operating income, net operating income per share, comprehensive (loss) income per share and net equity value 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 ("AFS") and income (loss) from equity method investments. 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. Net equity value per share is described and reconciled to shareholder's equity on page 5.

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"). Both Empire and The Dominion are consolidated into E-L Financial for financial reporting purposes. 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"). Included within Corporate Investments are other significant investments held by the Company in United Corporations Limited ("United"), Economic Investment Trust Limited ("Economic") and Algoma Central Corporation ("Algoma"). Economic and United are both closed-end investment companies and Algoma is a shipping company. These three investments are considered equity method investments for financial reporting purposes.

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 companies in which the Company has significant 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. During the year, the Company acquired additional common shares of Algoma and Economic, increasing its ownership above 20% of each and as such commenced using the equity method of accounting for these investments. Additional information is provided in the notes to the consolidated financial statements and the five year summary of results on pages 88 to 90.

The following tables summarize the results of the Company's business segments (all figures are net of tax):

	Year ended December 31, 2009			
(thousands of dollars)	Corporate Investments	The Dominion	Empire Life	Total
Net operating income (loss)	$ 20,135	$ (37,427)	$ 62,590	$ 45,298
Realized loss on available for sale investments including impairment write downs	(108,371)	(114,177)	(19,740)	(242,288)
Income from equity method investments	12,455	—	—	12,455
Net income (loss)	(75,781)	(151,604)	42,850	(184,535)
Other comprehensive income	57,835	302,071	74,505	434,411
Comprehensive income (loss)	$ (17,946)	$ 150,467	$ 117,355	$ 249,876

	Year ended December 31, 2008			
(thousands of dollars)	Corporate Investments	The Dominion[(1)]	Empire Life	Total[(1)]
Net operating income	$ 17,918	$ 28,276	$ 65,060	$ 111,254
Realized loss on available for sale investments including impairment write downs	(73,264)	(32,655)	(26,537)	(132,456)
Loss from equity method investment	(106,111)	—	—	(106,111)
Net income (loss)	(161,457)	(4,379)	38,523	(127,313)
Other comprehensive loss	(49,203)	(215,029)	(79,040)	(343,272)
Comprehensive loss	$ (210,660)	$ (219,408)	$ (40,517)	$ (470,585)

(1) Restated, see Note 3

Operating income

On a year to date basis, E-L Financial earned consolidated net operating income of $45.3 million or $10.62 per share compared with $111.3 million or $30.43 per share in 2008. The decrease in consolidated net operating income is the result of a deterioration in the underwriting results at The Dominion, mainly due to the impact of changes in the claims discount rate and an increase in automobile accident benefit claims costs. Net operating income for Empire Life remained relatively unchanged, however each year was impacted by large non-recurring items; in 2009, the favourable impact of tax amendments for financial instruments, and in 2008 a net release of policy liabilities related to both an updated approach for establishing the insurance mortality assumption and updated guidance regarding the calculation of the discounted future tax liability under financial instrument accounting rules.

Net income (loss)

On a year to date basis, E-L Financial had a consolidated net loss of $184.5 million or $58.64 per share compared with a net loss of $127.3 million or $41.30 per share in 2008. In addition to the decrease in consolidated net operating income in 2009, after tax impairment write downs on available for sale investments increased to $133.7 million in 2009 from $29.4 million in 2008, resulting in realized losses and write downs on available for sale investments of $242.3 million in 2009, up from $132.5 million in 2008. Over the same period, E-L Financial recognized an improvement in the results from its equity method investments, from a loss of $106.1 million in 2008 to income in 2009 of $12.5 million.

Comprehensive income

Overall E-L Financial earned other comprehensive income ("OCI") of $434.4 million in 2009 compared to a loss of $343.3 million in 2008.

During 2009, $57.6 million of unrealized losses relating to Algoma and Economic were reclassified from accumulated other comprehensive income ("AOCI") to equity method investments as the Company acquired significant influence over both entities during the year. The remainder of OCI consists of a net unrealized gain on AFS investments of $164.0 million (2008 - loss of $430.4 million) after tax and a $212.8 million (2008 - $87.2 million) after tax reclassification adjustment for the net realized investment loss transferred from AOCI to net loss.

For the year, consolidated comprehensive income, which is the sum of net loss and OCI, was $249.9 million in 2009 compared to a loss of $470.6 million in 2008.

Net equity value

Under current Canadian GAAP, certain financial instruments that are classified as available for sale and which do not have a quoted price in an active market are carried at cost for financial reporting purposes. In addition, equity method investments are also not carried at fair value.

The following table adjusts shareholders' equity for financial reporting purposes to reflect AFS at cost instruments within Corporate Investments and equity method investments at fair value to provide an indication of accumulated shareholder value:

	December 31		
(thousands of dollars)	**2009**	2008	2007
Shareholders' equity	**$ 2,452,517**	$ 2,215,202	$ 2,698,799
Less: First preference shares	**(200,000)**	(200,000)	(200,000)
	2,252,517	2,015,202	2,498,799
Adjustments for Corporate investments not carried at fair value:			
Investments - corporate			
Carrying value	**(747,555)**	(878,947)	(1,097,886)
Fair value	**751,346**	634,531	1,058,723
Equity method investments			
Carrying value	**(400,949)**	(221,205)	(309,861)
Fair value	**407,282**	222,316	309,861
	10,124	(243,305)	(39,163)
Future income tax	**(1,265)**	35,279	5,679
	8,859	(208,026)	(33,484)
Net equity value	**$ 2,261,376**	$ 1,807,176	$ 2,465,315
Number of Adjusted Common Shares outstanding	**3,318,164**	3,325,848	3,327,853
Net equity value per share	**$ 681.51**	$ 543.37	$ 740.81

E-L Financial's net equity value per adjusted common share increased 25% during the year to $681.51 per share due to recent recoveries in the equity markets after a decrease of 27% in 2008.

Fourth quarter

Net operating income for the fourth quarter was $30.1 million or $8.32 per share compared with $28.4 million or $7.78 per share in the comparable period in 2008. Fourth quarter net operating income was marginally higher as improvement in The Dominion's underwriting results was offset by a decrease in the Empire Life's net operating income which declined compared to 2008, as 2008 included the previously mentioned net release of policy liabilities.

For the fourth quarter of 2009, E-L Financial earned net income $6.1 million or $1.03 per share compared with a net loss of $119.5 million or $36.76 per share for the comparable period last year. The equity method investments showed solid improvements with income of $16.6 million after tax in the quarter compared to a loss of $44.9 million in the fourth quarter of 2008, reflecting improvements in global stock markets. Realized loss on sale of available for sale investments was $40.7 million after tax for the fourth quarter of 2009 compared with a loss of $103.0 million in 2008.

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)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Premium income	$ 478	$ 468	$ 489	$ 491	$ 456	$ 417	$ 418	$ 419
Equity method [1]	18	(28)	38	(21)	(45)	(52)	1	(21)
HFT [2]	(53)	137	105	(49)	(8)	(164)	(36)	(21)
AFS [1]	(35)	(108)	48	(223)	(131)	(36)	(2)	2
Other	105	106	96	92	116	101	106	97
Total	$ 513	$ 575	$ 776	$ 290	$ 388	$ 266	$ 487	$ 476
Net income (loss)	$ 6	$ (131)	$ 74	$ (134)	$ (120)	$ (25)	$ 39	$ (21)
Net income (loss) per share								
- basic	$ 1.03	$(40.17)	$ 21.50	$(41.00)	$(36.76)	$ (8.28)	$ 10.91	$ (7.17)
- diluted	$ 1.03	$(40.17)	$ 21.50	$(41.00)	$(36.76)	$ (8.28)	$ 10.91	$ (7.17)

(1) Includes impairment write downs
(2) Includes realized gains and changes in fair value on held for trading investments

Quarterly trend analysis

The consolidated 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, underwriting results, policy liability discount rates and policy reserve adjustments are likely to cause fluctuations.

Revenue

The Dominion and Empire Life have experienced steady growth in premium income for the past eight quarters. During this period investment income has been significantly impacted by volatile economic conditions which have resulted in large fluctuations in revenue relating to held for trading, available for sale and equity method investments. During the third quarter of 2008 large unrealized losses were incurred on held for trading investments as the global economic crisis took hold. Impairment write downs of $34.4 million on available for sale investments within Corporate Investments occurred during the fourth quarter of 2008. In the first quarter of 2009, an impairment provision of $226.1 million was taken based on the The Dominion's intent to reposition its portfolio in the second quarter. This impairment provision was reversed in the second quarter and a realized loss was recorded. By the second quarter of 2009 the stock markets showed signs of improvement, resulting in gains on held for trading investments, which continued to show strong results during the third quarter of 2009. However, impairments write downs of $168.6 million during the third quarter of 2009 taken on both the available for sale and equity method investments resulted in depressed revenues for the quarter. Impairment was assessed as being other than temporary on these investments due to the severity of the unrealized loss compared to cost and the amount of time the investment had an unrealized loss. Additional impairment write downs of $58.9 million were taken during the fourth quarter of 2009.

Net income (loss)

Net income for 2008 and 2009 was significantly impacted by the decline in the global stock market with investment losses and impairment write downs reported during this period. In addition, consolidated net income for the first quarter 2009 was significantly impacted by a one-time income tax recovery of $100.4 million resulting from the substantive enactment of amendments to the *Income Tax Act* relating to Financial Instruments. Refer to Note 18 - Income taxes for a more detailed discussion. Increased claims for The Dominion during the second and third quarter of 2009 resulted in a decrease in consolidated net income for the quarters.

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)

	2009	2008	2007
Revenue			
Corporate Investments	**$ (96)**	$ (181)	$ 30
The Dominion	**1,027**	1,093	1,215
Empire Life	**1,223**	688	918
	$ 2,154	$ 1,600	$ 2,163
Net (loss) income			
Corporate Investments	**$ (76)**	$ (161)	$ 22
The Dominion	**(152)**	(4)	145
Empire Life	**43**	38	44
	$ (185)	$ (127)	$ 211
Assets			
Corporate Investments	**$ 1,179**	$ 1,125	$ 1,435
The Dominion	**2,981**	2,648	2,817
Empire Life - general fund	**4,428**	3,791	3,989
- segregated funds	**4,310**	3,349	4,594
Total assets, including segregated funds	**$ 12,898**	$ 10,913	$ 12,835
Per common share			
Net (loss) income - basic	**$ (58.64)**	$ (41.30)	$ 60.29
- diluted	**$ (58.64)**	$ (41.30)	$ 57.37
Cash dividends	**$ 0.61**	$ 0.60	$ 0.60

Revenue

As previously noted revenues over the period have been significantly impacted by declines in the global stock markets that occurred in 2008 and have been slow to recover.

Corporate Investments' recorded a gain of $16.2 million on available for sale investments in 2007 followed by losses of $88.1 million in 2008 and $123.5 million in 2009. Impairment write downs of $34.4 million in 2008 and $124.3 million in 2009 contributed to the these losses during those years. The number of equity method investments has increased over the three year period, with Economic and Algoma becoming equity method investments in 2009. During the three year period, equity method investments showed significant fluctuations with losses of $20.1 million in 2007 and $117.3 million in 2008 followed by income of $6.7 million in 2009.

The Dominion and Empire Life have experienced steady growth in premium income over the past three years. Revenue increased in 2007 as a result of strong investment income and gains. Revenue in 2008 and 2009 declined mainly due to realized and unrealized investment losses.

Net income (loss)

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

Corporate Investments' net income is directly related to its revenue, which declined significantly as previously discussed. The Dominion's underwriting loss in 2007 resulted from both declining earned premiums and rising claims costs. The increases in underwriting loss in 2008 and 2009 resulted from rising claims costs which outpaced the increase in earned premiums in both years. The 2008 net income for Empire Life decreased due to realized losses on the sale of investments during 2008 compared with realized gains that were recorded in 2007. This was partly offset by the overall net income from Empire Life'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. In 2009, net income for Empire Life increased due to an improvement in Wealth Management and Employee Benefit results and a non-recurring tax related item. Individual Insurance and Capital and Surplus were negatively impacted for the tax year by impairment write downs on AFS investments.

Assets

Total consolidated assets increased in 2007 as a result of adopting new financial instrument accounting standards which changed the carrying value of most investments from a cost basis to fair value. In 2008, declining global stock markets resulted in a decrease in total assets, including segregated funds, by 15%. The increase in total assets in 2009 back to 2007 levels, is a result of a partial recovery of stock markets which generated increases in fair values of stock and bond investments.

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, 2009. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2009.

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, 2009. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2009. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Conversion to International Financial Reporting Standards ("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 for the quarter ended March 31, 2011.

A steering committee comprised of senior management from the Company and its subsidiaries oversees the project and provides quarterly status 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 were issued during 2009 and will continue to be issued throughout the transition period. In addition, the Company's subsidiaries are federally regulated financial institutions, and regulatory and capital requirements are in the process of being amended to reflect the adoption of IFRS-based financial reporting and are expected to be finalized in March 2010. As greater certainty is gained with respect to the direction of accounting standard setters and regulators, changes may be required to our preliminary accounting policy choices and transition elections prior to our first IFRS report in 2011.

The Company's project plan includes four phases: analysis, design and planning, solution development and implementation. The analysis phase has been completed and the accounting standards that are expected to have a significant impact on the Company's recognition, measurement, presentation and disclosure in its financial statements have been identified. The design and planning and solution development phases are currently underway. Accounting policy choices have been made based on the expected accounting requirements in 2011. Financial statement presentation and disclosures are currently being prepared and any resulting changes to systems and business processes are being identified. Potential changes to internal controls over financial reporting and disclosure controls and procedures will also be considered during this phase. The implementation phase will be executed throughout 2010, and will include modifying systems and business processes where necessary, preparing the IFRS opening balance sheet as at January 1, 2010, performing dual accounting under both Canadian GAAP and IFRS, and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements for disclosure purposes.

The most critical area identified to date that could result in significant changes from Canadian GAAP for the Company relates to the optional elections available under IFRS 1 "First-Time Adoption of International Financial Reporting Standards." IFRS 1 provides a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. For the Company, the two most significant optional exemptions relate to financial instruments and defined benefit plans.

For financial instruments, IFRS 1 permits an entity to redesignate previously recognized financial instruments on transition to IFRS. The Company plans to elect to redesignate all AFS investments within Corporate Investments and certain investments held on behalf of life insurance operations from the available for sale designation to the fair value through profit or loss designation. For Corporate Investments, the redesignation will represent a measurement change from cost to fair value and will result in a better reflection of the overall performance and underlying management of the investments. For the investments held on behalf of Empire Life, the redesignation will result in better matching of fair value changes in insurance liabilities and the assets that support them.

The accumulated unrealized gains and losses on the redesignated investments will be reclassified from accumulated other comprehensive income to opening retained earnings on January 1, 2010. Subsequent unrealized gains and losses will be recorded in the consolidated statements of income (loss).

For defined benefit plans, IFRS 1 provides an election to recognize all cumulative unamortized actuarial gains and losses in opening retained earnings on transition to IFRS, which provides relief from the requirement to retrospectively apply IAS 19 "Employee Benefits" to all defined benefit plans. The Company plans to take this election for all of its defined benefit pension and other post-employment benefit plans, as it would be impracticable to restate each plan from its inception date under IAS 19.

The Company continues to assess the ongoing financial reporting, presentation and disclosure impacts of reporting under IFRS, including the quantitative impact of accounting policy choices.

Corporate Investments

Market review

Global stock markets showed significant improvements during the year. In Canadian dollar terms, in 2009, the S&P/TSX Composite Index increased 35.1% (2008 – decreased 33%), the MSCI World Index increased 11.8% (2008 – decreased 26.5%) and the S&P 500 Index increased 8.1% (2008 – decreased 21.9%). The Corporate Investments portfolio includes Canadian and foreign investments.

Investments - corporate

The Corporate Investments portfolio includes short term deposits, bonds, common shares in private companies, units in pooled funds and units in a common contractual fund. During the year, Corporate Investments incurred a net loss on available for sale investments of $108.4 million after tax (2008 - $73.3 million) reflecting impairment write downs of $108.8 million after tax (2008 - $29.4 million). Management considers the impairment of these assets to be other than temporary due to the length of time that the fair value was less than cost and the extent and nature of the loss.

Equity method investments

During the year, the Company increased its ownership in Algoma and Economic to above 20% and as a result the Company commenced using the equity method of accounting for these investments.

In 2009, equity method investments earned $6.7 million before tax compared to a loss of $117.3 million in 2008. Our proportionate share of earnings from equity method investments was $66.7 million; however, this was offset by a $60.0 million impairment write down. Although global stock markets showed significant improvements during the year, given the severity of the unrealized loss compared to cost and the amount of time the investments had an unrealized loss, management was of the view that the loss was other than temporary. In addition to amounts recorded in the consolidated statement of loss, a $0.8 million loss (2008 - $ nil) was recorded in OCI relating to foreign exchange losses.

	December 31, 2009		December 31, 2008	
(millions of dollars)	**Ownership**	**Carrying value**	Ownership	Carrying value
United	**47.64%**	**$ 276**	46.16%	$ 221
Algoma	**25.39%**	**76**	-	
Economic	**20.99%**	**49**	-	
Total		**$ 401**		$ 221

Additional information relating to United, Economic and Algoma may be found on their respective profiles at www.sedar.com.

Liquidity and capital resources

Liquidity refers to the Company's ability to meet cash flow commitments associated with its financial instruments. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

The Company's corporate obligations, primarily dividend payments on its outstanding common and preference shares and day to day operating expenses, are funded by cash flows arising from its equity and fixed income portfolio as well as dividends from its subsidiaries. Excess cash flows are invested in additional investments as appropriate opportunities become available.

The Company's insurance subsidiaries meet their cash requirements primarily through funds generated by insurance operations. Each insurance subsidiary carries sufficient excess capital in the event of reasonably possible adverse claims experience or investment results. At December 31, 2009, The Dominion's Minimum Capital Test ratio was 201% and Empire Life's Minimum Continuing Capital and Surplus Requirement ratio was 266%.

Composition of cash flows

	Corporate Investments		The Dominion		Empire Life		Total	
(millions of dollars)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Cash flows from:								
Operating activities	**$ 28**	$ 20	**$ 64**	$ 137	**$ 328**	$ 107	**$ 420**	$ 264
Financing activities								
-subordinated debt	**—**	—	**—**	—	**199**	—	**199**	—
-short-term debt	**(25)**	25	**—**	—	**—**	—	**(25)**	25
-cash dividends	**(12)**	(12)	—	—	—	—	**(12)**	(12)
Investing activities	**(102)**	38	**(81)**	(67)	**(425)**	(244)	**(608)**	(273)
Increase (decrease) in cash and cash equivalents	**$ (111)**	$ 71	**$ (17)**	$ 70	**$ 102**	$ (137)	**$ (26)**	$ 4

Corporate Investment operating cash flows consisted of net investment income of $28 million (2008 - $20 million) and cash dividends received from its insurance subsidiaries of $ nil (2008 - $40 million). These cash flows, net of dividend payments made on the Company's common and preference shares of $12 million (2008 - $12 million), repayment of its short-term credit facility of $25 million (2008 - $25 million cash inflow) and Empire Life's $125 million repayment of its debenture to E-L, made $116 million (2008 - $73 million) available for new investment opportunities in 2009. In 2008, the funds made available for investment opportunities as well as a portion of short term investments, cash and cash equivalents were used to invest in Empire Life's $125 million debenture.

During the year, the Company invested $47 million (2008 – nil) in Algoma, $8 million (2008 - $33 million) in United, and $5 million (2008 – nil) in Economic.

The Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cashflow deficiencies.

(millions of dollars)	**2009**	2008
Cash and cash equivalents	**$ 26.0**	$ 11.6
Short-term investments	**72.6**	10.7
Bonds	**77.7**	36.8
	$ 176.3	$ 59.1

Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. Market risk is the most significant risk impacting Corporate Investments as its investing activities are influenced by equity and interest rate risk.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at www.sedar.com. Disclosures regarding financial instruments, including financial risk management, are included in Notes 5, 7 and 24 to the consolidated financial statements.

Critical accounting estimates

The consolidated 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 4 to the consolidated financial statements describes the significant accounting policies.

Impairment of AFS securities and equity method investments

Available for sale and equity method investments are subject to a regular review for losses that are other than temporary. 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. 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.

Income taxes

The Company uses use judgement in the estimation of income taxes and future income tax assets and liabilities. This process involves estimating actual current tax exposure, together with assessing temporary differences that result from the different treatments of items for tax and accounting purposes, and any tax loss carry forwards. The Company is also required to establish a future income tax asset in respect of expenses recorded currently for which a tax deduction will be available in a future period, such as loss carry forwards. As at December 31, 2009, Corporate Investments had future income tax liabilities in excess of future income tax assets of $17 million.

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.

Report on The Dominion

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 Dominion incurred a net loss of $151.6 million for 2009 compared to a net loss of $4.4 million in 2008. The significant loss and decrease in earnings in 2009 are due to a large increase in realized investment losses and a deterioration in underwriting results. Realized net investment losses in 2009 were $108.7 million (after tax) compared to realized net investment losses in 2008 of $32.7 million (after tax). In addition, an impairment provision of $5.5 million (after tax) was recorded in 2009 for certain stock investments; no impairment provision was recognized in 2008. The combined ratio for 2009 was 114.5%, a deterioration of 8.2 points from 106.3% for 2008. Most of the deterioration is due to changes in claims discount rates (5.0 points). The combined ratio, excluding the effects of changes in the claims discount rate, was 109.0% for 2009 and 105.8% for 2008. The deterioration of 3.2 points is due mainly to an increase in automobile accident benefit claims costs, a lower level of favourable prior year development in 2009 versus 2008 and an accrual in 2009 for the effect of the adoption of harmonized sales tax ("HST") on unpaid claims in Ontario and British Columbia, partly offset by rate increases and an improved Facility Association loss ratio.

Net unrealized gain on available-for-sale ("AFS") investments (which comprise most of The Dominion's investments) was $109.3 million (after tax) in 2009, reflecting recovering stock markets and declining interest rates which increased the market values of stock and bond investments, respectively. Sharp declines in global stock prices in 2008 precipitated a net unrealized loss on AFS investments of $211.9 million (after tax) in 2008. Comprehensive income was $150.5 million in 2009, compared to a comprehensive loss of $219.4 million in 2008.

In the fourth quarter of 2009, The Dominion earned net income of $3.0 million in contrast to a net loss of $46.9 million in the fourth quarter of 2008. The improvement reflects better underwriting results and an insignificant net investment loss in the fourth quarter of 2009 in contrast to a net realized investment loss of $39.9 million (after tax) in the fourth quarter of 2008. The combined ratio for the fourth quarter of 2009 was 105.3% compared to 114.5% in the fourth quarter of 2008. The combined ratio excluding the effects of changes in the claims discount rate was 99.6% for the fourth quarter of 2009 compared to 113.5% for the fourth quarter of 2008. This improvement for the fourth quarter of 2009 reflects rate increases, lower weather-related property losses, a lower Facility Association loss ratio and lower claims costs for large losses, partly offset by higher claims costs for automobile accident benefits.

Page 89 provides an overview of financial results and position for the five-year period from 2005 to 2009.

Report on The Dominion (cont'd)

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 and unreported claims are discounted, based on the market yields of supporting investments. Changes in the market yield of an insurer's investments can lead to changes in the claims discount rate, which in turn results in unrealized gains or losses in unpaid and unreported claims and claims expense. Therefore, modified loss and combined ratios that exclude the effects of changes in the claims discount rate are used to reveal underwriting results without the distorting effects of market interest rate volatility. Although some of these metrics are commonly used in the P&C insurance industry, there may be variations in how they are calculated such that The Dominion's non-GAAP measures may not be comparable with measures used by other entities.

The Dominion's financial results for 2009 and 2008, by major line of business, are summarized as follows (figures may differ from the text due to rounding):

	Automobile		Personal Property		Commercial Property & Casualty		Total	
(millions of dollars)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Gross premiums written	**$ 727**	$ 666	**$ 242**	$ 216	**$ 211**	$ 210	**$1,180**	$1,092
Growth rate %	**9.1**	5.2	**12.4**	7.3	**0.4**	2.5	**8.0**	5.1
Mix of business %	**62**	61	**20**	20	**18**	19	**100**	100
Loss ratio %	**87.1**	76.7	**88.2**	89.9	**62.9**	53.9	**83.2**	75.1
Loss ratio % - excluding change in discount rate	**80.2**	76.7	**87.6**	89.0	**56.6**	52.5	**77.7**	74.6

Revenue		
Net premiums earned	**$1,086**	$1,023
Premium finance fee	**14**	13
Investment income	**87**	89
Net realized loss on sale of investments including impairment write downs	**(160)**	(32)
	1,027	1,093
Expenses		
Claims expense	**903**	769
Other expenses, including premium taxes	**340**	319
Income taxes (recovery)	**(64)**	9
	1,179	1,097
Net loss	**$ (152)**	$ (4)

The Dominion underwrites standard general insurance products concentrated in three geographic areas. The geographic mix of premiums for 2009 is as follows: Ontario region 71% (69% in 2008), Western region 18% (20% in 2008) and Atlantic region 11% (11% in 2008). Product mix is fairly consistent across the regions, except that Western region has a higher proportion of property and casualty, due to the provincial government monopoly on basic automobile insurance coverage in British Columbia.

Total gross premiums written increased by 8.0% in 2009 (increase of 5.1% in 2008) consisting of a 3.1% increase in policies written (2.7% increase in 2008), a 5.2% increase in average premiums (2.7% increase in 2008) and a 0.3% decrease from The Dominion's share of Facility Association premiums (0.3% decrease in 2008).

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 loss ratio of 83.2% for 2009 is 8.1 points higher than the prior year; an increase of 5.0 points is due to the effects of changes in the claims discount rates for 2009 and 2008. The claims discount rate is adjusted quarterly based on the market yields of the investments held in support of claims liabilities. An overall decrease in the claims discount rate in 2009 caused claims incurred to increase by $60.0 million in 2009, in contrast to a $4.8 million increase in 2008. The remaining 3.1 point deterioration in the loss ratio, excluding changes in the claims discount rates, reflects increasing automobile accident benefit claims, a lower level of favourable prior year development in 2009 versus 2008 and an accrual in 2009 for the effect of the adoption of HST on unpaid claims in Ontario and British Columbia effective July 1, 2010, partly offset by increased average premiums for automobile and personal property lines and an improved Facility Association loss ratio.

Automobile

Gross premiums written for automobile increased 9.1% in 2009 (increase of 5.2% in 2008) consisting of a 5.4% increase in average premiums (1.8% increase in 2008) and a 4.1% increase in policies written (3.9% increase in 2008), partly offset by a 0.4% decrease from Facility Association premiums (0.5% decrease in 2008). A "hard" market of price increases for personal automobile insurance emerged in 2009, allowing The Dominion to increase rates in all jurisdictions. Commercial automobile average written premium decreased in 2009 as a result of continuing soft market price competition.

The 10.4 point increase in the 2009 automobile loss ratio compared to the prior year is due mainly to the following: a larger increase in claims expense from decreases in the claims discount rates in 2009 versus 2008 (accounts for 7.0 points of the 10.4 point increase); deterioration in current year accident benefit claims (5.5 points); lower prior year claims development recognized in 2009 versus 2008 (2.7 points); and an accrual for increased taxes from the adoption of HST in Ontario and British Columbia (1.3 points); partly offset by improvement in Facility Association's loss ratio (2.1 point decrease), rate increases (approximately a 2.7 point reduction) and lower claims costs for physical damage to vehicles. Prior year favourable claims development excluding the impact of HST reduced automobile claims expense by $26.1 million in 2009 (3.9 points of the 2009 loss ratio) compared to a reduction of $40.3 million in 2008 (6.6 points of the 2008 loss ratio). About one quarter of the favourable development in 2009 derives from the failure of constitutional challenges of the legislation in Alberta and Nova Scotia that imposes caps on damage awards for minor injuries. The reduction in claims estimates recognized in 2008 reflected 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 fourth quarter loss ratio of 90.5% improved by 4.2 points from the prior year's fourth quarter loss ratio of 94.7%. The improvement reflects better accident year results for the quarter, the positive effects of ongoing price increases and improved Facility Association results, which more than offset higher claims expense from changes in the claims discount rates and the provision in 2009 for HST.

In November 2009, the Ontario government announced comprehensive automobile insurance reforms that, if successful, give consumers more choice and should help reduce the escalation of costs and deter fraud, especially for accident benefit claims. One important feature of the reforms is the redesign of the product to consist of a lower level of standard coverage with increased optional coverages to allow better tailoring of coverage and price by consumers. Changes are expected to take effect in the latter half of 2010 and insurers will be required to obtain approval for new rates based on the reforms. Representatives of The Dominion are on joint government-industry committees responsible for ensuring the measures are implemented effectively.

Personal property

Personal property premiums increased 12.4% in 2009 (increase of 7.3% in 2008), consisting of a 10.3% increase in average premium (6.1% increase in 2008) and a 2.1% increase in policies written (increase of 1.2% in 2008). The increase in average premium reflects rate increases in all regions and increases in estimated insured values which are used to determine premiums.

The loss ratio decreased by 1.7 points compared to the prior year's loss ratio mainly as a result of higher favourable prior year claims development (a 1.4 point improvement) and lower claims costs for large losses (a 0.9 point improvement). Favourable prior year claims development reduced personal property claims expense in 2009 by $8.4 million (4.0 points), compared to a reduction of $5.0 million (2.6 points) in 2008. Favourable development in both 2008 and 2009 reflected better than expected experience from recent years. The fourth quarter loss ratio was 55.3%, compared to the prior year's fourth quarter loss ratio of 88.6%. The significant decrease mainly reflects lower weather-related claims costs and lower costs for large property claims.

In recent years weather-related claims, especially from sewer backup coverage, have increased significantly, resulting in unsustainable loss ratios. Instead of being a few anomalous years, a trend of significantly worse weather-related claims may be emerging. To mitigate this risk, The Dominion is implementing a tiered approach to sewer backup coverage, consisting of increased pricing and reduced coverage, for specific areas with poor prior experience or with a higher risk of future water losses.

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 0.4% (increase of 2.5% in 2008) reflecting an increase in policies written of 2.3% (increase of 4.7% in 2008), and an average premium decrease of 1.9% (decrease of 8.0% in 2008). The Dominion's E-Clips product for small commercial package business continued to drive overall growth for The Dominion's commercial policies. Overall average premium declined due to the increased proportion of E-Clips policies, which on average have lower premiums than The Dominion's other commercial policies, and due to ongoing soft market price competition in commercial lines. A hard market has not yet arrived in commercial lines although overall average price decreases were lower in 2009 than in 2008.

The loss ratio for commercial property and casualty was 62.9% for 2009 and 53.9% for 2008. Changes in the claims discount rates in 2008 and 2009 account for more than half (4.9 points) of the total increase (9.0 points) in the 2009 loss ratio, compared to the 2008 loss ratio. Excluding the impact of changes in discount rates, the loss ratio deteriorated by 4.1 points, which is due mainly to declining average earned premium due to soft market competition (1.8 points), increased costs for large losses (2.0 points), higher claims costs for weather-related losses (1.0 points) and an accrual in 2009 for HST on unpaid claims (0.8 points), partly offset by a larger reduction in prior year claims estimates recognized in 2009 than the reduction recognized in 2008 (2.1 point decrease). Favourable claims development (excluding the accrual for HST) of $30.0 million (a 16.3 point reduction in the 2009 loss ratio) was recognized in 2009 mainly from better than expected experience on general liability claims estimates. Favourable claims development in 2008 of $26.2 million (a 14.2 point reduction in the 2008 loss ratio) derived from better than expected experience and a changed view of uncertainty in general liability claims estimates, mostly from recent accident years.

The fourth quarter loss ratio was 36.6%, compared to the prior year's fourth quarter loss ratio of 46.3%. The improvement reflects lower weather-related claims costs and lower large property claims costs, which more than offset an increase from changes in claims discount rates and an accrual in 2009 for additional taxes from the adoption of HST in Ontario and British Columbia.

Expenses

Broker commissions and premium taxes comprise approximately two thirds of expenses and vary directly with premiums. The remaining third, operating expenses, mainly consists of salaries and benefits and information technology costs. Since the majority of expenses vary with premium volume, management uses the expense ratio (the sum of commissions, operating expenses and premium taxes, divided by net premiums earned) to monitor, analyze and budget expenses. Included in commissions are contingent profit bonuses which are earned by brokers, based on the profitability of their business to The Dominion, and which can produce variation in annual expense ratios. The Dominion's expense ratio increased in 2009 by 0.1 point to 31.3%, from 31.2% in 2008. Commissions were 16.9% and Premium Taxes were 3.4% of net premiums earned in both 2009 and 2008. Operating expenses were 11.0% of net premiums earned in 2009 compared to 10.9% in 2008. The increase is due mainly to a planned increase in information technology expenditures, mostly related to a newly acquired policy management system which is expected to begin being deployed in 2011. The policy management system is part of a multi-year transition plan currently underway to replace our legacy systems. A new claims system was deployed in 2007. Selection of a new billing system is underway. Our technology development effort is focused on enhancing flexibility for responding to market opportunities, enhancing "ease of doing business" and operating efficiency, deriving decision-useful information and addressing ongoing regulatory changes.

Investments, liquidity and capital resources

Investment income (interest and dividends) before income tax was $87.2 million in 2009, compared to $88.5 million in 2008, as a result of a decrease in the average portfolio balance (on an amortized cost basis). The average of cash and investments (measured at cost or amortized cost) decreased by 3.8% in 2009 (8.0% increase in 2008). Although cash flow from operations was positive in 2009, the average portfolio balance declined as a result of the realized loss on the redemption of equity pooled fund units in the second quarter of 2009. The investment income yield, on an amortized cost basis was 3.9% in 2009 (3.8% in 2008).

The Dominion incurred a net realized investment loss before income tax of $151.8 million in 2009, compared to a net realized loss before tax of $31.9 million in 2008. In addition, an impairment provision of $8.1 million before tax was recorded in 2009 for unrealized losses on certain preferred and common share holdings considered to be other than temporary (nil in 2008). Realized investment gains and losses generally result from trading decisions which are intended to maximize the ongoing economic return of the 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 common stocks which are managed by third party investment managers. In 2008, declining global stock markets generated significant net unrealized losses on investments in common equity pooled funds. The Dominion redeemed one of its smaller pooled fund investments in 2008, which resulted in the net realized investment loss in 2008. In 2009, the investment manager for the remaining pooled fund units was replaced with a new third party investment management firm. As a result, the remaining equity pooled fund holdings were redeemed in the second quarter resulting in the large net realized loss in 2009. Proceeds from the 2009 redemptions were reinvested directly in common stocks (not fund units) under the management of the new investment firm. Included in accumulated other comprehensive income (loss) ("AOCI") at December 31, 2009 is a net unrealized gain on common stocks of $52.6 million before tax ($35.6 million after tax). Ending AOCI at December 31, 2009 is comprised of a net unrealized gain on total AFS investments of $126.6 million before tax ($85.7 million after tax).

During 2008, 2009 and to the date of this report, The Dominion has not held any asset backed commercial paper.

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 by generating positive cash flow from operations; by managing the maturity profile of bonds to provide a relatively steady cash flow from maturities to fund policy liabilities; by holding high quality marketable investments that may easily be sold prior to maturity, if necessary; and by maintaining a portion of investments in cash and short-term investments. Net positive cash flow from operations was $63.7 million for 2009, compared to $137.0 million in 2008. The lower cash flow in 2009 reflects the higher underwriting loss; claims paid are higher, relative to premiums collected in 2009. The Dominion did not pay a dividend to E-L Financial in 2009, in order to strengthen capital; a $40.0 million dividend was paid in 2008. At December 31, 2009, the investment portfolio mix consisted of 14% in cash and short-term investments (2008 – 13%), 59% in bonds (2008 – 56%), 18% in common stocks (2008 – 22% in pooled funds that invest in common equities) and 6% in preferred stocks (2008 – 6%). As at December 31, 2009, in addition to cash and short-term investments, 16% of The Dominion's bonds have a maturity date within one year (2008 – 14%).

Although The Dominion does not pursue a policy of strict asset and liability matching, the average duration of the bond portfolio is managed within a range of the average duration of claims liabilities, which is approved by the Investment Committee. Depending on market opportunities, there have been periods when the average bond duration has been extended beyond the liabilities' average duration in order to obtain higher yields at the longer end of the yield curve. At December 31, 2009, the bond duration of 3.4 years (2008 – 3.3 years) is 85% (2008 - 85%) of the net unpaid and unreported claims average duration of 4.0 years (2008 – 3.9 years). The Dominion's fixed income investment managers proactively monitor market conditions and make portfolio mix adjustments in anticipation of significant market changes.

Report on The Dominion (cont'd)

The Dominion's shareholder capital consists mainly of retained earnings and is invested 60% in common equities (87% in 2008) with the remainder invested in bonds. This reflects The Dominion's strategy to invest the majority of its shareholder capital in publicly-listed "large cap" common equities. The decrease in the ratio reflects the sale in the fourth quarter of 2009 of $138 million of The Dominion's common stocks. The proceeds were reinvested in government bonds which contributed to the improvement in regulatory capital discussed below.

The Dominion's capital has exceeded the requirements of the Insurance Companies Act (Canada) and regulations thereunder throughout 2009 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("OSFI"), the solvency 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 result of 100%. The Dominion does not have a formal MCT target or range. Management seeks to maintain capital that is sufficient, based on management's ongoing assessment of risks, to sustain reasonably possible losses or unrealized declines in investment values and remain above the regulator's supervisory target. Capital was adversely impacted by declines in common stock values in 2008 and by deteriorating underwriting results in 2009. As a result of ongoing risk from these factors, in 2009 The Dominion did not declare a dividend and reduced its common stock holdings in order to preserve capital at its current level. At December 31, 2009, The Dominion's MCT result was 201% (which equates to over $175 million of excess capital above the regulator's supervisory target), compared to 182% at the end of 2008. The increase in 2009 reflects a partial recovery in stock markets and the sale, disclosed previously, of $138 million of common stocks which generate higher "capital required" than bonds. The 2008 MCT was lower as a result of the net unrealized losses on common equity pooled fund investments. 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.

To demonstrate The Dominion's sensitivity to this portfolio risk, a 20% decline in the fair value of the common stock portfolio as at December 31, 2009 would immediately decrease shareholder's equity by $62.7 million (9%) and decrease our MCT by 11 points to 190%.

Other comprehensive income (loss)

In 2009, The Dominion earned other comprehensive income ("OCI") of $302.1 million, consisting of a net unrealized gain on AFS investments of $109.3 million after tax and a $192.8 million after tax reclassification adjustment for the net realized investment loss transferred from AOCI to net loss. Approximately half of the net unrealized gain on AFS investments was from common and preferred stocks and the other half was from bonds. In 2008, The Dominion incurred an other comprehensive loss of $215.0 million after tax, consisting of a net unrealized loss of $211.9 million after tax and a $3.1 million after tax reclassification adjustment for the net realized investment gain recognized in net loss. Most of the net unrealized loss in 2008 related to the pooled fund units which decreased in value as a result of the decline in global equity markets in 2008. Comprehensive income, which is the sum of net income and OCI, was $150.5 million in 2009, in contrast to a comprehensive loss of $219.4 million in 2008.

Tax losses

As discussed in the 2008 Annual MD&A, unused capital losses for tax purposes resulted from the realized and unrealized losses on the pooled fund units in 2008, but were not recognized in The Dominion's financial statements at December 31, 2008. Tax laws that were in effect on December 31, 2008 characterized these losses as "capital" losses which could be applied only against future taxable capital gains. Due to uncertainty in the economic environment regarding the earning of future taxable capital gains, the unused tax losses were not considered to be more likely than not recoverable and, therefore, were not recognized. On March 4, 2009, amendments to the Income Tax Act (Canada) became substantively enacted for accounting purposes. Under the amendments, the unrecognized capital losses were re-characterized as income losses which may, therefore, be carried forward against future regular taxable income, such as underwriting income and interest income. In addition, the unused losses became 100% deductible as income losses instead of being 50% deductible as capital losses. Management concluded that the unused tax losses became recoverable, as a result of the tax law amendments, and they were recognized in The Dominion's financial statements in the first quarter of 2009. The material effects of the substantively enacted tax changes, as of March 4, 2009, were an increase in income tax recovery and net income of $82.8 million, an increase in the future tax asset of $74.0 million, and increases in current tax balances for the difference. Although the majority of the unused tax losses arose from unrealized losses originally recorded in other comprehensive loss, GAAP requires that these previously unrecognized tax losses be recognized in net income, not in OCI. The impact was higher in 2009 than the estimate that was provided in the 2008 Annual MD&A, which was based on December 31, 2008 values, as a result of further unrealized losses on the pooled fund units incurred from January 1 to March 4, 2009.

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 worse than expected claims experience or in the event that existing provisions for net unpaid and unreported claims prove to be inadequate. Regulators establish minimum capital requirements for insurers to maintain.

The key operating objectives 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, including management of investments and effective use of reinsurance. The majority of insurers, including The Dominion, focus on standard price-sensitive products and generate a margin from strong risk selection and efficient execution.

The Dominion's financial objective is to grow its earnings and entity value over time. The industry's annual profitability improves and deteriorates progressively in a wave-like fashion, commonly referred to as the insurance cycle. 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 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. The Dominion's relationship with independent brokers is important for its success since brokers are its sole distribution channel. 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.

For personal lines and some commercial products, The Dominion sets premium rates based on actuarial analysis and consideration of competitive market forces. Personal automobile 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 it seeks to retain.

The Dominion delivers high quality claims service 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. The Dominion emphasizes proactive communication to claimants regarding the claims process and what they can expect, as well as providing an empathetic and comfortable experience. The Dominion will not overpay a claim in the name of service, since that unfairly increases the cost of insurance to all policyholders. To meet increasing service expectations, claims management continues to build a culture where quality service and continuous improvement are valued and rewarded.

Risk management

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact The Dominion is included in the Annual Information Form of E-L Financial Corporation Limited, which is available at www.sedar.com. Disclosures regarding The Dominion's financial instruments, including financial risk management, are included in Notes 6, 7 and 24 to the consolidated financial statements.

Critical accounting estimates

The Dominion's significant accounting policies are described in Note 4 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 The Dominion are the valuation of policy liabilities and the determination of allowances for impaired investments.

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 and unreported claims and for reinsurance recoverable. The provision for unpaid and unreported 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 treaties. 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 judgement and follow The Dominion's documented claims reserving philosophy to enter a "case" reserve for each claim in the 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 Appointed Actuary performs ongoing valuations to establish the provisions for unpaid and unreported 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 Dominion'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 the discount rate is decreased, the net unpaid and unreported 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 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 and unreported 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 judgement 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 (that is, unpaid and unreported claims less reinsurance recoverable) is a reasonably likely net change that could result from changes in the many assumptions that underlie these estimates. A 5% change in the net unpaid and unreported claims would result in a change in claims expense of $75.3 million ($51.0 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 and unreported claims of $42.5 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, a deferred balance 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 2009 and 2008.

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 claim liability from The Dominion's 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 any unpaid obligations under the annuity in the event that the life insurer is unable to make the required payments. To mitigate this contingent credit risk, The Dominion only purchases annuities from federally-regulated life insurers that have a credit rating of "A-" or better. These annuities are also guaranteed within limits by Assuris, an entity that funds most policy liabilities of an insolvent Canadian life insurer. As a result, management considers this credit risk to be negligible. In 2009 The Dominion began to acquire structured settlements that do not require a guarantee by The Dominion, thereby avoiding a contingent liability for those structured settlements.

Valuation of investments

Management regularly reviews investments for evidence of impairment and has determined that a number were other than temporarily impaired at December 31, 2009, resulting in an impairment provision of $8.1 million ($5.5 million after tax) in 2009. No impairment provision was recorded in 2008. The impairment provision transferred the total unrealized loss on each of these AFS investments from AOCI (through the reclassification adjustment on the consolidated statement of comprehensive income) to net loss.

Outlook

Price hardening in personal lines fully emerged across Canada in 2009 and is expected to continue in 2010. Ontario's announced automobile insurance reforms have the potential, if successful, to allow the industry to achieve price adequacy going into 2011. Commercial lines prices remain soft in general. Claims costs are continuing to increase in most lines of business. The Dominion expects that planned earned price increases in 2010 will allow for much needed improvement in the loss ratio, and a return to profitability. The Dominion continues to pursue long term earnings growth by preserving underwriting discipline, consistently providing underwriting capacity for our brokers and maintaining reasonable pricing throughout all phases of the insurance cycle.

Report on Empire Life

The Empire Life Insurance Company ("Empire Life") 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

For the year Empire Life shareholders' net income was $53.8 million compared to $48.4 million in 2008. The increase is comprised of a number of large offsetting items. While both years had increased net income from non-recurring tax related items, the 2009 gain was $7.2 million after tax higher than the 2008 gain for shareholders, and $13.0 million after tax higher than the 2008 gain for policyholders. These 2009 and 2008 non-recurring tax related items are described in the paragraphs below. Capital and Surplus net income in 2009 improved relative to the comparable period in 2008 as the 2008 declines in global stock markets resulted in realized losses on the sale of investments during 2008. This was partly offset by net income from the three major Empire Life product lines (Wealth Management, Employee Benefits and Individual Insurance) which was lower overall relative to 2008 primarily due to a $29.3 million after tax reserve release in 2008 that is non-recurring as it related to an updated approach for establishing the insurance mortality assumption. 2009 net income was also lower by $24.3 million after tax for shareholders and $1.3 million after tax for policyholders relative to 2008 as losses were reclassified from other comprehensive income ("OCI") to net income because of other than temporary impairment write downs of common and preferred shares in 2009. These write downs mainly reduced Individual Insurance and Capital and Surplus net income. Otherwise net income improved in 2009 relative to 2008 due to a strong improvement in Wealth Management and Employee Benefits results.

The net contribution to E-L Financial's earnings, after adjustment for minority interests, was $42.9 million ($38.5 million for 2008).

While write downs of common and preferred shares lowered 2009 shareholders' and policyholders' net income as described above, Empire Life's net contribution to E-L Financial's other comprehensive income ("OCI") was $74.5 million in 2009 compared to other comprehensive loss ("OCL") of $79.0 million in 2008. In addition Empire Life reported $7.6 million in policyholders' OCI in 2009 compared to OCL of $7.9 million in 2008. The improvement was primarily due to the recovery of Canadian stock markets in 2009 compared to a large decrease in Canadian stock markets in 2008.

On March 4, 2009, the amendments to the Income Tax Act related to Financial Instruments passed third reading and became substantively enacted. Under these amendments, certain capital losses have been re-characterized to become income losses for tax purposes. These amendments also result in most investments and policy liabilities being taxed on a fair value basis, consistent with changes in accounting rules for Financial Instruments adopted in 2007. Based on fair values as of March 4, 2009, the impact of these amendments, which has been recorded in the first quarter of 2009, was a non-recurring after tax gain of $22.2 million ($ nil for the first quarter of 2008) for shareholders, and a non-recurring after tax gain of $13.6 million ($ nil for the first quarter of 2008) for policyholders. The net contribution of this tax item to E-L Financial's earnings, after adjustment for non-controlling interests, was $17.7 million ($ nil for the first quarter of 2008).

While there was uncertainty in 2008 regarding the above mentioned new federal income tax rules, there was a 2008 development regarding actuarial guidance. The Canadian Institute of Actuaries ("CIA") Committee on Life Insurance Financial Reporting ("CLIFR") updated its guidance to Appointed Actuaries with regard to the calculation of the Discounted Future Tax Liability ("DFTL") under Financial Instruments accounting rules. Previously, DFTL was determined using the law that existed at the time and pre-2007 Financial Instrument accounting rules.

The 2008 actuarial standards change now permitted recording the more conservative of the following:

(i) DFTL under the tax law that existed in 2008, and Financial Instrument accounting rules,

(ii) DFTL under proposed tax law in 2008, and Financial Instrument accounting rules.

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

Empire Life's risk based capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements ("MCCSR"), at 266% at the end of 2009 (201% as of December 31, 2008) was well above minimum requirements.

Global credit and stock market conditions began to improve in the second quarter of 2009 and this continued for the balance of the year. However, stock market volatility, uncertainty about the global economy and concern regarding the credit quality of certain asset categories continues. Empire Life has no direct exposure to the following: asset-backed commercial paper, U.S. mortgages or U.S. mortgage related derivatives.

Total assets under management increased by 23% during 2009 to $8.7 billion. Segregated fund assets were up 29% due primarily to the recovery in stock market prices and by positive net sales results throughout the year. General fund assets increased by 17% primarily due to increases in the fair value of invested assets due to lower corporate bond interest rates and rising stock markets, and growth in the deferred annuity business. A rise or fall in stock markets impacts the management fees collected on segregated fund contracts and on index funds within universal life contracts, and policy liabilities particularly in respect of segregated fund guarantees.

Overall premium revenue in 2009 was up 22% from last year's level as annuity premiums increased by 155%. This was partly offset by an insurance premiums decline of 5%, primarily due to a non-recurring transaction that terminated a reinsurance assumed agreement in the Employee Benefits line of business.

Empire Life reported shareholders' net income of $4.0 million for the fourth quarter of 2009, compared to $3.4 million for the fourth quarter of 2008. While the increase in quarterly net income is small, it is comprised of a number of large offsetting items. Capital and Surplus net income improved in 2009 relative to the comparable period in 2008 as the 2008 declines in global stock markets resulted in realized losses on the sale of investments during 2008. This was partly offset by net income from the three major Empire Life product lines (Wealth Management, Employee Benefits and Individual Insurance) which was lower overall relative to the fourth quarter of 2008 primarily due to a $29.3 million after tax reserve release in 2008 that is non-recurring as it related to an updated approach for establishing the insurance mortality assumption. 2009 fourth quarter net income was also lower by $13.5 million after tax for shareholders and $0.7 million after tax for policyholders relative to the fourth quarter of 2008 as losses were reclassified from OCI to net income because of other than temporary impairment write downs of common and preferred shares in 2009. These write downs mainly reduced Individual Insurance and Capital and Surplus net income. Otherwise fourth quarter net income improved in 2009 relative to 2008 due to a strong improvement in Wealth Management and Employee Benefits results.

The Summary of Empire Life on page 90 of this Annual Report provides an overview of results for the five-year period from 2005 to 2009. The analysis and discussion which follows is focused on the full year 2009 and comparative 2008 line of business net income after tax.

Financial analysis

The following table and commentary analyze Empire Life's financial results for 2009 and 2008:

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Revenue										
Premium income	**$ 300**	$ 116	**$ 242**	$ 270	**$ 297**	$ 299	**$ —**	$ —	**$ 839**	$ 685
Fee and other income	**87**	94	**6**	6	**1**	2	**1**	1	**95**	103
Investment income	**55**	50	**7**	6	**93**	90	**29**	25	**184**	171
Realized gain on held for trading investments	**4**	4	**3**	1	**23**	15	**1**	—	**31**	20
Realized gain (loss) on available for sale investments including impairment write downs	**—**	1	**—**	—	**(12)**	(5)	**(22)**	(43)	**(34)**	(47)
Fair value change in HFT assets	**43**	(40)	**—**	(5)	**64**	(199)	**—**	—	**107**	(244)
	489	225	**258**	278	**466**	202	**9**	(17)	**1,222**	688
Expenses										
Benefits and expenses	**463**	220	**237**	267	**429**	114	**12**	2	**1,141**	603
Income and other taxes	**4**	(3)	**11**	8	**11**	40	**(10)**	(5)	**16**	40
	467	217	**248**	275	**440**	154	**2**	(3)	**1,157**	643
Net income (loss) after tax	**$ 22**	$ 8	**$ 10**	$ 3	**$ 26**	$ 48	**$ 7**	$ (14)	**$ 65**	45
Policyholders' portion									**11**	(3)
Shareholders' net income									**54**	48
Minority shareholders' portion of net income									**11**	9
Net profit contribution to E-L Financial									**$ 43**	$ 39
Assets under management										
General fund assets	**$ 1,060**	$ 876								
Segregated fund assets	**$ 4,310**	$ 3,349								
Annualized premium sales			**$ 36**	$ 40	**$ 61**	$ 72				

Wealth management

Assets in Empire Life's segregated funds increased by 29% during the last twelve months. The increase was attributable to positive investment returns, as the stock market recovery that began in the second quarter continued for the balance of the year and positive net sales (gross sales net of withdrawals) in each of the last four quarters. Net sales during 2009 were positive despite decreased gross sales, which were down 15% from 2008. However, fourth quarter gross sales improved 11% relative to the corresponding period in 2008. General fund assets in this product line increased by 21% during the past year, primarily due to strong deferred annuity premium income described below.

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 155% for the year compared to 2008 due to increased sales of deferred annuities, as many customers selected fixed interest products over segregated funds due to continuing stock market uncertainty. Fourth quarter premium income in this product line was up 61% compared to 2008. Fee and other income, more than 99% of which is derived from segregated funds, declined 8% in 2009 relative to 2008 as management fees earned on segregated funds declined due to the impact of falling stock markets on assets under management. The fall in stock markets occurred during the second half of 2008 and stock markets remained weak during the first quarter of 2009. However markets recovered during the last three quarters of 2009 resulting in a 38% increase in fourth quarter segregated fund fee revenue relative to the corresponding period in 2008.

This product line's fair value change in assets was a gain in 2009 resulting primarily from a decrease in market interest rates since the beginning of the year versus a loss in 2008 resulting primarily from an increase in market interest rates since the beginning of 2008. However, this product line's realized gains (losses) on held for trading investments and its fair value change in assets were primarily related to gains or losses on bonds matched to policy liabilities resulting in a reduced impact on net income due to the corresponding change in policy liabilities.

Net income was more than double the level this product line achieved in 2008. Net income improved relative to 2008 by $9.9 million due to the annual update of actuarial assumptions related to both annuitant mortality and segregated fund guarantees, by $6.5 million due to a release in guarantee policy liabilities in 2009 resulting from the rise in stock markets versus an increase in guarantee policy liabilities in 2008 resulting from a decline in stock markets, by $5.8 million due to additional investment spreads, by $1.2 million due to reduced new business strain due to the decline in segregated fund sales and by $4.0 million due to favourable expense experience. These favourable items were partially offset by $6.6 million due to lower net income on in-force business due to the decline in average segregated funds under management in 2009 versus 2008, and by $3.3 million primarily due to experience losses on segregated fund death benefit guarantees. While both years had increased net income from non-recurring tax related items, the 2009 gain was $2.8 million lower than the 2008 gain.

Employee benefits

Weaker sales during the second and third quarters resulted in annual sales for this product line that were 11% lower than 2008. However, fourth quarter sales improved 15% relative to the corresponding period in 2008. This product line's premium income for the year decreased by 10% relative to 2008 primarily due to a non-recurring transaction that terminated a reinsurance assumed agreement and lowered premium income by 8%. With the termination of this reinsurance agreement, Empire Life assumes only a small amount of risk through one remaining reinsurance agreement. The remaining 2% premium income decline resulted from this product line being negatively impacted by the severity of the economic downturn, particularly in Ontario.

This product line's realized gains (losses) on held for trading investments and its fair value change in assets were primarily related to gains or losses on bonds matched to policy liabilities resulting in a reduced impact on net income due to the corresponding change in policy liabilities.

Earnings for this product line more than tripled the comparable period in 2008. Net income improved relative to 2008 by $5.5 million due to favourable claims results in 2009 versus unfavourable claims results in 2008 and by $1.2 million due to the above mentioned 2009 non-recurring reinsurance transaction.

Individual insurance

Sales in this product line were 15% lower than in 2008, primarily as a result of decreased investment deposits on universal life sales. Sales for the year excluding these investment deposits were 3% lower than in 2008. However, fourth quarter sales excluding these investment deposits were 7% higher relative to the corresponding period in 2008. Premium revenue for this product line was less than 1% lower than 2008 as the impact of the decline in sales for the current year was partially offset by the ongoing premium revenue from the sales during the latter portion of 2008.

This product line's fair value change in assets was a gain in 2009 resulting primarily from a decrease in market interest rates and an increase in common share prices since the beginning of the year versus a loss in 2008 resulting primarily from an increase in market interest rates and a decrease in common share prices since the beginning of 2008. However, this product line's realized gains (losses) on held for trading investments and its fair value change in assets were primarily related to gains or losses on bonds and common shares matched to policy liabilities resulting in a reduced impact on net income due to the corresponding change in policy liabilities.

This product line's 2009 net income decreased relative to 2008. This decrease 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 decreased by $38.7 million relative to last year due to a large release in 2008 resulting from the annual update of assumptions. Of this amount, $29.3 million for shareholders and $0.4 million for policyholders related to 2008 is non-recurring as it relates to an updated approach in 2008 for establishing the insurance mortality assumption. The balance of the net decrease in net income from the annual update of assumptions was primarily a result of lower reserve releases related to mortality and reserve strengthening to reflect lower future expected reinvestment rates, and to update expense assumptions. Otherwise, net income declined relative to 2008 by $10.2 million due to other than temporary impairment write downs reclassified from OCI to net income, and by $3.5 million due to future investment returns on assets acquired this year versus last year. These unfavourable items were partially offset by $3.3 million due to reduced new business strain due to the decline in sales, by $2.6 million due to higher profit margins on the inforce block and by $10.6 million due to improved investment, surrender, mortality, and expense experience. While both years had increased net income from non-recurring tax related items, the 2009 gain was $13.6 million higher than the 2008 gain and $12.0 million of this increase was attributable to policyholders' net income.

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. 2009 Capital and Surplus earnings increased relative to the comparable period of 2008 by $31.9 million due to realized gains in 2009 versus realized losses incurred in 2008 on the sale of investments, by $3.5 million due to higher investment income and by $7.4 million due to amendments to the Income Tax Act primarily related to Financial Instruments. These favourable items were partially offset by $15.2 million due to other than temporary impairment write downs reclassified from OCI to net income, and by $6.5 million due to an increase in interest expense on subordinated debt.

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 2008 and 2009, total liquid assets were more than double total demand liabilities.

During 2009, cash provided by operations was $327.8 million compared to $106.6 million in 2008. For 2009, the increase in cash provided by operations relative to 2008 was primarily as a consequence of increased cash inflows related to annuity business, the collection of income taxes receivable, and reduced commission expenses due to lower life insurance and segregated fund sales.

Cash used for investment activities was $425.2 million in 2009 compared to $244.1 million in 2008. The increase in cash used for investment activities in 2009 relative to 2008 was primarily due to investment of increased cash provided by operations.

Cash provided from financing activities during 2009 was $73.9 million versus $125.0 million in 2008. The change relative to 2008 was the issuance of $200.0 million principal amount of subordinated debt in 2009 and the 2009 repayment of $125.0 million of subordinated debt issued to its ultimate parent company, E-L Financial Corporation Limited in 2008.

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 annual pension funding requirements will be $5.0 million during 2010 and remain at the 2010 level until the next funded position valuation.

Empire Life continues to maintain a strong balance sheet and capital position. Empire Life's risk based capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements ("MCCSR"), at 266% as at December 31, 2009 (201% as at December 31, 2008) continued to be well above requirements. Empire Life's MCCSR ratio improvement from December 31, 2008 levels was partially attributable to the issuance of subordinated debt during the second quarter, which increased the principal amount of subordinated debt by $75 million. The A (Excellent) rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength.

Empire Life's capital has exceeded the requirements of the Insurance Companies Act (Canada) and regulations thereunder throughout 2009 and to the date of this report. Capital adequacy is predominantly determined by the MCCSR, a calculation defined by the Office of the Superintendent of Financial Institutions, the solvency regulator of federal financial institutions. The MCCSR 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 MCCSR result of 150% to provide a safety buffer above the legally required minimum MCCSR result of 120%. Empire Life does not have a formal MCCSR target or range. Management seeks to maintain capital that is sufficient, based on management's ongoing assessment of risks, to sustain reasonably possible losses or unrealized declines in investment values and remain above the regulator's supervisory target. Declines in common stock values in 2008 had an adverse impact on available capital due to the decline in value of Empire Life's stock portfolio, and on required capital due to Empire Life's segregated fund guarantees. In 2008 and 2009 Empire Life did not declare a dividend in order to preserve available capital. In September 2008 and May 2009 Empire Life issued a combined total of $200 million principal amount of subordinated debt in order to increase the level of available capital. In 2009 the recovery of common stock values caused improvements in both available capital and required capital resulting in a large improvement in Empire Life's MCCSR ratio.

Other comprehensive income

Unrealized gains and losses on Capital and Surplus financial assets and on certain financial assets matching policy liabilities are recorded as other comprehensive income ("OCI") or other comprehensive loss ("OCL"). The net unrealized gains on these assets, primarily as a result of the recovery in Canadian stock markets during the fourth quarter coupled with the realized gains and losses and other than temporary impairment write downs reclassified from OCI to net income, resulted in an increase in quarterly and full year OCI relative to the comparable periods last year. After consideration of minority interests and participating policyholders' interests, the net contribution to E-L Financial's OCI for 2009 was OCI of $16.7 million for the fourth quarter and $74.5 million for the full year, versus OCL of $33.7 million for the fourth quarter and OCL of $79.0 million for the full year for 2008. For policyholders the net result for 2009 was OCI of $1.4 million for the fourth quarter and $7.6 million for the full year, versus OCL of $3.0 million for the fourth quarter and OCL of $7.9 million for the full year for 2008.

Industry dynamics and management's strategy

Empire Life's 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 general fund and segregated fund assets, 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's MCCSR ratio is sensitive to stock market volatility, primarily due to liability and capital requirements related to segregated fund guarantees. As of December 31, 2009 Empire had $4.3 billion of segregated fund assets. Of this amount, approximately $4.0 billion have guarantees. As of December 31, 2009, 88.6% (December 31, 2008 - 94.1%) of the segregated fund assets with guarantees were within contracts with a 75% maturity guarantee and a 100% death benefit guarantee. Empire Life also has small portfolios of contracts with 100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date) and contracts with a guaranteed minimum withdrawal benefit ("GMWB"). As of December 31, 2009 these small portfolios of contracts make up 5% (December 31, 2008 4.2%) and 6.4% (December 31, 2008 1.8%) of the contracts with guarantees respectively. All of Empire Life's segregated fund guarantees are policy based (not deposit based), thereby lowering Empire Life's stock market sensitivity.

Based on stock market levels on December 31, of the years indicated below, the sensitivity of E-L Financial's net income to changes in segregated fund guarantee policy liabilities resulting from stock market increases and decreases is as follows:

(millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity to segregated fund guarantees:				
2009 net income	**$ —**	**$ —**	**$ —**	**$ —**
2008 net income	$ 3.8	$ (16.2)	$ 3.8	$ (34.0)

The sensitivity of E-L Financial's shareholders' net income to segregated fund guarantees decreased as of December 31, 2009 relative to December 31, 2008 levels due to the recovery of global stock markets.

Based on stock market levels on December 31, of the years indicated below the sensitivity of Empire Life's MCCSR ratio to stock market increases and decreases for all Empire Life stock market exposures, including segregated fund guarantees is as follows:

Sensitivity to stock markets	10% Increase	10% Decrease	20% Increase	20% Decrease
Percentage points change to:				
2009 MCCSR Ratio	**2.5**	**(7.4)**	**4.9**	**(36.5)**
2008 MCCSR Ratio	19.0	(13.0)	41.0	(24.0)

Empire Life has not historically hedged or reinsured segregated fund guarantee risk. At the current segregated fund product mix and level of sensitivity to stock markets, Empire Life does not hedge or reinsure segregated fund guarantee risk as of December 31, 2009. In addition, Empire Life does not reinsure any other insurer's segregated fund products.

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting actuarial liabilities and MCCSR required capital for Empire Life segregated funds is as follows:

Segregated Funds	Guarantee > Fund Value		Death Benefit > Fund Value		Actuarial	MCCSR
(millions of dollars)	Fund Value	Amount at Risk	Fund Value	Amount at Risk	Liabilities	Req'd Capital
December 31, 2009	**$ 185.9**	**$ 22.1**	**$2,046.1**	**$ 315.8**	**$ —**	**$ —**
December 31, 2008	$1,355.4	$ 191.8	$2,388.4	$ 850.8	$ 12.0	$ 80.5

The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value on all segregated fund policies where the future maturity guarantee or future death benefit guarantee is greater than the fund value. The amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates. The level of actuarial liabilities and required capital is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist upon either future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The actuarial liabilities and the MCCSR required capital related to segregated fund guarantees are calculated using stochastic projections of future cash flows. These future cash flows not only consider expenses and guarantee benefits, but also future revenues. If, under adverse scenarios, the future management fee revenues are more than enough to cover future benefits and expenses, then the liability amount is set to nil. The amounts at risk, actuarial liabilities and MCCSR required capital decreased in 2009 from December 2008 levels primarily due to the recovery of global stock markets.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form. Additional disclosures of Empire Life's sensitivity to risks are included in notes 11 and 24 to the consolidated financial statements.

Critical accounting estimates

Empire Life's significant accounting policies are described in Note 4 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 Empire Life are the valuation of policy liabilities and the determination of provisions 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's sensitivity to risks related to policy liabilities are included in Note 11 to the consolidated financial statements.

Provision for Impaired Investments

Empire Life maintains a prudent policy in setting the provision 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 provision 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 provision 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 consolidated statement of loss. 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 2009 stock market and credit market recovery from the economic turmoil of 2008 mainly improved results for Empire Life's Wealth Management product line. Looking forward the improvement of Wealth Management is expected to continue in 2010 as profit margins continue to recover in the segregated fund business. Consumers continue to be cautious about stock market exposure and Empire Life is well positioned with deferred annuity product offerings to satisfy the present preference for low risk investments. The strength of the economic recovery in Canada continues to be uncertain with mixed economic indicators and a concern that much of the improvement in the economy is derived from temporary government stimulus. As a result businesses remain cautious and this is likely to cause continued pressure in the near term on growth prospects for the Employee Benefits product line. However, the Individual Insurance product line is less sensitive to stock market and employment conditions than these two product lines.

The landscape of the Canadian life insurance marketplace continues to be dominated by the three largest carriers who have in excess of 60% of all major industry segments. In order to compete, Empire Life focuses on personal customer service, relationship management with distribution partners, and prudent technology investment.

The focus at Empire Life in the employee benefits marketplace continues to be on balanced growth and profit, and its demonstrated impact in reducing unit expenses. This, 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 weakness we are currently experiencing as Empire Life's target market is primarily small businesses, and these businesses are being hampered 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. 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 and 2009. 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 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%. But Canada's main stock index recovered almost 31% in 2009. The 2008 downturn and uncertainty and volatility in 2009 continue to hurt segregated fund and mutual fund sales for many players in the Canadian pooled fund marketplace and led to weaker, but still positive net segregated fund sales for Empire Life in 2009. 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 launched 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 stabilization of stock markets should reward customers and lead to a continuing 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 8, 2010

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, 2009. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2009.

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

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

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

March 8, 2010

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, 2009 and 2008 and the consolidated statements of loss, comprehensive income (loss), 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

February 26, 2010

Consolidated Balance Sheets
(thousands of dollars)

Assets	As at December 31, 2009	2008 (Restated - Note 3)
Cash and cash equivalents (Note 26)	**$ 327,529**	$ 357,294
Investments - corporate (fair value $751,346; 2008 - $634,531) (Note 5)	**747,555**	878,947
Investments - insurance operations (fair value $6,408,674; 2008 - $5,400,741) (Note 6)	**6,402,741**	5,398,721
Equity method investments (fair value $407,282; 2008 - $222,316) (Note 8)	**400,949**	221,205
Premiums receivable	**301,547**	276,911
Accrued investment income	**31,613**	26,140
Deferred acquisition expenses	**109,078**	101,320
Reinsurance recoverable (Note 11)	**101,522**	104,867
Income taxes receivable	**2,528**	97,306
Future income taxes (Note 18)	**77,467**	20,278
Other assets (Note 12)	**85,105**	81,181
	$ 8,587,634	$ 7,564,170
Segregated funds assets	**$ 4,310,401**	$ 3,348,827

Consolidated Balance Sheets (continued)
(thousands of dollars)

Liabilities	As at December 31, 2009	2008 (Restated - Notes 2 and 3)
Policy liabilities (Note 11)	**$ 5,395,886**	$ 4,885,506
Policyholders' funds on deposit	**29,702**	30,982
Income and other taxes payable	**79,230**	10,436
Provision for profits to policyholders	**18,558**	17,186
Other liabilities (Note 13)	**180,886**	200,156
Future income taxes (Note 18)	**18,329**	39,842
Subordinated debt (Note 33)	**198,980**	—
	5,921,571	5,184,108
Non-controlling interest in subsidiaries	**152,734**	122,738
Participating policyholders' interest	**60,812**	42,122
	213,546	164,860
Shareholders' equity		
Capital stock (Note 15)	**272,388**	272,388
Retained earnings	**2,067,495**	2,264,591
Accumulated other comprehensive income (loss)	**112,634**	(321,777)
	2,452,517	2,215,202
	$ 8,587,634	$ 7,564,170
Segregated funds liabilities	**$ 4,310,401**	$ 3,348,827

Approved by the Board

Duncan N.R. Jackman, Director

Douglas C. Townsend, Director

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

	Years ended December 31, 2009	2008 (Restated - Note 3)
Revenue		
Insurance premiums (Note 14)	**$ 1,625,596**	$ 1,591,730
Annuity premiums	**300,306**	117,705
Investment and other income (Note 9)	**398,530**	403,755
Income (loss) from equity method investments (Note 8)	**6,744**	(117,313)
Change in fair value of held for trading investments (Note 10)	**109,300**	(245,544)
Realized gain on held for trading investments	**30,890**	16,986
Realized loss on available for sale investments including impairment write downs (Notes 5 and 6)	**(317,860)**	(167,171)
	2,153,506	1,600,148
Expenses		
Claims and policy benefits	**1,784,877**	1,106,568
Commissions	**328,033**	324,060
Operating	**236,261**	227,821
	2,349,171	1,658,449
Loss before the undernoted items	**(195,665)**	(58,301)
Taxes (recovery)		
Income (Note 18)	**(86,020)**	12,511
Premium	**48,715**	46,400
Investment and capital	**4,099**	3,536
	(33,206)	62,447
Loss before policyholders' and non-controlling interest	**(162,459)**	(120,748)
Policyholders' and non-controlling interest's portion of income (loss)	**22,076**	6,565
Net loss (Note 20)	**$ (184,535)**	$ (127,313)
Net loss per share (Note 16)		
- basic	**$ (58.64)**	$ (41.30)
- diluted	**$ (58.64)**	$ (41.30)

Consolidated Statements of Comprehensive Income (Loss)
(thousands of dollars)

	Years ended December 31, 2009	2008 (Restated - Note 3)
Net loss	**$ (184,535)**	$ (127,313)
Other comprehensive income (loss), net of tax		
Unrealized fair value change on available for sale investments (Note 19)	**164,035**	(430,438)
Less: Realized loss on available for sale investments including impairment write downs (Note 19)	**(212,806)**	(87,166)
Less: Unrealized fair value change reclassified to equity method investments (Note 8)	**(57,570)**	—
Other comprehensive income (loss), net of tax	**434,411**	(343,272)
Comprehensive income (loss)	**$ 249,876**	$ (470,585)

Consolidated Statements of Changes in Shareholders' Equity
(thousands of dollars)

	Years ended December 31, 2009	2008 (Restated - Notes 2 and 3)
Capital stock	**$ 272,388**	$ 272,388
Retained earnings		
Balance at beginning of year	**2,264,591**	2,399,714
Impact of change in accounting standards (Note 3)	**—**	(1,647)
Impact of prior period adjustment (Note 2)	**—**	6,849
	2,264,591	2,404,916
Net loss	**(184,535)**	(127,313)
Recovery of refundable dividend taxes	**4,020**	4,020
Dividends	**(12,060)**	(12,060)
Provision for refundable dividend taxes	**(4,521)**	(4,972)
Balance at end of year	**2,067,495**	2,264,591
Accumulated other comprehensive income (loss)		
Balance at beginning of year	**(321,777)**	28,344
Impact of prior period adjustment (Note 2)	**—**	(6,849)
	(321,777)	21,495
Other comprehensive income (loss)	**434,411**	(343,272)
Balance at end of year (Note 32)	**112,634**	(321,777)
Shareholders' equity	**$ 2,452,517**	$ 2,215,202

Consolidated Statements of Cash Flows
(thousands of dollars)

Years ended December 31,	2009	2008 (Restated - Note 3)
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net loss	**$ (184,535)**	$ (127,313)
Items not affecting cash resources:		
Increase (decrease) in net policy liabilities	**513,725**	(69,918)
Realized loss on sale of investments including impairment write downs	**286,970**	150,185
Change in fair value of held for trading investments	**(109,300)**	245,544
Future income taxes	**(90,844)**	(18,946)
(Income) loss from equity method investments	**(1,198)**	121,605
Other items	**14,106**	(29,236)
	428,924	271,921
Net change in other assets and liabilities	**(8,588)**	(7,985)
	420,336	263,936
Financing		
Repayment of short-term debt	**(49,776)**	—
Issuance of short-term debt	**24,938**	24,838
Issuance of subordinated debt (Note 33)	**198,861**	—
Cash dividends to shareholders	**(12,060)**	(12,060)
	161,963	12,778
Investing		
Purchases of investments	**(2,272,312)**	(1,631,856)
Proceeds from sale or maturity of investments	**1,782,921**	1,450,213
Net purchases of short-term investments	**(107,689)**	(80,562)
Net purchases of other assets	**(11,064)**	(10,312)
	(608,144)	(272,517)
(Decrease) increase in cash and cash equivalents	**(25,845)**	4,197
Cash and cash equivalents, beginning of year	**325,467**	321,270
Cash and cash equivalents, end of year (Note 26)	**$ 299,622**	$ 325,467

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" or "Empire Life"). The Dominion underwrites property and casualty insurance while Empire underwrites life and health insurance policies and annuity contracts 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"). Included within Corporate Investments are the Company's other significant investments in United Corporations Limited ("United"), Economic Investment Trust Limited ("Economic") and Algoma Central Corporation ("Algoma"). Economic and United are both closed-end investment companies and Algoma is a shipping company.

2. Prior period adjustment

For the year ended December 31, 2007, the Company incorrectly recorded the impact of a change in substantively enacted income tax rates relating to unrealized fair value changes with respect to available for sale securities in other comprehensive income rather than in net income. The Company has restated prior period financial statements to correct the recording of this item by decreasing opening accumulated other comprehensive income and by increasing opening retained earnings as at January 1, 2008 by $6,849.

3. Changes in accounting policies

a) Accounting changes

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which established new standards for the recognition, measurement and disclosure of goodwill and intangible assets. This change in accounting policy has been applied retrospectively and has resulted in $2,786 (net of amortization) of software development costs being derecognized from capital assets on January 1, 2009. The retroactive impact on the balance sheet, as at January 1, 2008, was a decrease of $2,297 in capital assets, a $650 increase in future tax asset and a $1,647 decrease in retained earnings. The retroactive impact on the statement of loss for 2008 was an increase of $489 in operating expenses and a decrease of $139 in future income taxes for a net increase of $350 in net loss for the year.

Financial Instruments - Recognition and Measurement

In August 2009, the CICA amended Handbook Section 3855, Financial Instruments – Recognition and Measurement, to harmonize classification and related impairment accounting requirements of Canadian Generally Accepted Accounting Principles ("GAAP") with International Financial Reporting Standards. The amendments allow debt securities not quoted in an active market to be classified as loans and measured at amortized cost. The amendments also require the reversal of impairment charges for debt instruments classified as available-for-sale on the occurrence of specific events. The amendments had no impact on the Company's financial statements.

Financial Instruments - Disclosures

During 2009, the Accounting Standards Board of Canada ("AcSB") issued amendments to CICA Handbook Section, 3862 Financial Instruments – Disclosures, which requires expanded disclosures pertaining to the fair value measurements of financial instruments and the management of liquidity risk. These amendments are effective for annual financial statements with fiscal years ending after September 30, 2009, and, as a result, the Company has included these additional disclosures in Notes 4, 7, 24, 25 and 33 of these consolidated financial statements.

b) Future accounting changes

International Financial Reporting Standards

All Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. The Company will begin to report its financial results, including comparative information, in accordance with IFRS for the quarter ended March 31, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, the transition can result in significant differences in accounting policies and financial statement presentation and disclosures.

The Company's transition project continues to progress in line with our transition plan. The project has identified areas that have the potential to have a significant impact on our financial reporting, the most significant relating to the optional elections available under IFRS 1 "First Time Adoption of International Financial Reporting Standards" for redesignation of financial instruments and recognition of cumulative unamortized actuarial gains and losses on defined benefit plans. At this time, the Company plans to redesignate all AFS investments within Corporate Investments and certain investments held in support of life insurance operations from the available for sale category to the fair value through profit and loss category. The Company also plans to elect under IFRS 1 to recognize the net unamortized actuarial loss in opening retained earnings on transition to IFRS. The quantitative impact of these elections on the Company's financial statements has not yet been determined.

The Company anticipates changes to financial statement presentation and enhanced disclosure requirements upon adoption of IFRS.

4. Summary of significant accounting policies

Basis of consolidation

These consolidated financial statements include the assets, liabilities, results of operations and cash flows of The Dominion (wholly-owned), E-L Financial Services Limited (81.0% owned) including its 98.3% owned subsidiary company, Empire Life and a variable interest entity ("VIE") for which the Company is considered to be the primary beneficiary. A primary beneficiary is the entity that is exposed to a majority of a VIE's expected losses or receives a majority of a VIE's expected residual returns, or both. Non-controlling interests in subsidiaries and consolidated VIEs are included as a separate line item on the consolidated balance sheets and statements of income.

Use of estimates and assumptions

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. Estimates and assumptions are made in the areas of determining policy liabilities, employee future benefits, asset impairment, income taxes and the fair value of financial instruments. Actual results could differ from those estimates and changes in estimates are recorded in the accounting period in which they are determined.

Equity method investments

Investments in companies over which we have significant influence are accounted for by the equity method, and are included in equity method investments on the consolidated balance sheets. Our share of earnings from these investments, net of impairment write downs, is included in income from equity method investments on the consolidated statements of income.

Classification and measurement of 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. All transactions are recorded on the trade date. Transaction costs are expensed for HFT instruments and capitalized for all others.

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 common and preferred share instruments with a quoted price in an active market and AFS short term investments, bonds and debentures 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 required to be written down due to other than temporary impairment ("OTTI"), at which time, these gains and losses will be reclassified to the consolidated statements of income. AFS common and preferred share 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. 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.

The Company designates the majority of its Investments - corporate 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. For certain equity investments the Company has elected to apply the fair value option and designate those investments as HFT.

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

Empire Life 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 financial assets supporting policy liabilities are classified as AFS. These assets may be comprised of cash, short-term investments, bonds and debentures or common and preferred shares.

The Company has elected to use an option in Section 3862 Financial Instruments — Disclosures to exclude insurance contracts from the requirements of this section and instead apply Section 3861 Financial Instruments — Disclosure and Presentation to such contracts.

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. Due to the short-term nature of accrued investment income and premiums receivable, the carrying value of these instruments is considered to approximate fair value.

Fair value measurements used in these consolidated financial statements have been classified by using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

Level 1 – Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2 – Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable.

Level 3 – Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 financial instruments are initially fair valued at their transaction price. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

All of the Company's financial instruments requiring fair value measurements meet the requirements of Level 1 or Level 2 of the fair value hierarchy.

Impairment

All investments other than HFT instruments are assessed for objective evidence of impairment at each balance sheet date. Impairment is recognized in the consolidated statements of income (loss), when it is considered to be other than temporary.

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective observable evidence that comes to the attention of the holder about the ability to collect the contractual principal or interest. Other than temporary impairment is recognized through the consolidated statements of income to reduce the carrying value to its current fair value. In assessing OTTI, we also consider our intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Impairment losses previously recorded through the consolidated statements of loss are to be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments and equity method investments

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or financial difficulties of the issuer. In assessing OTTI, we also consider our intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The accounting for an impairment that is recognized in the statements of income is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in the consolidated statements of income cannot be subsequently reversed.

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.

Foreign currency translation

Assets and liabilities measured at fair value are translated at period-end exchange rates. Otherwise 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.

Revenue recognition

At The Dominion 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.

At Empire Life 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 the 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.

Future 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

Deferred acquisition expenses for The Dominion, 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.

In Empire Life 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.

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 The Dominion's and Empire Life's policy liabilities are described below.

The Dominion's 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.

Empire Life's 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.

Due from Facility Association

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 Dominion's share of the assets of the Facility Association which are available to fund a portion of The Dominion's share of Facility Association policy liabilities which are included in policy liabilities and deferred acquisition expenses in the consolidated balance sheets.

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 Empire Life Insurance policyholders.

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

Capital assets and intangibles

Capital assets are carried at cost less accumulated amortization. Amortization commences when capital assets are put into productive use. The Dominion amortizes its building on a five percent declining balance basis and furniture and equipment on a straight-line basis over periods ranging from three to five years. Amortization on Empire Life's assets is provided on a straight line basis over the useful life of capital assets, which varies from two to five years. Leasehold improvements are amortized over the related remaining lease term.

Intangible assets include computer software, related licenses and software development costs that are capitalized and amortized on a straight-line basis over periods ranging from three to seven years.

Hedge accounting

From time to time, Empire Life enters into hedging arrangements. Where Empire Life has elected to use hedge accounting, a hedging relationship is designated and documented at inception. Empire Life 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, Empire Life 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, Empire Life discontinues hedge accounting prospectively. In such cases, if the derivative hedging instrument is not sold or terminated, any subsequent changes in the 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 the income.

Empire Life 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.

Earnings per share (“EPS”)

Basic EPS is determined as net income less dividends paid on preferred shares, divided by the number of adjusted common shares outstanding for the period. “Adjusted Common Shares” is determined based on the total common and Series A Preference shares less the Company’s proportionate interest in its own common shares held indirectly.

Diluted EPS is determined as net income minus dividends on preferred shares, divided by the number of diluted adjusted common shares outstanding for the period. Diluted adjusted common shares reflect the potential dilutive effect of converting the First Preference shares into common shares.

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

5. Investments - corporate

The following tables provide a comparison of carrying values and fair values of investments held at the corporate level of E-L as at December 31:

	2009					
Asset Category	Required to be held for trading	Designated as held for trading	Available for sale at cost	Available for sale at fair value	Total carrying value	Total fair value
Short-term investments						
Canadian federal government	$ —	$ —	$ —	$ 32,971	$ 32,971	$ 32,971
Canadian provincial governments	—	—	—	10,995	10,995	10,995
Canadian corporate	—	—	—	28,656	28,656	28,656
Total short-term investments	—	—	—	72,622	72,622	72,622
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	—	—	—	30,190	30,190	30,190
Canadian provincial and municipal governments	—	—	—	12,588	12,588	12,588
Total government bonds issued or guaranteed	—	—	—	42,778	42,778	42,778
Canadian corporate bonds by industry sector:						
Financial services	—	—	—	19,257	19,257	19,257
Infrastructure	—	—	—	5,562	5,562	5,562
Utilities	—	—	—	5,990	5,990	5,990
Consumer staples	—	—	—	890	890	890
Industrials	—	—	—	3,197	3,197	3,197
Total Canadian corporate bonds	—	—	—	34,896	34,896	34,896
Total bonds	—	—	—	77,674	77,674	77,674
Preferred shares						
Canadian	794	—	1,058	—	1,852	1,852
Total preferred shares	794	—	1,058	—	1,852	1,852
Common shares and units						
Canadian	—	—	489,031	—	489,031	492,822
U.S.	—	79,449	—	—	79,449	79,449
Other	26,927	—	—	—	26,927	26,927
Total common shares and units	26,927	79,449	489,031	—	595,407	599,198
Total	$ 27,721	$ 79,449	$ 490,089	$ 150,296	$ 747,555	$ 751,346

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

	2008					
Asset Category	Required to be held for trading	Designated as held for trading	Available for sale at cost	Available for sale at fair value	Total carrying value	Total fair value
Short-term investments						
Canadian corporate	$ —	$ —	$ —	$ 10,687	$ 10,687	$ 10,687
Total short-term investments	—	—	—	10,687	10,687	10,687
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	—	—	—	3,068	3,068	3,068
Canadian provincial and municipal governments	—	—	—	10,562	10,562	10,562
Total government bonds issued or guaranteed	—	—	—	13,630	13,630	13,630
Canadian corporate bonds by industry sector:						
Financial services	—	—	—	12,563	12,563	12,563
Infrastructure	—	—	—	4,228	4,228	4,228
Utilities	—	—	—	4,383	4,383	4,383
Consumer staples	—	—	—	551	551	551
Industrials	—	—	—	1,471	1,471	1,471
Total Canadian corporate bonds	—	—	—	23,196	23,196	23,196
Total bonds	—	—	—	36,826	36,826	36,826
Preferred shares						
Canadian	—	—	1,058	—	1,058	1,058
Total preferred shares	—	—	1,058	—	1,058	1,058
Common shares and units						
Canadian	—	—	713,378	109,418	822,796	578,380
U.S.	—	—	—	7,807	7,807	7,807
Other	56	—	—	—	56	56
Total common shares and units	56	—	713,378	117,225	830,659	586,243
Derivatives	(283)	—	—	—	(283)	(283)
Total	$ (227)	$ —	$ 714,436	$ 164,738	$ 878,947	$ 634,531

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

Investments in common shares and units consists of private companies, units in pooled funds, and units in a common contractual fund ("common units"). Both the pooled funds and common units, which include both Canadian and foreign investments, are managed by third party investment managers.

Included in the common and preferred shares classified as AFS are $490,089 (2008 - $714,436) 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, $493,880 (2008 - $470,020), 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.

Impairment

AFS at fair value

Management regularly reviews securities classified as available for sale for evidence of impairment. The following table summarizes available for sale assets with unrealized losses recognized in AOCI as at December 31, 2008 and 2009. 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 condition 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. Management has conducted an evaluation of the portfolio and assessed the unrealized losses on the bonds as being temporary as the unrealized loss is expected to recover based on expected market conditions and there is both the ability and the intention to hold the investments awaiting recovery.

	2009		2008	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ 35,240	$ 745	$ 19,847	$ 1,910
Common shares	—	—	53,292	66,200
Total	$ 35,240	$ 745	$ 73,139	$ 68,110

The decrease in unrealized losses between December 31, 2008 and December 31, 2009 reflects the reclassification of $64,023 in unrealized losses relating to Algoma and Economic from AOCI to equity method investments as the Company acquired significant influence over both entities during the year, refer to Note 8 - Equity method investments.

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

AFS at cost

During the year, an impairment loss of $124,291 (2008 - $34,394) was recorded in the consolidated statement of loss. Impairment was assessed as being other than temporary due to a number of factors including the severity of the unrealized loss compared to cost and the amount of time the investment had an unrealized loss. An impairment review has been performed on all of the AFS investments carried at cost where there was an unrealized loss at year-end.

For additional information on the fair values of financial instruments measured at fair value, refer to Note 7 – Fair value of financial instruments. For analysis of the risks arising from financial instruments, refer to Note 24 – Risk management.

6. Investments - insurance operations

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

	Carrying Value		Fair Value	
	2009	2008	2009	2008
The Dominion	$ 2,204,288	$ 1,943,279	$ 2,208,189	$ 1,946,840
Empire	4,198,453	3,455,442	4,200,485	3,453,901
Total	$ 6,402,741	$ 5,398,721	$ 6,408,674	$ 5,400,741

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

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

(a) The Dominion

The following tables provide a comparison of carrying values and fair values of the investments held by the The Dominion as at December 31:

	2009					
Asset Category	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						
Canadian federal government	$ —	$ —	$ 149,870	$ —	$ 149,870	$ 149,870
Canadian provincial and municipal governments	—	—	2,862		2,862	2,862
Canadian corporate	—	—	30,975	—	30,975	30,975
Total short-term investments	—	—	183,707	—	183,707	183,707
Bonds and debentures						
Bonds issued or guaranteed by:						
Canadian federal government	—	—	221,346	—	221,346	221,346
Canadian provincial and municipal governments	—	—	127,859	—	127,859	127,859
Other foreign governments	—	—	1,449	—	1,449	1,449
Total government bonds issued or guaranteed	—	—	350,654	—	350,654	350,654
Canadian corporate bonds by industry sector:						
Financial services	—	—	697,564	—	697,564	697,564
Infrastructure	—	—	155,509	—	155,509	155,509
Utilities	—	—	110,549	—	110,549	110,549
Energy	—	—	34,943	—	34,943	34,943
Consumer staples	—	—	23,323	—	23,323	23,323
Industrials	—	—	12,503	—	12,503	12,503
Telecommunication services	—	—	8,612	—	8,612	8,612
Total Canadian corporate bonds and debentures	—	—	1,043,003	—	1,043,003	1,043,003
Total bonds and debentures	—	—	1,393,657	—	1,393,657	1,393,657
Preferred shares						
Canadian	—	—	149,686	—	149,686	149,686
Total preferred shares	—	—	149,686	—	149,686	149,686
Common shares						
Canadian	—	—	234,085	—	234,085	234,085
U.S.	—	—	85,230	—	85,230	85,230
Other	—	—	101,546	—	101,546	101,546
Total common shares	—	—	420,861	—	420,861	420,861
Commercial loans	—	—	—	55,010	55,010	55,010
Real estate - office properties	—	—	—	1,367	1,367	5,268
Total	$ —	$ —	$ 2,147,911	$ 56,377	$ 2,204,288	$ 2,208,189

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

	2008					
Asset Category	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						
Canadian federal government	$ —	$ —	$ 15,899	$ —	$ 15,899	$ 15,899
Canadian provincial and municipal governments	—	—	6,987	—	6,987	6,987
Canadian corporate	—	—	76,000	—	76,000	76,000
Total short-term investments	—	—	98,886	—	98,886	98,886
Bonds and debentures						
Bonds issued or guaranteed by:						
Canadian federal government	—	—	154,440	—	154,440	154,440
Canadian provincial and municipal governments	—	—	190,450	—	190,450	190,450
Other foreign governments	—	—	1,505	—	1,505	1,505
Total government bonds issued or guaranteed	—	—	346,395	—	346,395	346,395
Canadian corporate bonds by industry sector:						
Financial services	—	—	540,094	—	540,094	540,094
Infrastructure	—	—	128,042	—	128,042	128,042
Utilities	—	—	109,625	—	109,625	109,625
Energy	—	—	35,918	—	35,918	35,918
Consumer staples	—	—	14,722	—	14,722	14,722
Industrials	—	—	11,498	—	11,498	11,498
Telecommunication services	—	—	8,042	—	8,042	8,042
Total Canadian corporate bonds and debentures	—	—	847,941	—	847,941	847,941
Total bonds and debentures	—	—	1,194,336	—	1,194,336	1,194,336
Preferred shares						
Canadian	—	—	123,961	—	123,961	123,961
Total preferred shares	—	—	123,961	—	123,961	123,961
Common shares and units						
Canadian	—	—	476,082	—	476,082	476,082
U.S.	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total common shares and units	—	—	476,082	—	476,082	476,082
Commercial loans	—	—	—	48,737	48,737	48,737
Real estate - office properties	—	—	—	1,277	1,277	4,838
Total	$ —	$ —	$1,893,265	$ 50,014	$1,943,279	$1,946,840

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

At December 31, 2009, The Dominion's investment in common shares consists of common shares owned directly by The Dominion and managed by a third party investment manager. The investment in common shares includes both Canadian and foreign holdings. The foreign holdings are primarily denominated in U.S. dollars, with smaller holdings in other foreign currencies.

At December 31, 2008, The Dominion's investment in common shares consisted of units in pooled funds which were managed by an third party investment manager. Underlying the pooled fund holdings were both Canadian and foreign investments. The pooled funds contained a small cash component in addition to common share holdings. The foreign pooled fund units were valued using Canadian dollar denominated net asset values provided by the custodian of the pooled fund units.

Real estate – office properties is carried at amortized cost and the carrying value is net of accumulated amortization of $2,134 (2008 - $1,897).

Impairment

Based on the impairment review as at December 31, 2009, an impairment loss on available for sale investments of $8,149 (2008 - $ nil) has been recorded in the consolidated statements of loss. Impairment was assessed as being other than temporary on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost, the amount of time the investment had an unrealized loss, the impact of exchange rates and the intention of our investment managers regarding the investment.

The impairment review also identified available for sale investments which are considered temporarily impaired. These investments have been assessed as being temporarily impaired as there has been a positive trend of improvement in the size of the unrealized loss, the unrealized loss is expected to recover based on expected market conditions and there is both the ability and intention to hold the investments awaiting recovery. The unrealized losses recognized in AOCI for AFS investments where the cost exceeds the fair value as at December 31, 2008 and 2009 are:

	2009		2008	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Short-term investments	$ 109,650	$ 17	$ 21,891	$ 17
Bonds and debentures	179,675	3,830	509,835	33,225
Preferred shares	1,323	159	72,616	17,430
Common shares	46,521	1,877	476,082	200,025
Total	$ 337,169	$ 5,883	$ 1,080,424	$ 250,697

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

(b) Empire Life

The following tables provide a comparison of carrying values and fair values of the investments held by Empire Life as at December 31:

	2009					
Asset Category	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						
Canadian federal government	$ 1,100	$ 2,999	$ 12,986	$ —	$ 17,085	$ 17,085
Canadian corporate	—	—	19,995	—	19,995	19,995
Total short-term investments	1,100	2,999	32,981	—	37,080	37,080
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	8,353	118,406	191,664	—	318,423	318,423
Canadian provincial and municipal governments	2,952	1,423,457	149,427	—	1,575,836	1,575,836
Other foreign governments	153	—	1,418	—	1,571	1,571
Total government bonds issued or guaranteed	11,458	1,541,863	342,509	—	1,895,830	1,895,830
Canadian corporate bonds by industry sector:						
Financial services	6,551	458,469	122,544	—	587,564	587,564
Infrastructure	2,211	85,261	19,109	—	106,581	106,581
Utilities	2,250	116,047	20,108	—	138,405	138,405
Energy	475	9,013	5,252	—	14,740	14,740
Consumer staples	394	38,050	4,176	—	42,620	42,620
Industrials	165	8,664	1,327	—	10,156	10,156
Total Canadian corporate bonds	12,046	715,504	172,516	—	900,066	900,066
Total bonds	23,504	2,257,367	515,025	—	2,795,896	2,795,896
Preferred shares						
Canadian	—	275,640	124,985	—	400,625	400,625
Total preferred shares	—	275,640	124,985	—	400,625	400,625
Common shares						
Canadian	111,548	—	362,133	—	473,681	473,717
U.S.	17,989	—	27,609	—	45,598	45,598
Other	2,065	—	27,773	—	29,838	29,838
Total common shares	131,602	—	417,515	—	549,117	549,153
Mortgages	—	—	—	223,642	223,642	225,160
Real estate	—	—	—	15,601	15,601	16,079
Loans on policies	—	—	—	38,728	38,728	38,728
Policy contract loans	—	—	—	137,764	137,764	137,764
Total	$ 156,206	$2,536,006	$1,090,506	$ 415,735	$4,198,453	$4,200,485

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

Asset Category	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						
Canadian federal government	$ —	$ —	$ 2,670	$ —	$ 2,670	$ 2,670
Canadian provincial governments	—	—	11,993	—	11,993	11,993
U.S. federal government	—	—	2,461	—	2,461	2,461
Canadian corporate	—	—	58,771	—	58,771	58,771
Total short-term investments	—	—	75,895	—	75,895	75,895
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	2,303	46,721	40,015		89,039	89,039
Canadian provincial and municipal governments	3,918	1,539,252	146,285		1,689,455	1,689,455
Other foreign governments	205	—	1,474		1,679	1,679
Total government bonds issued or guaranteed	6,426	1,585,973	187,774		1,780,173	1,780,173
Canadian corporate bonds by industry sector:						
Financial services	6,557	187,502	74,813	—	268,872	268,872
Infrastructure	2,141	71,871	14,421	—	88,433	88,433
Utilities	2,065	104,842	15,097	—	122,004	122,004
Energy	517	11,303	3,336	—	15,156	15,156
Consumer staples	300	24,932	1,875	—	27,107	27,107
Industrials	192	4,756	1,248	—	6,196	6,196
Total Canadian corporate bonds	11,772	405,206	110,790	—	527,768	527,768
Total bonds	18,198	1,991,179	298,564	—	2,307,941	2,307,941
Preferred shares						
Canadian	—	171,710	76,173	—	247,883	247,883
Total preferred shares	—	171,710	76,173	—	247,883	247,883
Common shares						
Canadian	75,816	—	242,914	—	318,730	318,286
U.S.	17,966	—	37,695	—	55,661	55,661
Other	1,367	—	9,908	—	11,275	11,275
Total common shares	95,149	—	290,517	—	385,666	385,222
Mortgages	—	—	—	242,678	242,678	242,846
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

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

Impairment

AFS at fair value

Based on the impairment review as at December 31, 2009, an impairment loss on AFS investments of $34,970 (2008 - $ nil) has been recorded in the consolidated statements of loss. Impairment was assessed as being other than temporary on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost, the amount of the time the investment had an unrealized loss and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

The following table summarizes available for sale assets with unrealized losses recognized in AOCI as at December 31, 2008 and 2009. 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. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are temporary as the unrealized loss is expected to recover based on expected market conditions and there is both the ability and intention to hold the investments awaiting recovery. Accordingly, management does not consider these investments to be other than temporarily impaired.

	2009		2008	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ 186,873	$ 3,059	$ 62,988	$ 6,452
Preferred shares	20,093	1,803	69,548	12,547
Common shares	—	—	198,391	87,152
Total	$ 206,966	$ 4,862	$ 330,927	$ 106,151

AFS at cost

An impairment review has been performed on all AFS investments carried at cost where there was an unrealized loss at year end. Based on the results of this review, Empire Life recorded a pre-tax loss of $140 (2008 - $ nil) directly to the consolidated statements of loss. Management considers the impairment of these assets to be other than temporary due to the length of time that the fair value was less than cost and the extent and nature of the loss.

Mortgages and policy contract loans

Assets classified as mortgages and policy contract loans have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $10,214 (2008 - $9,301), have been reduced by an allowance for impairment of $2,061 (2008 - $2,341) and policy contract loans with a recorded value of $813 (2008 - $813) have been reduced by an allowance for impairment of $578 (2008 – $599). Empire Life holds collateral of $8,301 (2008 - $7,355) in respect of these mortgages and $235 (2008 - $214) in respect of these policy loans. Policy loans are secured by the related life insurance policies. Empire Life has recorded interest income of $994 (2008 - $890) on these assets.

For additional information on the fair values of financial instruments measured at fair value, refer to Note 7 – Fair value of financial instruments. For analysis of the risks arising from financial instruments, refer to Note 24 – Risk management.

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

7. Fair value of financial instruments

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy as described in Note 4:

Investments - corporate	2009 Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents:	$ 1,467	$ 24,579	$ —	$ 26,046
Available for sale:				
Short-term investments	—	72,622	—	72,622
Bonds and debentures	—	77,674	—	77,674
Held for trading:				
Common shares and units	26,075	80,301	—	106,376
Preferred shares	794	—	—	794
	$ 28,336	$ 255,176	$ —	$ 283,512

Investments - The Dominion	2009 Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents:	$ 364	$ 151,978	$ —	$ 152,342
Bank indebtedness	(27,907)	—	—	(27,907)
Available for sale:				
Short-term investments	—	183,707	—	183,707
Bonds and debentures	—	1,393,657	—	1,393,657
Common shares	420,861	—	—	420,861
Preferred shares	149,686	—	—	149,686
	$ 543,004	$ 1,729,342	$ —	$ 2,272,346

Investments - Empire Life	2009 Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents:	$ (12,445)	$ 161,586	$ —	$ 149,141
Available for sale:				
Short-term investments	—	32,981	—	32,981
Bonds	—	515,025	—	515,025
Common shares	415,235	—	—	415,235
Preferred shares	124,985	—	—	124,985
Held for trading:				
Short-term investments	—	4,099	—	4,099
Bonds and debentures	—	2,280,871	—	2,280,871
Common shares	131,602	—	—	131,602
Preferred shares	275,640	—	—	275,640
Derivatives:	—	2,246	—	2,246
Total	$ 935,017	$ 2,996,808	$ —	$ 3,931,825

All of the Level 1 fair value instruments are holdings in domestic and foreign common shares, units and preferred shares which have been priced using exchange listed prices or broker quotes representing actual transactions in an active market.

Instruments measured under Level 2 comprise domestic bonds, common units and short-term investments and are priced through a vendor supplied evaluated price which is based on observable market information (e.g. matrix pricing).

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 during the year ended December 31, 2009.

For additional information on the composition of the Company's invested assets, refer to Notes 5 and 6. For analysis of the Company's risks arising from financial instruments, refer to Note 24 – Risk management.

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

8. Equity method investments

	2009		2008	
	Ownership	Carrying value	Ownership	Carrying value
United	47.64%	$ 276,467	46.16%	$ 221,205
Algoma	25.39%	75,573	—	—
Economic	20.99%	48,909	—	—
Total		$ 400,949		$ 221,205

During the year, the Company acquired additional common shares of Algoma and Economic increasing its ownership to above 20% and commenced using the equity method of accounting for these investments during the year. The Company previously held Algoma and Economic as available for sale investments. Cumulative unrealized losses relating to the investments in Economic of $37,016 and Algoma of $27,007 previously recorded in accumulated other comprehensive income ("AOCI") were reversed and included in the opening assignable cost of the equity method investment. Related income taxes of $3,608 for Economic and $2,845 for Algoma recorded in AOCI have also been reversed and recorded as an increase to future income tax liabilities.

	2009	2008
Balance, beginning of year	$ 221,205	$ 309,861
Transfer from investments - corporate to equity method investments	168,951	—
	390,156	309,861
Purchase of additional shares	10,409	32,949
Share of income (loss)	66,713	(117,313)
Impairment write downs	(59,969)	—
Income (loss) recorded in the consolidated statements of loss	6,744	(117,313)
Loss recorded in the consolidated statement of comprehensive income (loss)	(814)	—
Dividends received during the year	(5,546)	(4,292)
Balance, end of year	$ 400,949	$ 221,205

As at December 31, 2009, the fair value of the equity method investments was $407,282 (2008 - $222,316). Fair value is based on the bid price for each investment multiplied by the corresponding number of common shares held. For Economic, this price was adjusted to eliminate the Company's proportionate interest in its own shares held directly and indirectly through Economic.

Management regularly reviews equity method investments for evidence of impairment. As at December 31, 2009, impairment losses of $59,969 (2008 - $ nil) were recorded in the consolidated statements of loss. Impairment was assessed as being other than temporary due to a number of factors including the severity of the unrealized loss compared to cost and the amount of time the investment had an unrealized loss.

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

9. Investment and other income

Investment and other income is comprised of the following:

	2009	2008
Interest income	$ 229,113	$ 219,219
Fee income	95,453	103,171
Dividend income	65,057	68,548
Real estate income	1,300	982
Other	7,607	11,835
	$ 398,530	$ 403,755

Included in interest income is $120,045 (2008 - $49,915) relating to assets not classified as held for trading.

10. Held for trading investments

Composition of change in fair value of held for trading ("HFT") investments:

	2009	2008
Change in fair value of instruments required to be classified as HFT	$ 30,793	$ (40,974)
Change in fair value of instruments designated as HFT	78,507	(204,570)
	$ 109,300	$ (245,544)

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

11. Policy liabilities

Policy liabilities are comprised of:

	2009			2008		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
The Dominion unearned premiums provision	$ 572,713	$ 9,327	$ 563,386	$ 530,018	$ 8,609	$ 521,409
The Dominion unpaid and unreported claims provision	1,568,288	62,904	1,505,384	1,467,985	52,456	1,415,529
Empire Life benefits and expense provision	3,254,885	29,291	3,225,594	2,887,503	43,802	2,843,701
	$5,395,886	$ 101,522	$5,294,364	$4,885,506	$ 104,867	$4,780,639

The Dominion's 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 Dominion's 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 Dominion's guarantees the life insurers' obligations under these annuities which are estimated to be $204,491 (2008 - $206,636) based on the net present value of the projected future cash flows of these guarantees in 2009. The Dominion acquires these annuities from reputable credit-worthy life insurance companies whose obligations are insured, within limits, by Assuris. The Company considers the credit risk of such guarantees to be insignificant.

Unpaid and unreported claims and reinsurance recoverable are discounted in accordance with accepted actuarial practice in Canada for The Dominion. The weighted average discount rate used for 2009 was 3.1% (2008 – 4.6%). The average discount rate used by the Facility Association was 2.2% (2008 – 2.8%). The impact of a 100 basis point decrease (increase) in the weighted average discount rate is an increase (decrease) in the 2009 net unpaid and unreported claims provision carrying value of $42,452 (2008 - $37,364). This calculation is based on the estimated weighted average maturity of the cash flows (net of tax) on the net claims, assumes a parallel shift and holds all other variables constant.

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

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

The change in The Dominion's unpaid and unreported claims provision is outlined below:

	2009	2008
Balance, beginning of year	$ 1,415,529	$ 1,341,103
Change in prior years' claims estimates	(57,765)	(71,496)
Interest cost	50,035	51,255
Impact of change in discount rate	43,300	2,512
Current year claims incurred	867,861	786,308
Claims payments	(813,576)	(694,153)
Balance, end of year	$ 1,505,384	$ 1,415,529

The 2009 reduction in prior year claims estimates of $57,765 consists of: $20,535 favourable in automobile lines, most of which is attributable to the favourable outcomes regarding legal challenges to provincial regulations in Alberta and Nova Scotia that cap insurance coverage for minor injuries; $8,057 favourable in personal property reflecting better than expected experience from recent accident years; and $29,173 favourable in commercial property and casualty, arising mainly from better than expected experience on old general liability claims estimates. The reduction in claims estimates of $71,496 recognized in 2008 consisted 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 change in net policy liabilities related to Empire Life is outlined below:

	2009	2008
Balance, beginning of year	$ 2,843,701	$ 3,012,545
Changes in methods and assumptions	(5,056)	(47,741)
Normal changes - new business	310,975	120,834
- in-force business	75,974	(241,937)
Balance, end of year	$ 3,225,594	$ 2,843,701

The changes in actuarial methods and assumptions in 2009 include a net decrease of $28,756 (2008 - $22,712) to reflect improving mortality/morbidity experience, a net increase of $12,072 (2008 - $14,278) to reflect decreases in the investment return assumptions, and a net decrease of $ nil (2008 - $43,853) to reflect an updated approach for establishing the insurance mortality assumption. The net impact of other changes amounted to a net increase of $11,628 (2008 - $4,546).

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.

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

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 $22,100 (2008 - $20,500) 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 $25,700 (2008 - $23,700) in net income and that net income is not sensitive to likely short term swings in expenses.

12. Other assets

Other assets are comprised of the following:

	2009	2008 (Note 3)
Due from Facility Association	$ 8,765	$ 7,114
Capital assets, at cost (net of accumulated amortization of $23,082 (2008 - $23,988)	13,414	14,503
Intangibles, at cost (net of accumulated amortization of $48,172 (2008 - $44,141))	31,080	27,660
Due from reinsurance companies	6,960	10,025
Pension asset (Note 21)	11,376	6,791
Other	13,510	15,088
	$ 85,105	$ 81,181

13. Other liabilities

	2009	2008
Accounts payable	$ 69,576	$ 64,903
Bank indebtedness (Note 26)	27,907	31,827
Short-term debt (1)	—	24,838
Accrued employee future benefit liabilities (Note 21)	21,330	25,539
Unearned premium finance fee income	5,621	3,444
Other	56,452	49,605
	$ 180,886	$ 200,156

(1) During 2008, the Company entered into a 364 day revolving committed credit facility of $65,000 which matured on September 30, 2009. The balance was paid in full during the year and the credit facility has been closed.

14. 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. 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, the insurance subsidiaries assess the credit risk associated with the reinsurance recoverable to be insignificant.

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

The Dominion'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 Dominion also has a catastrophe reinsurance arrangement providing coverage up to $600,000 (2008 - $500,000), in the event of a series of claims arising out of a single occurrence, under which The Dominion is responsible for the first $15,000 plus 2.5% of the first $60,000 of claims exceeding that retention level. Empire Life'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 $119,368 (2008 - $106,447) in insurance premiums.

15. Share capital

	Authorized	Issued	2009	2008
Preferred shares				
Series A Preference shares (1)	402,733	258	$ 1	$ 1
First Preference shares, Series 1 (2a)	unlimited	4,000,000	100,000	100,000
First Preference shares, Series 2 (2b)	unlimited	4,000,000	100,000	100,000
Common shares	unlimited	4,019,409	72,387	72,387
Total			$ 272,388	$ 272,388

1. 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.
2. 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, 2009 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.

   (a) 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.

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

(b) 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.

Dividends during the year are as follows:

	2009	2008
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

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 Adjusted Common Shares, the dividend is $0.61 (2008 - $0.60) per share.

16. Earnings per share ("EPS")

Net income (loss) per share has been calculated by dividing net income (loss) for the year, less dividends paid on preference shares, by the amount equal to the total number of adjusted common shares outstanding of 4,019,667 less 701,503 (2008 - 693,819), which is the Company's proportionate interest in its own common shares held indirectly.

The following is a reconciliation of the numerators and the denominators of the basic and diluted loss per common share computations:

	2009	2008 (Note 3)
Net loss	$ (184,535)	$ (127,313)
Dividends on First Preference shares	(10,050)	(10,050)
Net loss available to Adjusted Common Shares	$ (194,585)	$ (137,363)
Number of Adjusted Common Shares outstanding - basic	3,318,164	3,325,848
Dilutive effect of convertible First Preference shares into common Shares	534,018	387,518
Number of Adjusted Common Shares outstanding - diluted	3,852,182	3,713,366

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

17. Shareholders' equity entitlement

Shareholders' entitlement to $5,381 (2008 - $3,727) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

18. Income taxes

The combined statutory Canadian federal and provincial tax rate applicable to the Company and its subsidiaries in 2009 approximates 32.8% (2008 - 34.5%). 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:

	2009	2008 (Note 3)
Income taxes (recovery) at statutory rate	$ (81,527)	$ (37,151)
Variance as a result of:		
Tax-paid dividends	(17,039)	(14,325)
Non-taxable portion of losses	17,239	57,596
Unused realized losses not recognized for accounting purposes	—	5,402
Substantively enacted changes in income tax rates	7,952	489
Impact of recognizing tax rule changes	(12,565)	—
Other	(80)	500
Income tax provision (recovery)	$ (86,020)	$ 12,511

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

	2009	2008 (Note 3)
Current	$ 4,824	$ 32,239
Future	(90,844)	(19,728)
	$ (86,020)	$ 12,511

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:

	2009	2008 (Note 3)
Investments	$ (94,902)	$ (123,349)
Policy liabilities	73,806	81,426
Losses recoverable in future years	76,030	18,682
Other	4,204	3,677
Future income taxes receivable (payable)	$ 59,138	$ (19,564)

Recorded as:	2009	2008
Future income tax asset	$ 77,467	$ 20,278
Future income tax liability	(18,329)	(39,842)
	$ 59,138	$ (19,564)

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

During 2009, the Company and its subsidiaries paid income tax instalments and assessments totaling $10,126 (2008 - $31,158) and received income tax refunds totaling $73,305 (2008 - $36,199).

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, 2009 amount to $9,615 (2008 - $9,141). The potential benefit of this amount has not been reflected in these consolidated financial statements.

On March 4, 2009, proposed amendments to the Income Tax Act passed third reading causing these amendments to be considered substantively enacted for financial reporting purposes. 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 the accounting for financial instruments adopted in 2007. The impact of these amendments, which were recorded during the first quarter of 2009, was to increase net income by $100,425, increase the future income taxes asset by $90,658, decrease income taxes receivable by $3,201, increase non-controlling interest in subsidiaries by $4,515, increase participating policyholders' interest by $13,600 and decrease policy liabilities by $31,083.

19. Other comprehensive income

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

	Income Taxes		NCI/PAR	
	2009	2008	2009	2008
Unrealized fair value change on available for sale investments	$ 133,484	$ (81,939)	$ 20,584	$ (38,926)
Unrealized fair value change reclassified to equity method investments	(6,453)	—	—	—
Realized gain (loss) on available for sale investments including impairment write downs	(24,357)	22,604	6,867	10,782
Total expense (recovery) included in OCI	$ 102,674	$ (59,335)	$ 27,451	$ (28,144)

In anticipation of the issuance of unsecured subordinated debentures (note 33), Empire Life entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative has been accounted for as a hedging item in a cash flow hedging relationship.

On a year to date basis, the Company recognized a loss of $1,265 (2008 - $215) related to the ineffective portion of its cash flow hedge in investment income on the consolidated statements of income. The Company expects to reclassify a loss of $684 from AOCI to investment income on the consolidated statements of loss in the next twelve months.

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

20. Analysis of net loss

Components of net loss, each net of policyholders' and non-controlling interest, is as follows:

	2009	2008 (Note 3)
Income excluding undernoted	$ 45,298	$ 111,254
Realized loss on available for sale investments including impairment write downs	(242,288)	(132,456)
Income (loss) from equity method investments	12,455	(106,111)
	$ (184,535)	$ (127,313)

21. 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 2009, 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 $16,879 (2008 - $11,740).

(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	
	2009	2008	2009	2008
Accrued benefit obligation				
Balance at beginning of year	$ 125,337	$ 145,572	$ 20,001	$ 23,311
Current service cost	2,438	5,038	413	698
Employee contributions	1,933	1,926	—	—
Interest cost	8,322	8,162	1,254	1,200
Benefits paid	(8,298)	(8,440)	(1,039)	(972)
Actuarial loss (gain)	5,209	(29,444)	2,828	(4,236)
Special termination benefit costs	—	2,523	—	—
Balance at end of year	$ 134,941	$ 125,337	$ 23,457	$ 20,001
Plan assets				
Fair value at beginning of year	$ 122,824	$ 147,339	$ —	$ —
Actual return on plan assets	20,330	(25,276)	—	—
Employer contributions	12,071	7,275	—	—
Employee contributions	1,933	1,926	—	—
Purchase of annuity for ad-hoc pension increase	(204)	—	—	—
Benefits paid	(8,094)	(8,440)	—	—
Fair value at end of year	$ 148,860	$ 122,824	$ —	$ —
Funded status - plan surplus (deficit)	$ 13,919	$ (2,513)	$ (23,457)	$ (20,001)
Unamortized net actuarial loss (gain)	(221)	7,122	2,594	(429)
Unamortized transitional obligation (asset)	(3,070)	(3,647)	281	720
Accrued benefit asset (liability)	$ 10,628	$ 962	$ (20,582)	$ (19,710)
Recorded in the consolidated balance sheet as:				
Other assets	$ 11,376	$ 6,791	$ —	$ —
Other liabilities	(748)	(5,829)	(20,582)	(19,710)
Accrued benefit asset (liability)	$ 10,628	$ 962	$ (20,582)	$ (19,710)

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

	Pension Benefit Plans		Other Benefit Plans	
	2009	2008	2009	2008
Accrued pension obligation	$ 3,136	$ 107,000	$ 23,457	$ 20,001
Plan assets at fair value	$ 1,963	$ 96,960	$ —	$ —

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

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	
	2009	2008	2009	2008
Annual net benefit cost (income)				
Current service cost	$ 2,438	$ 5,038	$ 413	$ 698
Interest cost	8,322	8,162	1,254	1,200
Actual return on plan assets	(20,330)	25,276	—	—
Actuarial loss (gain)	5,209	(29,444)	2,828	(4,236)
Special termination benefit costs	—	2,523	—	—
Employee future benefit cost (income) prior to adjustments to recognize long-term nature	(4,361)	11,555	4,495	(2,338)
Adjustments to recognize long-term nature:				
Difference between expected return and actual return on plan assets	12,517	(34,538)	—	—
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain)	(5,171)	29,832	(2,979)	4,427
Amortization of transitional obligation (asset)	(577)	(577)	439	439
Net benefit cost recognized for the year	$ 2,408	$ 6,272	$ 1,955	$ 2,528

For pension benefit plans, the net benefit cost recognized for the period includes a special termination benefit of $ nil (2008 - $2,523) in connection with a voluntary early retirement offered to eligible employees.

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, 2009	January 1, 2010
Staff Pension Plan (Empire and E-L)	December 31, 2008	December 31, 2011
Executive Pension Plan (The Dominion)	September 30, 2009	September 30, 2010
Supplemental Employee Retirement Benefit Plan(Empire and E-L)	December 31, 2009	December 31, 2010
Retiree Health Benefits (The Dominion)	January 1, 2009	January 1, 2012
Retiree Health Benefits (Empire and E-L)	December 31, 2008	December 31, 2011

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

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:

	2009	2008
Staff Pension Plan (The Dominion)	7 years	7 years
Staff Pension Plan (Empire and E-L)	12 years	22 years
Executive Pension Plan (The Dominion)	15 years	14 years
Supplemental Employee Retirement Benefit Plan (Empire and E-L)	10 years	14 years
Retiree Health Benefits (The Dominion)	11 years	11 years
Retiree Health Benefits (Empire and E-L)	9 years	8 years

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Benefit Plans	
	2009	2008	2009	2008
Accrued benefit obligation as of December 31:				
Discount rate	6.3%	7.3%	6.3%	7.3%
Rate of compensation increase	3.6%	3.6%	N/A	N/A
Benefit costs for years ended December 31:				
Discount rate	7.3%	5.5%	7.3%	5.4%
Expected long-term rate of return on plan assets	6.3%	6.1%	N/A	N/A
Rate of compensation increase	3.6%	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	6.3%	6.4%
Cost trend rate declines to	N/A	N/A	4.5%	4.3%
Year ultimate rate reached	N/A	N/A	2018	2019

A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

	Increase	Decrease
Annual total service and interest cost	$ 341	$ (268)
Accrued benefit obligation	3,322	(2,686)

Plan assets consist of the following asset categories:

	Percentage of Plan Assets	
	2009	2008
Equity securities	52%	47%
Debt securities	34%	36%
Refundable tax deposits and cash	14%	17%
	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 $3,713 (2008 - $3,410).

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

22. Segmented information

In managing its investments, the Company distinguishes between its Corporate Investments (including investments - corporate and equity method investments), its investment in The Dominion and its investment in Empire Life.

	2009			
	Corporate Investments	The Dominion	Empire Life	Total
Premium income	$ —	$1,086,026	$ 839,876	$1,925,902
Change in fair value of held for trading investments	2,601	—	106,699	109,300
Realized gain on held for trading investments	249	—	30,641	30,890
Realized loss on available for sale investments including impairment write downs	(123,538)	(159,913)	(34,409)	(317,860)
Investment and other income	18,060	101,053	279,417	398,530
Income from equity method investments	6,744	—	—	6,744
Taxes	(21,524)	(27,840)	16,158	(33,206)
Policyholders' and non-controlling interest's portion of income	—	—	22,076	22,076
Segment net (loss) income	(75,781)	(151,604)	42,850	(184,535)
Segment assets	1,179,028	2,980,665	4,427,941	8,587,634

	2008			
	Corporate Investments	The Dominion[1]	Empire Life	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 held for trading investments	(2,934)	—	19,920	16,986
Realized loss on available for sale investments including impairment write downs	(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)	44,520	40,289	62,447
Policyholders' and non-controlling interest's portion of income	—	—	6,565	6,565
Segment net (loss) income	(161,457)	(4,379)	38,523	(127,313)
Segment assets	1,125,298	2,648,264	3,790,608	7,564,170

(1) Restated, see Note 3

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

23. Commitments

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

2010	$	17,170
2011		14,234
2012		11,023
2013		8,736
2014		6,632
Thereafter		14,107
	$	71,902

24. Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to financial risks arising from its insurance operations and investing activities. For investment risks, the Company is exposed to credit risk, liquidity risk and various market risks including equity price risk, interest rate risk and foreign currency risk.

Corporate Investments:

The Company owns investments in equities and fixed income securities directly and indirectly through pooled funds and other investment companies. In addition, the company has significant investments in Economic and United, both closed-end investment companies and Algoma, a shipping company, which are accounted for as equity method investments.

The company maintains a strategy of long-term growth through investments in common equities. The externally managed portfolios of equities and fixed income securities have mandates in which the manager's performance is evaluated. Their performance is reviewed by management on a monthly basis, evaluating performance over a period of time relative to their mandate. On a quarterly basis the Board of Directors reviews the Corporate Investments portfolio, including investment performance benchmarked against the relevant indices, exposure by geographic distribution, investment concentration and significant movements in the investment portfolios during the period.

The Dominon and Empire Life:

The Dominion and Empire Life have investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. Investing activities are subject to the Insurance Companies Act and to Investment Guidelines established by the Investment Committee of the individual company's Board of Directors. The Dominion's and Empire Life's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

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

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes a financial loss to another party. The gross credit risk exposure for the Company related to its financial instruments is as follows:

	2009	2008
Cash, cash equivalents and short-term investments	$ 633,383	$ 557,281
Bonds and debentures	4,267,227	3,539,103
Preferred shares	552,163	372,902
Mortgages	223,642	242,678
Loans on policies	38,728	37,161
Policy contract loans	137,764	142,863
Commercial loans	55,010	48,737
Income tax receivable	2,528	97,306
Investment income accrued	31,613	26,140
Recoverables from reinsurers	101,522	104,867
Premiums receivables	301,547	276,911
	$ 6,345,127	$ 5,445,949

a) Investments in bonds and debentures

The following tables provide the composition of the fixed income portfolio classified by the issuer's credit rating:

Corporate Investments	2009		2008	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 32,812	42%	$ 4,718	13%
AA	5,572	7%	7,161	19%
A	33,188	43%	20,706	56%
BBB	6,102	8%	4,241	12%
Total	$ 77,674	100%	$ 36,826	100%

As of December 31, 2009, holdings of fixed income securities in the ten issuers (excluding federal governments) to which the Company had the greatest exposure were $15,595 (2008 – $10,706), which was approximately 2.0% (2008 – 1.2%) of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of December 31, 2009 was $1,637 (2008 – $878), which was approximately 0.2% (2008 – 0.1%) of total cash and investments.

The Dominion	2009		2008	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 249,767	18%	$ 158,307	13%
AA	249,372	18%	369,734	31%
A	784,783	56%	576,413	49%
BBB	109,735	8%	85,155	7%
BB	—	0%	4,727	0%
Total	$ 1,393,657	100%	$ 1,194,336	100%

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

As of December 31, 2009, holdings of fixed income securities in the ten issuers (excluding federal governments) to which the Company had the greatest exposure were $795,766 (2008 – $642,510), which was approximately 33.8% (2008 – 30.4%) of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of December 31, 2009 was $112,723 (2008 – $88,277), which was approximately 4.8% (2008 – 4.2%) of total cash and investments.

Empire Life	2009		2008	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 323,732	12%	$ 90,759	4%
AA	811,887	29%	935,933	41%
A	1,523,876	55%	1,166,574	50%
BBB	130,882	4%	109,939	5%
BB	5,519	0%	4,736	0%
Total	$ 2,795,896	100%	$ 2,307,941	100%

As of December 31, 2009, holdings of fixed income securities in the ten issuers (excluding federal governments) to which the Company had the greatest exposure were $2,174,181 (2008 - $2,040,957), which was approximately 50.0 % (2008 – 56.3%) of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of December 31, 2009 was $88,790 (2008 – $59,847), which was approximately 2.0% (2008 – 1.6%) of total cash and investments.

b) Preferred shares

The Dominion's preferred share investments are all issued by Canadian companies with 79% (2008 – 68%) of these investments rated as P1 as at December 31, 2009 and the remaining 21% (2008 – 32%) rated as P2.

Empire Life's preferred share investments are all issued by Canadian companies with 82% (2008 – 73%) of these investments rated as P1 as at December 31, 2009 and the remaining 18% (2008 – 27%) rated as P2.

c) Commercial loans

The Dominion provides commercial loans to certain independent insurance brokers with whom it conducts business. These loans are provided on market terms. Substantially all of these loans are secured by the related borrower's assets, the primary asset being the borrower's 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.

d) Mortgages and policy contract loans

As at December 31, 2009, financial assets past due, but not impaired are $9,270 (2008 - $ nil). This amount is comprised entirely of mortgages past due less than 90 days.

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

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its cash flow commitments associated with its financial instruments. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

Corporate Investments:

The majority of the Corporate Investment's obligations relate to its ability to pay annual dividend commitments of $12,060 (2008 - $12,060) and to meet ongoing operating expenses as they fall due. In most years, the Company is able to fund these obligations by its cashflow from net investment income earned on its investment portfolio. In addition to this, the Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cashflow deficiencies.

	2009	2008
Cash and cash equivalents	$ 26,046	$ 11,556
Short-term investments	72,622	10,687
Bonds	77,674	36,826
	$ 176,342	$ 59,069

The average duration of the bond portfolio at December 31, 2009 is 4.1 years (2008 - 4.7 years) with 92% of the bonds with an issuer credit rating of A or better (2008 - 88%).

The Dominion:

The majority of The Dominion's obligations relate to its policy liabilities which cover a range of expected durations, including short term claims expected to be substantially paid within one year relating to property and automobile damage coverage and longer term claims relating to automobile accident benefits and bodily injury claims and general liability claims. The weighted average duration of The Dominion's unpaid and unreported claims is 4.0 years. The remaining obligations of The Dominion relate to ongoing operating expenses as they fall due, all of which are expected to settle in a very short period of time.

In most years, The Dominion is able to fund its short term cash outflows by generating positive cash flow from operations and from investment income earned on its investment portfolio. As well, the Company maintains a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2009, 14.2% (2008 – 12.7%) of cash and investments were held in these shorter duration investments.

The following table provides bonds by contractual maturity (using the earliest contractual maturity date):

	2009		2008	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	$ 224,820	16%	$ 165,294	14%
1 - 3 years	522,574	37%	397,194	33%
3 - 5 years	273,017	20%	341,445	29%
Over 5 years	373,246	27%	290,403	24%
Total	$ 1,393,657	100%	$ 1,194,336	100%

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

Along with holding short duration investments, The Dominion maintains liquidity in its investment portfolios by managing the maturity profile to provide a steady cash flow from maturities and by holding high quality marketable investments that may easily be sold prior to maturity, if necessary.

Empire Life:

The majority of Empire Life's obligations relate to its policy liabilities the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. – cash withdrawal, mortality, morbidity). The remaining obligations of Empire Life relate to the subordinated debenture which matures in 2019 (refer to note 33 - Subordinated debt) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

Empire Life is able to fund its short term cash outflows by generating positive cash flow from operations (in most years) and from investment income earned on its investment portfolio. An Asset-Liability Management Committee, which meets regularly monitors the matched position of Empire Life's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Empire Life maintains a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2009, 4.3% (2008 – 6.9%) of cash and investments were held in these shorter duration investments.

The following table provides bonds by contractual maturity (using the earliest contractual maturity date):

	2009		2008	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	$ 146,214	5%	$ 70,210	3%
1 - 5 years	344,287	12%	248,115	11%
5 - 10 years	270,540	10%	255,607	11%
Over 10 years	2,034,855	73%	1,734,009	75%
Total	$ 2,795,896	100%	$ 2,307,941	100%

Where the policy liabilities have a longer term than most available bonds and mortgages, Empire Life's policy is to cover estimated policy liability cash flows rigorously only for a rolling 20-year period. In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then increased directly where necessary to provide for credible adverse future scenarios.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, the trading prices of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are interest rate risk, market price fluctuations and foreign currency risk.

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

a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can result from many factors including general market volatility, or specific social, political or economic events. Changing interest rates have a direct impact on the market value of the Corporate Investment and Insurance Operation's fixed income investments, which total $4.6 billion at December 31, 2009 (2008 - $3.7 billion) on a consolidated basis. Rising interest rates will lead to declines in the fair value of these investments and falling interest rates will lead to increases in the fair value of these investments.

This calculation is based on the estimated weighted average maturity of the cash flows (net of tax) on the investments, assumes a parallel shift and holds all other variables constant.

A 100 basis point change in market interest rates would lead to the following changes in net income and OCI:

	Impact on Net Income		Impact on OCI	
	2009	2008	2009	2008
Corporate Investments	$ —	$ —	$ 2,855	$ 1,196
The Dominion	—	—	31,621	27,101
Empire Life	—	—	11,075	4,337

Unpaid and unreported claims and reinsurance recoverable are discounted in accordance with accepted actuarial practice in Canada. As a mitigating factor to the interest rate risk relating to The Dominion's bonds and debentures, The Dominion manages the average duration of its bond portfolio within a range of the average duration of net unpaid claims liabilities established by the Investment Committee of the Board. Although the range does not constitute strict asset and liability matching, the majority of unrealized gains and losses on bonds that are generated by changes in the market interest rates are substantially offset by changes in the carrying value of net unpaid claims on a discounted basis that are generated by changes in the claims discount rate (due to changes in the underlying market interest rates of the bond portfolio).

Empire Life's exposure to interest rate, foreign currency and other price risks in its held for trading 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.

b) Market price fluctuations

The Company maintains a strategy of long-term growth through investments in common equities as management believe that over long periods of time, common equities, as an asset class, will outperform fixed income instruments or balanced funds. The Company regularly reviews its portfolio and, while expecting and tolerating the volatility associated with such investments, attempts to mitigate its exposure to this risk through diversification.

A core aspect of the insurance operations investment strategy is to invest the majority of its shareholder capital in publicly-listed "large cap" common stocks, in pursuit of their superior long-term returns. Therefore, the insurance operations have a relatively large common stock portfolio and are exposed to significant loss from declines in their fair values.

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

The insurance operations manage market risk exposure mainly through investment limits, oversight of Empire's in-house investment mangers which manage assets for both insurance operations, and in the case of The Dominion, oversight of the third party investment manager appointed by its Investment Committee to manage its investments in equities. The Investment Committees of the insurance operations meet quarterly to review the composition and performance of managed assets. The investments are exposed to fair value changes and this exposure is not hedged.

The following table summarizes the potential impact on the Company's net income and OCI of both a 10% and a 20% change in equity markets. The Company used a 10% increase or decrease in equity markets as such a change is considered to be a reasonably possible change in equity markets based on historic results and is a useful comparator as it is commonly used. The Company used a 20% increase or decrease in its equity market to illustrate that changes in equity markets in excess of 10% may result in both linear and non-linear impacts, and a 20% change in equity markets is a commonly used additional sensitivity factor.

The calculations below assume that all other variables are held constant and that all of the Company's equities move according to a one-to-one correlation with the equity markets.

	2009		2008	
	Effect on other comprehensive income	Effect on net income	Effect on other comprehensive income	Effect on net income
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ —	9,377	$ 9,798	19
20% fluctuation	—	18,755	19,596	38
Equity method investments				
10% fluctuation	—	34,294	—	22,749
20% fluctuation	—	68,588	—	45,498
The Dominion:				
10% fluctuation	28,446	—	40,865	—
20% fluctuation	56,892	—	81,730	—
Empire Life:				
Insurance operations				
10% fluctuation	20,870	5,614	15,695	4,924
20% fluctuation	41,739	11,278	31,390	9,574
Segregated fund guarantee				
10% increase	—	—	—	3,775
10% decrease	—	—	—	(16,180)
20% increase	—	—	—	3,775
20% decrease	—	—	—	(33,979)

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

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.

Corporate Investments largest exposure to common equities relates to its investment of $400,949 (2008 - $221,205) in equity method investments which represents 34% (2008 - 19.7%) of Corporate Investments' total assets.

	The Dominion		Empire Life	
	2009	2008	2009	2008
Exposure to the ten largest common equity holdings	$ 121,273	$ 101,963	$ 200,399	$ 179,155
As a percentage of the total cash and investments	5.1%	4.8%	4.6%	4.9%
Exposure to the largest single issuer of common equities	$ 19,297	$ 16,794	$ 42,430	$ 34,361
As a percentage of the total cash and investments	0.8%	0.8%	1.0%	1.0%

c) Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's exposure to foreign currency is limited to its investments in common shares and units. The U.S. dollar represents the largest currency exposure. In addition, the Company has exposure to several currencies worldwide, reflecting the global diversity of its non-Canadian portion of its investments. These investments are managed by both Empire Life's in-house investment managers and third party investment managers, with decisions regarding exposure to currency risk are part of the investment manager's strategy. As of December 31, 2009, with the exception of a currency hedge with notional value of U.S. $11,475 on one stock at Empire Life, the exposures to the U.S. dollar and other currencies have not been hedged.

A 10% fluctuation in the U.S. dollar would have the following impact:

Corporate Investments: Approximately $10,279 (2008 - $6,590) on net income and $4,712 (2008 - $ nil) on other comprehensive income.

The Dominion: Approximately $ nil on net income and $5,761 (2008 - $19,961) on other comprehensive income.

Empire Life: Approximately $ nil on net income and $2,846 (2008 - $3,969) on other comprehensive income.

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

25. Derivative financial instruments

In the ordinary course of business, Empire Life 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, Empire Life may use futures contracts and foreign currency forward contracts in its shareholders' and policyholders' equity account. Empire Life may also use other equity derivative contracts as part of a portfolio of assets to match policy liabilities as to duration and amounts. Empire Life uses bond contracts for cash flow hedging purposes (refer to note 4 - Hedge accounting).

In 2008 Investments - corporate included foreign currency forward contracts and equity options as invested assets. The notional value of these contracts was $10,994. There are no derivative financial instruments in 2009.

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.

Current replacement costs represent the estimated cost of replacing all contracts with a positive value, at current quoted market prices. For over-the-counter contracts, the current replacement cost represents the estimated current fair values.

Credit equivalent amounts are the current replacement cost plus an amount for future credit exposure associated with the potential future changes in currency and interest rates. The future credit exposure is calculated using a formula prescribed by OSFI in its capital adequacy guidelines.

	2009			2008		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Positive	Negative	Amount	Positive	Negative
Exchange-traded						
Equity index futures	$ 10,128	$ 66	$ —	$ 9,312	$ 206	$ 44
Equity options	7	3	—	92	9	22
Over-the-counter						
Foreign currency forwards	22,425	124	247	8,387	239	2,148
Other equity contracts	15,515	2,300	—	15,515	5,302	—
Bond forward contracts	—	—	—	75,000	—	5,351
Total	$ 48,075	$ 2,493	$ 247	$ 108,306	$ 5,756	$ 7,565

All contracts mature in less than one year except for other equity contracts which mature in one to five years. Fair value positive amounts and fair value negative amounts are reported on the balance sheet as other assets and accounts payable and other liabilities respectively. Counterparty ratings for all derivatives have an independent credit rating of “AA-”.

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

26. 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:

	2009	2008
Cash	$ (10,614)	$ (10,740)
Cash equivalents	338,143	368,034
	327,529	357,294
Bank indebtedness (Note 13)	(27,907)	(31,827)
	$ 299,622	$ 325,467

27. 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 also 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 $721,705 (2008 - $660,004), 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.

28. Guarantees and other contingencies

The Company's 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 indemnifications 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.

29. 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 received administrative service fees of $907 (2008 - $1,112) from United and Economic.

The Company's investments in common and preferred stock include $328,580 (2008 - $453,822) 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 $11,092 (2008 - $11,508).

30. Variable interest entities ("VIE")

In the ordinary course of business, the Corporate Investments segment invests in investment funds managed by third parties which are considered VIE for financial reporting purposes. Investments with a carrying value of $161,509 (2008 - $313,906) represent significant variable interests in VIE where the Company is not considered the primary beneficiary. As such, the Company has not consolidated these entities.

31. Capital management

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 supervisory target for the prescribed Minimum Capital Test ("MCT"), which calculates a ratio of capital available to capital required. As at December 31, 2009, The Dominion exceeded OSFI's supervisory 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 Life's capital consists of two tiers. Empire Life'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 equity 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. As at December 31, 2009, Empire Life exceeded both of these requirements.

32. Accumulated other comprehensive income (loss)

Shareholders' accumulated other comprehensive (loss) income is comprised of unrealized gains net of income tax on available for sale assets of $114,465 (2008 - losses of $319,007) and unrealized losses net of income tax on derivatives designated as cash flow hedges $1,831 (2008 - $2,770).

33. Subordinated debt

On May 20, 2009, Empire Life issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of May 20, 2019. The interest rate from May 20, 2009 until May 20, 2014 is 6.73% and the interest rate from May 20, 2014 until May 20, 2019 will be equal to the 3-month Canadian Deposit Offering Rate plus 5.75%. Interest is payable semi-annually at May 20 and November 20 until May 20, 2014 and quarterly thereafter with the first such payment on August 20, 2014. During the year, total interest of $6,730 was paid on the debentures. The debenture has been recorded at amortized cost using the effective interest rate method. At December 31, 2009, the subordinated debenture had a carrying value of $198,980 and a fair value of $213,420.

The debt is subordinated in right of payment to all policy liabilities of Empire Life and all other senior indebtedness. Empire Life may call for redemption of the issue at any time subject to the approval of the Office of the Superintendent of Financial Institutions. The holder has no right of redemption.

34. Comparative information

Certain comparative information has been restated due to the items discussed in Notes 2 and 3.

Summary of Consolidated Results

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

(Unaudited)

	2009	2008[1]	2007	2006	2005
Premium income	$ 1,925,902	$ 1,709,435	$ 1,630,208	$ 1,628,870	$ 1,600,708
Gain on sale of investments	—	—	—	73,289	36,356
Amortization of investment gains	—	—	—	61,967	51,795
Income (loss) from equity method investments	6,744	(117,313)	(20,119)	56,850	52,432
Change in unrealized appreciation of portfolio investments	—	—	—	124,951	132,094
Change in fair value of held for trading investments	109,300	(245,544)	(83,317)	—	—
Realized gain on held for trading investments	30,890	16,986	65,916	—	—
Realized (loss) gain on available for sale investments including impairment write downs	(317,860)	(167,171)	175,397	—	—
Investment and other income	398,530	403,755	394,861	374,867	327,806
Total revenues	2,153,506	1,600,148	2,162,946	2,320,794	2,201,191
Claims and policy benefits	1,784,877	1,106,568	1,273,824	1,220,550	1,194,593
Expenses (including commissions)	564,294	551,881	561,914	527,023	497,423
Taxes	(33,206)	62,447	109,410	167,573	165,464
	(162,459)	(120,748)	217,798	405,648	343,711
Policyholders' and non-controlling interest portion of income	22,076	6,565	7,110	33,128	50,008
Net (loss) income	$ (184,535)	$ (127,313)	$ 210,688	$ 372,520	$ 293,703
Net (loss) income per share - basic	$ (58.64)	$ (41.30)	$ 60.29	$ 109.97	$ 86.68

[1] Restated, see Note 3

Assets					
Cash and cash equivalents	$ 327,529	$ 357,294	$ 364,785	$ 219,400	$ 318,183
Equity method investments	400,949	221,205	309,861	331,698	271,712
Investments - corporate	747,555	878,947	1,097,886	1,026,175	1,085,173
Investments - insurance operations	6,402,741	5,398,721	5,687,639	4,983,381	4,422,214
Reinsurance recoverable	101,522	104,867	199,957	183,598	249,836
Premiums receivable	301,547	276,911	259,894	258,004	258,779
Other assets	305,791	326,225	320,966	356,356	349,287
	8,587,634	7,564,170	8,240,988	7,358,612	6,955,184
Segregated funds	4,310,401	3,348,827	4,594,300	3,847,800	2,875,800
	$12,898,035	$10,912,997	$12,835,288	$11,206,412	$ 9,830,984
Liabilities					
Policy liabilities	$ 5,395,886	$ 4,885,506	$ 5,050,514	$ 4,271,352	$ 4,097,529
Other liabilities	525,685	298,602	303,589	549,371	575,857
Policyholders' and non-controlling interest	213,546	164,860	186,439	140,168	366,128
	6,135,117	5,348,968	5,540,542	4,960,891	5,039,514
Capital stock	272,388	272,388	272,388	272,388	150,887
Retained earnings	2,067,495	2,264,591	2,399,714	2,125,333	1,764,783
Accumulated other comprehensive income (loss)	112,634	(321,777)	28,344	—	—
	2,452,517	2,215,202	2,700,446	2,397,721	1,915,670
	8,587,634	7,564,170	8,240,988	7,358,612	6,955,184
Segregated funds	4,310,401	3,348,827	4,594,300	3,847,800	2,875,800
	$12,898,035	$10,912,997	$12,835,288	$11,206,412	$ 9,830,984

Summary of The Dominion

(all dollar figures expressed in thousands)

(Unaudited)

	2009	2008[1]	2007	2006	2005
Premium income	$ 1,086,026	$ 1,023,257	$ 998,882	$ 1,026,997	$ 1,062,156
Other income	13,827	13,132	12,921	13,888	13,754
Claims	(903,431)	(768,579)	(714,655)	(644,017)	(645,448)
Operating expenditures including commissions and premium taxes	(340,458)	(319,048)	(312,873)	(316,512)	(319,101)
Underwriting income (loss)	(144,036)	(51,238)	(15,725)	80,356	111,361
Realized (loss) gain on available for sale investments including impairment write downs	(159,913)	(31,909)	120,478	—	—
Gain on sale of investments	—	—	—	55,924	25,080
Investment and other income	87,226	88,509	82,561	77,578	67,274
Income (loss) before taxes	(216,723)	5,362	187,314	213,858	203,715
Income taxes (recovery)	(65,119)	9,741	42,725	64,335	64,519
Net (loss) income	$ (151,604)	$ (4,379)	$ 144,589	$ 149,523	$ 139,196
Claims ratio (to net premiums earned)	83.2%	75.1%	71.5%	62.7%	60.8%
Expense ratio (to net premiums earned)	31.3%	31.2%	31.4%	30.8%	30.0%
Combined ratio	114.5%	106.3%	102.9%	93.5%	90.8%
Gross premiums written					
Automobile	$ 726,486	$ 666,175	$ 633,082	$ 649,637	$ 659,961
Property	361,100	335,340	315,356	317,839	328,256
Casualty	92,288	90,594	90,719	91,250	92,318
	$ 1,179,874	$ 1,092,109	$ 1,039,157	$ 1,058,726	$ 1,080,535
Assets	$ 2,980,665	$ 2,648,264	$ 2,817,289	$ 2,629,599	$ 2,516,012

[1] Restated, see Note 3

Summary of Empire Life

(all dollar figures expressed in thousands)

(Unaudited)

	2009	2008	2007	2006	2005
Premium income	$ 839,876	$ 686,178	$ 631,326	$ 601,873	$ 538,552
Amortization of investment gains	—	—	—	61,967	51,795
Change in fair value of held for trading investments	106,699	(244,384)	(84,349)	—	—
Realized gain on held for trading investments	30,641	19,920	61,834	—	—
Realized (loss) gain on available for sale investments including impairment write downs	(34,409)	(47,207)	38,878	—	—
Investment and other income	279,417	273,871	269,863	258,837	220,566
	1,222,224	688,378	917,552	922,677	810,913
Policy benefits	881,446	337,989	559,169	576,533	549,145
Expenses and commissions	259,694	265,012	278,671	241,089	209,747
Taxes	16,158	40,289	29,000	42,901	16,557
Profits allocated to policyholders	11,124	(3,282)	(4,035)	4,687	4,832
Profits to non-controlling interest	10,952	9,847	11,145	11,699	6,236
Net contribution to E-L	$ 42,850	$ 38,523	$ 43,602	$ 45,768	$ 24,396
Premium income by line					
Individual:					
Insurance	$ 281,751	$ 283,981	$ 272,859	$ 243,153	$ 209,802
Annuities	292,200	113,731	87,281	116,774	104,499
Health	15,902	14,930	13,569	11,826	10,165
	589,853	412,642	373,709	371,753	324,466
Group:					
Insurance	23,121	23,470	23,002	20,724	19,535
Annuities	8,106	3,974	3,802	3,651	4,969
Health	218,796	246,092	230,813	205,745	189,582
	250,023	273,536	257,617	230,120	214,086
	$ 839,876	$ 686,178	$ 631,326	$ 601,873	$ 538,552
Assets, including segregated funds	$ 8,709,051	$ 7,095,633	$ 8,449,823	$ 7,096,748	$ 5,826,121

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 (Loss)	Net Income (Loss) 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	10,912,997	1,709,435	1,600,148	2,215,202	(127,313)	(41.30)
2009	12,898,035	1,925,902	2,153,506	2,452,517	(184,535)	(58.64)

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
2007 - All investments are carried at fair value except for investments which do not have a quoted price in an active market

THE DOMINION

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

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
GAELEN MORPHET

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
Retail
DREW E. WALLACE

CORPORATE INFORMATION

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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: 613-389-0396

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.