2010 Annual Report

The Year at a Glance

(Thousands of dollars)	**2010**	2009 [1]
Total Premiums	**$ 2,008,040**	$ 1,925,902
Total Revenues	**$ 2,725,184**	$ 2,153,506
Net Operating Income [2]	**$ 102,792**	$ 44,925
Net Income (Loss)	**$ 144,693**	$ (184,908)
Comprehensive Income	**$ 195,293**	$ 249,503
Changes in Shareholders' Equity:		
Beginning of year	**$ 2,450,943**	$ 2,214,001
Comprehensive income:		
Net income (loss)	**144,693**	(184,908)
Other comprehensive income	**50,600**	434,411
	195,293	249,503
Dividends	**(12,060)**	(12,060)
Net refundable dividend taxes	**(799)**	(501)
End of year	**$ 2,633,377**	$ 2,450,943
Per Share Information:		
Net Operating Income [2]	**$ 28.01**	$ 10.51
Net Income (Loss)		
- basic	**$ 40.66**	$ (58.75)
- diluted	**$ 38.12**	$ (58.75)
Comprehensive Income [2]	**$ 55.94**	$ 72.16
Net Equity Value [2]	**$ 747.28**	$ 681.04

(1) Amounts for December 31, 2009 have been restated to reflect the impact of the prior period adjustment related to the employee future benefit liability (refer to Note 2 of the accompanying Consolidated Financial Statements for the year ended December 31, 2010) for further details.

(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 11:30 a.m. on Wednesday May 18, 2011, 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.

R.B. Matthews,
Chairman, Manitou Investment Management 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

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, 2010 and 2009. This MD&A should be read in conjunction with the Company's December 31, 2010 year end consolidated financial statements, which form part of the E-L Financial Corporation Limited 2010 Annual Report dated March 8, 2011. 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. Certain comparative amounts have been restated to reflect the impact of the prior period adjustment related to the employee future benefit liability (refer to Note 2 of the consolidated financial statements for the year ended December 31, 2010 for further details).

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, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

Unless otherwise stated, all per share amounts are based on the average number of Common Shares and Series A Convertible Preference Shares outstanding for the period, 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 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 gain (loss) on available for sale investments ("AFS") including impairment write downs 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 6. Other non-GAAP measures for the insurance subsidiaries are discussed on pages 21 and 31.

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 manages investments that it owns ("E-L Corporate") in equities and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies. Included within E-L Corporate are 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. These three investments are reported as equity method investments for financial reporting purposes. The other E-L Corporate investments are collectively referred to as "investments – corporate".

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.

Review of results

The consolidated financial information that follows includes E-L Financial's share in the results and financial position of the two insurance subsidiaries and E-L Corporate. The analysis and discussion which follows refers to after tax numbers.

Net operating income

E-L Financial earned consolidated net operating income of $102.8 million or $28.01 per share in 2010 compared with $44.9 million or $10.51 per share in 2009. The increase in earnings is mainly a result of the improvement in The Dominion's net operating income which reflected minimal impact from changes in claims discount rates in 2010 in contrast to a large expense from decreases in claims discount rates in 2009, lower claims expenses for weather-related property losses, earned rate increases and higher favourable prior year claims development in 2010 than in 2009. Net operating income for Empire Life was lower in 2010 compared to the prior year, due to the low long-term interest rate environment and its impact on individual insurance business in 2010 and last year's favourable impact of a $17.7 million income tax adjustment resulting from amendments to the Income Tax Act (Canada) related to Financial Instruments.

Net income (loss)

E-L Financial earned a consolidated net income of $144.7 million or $40.66 per share in 2010 compared with a net loss of $184.9 million or $58.75 per share in 2009. The net loss in 2009 was largely due to a net realized loss on the sale of investments, including impairment write downs, of $242.3 million. In addition to higher operating income and realized gains in 2010, earnings from equity method investments improved in 2010 to $30.5 million compared to $12.5 million in 2009.

Comprehensive income

E-L Financial earned consolidated comprehensive income of $195.3 million or $55.94 per share in 2010 compared with $249.5 million or $72.16 per share for the comparable period in 2009. Consolidated other comprehensive income ("OCI") was $50.6 million or $15.28 per share compared with $434.4 million or $130.91 per share for the prior year. In 2009 OCI was significantly impacted by a $211.8 million reclassification adjustment resulting from the realized loss on the AFS investments, the reversal of $57.6 million of unrealized losses relating to Algoma and Economic on reclassification as equity method investments and unrealized gains from the positive impact of the stock markets recovery.

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

(thousands of dollars)	Year ended December 31, 2010			
	E-L Corporate	The Dominion	Empire Life	Total
Net operating income	$ 23,343	$ 62,623	$ 16,826	$ 102,792
Realized gain (loss) on available for sale investments including impairment write downs	(726)	4,912	7,218	11,404
Income from equity method investments	30,497	-	-	30,497
Net income	53,114	67,535	24,044	144,693
Other comprehensive income	9,520	20,951	20,129	50,600
Comprehensive income	$ 62,634	$ 88,486	$ 44,173	$ 195,293

(thousands of dollars)	Year ended December 31, 2009			
	E-L Corporate	The Dominion	Empire Life	Total
Net operating income (loss)	$ 20,135	$ (37,800)	$ 62,590	$ 44,925
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)	(151,977)	42,850	(184,908)
Other comprehensive income	57,835	302,071	74,505	434,411
Comprehensive income (loss)	$ (17,946)	$ 150,094	$ 117,355	$ 249,503

Pages 99 - 101 of this Annual Report provide an overview of results for the five year period from 2006 to 2010.

Net equity value per share

Under current Canadian GAAP, certain financial instruments that are classified as AFS 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 to reflect AFS instruments which are carried at cost and equity method investments within E-L Corporate at fair value to provide an indication of accumulated shareholder value:

(thousands of dollars)	**2010**	2009	2008
Shareholders' equity	**$ 2,633,377**	$ 2,450,943	$ 2,214,001
Less: First preference shares	**(200,000)**	(200,000)	(200,000)
	2,433,377	2,250,943	2,014,001
Adjustments for E-L Corporate not carried at fair value:			
Investments - corporate			
Carrying value	**(785,272)**	(747,555)	(878,947)
Fair value	**833,540**	751,346	634,531
Equity method investments			
Carrying value	**(436,706)**	(400,949)	(221,205)
Fair value	**429,806**	407,282	222,316
	41,368	10,124	(243,305)
Future income tax	**(5,171)**	(1,265)	35,279
	36,197	8,859	(208,026)
Net equity value	**$ 2,469,574**	$ 2,259,802	$ 1,805,975
Adjusted Common Shares outstanding at year end	**3,304,752**	3,318,164	3,325,848
Net equity value per Adjusted Common Shares	**$ 747.28**	$ 681.04	$ 543.01

E-L Financial's net equity value per Adjusted Common Shares increased 9.7% during the year reflecting positive returns in the equity markets.

Fourth quarter

Net operating income

For the fourth quarter of 2010, E-L Financial earned consolidated net operating income of $57.6 million or $16.63 per share compared to $30.2 million or $8.32 per share for the comparable period in 2009. This improvement was mainly due to significant improvements in The Dominion's net operating income resulting from improved underwriting results. This was partly offset by Empire Life's decline in operating income for the quarter which was primarily related to unfavourable policy liability assumption updates due to the low long term interest rate environment.

Net income

For the fourth quarter of 2010, E-L Financial had a consolidated net income of $84.4 million or $24.73 per share compared to $6.0 million or $1.04 per share for the fourth quarter of 2009. The net income for the quarter reflected improved operating income, $22.6 million in earnings on equity method investments compared to $16.6 million in 2009 and $4.2 million in earnings on AFS investments compared with a loss of $40.8 million in 2009. Net income for the fourth quarter of 2009 was significantly impacted by impairment write downs of $58.9 million on AFS investments and equity method investments.

Comprehensive income

For the fourth quarter of 2010, E-L Financial had a consolidated comprehensive income of $99.1 million or $29.18 per share compared with $25.3 million or $6.86 per share for the comparable period in 2009. OCI for the fourth quarter was $14.7 million or $4.44 per share compared to $19.3 million or $5.82 per share for 2009.

Summary of quarterly results

The following table summarizes various financial results on a quarterly basis:

(millions of dollars, except per share amounts)

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Premium income	**$ 504**	$ 496	$ 495	$ 513	$ 478	$ 468	$ 489	$ 491
Equity method [1]	**26**	37	(26)	(2)	18	(28)	38	(21)
HFT [2]	**(40)**	156	62	41	(53)	137	105	(49)
AFS [1]	**6**	(2)	(5)	24	(35)	(108)	48	(223)
Other	**118**	111	107	104	105	106	96	92
Total	**$ 614**	$ 798	$ 633	$ 680	$ 513	$ 575	$ 776	$ 290
Net income (loss)	**$ 85**	$ 57	$ (21)	$ 24	$ 6	$ (131)	$ 74	$ (134)
Net income (loss) per share								
- basic	**$ 24.73**	$ 16.70	$ (7.26)	$ 6.53	$ 1.04	$ (40.20)	$ 21.46	$ (41.02)
- diluted	**$ 21.99**	$ 15.22	$ (7.26)	$ 6.27	$ 1.04	$ (40.20)	$ 19.14	$ (41.02)

(1) Includes impairment write downs

(2) Includes realized gains (losses) and changes in fair value on held for trading ("HFT") investments

Quarterly trend analysis

Revenue

For the past eight quarters, The Dominion and Empire Life have experienced modest growth in premium income. During this period investment income has been significantly impacted by volatile economic conditions which have resulted in large fluctuations in income relating to HFT, AFS and equity method investments. In the first quarter of 2009, an impairment provision of $226.1 million was taken based on 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 in the HFT investment portfolios which continued to show strong results during the third quarter of 2009. However, impairment write downs of $168.6 million during the third quarter of 2009 taken on both the AFS and equity method investments resulted in depressed revenues for the quarter. Additional impairment write downs of $58.9 million were taken during the fourth quarter of 2009. 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.

2010 has been a continuation of 2009's positive but volatile stock market and credit market recovery from the economic turmoil of 2008. The volatility of stock and bond markets is particularly evident in the change in the fair value of HFT investments revenue which experienced positive results for the first three quarters of 2010 with a reversal in the fourth quarter of 2010 related to bonds. Equity method investments

reported losses in both the first and second quarter of 2010 followed by income in the third and fourth quarters of the year.

Net income

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 liability updates are likely to cause fluctuations.

Results for the first quarter of 2009 were significantly impacted by $161.7 million in impairment write downs on AFS investments. During the second quarter of 2010, The Dominion experienced a decline in underwriting results due to an increase in claims incurred for automobile accident benefits. In the third quarter, The Dominion's net income was negatively impacted by higher weather-related losses, which is customary for the third quarter, and due to a decrease in its claims discount rate. The improvement in underwriting results in the fourth quarter resulted from an increase in its claims discount rate and improved claim experience generating strong underwriting profit in the quarter. During all four quarters of 2010, Empire Life's net income was reduced due to the low long term interest rate environment.

Selected annual information

(millions of dollars)	**2010**	2009	2008
Revenue			
E-L Corporate	**$ 65**	$ (96)	$ (181)
The Dominion	**1,302**	1,027	1,093
Empire Life	**1,358**	1,223	688
	$ 2,725	$ 2,154	$ 1,600
Net income (loss)			
E-L Corporate	**$ 53**	$ (76)	$ (161)
The Dominion	**68**	(152)	(4)
Empire Life	**24**	43	38
	$ 145	$ (185)	$ (127)
Assets			
E-L Corporate	**$ 1,247**	$ 1,179	$ 1,125
The Dominion	**3,120**	2,981	2,648
Empire Life - general fund	**4,900**	4,431	3,791
- segregated funds	**4,707**	4,310	3,349
Total assets, including segregated funds	**$ 13,974**	$ 12,901	$ 10,913
Per common share			
Net income (loss) - basic	**$ 40.66**	$ (58.75)	$ (41.30)
- diluted	**$ 38.12**	$ (58.75)	$ (41.30)
Cash dividends paid	**$ 0.50**	$ 0.50	$ 0.50

Revenue

Revenues over the period have been significantly impacted by declines in the global stock markets that occurred in 2008 with a recovery starting in 2009. 2010 has seen a continuation of 2009's positive but volatile stock market and credit market recovery.

E-L Corporate recorded revenue losses of $181 million in 2008 and $96 million in 2009. Impairment write downs of $34.4 million in 2008 and $347.4 million in 2009 contributed to the 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 $117.3 million in 2008 followed by income of $6.7 million in 2009 and $34.9 million in 2010.

The insurance operations have experienced steady growth in insurance premium income over the past three years coupled with some volatility related to annuity premiums. Annuity premiums were higher than normal in 2009 due to customer demand shifting to more conservative fixed interest annuity products in the aftermath of 2008 economic turmoil. Overall the revenue for the insurance operations in 2008 and 2009 declined mainly due to realized and unrealized investment losses whereas revenue in 2010 increased due to investment gains.

Net income (loss)

The net income for the Company in 2008 and 2009 was negatively impacted by the decline and slow recovery in global stock markets whereas 2010 showed significant improvement.

E-L Corporate's net income is directly related to its revenue, which declined significantly as previously discussed.

Earnings for The Dominion declined in 2008 as a result of deteriorating underwriting results and realized investment losses during the year. In 2009, a large net loss resulted from the continued deterioration of underwriting results and a realized investment loss generated by the redemption of common equity pooled fund units. Net income for The Dominion improved in 2010 from an improvement in underwriting results and the realization of moderate investment gains.

Empire Life experienced a decrease in net income for 2008 due to realized losses on the sale of investments during 2008 compared with realized gains that were recorded in 2007. Net income for 2009 was significantly impacted by the one-time favourable impact of amendments to the Income Tax Act (Canada) related to Financial Instruments, partially offset by impairment write downs. In 2010 Empire Life's net income decreased primarily due to the low long term interest rate environment and its impact on Individual Insurance line profitability.

Assets

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 is a result of a partial recovery of capital markets which generated increases in fair values of stock and bond investments. Total assets increased in 2010 as a result of an increase in retained earnings and continued increases in common stock and bond fair values.

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, 2010. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2010.

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, 2010. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2010. No changes were made in the Company's internal control over financial reporting during the year ended December 31,

2010, 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. The Company's first annual financial results on an IFRS basis will be for the December 31, 2011 reporting year.

A steering committee comprised of senior management from the Company and its subsidiaries has overseen the IFRS conversion project. Over the course of the last two years, both steering committee members and project staff have developed an in-depth technical understanding of IFRS and its application to the Company's financial reporting. In addition, Audit Committee members have been informed about the impact of the conversion to IFRS on the Company through quarterly status reporting from the steering committee and the review of key IFRS project deliverables throughout the transition period. Training sessions for staff, where appropriate, and the distribution of educational materials will continue throughout the first quarter of 2011.

The accounting standards to be in effect for the 2011 financial reporting year have stabilized. In addition, the Company's subsidiaries are federally regulated financial institutions, and regulatory and capital requirements have been amended to reflect the adoption of IFRS-based financial reporting. The project team has assessed the impact of the changes to regulatory and capital requirements and there are no material impacts on the subsidiaries' regulatory and capital requirements as a result of the accounting policy choices and transition elections currently selected by the Company.

At this time, draft financial statement presentation and note disclosures have been prepared on an IFRS basis, and based on the results, no significant impacts have been identified from the transition to IFRS on the Company's information systems, business processes and other business activities, including debt covenants, treasury activities and executive compensation. Additionally, the Company has not identified any significant impacts on internal controls over financial reporting and disclosure controls and procedures.

At this time, the International Accounting Standards Board ("IASB") is planning to complete a number of projects during 2011 that will impact the Company (including Phase 2 of IFRS 4 "Insurance Contracts" and IFRS 9 "Financial Instruments"), which will have implementation dates of 2013 or later. The Company plans to assess the impact of these new standards beginning in 2011.

The Company has completed its draft IFRS opening consolidated statement of financial position as at January 1, 2010, as well as detailed reconciliations of its 2010 comparative financial statements from a Canadian GAAP basis to an IFRS basis. These reconciliations will be used for the preparation of the Company's interim and annual financial reporting under IFRS in 2011. IFRS 1 "First-Time Adoption of International Financial Reporting Standards" provides a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs. Details of the Company's planned elections under IFRS 1 and relevant mandatory exceptions are provided below.

IFRS Exemption Options

1. *Business combinations* - IFRS 1 provides the option not to apply IFRS 3 "Business Combinations" retrospectively. The Company plans to take this election with respect to business combinations that occurred prior to its transition date and therefore such business combinations will not be restated.

2. *Insurance contracts* – IFRS 1 allows a first-time adopter to apply the transitional provisions in IFRS 4 "Insurance Contracts," which includes an exemption related to the disclosure of claims development over a ten-year period. An entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it adopts IFRS. The

Company plans to elect to disclose only five years of claims development data relating to its property and casualty insurance subsidiary, The Dominion, in its first annual IFRS financial statements, as permitted by this exemption.

3. *Employee benefits* - IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19 "Employee Benefits" for the recognition of actuarial gains and losses or to recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings at the date of transition. The Company plans to elect to recognize all cumulative unamortized actuarial gains and losses that existed at the transition date in opening retained earnings for all 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 also intends to elect under IFRS 1 to disclose the present value of its defined benefit obligations, fair value of plan assets, surplus or deficit positions and experience adjustments prospectively from the date of transition.

4. *Fair value or revaluation as deemed cost* – IFRS 1 allows an entity to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as deemed cost if, at the date of the revaluation, the revaluation was broadly comparable to fair value, cost or depreciated cost in accordance with IFRS. The Company plans to elect to use a previous GAAP revaluation as deemed cost at the transition date for the land and building assets owned by its life insurance subsidiary, Empire Life, since this value is expected to be broadly comparable to fair value at the date of the revaluation. The property, which was previously presented as a real estate investment under Canadian GAAP, was last valued as of September 22, 2009. The Company will not apply this election to any other items of property and equipment in its opening consolidated statement of financial position.

5. *Designation of previously recognized financial instruments* – IFRS 1 permits the redesignation of previously recognized financial assets at the date of transition as AFS or, provided the asset meets the criteria specified in IAS 39 "Financial Instruments: Recognition and Measurement," fair value through profit or loss ("FVTPL"). The Company plans to elect to redesignate most of its investments – corporate portfolio and certain investments held on behalf of life insurance operations from the AFS designation to the FVTPL designation. For investments - corporate, the redesignation will represent a measurement change for certain investments 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 life insurance operations, the redesignation will result in better matching of fair value changes in insurance liabilities and the assets that support them.

IFRS Mandatory Exceptions

1. *Estimates* - IFRS 1 requires that an entity's estimates under IFRS at the date of transition be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's estimates under IFRS at January 1, 2010 will be the same as the estimates made under Canadian GAAP for the same date.

2. *Hedge accounting* - Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfy the hedge accounting criteria as of the Company's transition date will be reflected as hedges in the Company's results under IFRS. All derivatives, whether or not they meet the IAS 39 criteria for hedge accounting, will be fair valued and recorded in the consolidated statement of financial position. As at January 1, 2010 the Company will reclassify amounts from accumulated other comprehensive income to retained earnings relating to hedging relationships under Canadian GAAP that will no longer be designated as hedging relationships under IFRS.

IFRS Reconciliations

The following reconciliations provide details of the quantitative impact that the transition to IFRS is expected to have on the Company's opening consolidated statement of financial position at January 1, 2010, including the above-noted elections that the Company plans to make under IFRS 1 and other transitional adjustments resulting from accounting policy differences between Canadian GAAP and IFRS. The first reconciliation shows the estimated impact to each component of equity and the second reconciliation provides the Company's fully reconciled Canadian GAAP consolidated balance sheet to an IFRS basis at January 1, 2010. Explanations for the most significant transitional adjustments are provided below. These estimates and current policy choices may be subject to change until the issuance of our 2011 annual financial statements.

The following tables present dollar figures which are rounded to the nearest thousand:

Draft Reconciliation of Equity at January 1, 2010

	Reference	Capital stock	Retained earnings[1]	AOCI	Shareholders' equity	Non-controlling interest	Participating policyholders' interest	Total equity
As reported under Canadian GAAP - December 31, 2009		$ 272,388	$ 2,065,921	$ 112,634	$ 2,450,943	$ -	$ -	$ 2,450,943
Reclassification of non-controlling interest to equity under IFRS	a	-	-	-	-	152,734	-	152,734
Reclassification of participating policyholders' interest to equity under IFRS	a	-	-	-	-	-	60,812	60,812
Differences increasing (decreasing) reported amount:								
Redesignation of AFS financial assets	b	-	113,800	(7,120)	106,680	7	-	106,687
Employee benefits	c	-	1,217	-	1,217	698	-	1,915
Investment in Algoma Central Corporation	d	-	(2,127)	2,127	-	-	-	-
Investment in Economic Investment Trust Limited	e		17,603	-	17,603	-	-	17,603
Income taxes	f	-	(1,077)	1,077	-	-	-	-
Contract classification	g	-	948	-	948	242	-	1,190
Other		-	(894)	929	35	4	-	39
Total increase (decrease) to reported equity		-	129,470	(2,987)	126,483	153,685	60,812	340,980
Total equity under IFRS - as at January 1, 2010		**$ 272,388**	**$ 2,195,391**	**$ 109,647**	**$ 2,577,426**	**$ 153,685**	**$ 60,812**	**$ 2,791,923**

1 - Retained earnings as reported at December 31, 2009 has been restated for a prior period adjustment related to The Dominion's other employee future benefit plan. Refer to Note 2 to the consolidated financial statements.

Draft Opening Consolidated Statement of Financial Position at January 1, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP[1]	Effects of Transition to IFRS	IFRS	IFRS Accounts
Assets					**Assets**
Cash & cash equivalents		$ 327,529	$ (763)	$ 326,766	Cash & cash equivalents
Investments - corporate	b	747,555	122,663	870,218	Investments - corporate
Investments - insurance operations (fair value $6,408,674)	b	6,402,741	(14,439)	6,388,302	Investments - insurance operations (fair value $6,389,820)
Equity method investments (fair value $407,282)	d,e	400,949	19,329	420,278	Investments in associates (fair value $426,407)
Accrued investment income		31,613	-	31,613	Accrued investment income
Premiums receivable		301,547	-	301,547	Premiums receivable
Deferred acquisition expenses		109,078	-	109,078	Deferred acquisition expenses
Reinsurance recoverable		101,522	7,528	109,050	Reinsurance recoverable
Income taxes receivable		2,528	-	2,528	Income taxes receivable
Future income taxes	c	78,070	492	78,562	Deferred tax assets
Other assets	c	88,508	(42,811)	45,697	Other assets
			30,382	30,382	Property and equipment
			31,080	31,080	Intangible assets
	h		4,186,585	4,186,585	Segregated fund assets
		$ 8,591,640	$ 4,340,046	$ 12,931,686	Total assets
Segregated funds assets	h	$ 4,310,401	$ (4,310,401)	$ -	
Liabilities					**Liabilities**
			$ 75,243	$ 75,243	Accounts payable
Policyholders' funds on deposit		$ 29,702	-	29,702	Policyholders' funds on deposit
Income and other taxes payable		79,230	(21)	79,209	Income and other taxes payable
Provision for profits to policyholders		18,558	-	18,558	Provision for profits to policyholders
Future income taxes	b,c,d,e,g	18,329	18,637	36,966	Deferred tax liabilities
Other liabilities	c	186,466	(78,568)	107,898	Other liabilities
Subordinated debt		198,980	-	198,980	Subordinated debt
	g		17,566	17,566	Investment contract liabilities
Policy liabilities	g	5,395,886	(6,830)	5,389,056	Insurance contract liabilities
	h		4,186,585	4,186,585	Segregated fund policy liabilities
		5,927,151	4,212,612	10,139,763	Total liabilities
Non-controlling interest in subsidiaries	a	152,734	(152,734)	-	
Participating policyholders' interest	a	60,812	(60,812)	-	
		213,546	(213,546)	-	
Shareholders' equity					**Equity**
Capital stock		272,388	-	272,388	Capital stock
Retained earnings	b,c,d,e,f,g	2,065,921	129,470	2,195,391	Retained earnings
Accumulated other comprehensive income	b,d,f	112,634	(2,987)	109,647	Accumulated other comprehensive income
		2,450,943	126,483	2,577,426	Total shareholders' equity
	a,b,c,g		153,685	153,685	Non-controlling interest in subsidiaries
	a		60,812	60,812	Participating policyholders' interest
			340,980	2,791,923	Total equity
		$ 8,591,640	$ 4,340,046	$ 12,931,686	Total liabilities and equity
Segregated funds liabilities	h	$ 4,310,401	$ (4,310,401)	$ -	

1 - The Company's Canadian GAAP balances as reported at December 31, 2009 have been restated for a prior period adjustment related to The Dominion's other employee future benefit plan. Refer to Note 2 to the consolidated financial statements.

Notes to the IFRS Reconciliations

The following narratives explain the significant differences expected between the Company's previous Canadian GAAP consolidated balance sheet and the Company's IFRS opening consolidated statement of financial position. The letter references correspond to the adjustments reflected in the above reconciliations.

Transitional adjustments

a. Non-controlling interest in subsidiaries and participating policyholders' interest

Under Canadian GAAP, non-controlling interest in the equity of consolidated subsidiaries is classified as a separate component between liabilities and equity in the consolidated statement of financial position. Under IFRS, non-controlling interest is classified as a component of equity separate from the equity of the parent. Accordingly, the Company has reclassified non-controlling interest to equity in the draft opening consolidated statement of financial position.

The Company has also reclassified participating policyholders' interest to equity in the draft opening consolidated statement of financial position for the same reason.

b. Redesignation of AFS financial instruments

As noted in the "IFRS Exemption Options" section, the Company plans to elect to redesignate some of its financial assets previously classified as AFS under Canadian GAAP, and measured either at cost or at fair value, as fair value through profit or loss ("FVTPL") under IFRS at January 1, 2010. The financial assets that will be redesignated are held within E-L Corporate and Empire Life, as explained below.

E-L Corporate

The Company intends to redesignate the investments that are classified under Canadian GAAP as AFS at cost within its investments – corporate portfolio to FVTPL. The redesignation will increase the carrying value of these investments to fair value at January 1, 2010. Certain investments within the investments – corporate portfolio hold shares either directly or indirectly in the Company. For Canadian GAAP purposes any increase in the value of the Company's shares held by these investees is eliminated in deriving fair value for these investments. As AFS at cost financial assets, the fair value of these investments is used to test the investments for impairment and is disclosed in the Company's note disclosures under Canadian GAAP. These reciprocal shareholdings are permitted to be recognized in the carrying value of the Company's investments under IFRS. The impact of the election related to this portfolio at January 1, 2010 and the related change in accounting for reciprocal shareholdings is an increase in investments – corporate of $121,879, an increase in deferred tax liabilities of $15,228 and an increase in retained earnings of $106,651. These amounts have been reflected in the Company's draft opening consolidated statement of financial position.

Empire Life

Empire Life intends to redesignate certain financial assets supporting insurance liabilities from AFS at fair value to FVTPL. As a result, the Company will reclassify the cumulative unrealized gains and losses recognized on these investments from accumulated other comprehensive income to retained earnings at January 1, 2010. In addition to the redesignation, Empire Life will revalue certain AFS financial assets measured at cost under Canadian GAAP to fair value at January 1, 2010 and will cease application of hedge accounting for certain derivative instruments. The impact of these adjustments in the Company's draft opening consolidated statement of financial position is an increase in investments – insurance operations of $36, an increase in retained earnings of $7,149, a decrease in accumulated other comprehensive income of $7,120 and an increase in non-controlling interest in subsidiaries of $7.

Unrealized gains and losses on the Company's redesignated investments in subsequent years will be recorded in the consolidated statements of income (loss).

c. Employee benefits

As noted in the "IFRS Exemption Options" section, the Company plans to elect under IFRS 1 to recognize all cumulative unamortized actuarial gains and losses related to its defined benefit plans in opening retained earnings at the date of transition. The Company will also recognize unamortized transitional assets and obligations that existed at the date of transition. The recognition of these unamortized amounts has resulted in the following adjustments to the Company's draft consolidated statement of financial position at January 1, 2010: an increase in other assets of $3,951, an increase in other liabilities of $1,358, an increase in the deferred tax asset of $492, an increase in the deferred tax liability of $1,170, an increase in retained earnings of $1,217 and an increase in non-controlling interest in subsidiaries of $698.

The Company plans to apply the corridor method available under IAS 19 to recognize actuarial gains and losses on defined benefit plans subsequent to the date of transition to IFRS.

d. Investment in Algoma Central Corporation

This adjustment reflects the net impact to the Company's investment in Algoma Central Corporation ("Algoma") as a result of the associate's first-time adoption of IFRS and the related impact to the Company's impairment assessment of its investment in Algoma. Algoma's IFRS transition date is January 1, 2010. The Company's share of Algoma's IFRS transitional adjustments has resulted in a decrease of $6,176 to investments in associates, a decrease of $772 in deferred tax liabilities, a decrease of $7,531 to retained earnings and an increase of $2,127 in accumulated other comprehensive income in the Company's draft opening consolidated statement of financial position. Additional information regarding Algoma's transition to IFRS is available at www.sedar.com.

The Company has reassessed the impairment provision previously recognized under Canadian GAAP in light of the revised carrying amount of its investment in Algoma after the above-noted adjustment and in consideration of IFRS impairment requirements. The above noted adjustment decreased the carrying amount of the Company's investment and therefore the impairment provision. The adjustment to the Company's impairment provision related to its investment in Algoma is expected to increase investments in associates by $6,176, increase deferred tax liabilities by $772 and increase retained earnings by $5,404 at January 1, 2010.

The aggregate impact of these two adjustments in the Company's draft opening consolidated statement of financial position is a decrease in retained earnings of $2,127 and an increase of the same amount to accumulated other comprehensive income.

e. Investment in Economic

Economic owns shares both directly and indirectly in the Company. In applying the equity method under Canadian GAAP to the Company's investment in Economic, the Company adjusts for the impact of its proportionate interest in its own shares held directly and indirectly by Economic. Under IFRS, the Company will only adjust for the impact of the shares that Economic owns directly in the Company. The Company will also eliminate its share of the cost base of Economic's direct holdings in the Company's shares under IFRS in a manner equivalent to treasury shares. These adjustments have been reflected in the Company's draft opening consolidated statement of financial position as an increase to investments in associates of $19,329, an increase in deferred tax liabilities of $1,726 and an increase in retained earnings of $17,603.

f. Income taxes

Under Canadian GAAP, the full impact of the March 4, 2009 amendments to the Income Tax Act (Canada) was recorded in net income. Under IAS 12 "Income Taxes", the impact of any substantively enacted amendments relating to items recorded in OCI would have been reported in OCI. In the draft opening consolidated statement of financial position, the unrealized tax recovery at January 1, 2010 of

$1,077 associated with this tax law change has been reclassified from retained earnings to accumulated other comprehensive income.

g. Contract classification

Under Canadian GAAP, all policy liabilities are presented as a single item on the face of the financial statements. Under IFRS, contracts without a significant insurance element are required to be presented as investment contract liabilities rather than insurance contract liabilities. Deposits and withdrawals on these contracts will be recorded in a liability account rather than revenue and expense accounts. Certain of Empire Life's insurance contracts do not meet the significant insurance element requirement under IFRS and as a result, will be reclassified to investment contracts. The carrying value of the policy liabilities relating to these contracts of $19,270 has been removed from insurance contract liabilities in the Company's January 1, 2010 draft consolidated statement of financial position. These contracts have been measured as investment contracts under IAS 39 and valued at $17,566 at the date of transition, resulting in an increase to deferred tax liabilities of $514, an increase to retained earnings of $948 and an increase to non-controlling interest in subsidiaries of $242.

Presentation reclassifications

Certain amounts on the Company's Canadian GAAP consolidated balance sheet have been reclassified to conform to the presentation adopted under IFRS. The most significant presentation difference between Canadian GAAP and IFRS relates to the presentation of segregated funds. Presentation differences have been reflected in the draft opening consolidated statement of financial position and have no impact on reported total equity.

h. Segregated funds

Under Canadian GAAP, segregated fund assets and liabilities are currently presented separately from the Company's total assets and total liabilities on the face of the consolidated balance sheet. Under IFRS, total segregated fund assets are presented as a separate line item and included in total assets. Segregated fund policy liabilities are also presented as a separate line item and included in total liabilities. Segregated fund assets and segregated fund liabilities have been decreased by $123,816 in the draft opening consolidated statement of financial position, to eliminate the Company's investment in segregated funds.

Impact of IFRS Transition on Net Equity Value per Adjusted Common Share

The aggregate impact of the Company's IFRS transitional adjustments will increase the Company's total equity balance and the number of Adjusted Common Shares outstanding at January 1, 2010, resulting in an overall decrease to net equity value per Adjusted Common Share. As previously disclosed in the draft reconciliation of equity, the total impact of the Company's IFRS transitional adjustments is expected to increase total equity, excluding non-controlling interest in subsidiaries and participating policyholders' equity, by $126,483 at January 1, 2010. The majority of this increase relates to the recognition of reciprocal shareholdings in the Company's investments – corporate portfolio and investment in Economic. The effect of the adjustments made to the accounting for reciprocal shareholdings will decrease the number of shares outstanding related to reciprocal shareholdings from 701,503 to 72,165, resulting in Adjusted Common Shares outstanding of 3,947,502 at January 1, 2010. The 629,338 additional reciprocal shares will be recognized in equity at the Company's TSX price, which trades at a discount to the Company's net equity value per Adjusted Common Share. As a result, the Company's revised net equity value per Adjusted Common Share is expected to decrease from $681.04 to $603.62 at January 1, 2010.

December 2010 Comparative Year

The Company has also identified the potential impacts of its IFRS 1 elections and other transitional adjustments on the Company's financial statements for the year ended December 31, 2010. The only adjustment expected to have a significant impact on net income and total equity for the comparative year ended December 31, 2010 relates to the Company's election under IFRS 1 to redesignate previously recognized financial instruments from AFS at cost to FVTPL. This election is expected to result in an increase to the Company's net income and total equity for the 2010 comparative year and additional volatility on a go-forward basis resulting from the recognition of unrealized gains and losses on the investments in net income.

Analysis of business segments

The remainder of this MD&A discusses individually the results of operations and financial condition of each of the Company's three business segments: E-L Corporate, The Dominion and Empire Life.

E-L CORPORATE

The E-L Corporate segment includes equity method investments and investments – corporate.

Equity method investments

Net income from equity method investments was $30.5 million compared to $12.5 million in 2009. The results for 2009 were significantly impacted by a $54.3 million impairment write down. For the fourth quarter of 2010, net income from equity method investments was $22.6 million compared to $16.6 million in 2009.

In addition to amounts recorded in the consolidated statement of income (loss), a loss of $2.2 million (2009 - $0.8 million) relating to Algoma was recorded in OCI relating to E-L Financial's share of Algoma's unrealized losses on the currency translation of the financial statements of foreign self-sustaining operations. For the fourth quarter of 2010, a loss of $1.5 million (2009 - $0.8 million) was recorded in OCI.

During the year, the Company invested an additional $6.9 million (2009 - $7.9 million) in United, $3.8 million (2009 - $4.7 million) in Economic and $nil (2009 - $47.2 million) in Algoma.

	December 31, 2010		December 31, 2009	
(millions of dollars)	**Ownership**	**Carrying value**	Ownership	Carrying value
United	**48.8%**	**$ 303**	47.6%	$ 276
Algoma	**25.4%**	**79**	25.4%	76
Economic	**22.1%**	**55**	21.0%	49
		$ 437		$ 401

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

Investments - corporate

The investments - corporate portfolio includes short term deposits, common shares in public and private companies, units in pooled funds and units in a common contractual fund.

For the year, a realized loss on AFS investments including impairment write downs of $0.7 million was reported compared to $108.4 million in 2009. The results for 2009 were significantly impacted by a $108.8 million impairment write down. For the fourth quarter of 2010, $nil realized gain on AFS investments including impairment write downs was reported compared with a loss of $28.4 million in 2009.

During the year, the Company disposed of $100 million in bonds and short-term investments held in the E-L Corporate portfolio and used the proceeds to acquire $100 million in equity investments. This was a related party transaction with The Dominion and has been eliminated in the consolidated financial statements.

Liquidity and capital resources

Liquidity refers to the Company's ability to maintain cash flow adequate to fund operations, as well as, to provide resources for additional investments. The Company's liquidity 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 Preferred Shares, 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 E-L Corporate, as 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, 2010, The Dominion's Minimum Capital Test was 220% and Empire Life's Minimum Continuing Capital and Surplus Requirements measure was 243%.

Composition of cash flows:

	E-L Corporate		The Dominion		Empire Life		Total	
(millions of dollars)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Cash flows from:								
Operating activities	**$ 19**	$ 28	**$ 102**	$ 64	**$ 170**	$ 328	**$ 291**	$ 420
Financing activities	**(12)**	(37)	**-**	-	**-**	199	**(12)**	162
Investing activities	**(25)**	(102)	**(89)**	(81)	**(153)**	(425)	**(267)**	(608)
Increase (decrease) in cash and cash equivalents	**$ (18)**	$ (111)	**$ 13**	$ (17)	**$ 17**	$ 102	**$ 12**	$ (26)

On a year to date basis, E-L Corporate's operating cash flows consisted of net investment income of $19 million (2009 - $28 million) and cash dividends received from its insurance subsidiaries of $12 million (2009 - $nil). These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $12 million (2009 - $12 million), repayment of its short-term credit facility of $nil (2009 - $25 million) and Empire Life's $125 million repayment of its debenture to the Company in 2009, provided $19 million (2009 - $116 million) for investment opportunities.

E-L Corporate 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 cash flow deficiencies.

Composition of E-L Corporate's liquidity:

(millions of dollars)	**Dec. 31, 2010**	Dec. 31, 2009
Cash and cash equivalents	**$ 23**	$ 26
Short-term investments	**34**	73
Bonds	**-**	78
Total	**$ 57**	$ 176

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 E-L Corporate 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 E-L Corporate's financial instruments, including financial risk management, are included in Notes 5, 7 and 23 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. Critical accounting estimates for the E-L Corporate segment relate to evaluating investments for impairment and estimates for income taxes.

Impairment of AFS securities and equity method investments

AFS 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 (loss).

Income taxes

E-L Corporate uses judgement in the estimation of income taxes and future income tax assets and liabilities. This process involves estimating 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. E-L Corporate 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, 2010, E-L Corporate had future income tax liabilities in excess of future income tax assets of $23.1 million (2009 - $17.0 million).

Outlook

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of the two insurance company subsidiaries. The performance of the E-L Corporate 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 earned a net income of $67.5 million in 2010 in contrast to a net loss of $152.0 million in 2009.The significant improvement reflects moderate realized investment gains in 2010, in contrast to a large realized investment loss in 2009, and a substantial improvement in underwriting results in 2010 versus 2009. The Dominion employs third-party investment management firms to manage its common equity investments. The significant investment loss in 2009 was triggered by the redemption of all of its equity pooled fund units, representing all of its common equity investments, as a result of a decision to change equity investment managers. The combined ratio for 2010 was 102.1%, an improvement of 12.5 points from 114.6% for 2009. The combined ratio excluding the effects of changes in the claims discount rate was 102.2% for 2010 and 109.1% for 2009. This improvement of 6.9 points reflects lower claims expense for weather-related property losses, earned rate increases and higher favourable prior year claims development in 2010 than in 2009.

Net unrealized gain on available-for-sale ("AFS") investments (which comprise most of The Dominion's investments) was $27.0 million (after tax) in 2010 and $109.3 million (after tax) in 2009. The unrealized gain in 2010 reflects increases in the fair values of common stock investments. The significant unrealized gain in 2009 reflected recovering stock markets and declining interest rates, which increased the fair values of stock and bond investments, respectively. Comprehensive income was $88.5 million in 2010 compared to $150.1 million in 2009.

In the fourth quarter of 2010, The Dominion earned a net income of $49.9 million compared to $2.9 million in the fourth quarter of 2009 mainly due to improved underwriting results, with some of the improvement from higher investment income and gains. The combined ratio for the fourth quarter of 2010 was 89.9% compared to 105.4% in the fourth quarter of 2009 and, excluding the effects of changes in discount rates, the combined ratio was 91.9% for the fourth quarter of 2010, compared to 99.7% for the fourth quarter of 2009. The improvement reflects earned rate increases and lower claims costs for large losses.

Page 100 provides an overview of financial results and position for the five-year period from 2006 to 2010.

Results of operations

The Dominion uses Canadian 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 2010 and 2009, by major line of business, are summarized as follows (figures may differ from the text due to rounding):

(millions of dollars)	**Automobile**		**Personal Property**		**Commercial Property & Casualty**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009 Restated Note 2
Gross premiums written	**$ 789**	$ 727	**$ 268**	$ 242	**$ 215**	$ 211	**$ 1,272**	$ 1,180
Growth rate %	**8.6**	9.1	**10.6**	12.4	**2.1**	0.4	**7.8**	8.0
Mix of business %	**62**	62	**21**	20	**17**	18	**100**	100
Loss Ratio %	**76.1**	87.2	**69.2**	88.2	**54.8**	62.4	**71.3**	83.2
Loss Ratio % - excluding change in discount rate	**75.8**	80.3	**69.5**	87.6	**56.1**	56.1	**71.4**	77.7

	2010	2009
Revenue		
Net premiums earned	**$ 1,190**	$ 1,086
Premium finance fee income	**15**	14
Interest and dividends	**86**	87
Change in fair value of held for trading investments	**2**	-
Net realized gains (losses) on investments and impairment provision	**9**	(160)
	1,302	1,027
Expenses		
Claims expense	**849**	903
Other expenses, including premium taxes	**366**	341
Income tax expense (recovery)	**19**	(65)
	1,234	1,179
Net income (loss)	**$ 68**	$ (152)

The Dominion underwrites standard general insurance products concentrated in three geographic areas. The geographic mix of premiums for 2010 is as follows: Ontario 73% (70% in 2009), Western Canada 17% (19% in 2009) and Atlantic Canada 10% (11% in 2009). Product mix is fairly consistent across the regions, except that Western Canada 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 7.8% in 2010 (increase of 8.0% in 2009) consisting of a 0.6% increase in policies written (3.1% increase in 2009), a 7.3% increase in average premiums (5.2% increase in 2009) and a 0.1% decrease from The Dominion's share of Facility Association premiums (0.3% decrease in 2009).

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 71.3% for 2010 is 11.9 points lower than the prior year's loss ratio of 83.2%; 5.6 points of the decrease is due to the effects of changes in the claims discount rates for 2010 and 2009. The claims discount rate is adjusted quarterly based on the market yields of the investments (mostly bonds and debentures) that are held in support of claims liabilities. An overall modest increase in the claims discount rate in 2010 decreased claims expense by $1.4 million in 2010, in contrast to a large net decrease in the claims discount rate in 2009 which increased claims expense by $60.0 million in 2009. Excluding changes in the claims discount rates, the loss ratio was 71.4% in 2010 and 77.7% in 2009. The remaining 6.3 point

improvement in the loss ratio reflects lower claims expense for weather-related property losses, earned rate increases and a higher level of favourable prior year claims development in 2010 versus 2009.

The fourth quarter loss ratio was 58.5% in 2010 and 74.6% in 2009. Excluding changes in claims discount rates, the fourth quarter loss ratio was 60.5% in 2010 and 68.9% in 2009. The 8.4 point improvement reflects earned rate changes and lower claims expense for large losses.

Automobile

Gross premiums written for automobile increased 8.6% in 2010 (increase of 9.1% in 2009) consisting of a 7.6% increase in average premiums (5.4% increase in 2009) and a 1.2% increase in policies written (4.1% increase in 2009), partly offset by a 0.2% decrease from Facility Association premiums (0.4% decrease in 2009). A moderately "hard" market of price increases for personal automobile insurance continued in 2010, allowing The Dominion to increase rates to keep pace with increasing claims costs.

The automobile insurance loss ratio was 76.1% for 2010 compared to 87.2% in 2009. The 11.1 point decrease includes a 6.6 point decrease due to the effects of changes in the claims discount rates in both years. A slight decrease in the claims discount rates applicable to automobile claims liabilities in 2010 increased the 2010 loss ratio by 0.3 points whereas in 2009, a large reduction in the claims discount rates increased the 2009 loss ratio by 6.9 points. Excluding the effects of changes in claims discount rates, the underlying 4.5 point improvement in the loss ratio in 2010 versus the prior year is mainly due to favourable prior year claims development in 2010 ($40.3 million, or 5.3 points) that is higher than in 2009 ($20.5 million, or 3.0 points) and earned rate increases in 2010.

The fourth quarter loss ratio was 70.9% in 2010 and 90.9% in 2009. Excluding the effects of changes in claims discount rates, the fourth quarter loss ratio was 73.5% in 2010 compared to 84.0% in 2009. This underlying 10.5 point improvement reflects earned rate increases and lower claims expense for large losses in the fourth quarter of 2010 versus that of 2009.

Effective September 1, 2010, the Ontario government implemented comprehensive automobile insurance reforms that give consumers more choice and introduce other changes which, if successful, 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. Claims procedure changes impact claims immediately from September 1, 2010. Coverage aspects of the reforms take effect only as policies renew. Insurers were required to file revised premium rates based on the reforms effective September 1, 2010. The Dominion's revised rates resulted in an overall average change of nil. Although early indications are positive, resulting in a small positive reduction in claims expense since September 1, it is too soon to assess how effective the reforms will prove to be.

Personal property

Personal property premiums increased 10.6% in 2010 (increase of 12.4% in 2009), consisting of a 10.5% increase in average premium (10.3% increase in 2009) and a 0.1% increase in policies written (increase of 2.1% in 2009). The increase in average premium reflects rate increases and increases in estimated insured values.

The loss ratio was 69.2% in 2010 and 88.2% in 2009. The 19.0 point improvement mainly reflects lower claims costs for weather-related claims costs and earned rate increases. Better than expected prior year claims experience resulted in favourable prior year claims development recognized in both 2010 ($13.4 million, or 5.6 points) and in 2009 ($8.1 million, or 3.8 points). The fourth quarter loss ratio of 49.7% in 2010 improved versus 55.5% in 2009 due to lower claims costs for weather-related losses and earned rate increases.

Commercial property and casualty

Commercial coverages are generally sold together in package policies. The Dominion's commercial business is typically main-line, small to mid-sized exposures on the conservative end of the risk spectrum. Gross premiums written increased by 2.1% (increase of 0.4% in 2009) reflecting a decrease in policies written of 0.6% (increase of 2.3% in 2009), and an average premium increase of 2.7% (decrease of 1.9% in 2009). Half of the increase in average premiums is due to one new large commercial property account. Excluding this new account, The Dominion's focus on disciplined underwriting and pricing contributed to a modest increase in average premiums of 1.3%, while soft market price competition continues to constrain commercial prices.

The loss ratio for commercial property and casualty was 54.8% for 2010 and 62.4% for 2009. The 7.6 point improvement over the prior year is due mainly to the effects of changes in the claims discount rate. Excluding these effects, the loss ratio was 56.1% in both 2010 and 2009. Lower claims expense from weather-related property losses in 2010, offset the effect of a decrease in favourable prior year claims development of $21.1 million (11.2 points) in 2010 versus $29.2 million (15.9 points) in 2009. Favourable claims development in both 2009 and 2010 is mainly attributed to better than expected experience on general liability claims estimates.

The fourth quarter loss ratio was 17.9% in 2010 and 34.8% in 2009. 9.2 points of the 16.9 point improvement is due to the effects of changes in the claims discount rates. Excluding the effects of changes in claims discount rates, the fourth quarter loss ratio was 18.7% in 2010 and 26.4% in 2009. As compared with the fourth quarter of 2009, in the fourth quarter of 2010 a lower claims expense for large losses and a decline in claims frequency more than offset an increase in claims costs for weather-related losses.

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 decreased in 2010 by 0.6 point to 30.8% (31.4% in 2009). Commissions were 17.4% of net premiums earned in 2010 (16.9% in 2009). The increase is due to higher contingent profit bonuses resulting from improved profitability. Premium taxes were 3.4% of net premiums earned in both 2010 and 2009. Operating expenses were 10.0% of net premiums earned in 2010 (11.1% in 2009). The decrease is due mainly to the growth in average net premiums earned resulting from rate increases.

Investments, liquidity and capital resources

Investments	**2010**	2009
	(dollars in millions)	
Investment income (interest and dividends) before tax	**$ 85.8**	$ 87.2
Annualized investment yield	**3.8%**	3.9%
Investment gains (losses) before tax	**$ 11.8**	$ (151.8)
Impairment expense before tax	**(1.2)**	(8.1)

The decrease in investment income resulted from a decline in investment yields, on an amortized cost basis, which more than offset the benefit of an increase in average portfolio balance. The average cash and investment balance, on an amortized cost basis, increased by 2.1% in 2010 mainly due to positive cash flow from operations.

Investment gains of $11.8 million in 2010 consist of realized gains on available-for-sale investments of $9.9 million and a $1.9 million increase in the fair value of a held-for-trading investment (2009 consists of a net realized loss before tax of $151.8 million on available-for-sale investments). 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. The large net realized loss in 2009 was mainly due to a change in equity investment manager, which necessitated the redemption of common equity units in the prior managers' pooled funds. A net impairment loss of $1.2 million before tax was recorded in 2010 for unrealized losses on equity investments that are considered to be other than temporary ($8.1 million in 2009).

Cash flow provided from (used for)	**2010**	2009
	(dollars in millions)	
Operating activities	**$ 102.4**	$ 63.7
Investing activities	**(88.5)**	(80.5)
Financing activities	**-**	-
Net change in cash and cash equivalents	**$ 13.9**	$ (16.8)

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 $102.4 million for 2010 ($63.7 million in 2009) reflecting improved underwriting results in 2010. Most of the operating cash inflow was used to increase investments ($88.5 million) with the residual remaining in cash and cash equivalents ($13.9 million). The Dominion did not pay dividends to E-L Financial in 2009 and 2010, in order to improve its Minimum Capital Test ratio which had declined in 2008 as a result of the impact of the credit crisis on The Dominion's investment values.

Cash and investments	**2010**	2009	Change
		(dollars in millions)	
Cash and cash equivalents, net of bank indebtedness	**$ 138.3**	$ 124.4	$ 13.9
Investments	**2,303.7**	2,204.3	99.4
Cash and investments, net of bank indebtedness	**$ 2,442.0**	$ 2,328.7	$ 113.3

Total cash and investments, net of bank indebtedness, increased by $113.3 million in 2010. The increase in the balance was mainly due to positive operating cash flow of $102.4 million and a $38.0 million increase in the fair value of investments, partly offset by expenditures on intangibles and capital assets of $26.8 million. At December 31, 2010, the investment portfolio mix consisted of 12% in cash and short-term investments (2009 – 14%), 67% in bonds (2009 – 59%), 14% in common stocks (2009 – 18%) and 5% in preferred stocks (2009 – 6%). As at December 31, 2010, in addition to cash and short-term investments, 16% of The Dominion's bonds have a maturity date within one year (2009 – 16%).

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, 2010, the bond duration of 3.7 years (2009 – 3.4 years) is 93% (2009 - 85%) of the net unpaid and unreported claims average duration of 4.0 years (2009 – 4.0 years). The Dominion's fixed income investment managers proactively monitor

market conditions and make portfolio mix adjustments in anticipation of significant market changes, within guidelines established by the Investment Committee of the Board.

The Dominion's shareholder capital consists mainly of retained earnings and is invested 45% in common equities (60% in 2009) with the remainder invested in bonds. This reflects The Dominion's strategy to invest a significant portion of its shareholder capital in publicly-listed "large cap" common equities. The decrease in the ratio reflects the sale of $100 million of global common stocks to E-L Financial, a related party transaction which is eliminated in the consolidated financial statements. The proceeds were reinvested in bonds and debentures which contributed to the improvement in The Dominion's regulatory capital ratio discussed below.

	2010	2009
Minimum capital test (MCT)	**220%**	201%
	(dollars in millions)	
Capital in excess of legally required minimum of 100%	**$ 411**	$ 345
Capital in excess of OSFI supervisory target of 150%	**240**	175
Capital in excess of internal capital target of 190% (starting from third quarter of 2010)	**103**	N/A

The Dominion's capital has exceeded the requirements of the Insurance Companies Act (Canada) and its regulations thereunder throughout 2010 and to the date of this report. Capital adequacy is predominantly determined by the Minimum Capital Test ("MCT"), a calculation defined by the Office of the Superintendent of Financial Institutions, the 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%. In addition, during the third quarter of 2010, The Dominion's Board approved an internal capital target MCT ratio of 190%. The internal capital target is based on actuarial analysis of material risks. The internal capital target will be reviewed annually, or more frequently if material changes in risks are identified, and may be changed accordingly. The Dominion's decisions regarding investments and declaration of dividends will continue to be made with the intention of maintaining sufficient regulatory capital. At December 31, 2010, The Dominion's MCT result was 220% (201% at the end of 2009) which equates to over $240 million of excess capital above the regulator's supervisory target and $103 million of excess capital above the internal capital target of 190%. The improvement in 2010 is due to the improvement in earnings and the sale of $100 million of common stocks with the proceeds being reinvested in corporate and government bonds which generate lower "capital required" than common stocks.

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, 2010 would decrease shareholder's equity by $49.2 million (6%) and decrease our MCT by 8 points to 212%.

Other comprehensive income

	2010	2009
Comprehensive income	(dollars in millions)	
Net income (loss)	**$ 67.5**	$ (152.0)
Unrealized gains	**27.0**	109.3
Reclassification adjustment for realized (gains) losses	**(6.0)**	192.8
Other comprehensive income	**21.0**	302.1
Comprehensive income	**$ 88.5**	$ 150.1

In 2010, The Dominion earned other comprehensive income ("OCI") of $21.0 million, consisting of a net unrealized gain on AFS investments of $27.0 million after tax and a $6.0 million after tax reclassification adjustment for the net realized investment gain transferred from accumulated other comprehensive income ("AOCI") to net income. The majority of the 2010 net unrealized gain on AFS investments was from common stocks. In 2009, The Dominion had an OCI of $302.1 million after tax, consisting of a net unrealized gain of $109.3 million after tax and a $192.8 million after tax reclassification adjustment for the net realized investment loss recognized in net loss, resulting from the recovery of the stock markets and the redemption of the equity pooled fund units. Comprehensive income, which is the sum of net income and OCI, was $88.5 million in 2010 ($150.1 million in 2009).

Tax losses

As discussed in the 2008 and 2009 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 consolidated 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 consolidated 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.

In 2010, The Dominion recognized $28.0 million of benefit from the utilization of these tax losses ($nil in 2009). At December 31, 2010, $34.0 million of benefit from the expected future utilization of these tax losses, based on future tax rates as at December 31, 2010, remains in the future tax asset to be absorbed against future taxes.

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. For financial reporting purposes, the earnings of a P&C insurer are presented as the two components of an underwriting profit or loss (net premiums earned less claims and underwriting expenses) and total investment income. Underlying the financial statement presentation, however, the economic return of a P&C insurer can be viewed as consisting of the following two components: (1) a net return on insurance operations, and (2) a return on shareholder capital. First, the net return on the insurance operations consists of the underwriting profit or loss plus investment income on "insurance float" investments (the portion of investments held to eventually pay insurance liabilities). In some 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 net profit on insurance operations by earning investment income on the insurance float that exceeds the underwriting loss. In other years the industry generates an underwriting profit (net premiums earned exceed claims and underwriting expenses) which adds to the investment return on the insurance float. Second, in addition to the net profit on insurance operations an investment return is also earned on the portion of investments that 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. Disclosures regarding The

Dominion's financial instruments, including financial risk management, are included in Notes 6, 7 and 23 to the 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 accounting estimates 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, 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 Dominion's 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 Appointed 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 Appointed 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 $77.4 million ($53.8 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 $44.4 million.

Another important measurement uncertainty is the possible existence and magnitude of a "premium deficiency" associated with premium liabilities. The Appointed Actuary determines whether unearned premiums, 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 2010.

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 only structured settlements that do not require a guarantee by The Dominion, thereby avoiding a contingent liability for those structures.

Valuation of investments

Management regularly reviews impaired investments (those with a market value below cost) and has determined that a number were other than temporarily impaired at December 31, 2010, resulting in an impairment provision of $1.2 million ($0.9 million after tax) in 2010. An impairment provision of $8.1 million ($5.5 million after tax) was recorded in 2009. The impairment provision transferred the total unrealized loss on each of these AFS investments from AOCI (through the reclassification adjustment on the Statement of Comprehensive Income) to net income.

Outlook

Price hardening in personal lines is expected to continue in 2011. Commercial lines prices remain soft in general with no signs of an overall hardening likely in 2011. Claims costs are continuing to increase in most lines of business. The Dominion expects that planned price increases and the Ontario automobile insurance reforms will allow for achieving price adequacy and for generating further improvement to the loss ratio and profit in 2011. 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 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.

The Empire Life Insurance Company ("Empire Life") reported full year shareholders' net income of $30.2 million for 2010, compared to $53.8 million for 2009. Empire Life's net contribution to E-L Financial's earnings, after adjustment for non-controlling interests, is shown in the following table:

	Quarterly results		Year	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Net income, contribution to E-L by Empire				
Shareholders' net income	**$ 5.9**	$ 4.0	**$ 30.2**	$ 53.8
Non-controlling interests portion of net income	**1.2**	0.8	**6.2**	11.0
Net income contribution to E-L by Empire	**$ 4.7**	$ 3.2	**$ 24.0**	$ 42.8

The primary contributors to the overall decrease in 2010 full year earnings were the low long term interest rate environment and its impact on Individual Insurance line profitability and last year's favourable impact of amendments to the Income Tax Act (Canada) related to Financial Instruments (described below) that mainly benefited the Individual Insurance line in 2009. These decreases were partly offset by increased net income in 2010 from sale of investments and lower impairments primarily resulting from write downs of certain AFS equity investments in 2009.

For the fourth quarter net income was higher relative to last year primarily due to higher Capital and Surplus net income. This improvement resulted from lower impairment write downs in 2010.

Empire Life has three major product lines (Wealth Management, Employee Benefits and Individual Insurance) and maintains distinct accounts for Capital and Surplus. A discussion of each product line's 2010 net income compared to 2009 is shown in the Product Line Results sections later in this report.

Last year, on March 4, 2009, the above mentioned amendments to the Income Tax Act (Canada) related to Financial Instruments passed fourth reading and became substantively enacted. The impact of these amendments, which were recorded in the first quarter of 2009, was a non-recurring after-tax gain of $22.2 million for shareholders, and a non-recurring after-tax gain of $13.6 million for policyholders. The net contribution of this tax item to E-L Financial's first quarter 2009 earnings, after adjustment for non-controlling interests, was $17.7 million.

The report contains references to annualized premium sales. This term does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. Empire Life believes that this measure provides information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

The Summary of Life Insurance Operations on page 101 of this Annual Report provides an overview of results for the five-year period from 2006 to 2010. The analysis and discussion which follows is focused on the full year 2010 and comparative 2009 line of business net income after tax.

The following table provides a summary of Empire Life results by major product line:

For the year ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenue										
Premium income	**$ 240**	$ 300	**$ 262**	$ 242	**$ 317**	$ 297	**$ -**	$ -	**$ 819**	$ 839
Fee and other income	**105**	87	**6**	6	**1**	1	**1**	1	**113**	95
Investment income	**58**	55	**6**	7	**104**	93	**37**	29	**205**	184
Realized gain on held for trading investments	**4**	4	**-**	3	**4**	23	**-**	1	**8**	31
Realized gain (loss) on available for sale investments including impairment write downs	**(1)**	**-**	**-**	**-**	**6**	(12)	**10**	(22)	**15**	(34)
Fair value change in held for trading investments	**10**	43	**8**	-	**180**	64	**-**	-	**198**	107
	416	489	**282**	258	**612**	466	**48**	9	**1,358**	1,222
Expenses										
Benefits and expenses	**409**	463	**258**	237	**638**	429	**15**	12	**1,320**	1,141
Income and other taxes	**(3)**	4	**11**	11	**(4)**	11	**9**	(10)	**13**	16
	406	467	**269**	248	**634**	440	**24**	2	**1,333**	1,157
Net income (loss) after tax	**$ 10**	$ 22	**$ 13**	$ 10	**$ (22)**	$ 26	**$ 24**	$ 7	**$ 25**	$ 65
Policyholders' portion									**(5)**	11
Shareholders' net income (loss)									**30**	54
Non-controlling interests portion of net income									**6**	11
Net income (loss) contribution to E-L Financial									**$ 24**	$ 43
Assets under management										
General fund assets	**$ 1,141**	$ 1,060								
Segregated fund assets	**$ 4,707**	$ 4,310								
Annualized premium sales			**$ 43**	$ 36	**$ 68**	$ 61				

Total revenue

	Quarterly results		Year	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Revenue				
Premium income	**$ 199**	$ 193	**$ 819**	$ 839
Fee and other income	**30**	27	**113**	95
Investment income	**55**	49	**205**	184
Fair value change in HFT investments including realized amounts	**(45)**	(56)	**206**	138
Realized gain (loss) on available for sale investments including impairment write downs	**2**	(15)	**15**	(34)
Total	**$ 241**	$ 198	**$ 1,358**	$ 1,222

For the year, total revenue at Empire Life increased by 11% to $1.4 billion compared to $1.2 billion in 2009. Major revenue items are discussed below.

Premium income for the year decreased in 2010 relative to 2009. The decrease primarily related to fixed interest annuity premiums which declined from 2009's exceptionally strong levels.

Fee and other income grew strongly in 2010 relative 2009 as management fees earned on segregated funds recovered strongly due to the impact of rising stock markets and positive net segregated fund sales on average assets under management during 2010.

Fair value change in HFT investments including realized amounts often causes large revenue volatility. On a full year basis, these assets experienced a net gain in both 2010 and 2009. The gains in both 2010 and 2009 resulted primarily from an increase in bond prices (due to a decrease in market interest rates) and an increase in common share prices. The impact of this on net income is largely reduced due to a corresponding change in policy liabilities (discussed in the Total Benefits and Expenses section below).

Realized gain (loss) on AFS investments was a gain for the year in 2010 versus a loss in 2009. These gains and losses impact net income and are considered in the net income investment experience comments for each of the impacted product lines (see Product Line Results sections later in this report). The gains and losses in 2010 primarily resulted from the sale of certain AFS equity investments. The losses in 2009 primarily related to impairment write downs of certain AFS equity investments. Most of the assets sold or written down backed capital and surplus, while the balance sold or written down primarily matched Individual Insurance long duration liabilities.

Total benefits and expenses

	Quarterly results		Year	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Benefits and Expenses				
Insurance benefits	**$ 75**	$ 67	**$ 307**	$ 279
Policy dividends	**5**	5	**19**	18
Annuity benefits	**66**	60	**230**	199
Increase (decrease) in policy liabilities	**11**	(6)	**476**	385
Operating expenses	**33**	28	**117**	104
Commissions	**42**	40	**157**	145
Interest expense	**3**	3	**14**	11
Total	**$ 235**	$ 197	**$ 1,320**	$ 1,141

Total benefits and expenses at Empire Life for the year increased by 16% to $1.3 billion compared to $1.1 billion in 2009. Major benefit and expense items are discussed below.

Insurance Benefits experience variability is dependent on the claims incurred. Generally claims rise year-over-year due to growth of the insurance blocks. Variability in claims amounts does not, in isolation, impact net income as policy liabilities are released when claims occur. The policy liabilities released can be larger or smaller than the claims incurred depending on whether claims experience has been favourable or unfavourable. Claims experience is the combination of claims incurred compared to claims expected in product pricing and in policy liabilities. Year-over-year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

Policy dividends increased year-over-year due to business inforce growth.

Annuity benefits increased as the annuity block has grown over recent years resulting in larger annuity benefit payments. Variability in annuity benefit amounts does not, in isolation, impact net income as policy liabilities are released when annuity payments occur. The policy liabilities released can be larger or smaller than the annuity payments depending on whether the annuity block investment and mortality experience has been favourable or unfavourable.

Increase in policy liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching policy liabilities. The main reason for the large change from 2009 for this item was the change in policy liabilities resulting from the fair value change in matching assets (described above in the Total Revenue Section). Variability in the increase in policy liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the income statement.

Operating expenses and commission expenses increased year-over-year due to growth in annualized premium sales and business inforce growth.

Interest expense increased from 2009 levels due to the May 2009 subordinated debt issue that fully impacted 2010 interest expense.

Product line results - Wealth Management

(millions of dollars)	**As at December 31** **2010**	2009
Assets under management		
General fund annuities	**$ 1,141**	$ 1,060
Segregated funds	**4,707**	4,310

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Selected financial information				
Fixed interest annuity premiums	**$ 51**	$ 70	**$ 240**	$ 300
Segregated fund gross sales	**226**	204	**778**	696
Segregated fund net sales	**14**	55	**79**	188
Segregated fund fee income	**28**	24	**104**	87
Net income after tax fixed income annuity portion	**$ 3**	$ 4	**$ 4**	$ 16
Net income after tax segregated fund portion	**3**	6	**6**	6
Net income after tax	**$ 6**	$ 10	**$ 10**	$ 22

Assets in Empire Life general fund annuities and segregated funds increased by 8% and 9% respectively during the last twelve months. The increase for general fund annuities was primarily due to fixed interest annuity premium income received during the last twelve months. The increase for segregated funds was attributable to positive investment returns, due to the stock market recovery that began in the fourth quarter of 2009, and positive net sales (gross sales net of withdrawals) described below.

Premium income for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund products. For the year fixed interest annuity premiums were down 20% compared to 2009 due to decreased sales of fixed interest deferred annuities. However 2009 was an exceptionally strong year for fixed interest annuity sales. 2010 fixed interest annuity premiums, while lower than 2009, continued to be strong as many customers continued to select fixed interest products over segregated funds due to continuing stock market uncertainty.

For the year, segregated fund gross sales were up 12% from 2009 despite continuing stock market volatility. However, net sales, while positive in three of the last four quarters, were lower than 2009 due to increased withdrawals.

For the year, segregated fund fee income increased by 20% in 2010 relative to 2009 as management fees earned on segregated funds recovered strongly. This recovery was due to growth in average assets under management resulting from the favourable impact of rising stock markets and positive net segregated fund sales. During the fourth quarter of 2010 a significant milestone was reached as segregated fund fee income for the quarter returned to pre-financial crisis levels by surpassing the level of fee income earned in the second quarter of 2008 (just before the financial crisis severely depressed markets).

During the fourth quarter and for the year earnings from this product line decreased relative to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

(millions of dollars)	**Q4**	**Year**
Wealth management net income analysis		
Net income after tax 2010	**$ 6**	$ 10
Net income after tax 2009	**10**	22
Decrease in net income after tax	**$ (4)**	$ (12)
Components of the decrease		
Non-recurring 2009 gain from tax law changes	**$ -**	$ (2)
Higher (reduced) investment experience gains	**1**	(10)
Release of segregated fund guarantee policy liabilities in 2009	**-**	(4)
Higher new business strain	**-**	(1)
Increase in inforce profit margins	**-**	6
Improved segregated fund death benefit guarantee and mortality results	**-**	4
Update of policy liability assumptions	**(5)**	(5)
Total	**$ (4)**	$ (12)

The 2009 non-recurring tax law change resulted from amendments to the Income Tax Act (Canada) primarily related to Financial Instruments. Investment experience gains were exceptionally strong in 2009 due to the favourable impact 2009 fixed interest investing activities had on policy liabilities. This 2009 investing activity locked in favourable future investment returns resulting in a release of policy liabilities in 2009. Fixed interest investing opportunities diminished in 2010 as corporate bond and preferred share market yields have dropped significantly. The release of segregated fund guarantee policy liabilities in 2009 was primarily due to the rise in stock markets in the second quarter of 2009. Higher new business strain resulted from rising sales and differing product mix. Higher net income on in-force business in 2010 was due to the increase in segregated funds under management relative to 2009. Improved segregated fund death benefit guarantee and mortality results compared to 2009 was primarily due to the recovery of stock markets. The update of policy liability assumptions was unfavourable in 2010 relative to 2009. The updates for general fund annuities primarily related to the unfavourable impact of annuitant mortality assumptions. In addition, the 2010 update of policy liabilities related to segregated funds was less favourable than 2009.

Product line results - Employee Benefits

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Selected financial information				
Annualized premium sales	**$ 10**	$ 13	**$ 43**	$ 36
Premium income	**66**	43	**262**	242
Net income after tax	**$ 1**	$ 2	**$ 13**	$ 10

For the year sales in this product line increased by 20% relative to 2009. The sales result is a strong recovery from recessionary lows and may signal a return to more typical sales levels. This product line's quarterly and annual premium income increased significantly in 2010, however 2009 premiums were depressed by a non-recurring transaction that terminated a reinsurance assumed agreement. After removing the impact of this non-recurring item, premium levels were flat compared to the corresponding

period of 2009. This slow premium income growth resulted from this product line's in-force block of business being negatively impacted by the severity of the economic downturn, particularly in Ontario.

During the fourth quarter earnings from this product line decreased relative to 2009. However, for the year 2010 earnings from this product line increased compared to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

(millions of dollars)	**Q4**	**Year**
Employee benefits net income analysis		
Net income after tax 2010	**$ 1**	$ 13
Net income after tax 2009	**2**	10
Increase (decrease) in net income after tax	**$ (1)**	$ 3
Components of increase (decrease)		
Improved claims experience	**$ (1)**	$ 5
Decrease in inforce profit margins	**-**	(2)
Total	**$ (1)**	$ 3

Improved claims experience related to group life, group long term disability and group health claims results. The decrease in profit margins resulted from the in-force block of business being negatively impacted by the severity of the economic downturn.

Product line results - Individual Insurance

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Selected financial information				
Annualized premium sales	**$ 19**	$ 18	**$ 68**	$ 61
Premium income	**84**	79	**317**	297
Net income after tax				
Net income (loss) after tax shareholders' portion	**$ (6)**	$ (5)	**$ (14)**	$ 15
Net income (loss) after tax policyholders' portion	**(2)**	(6)	**(8)**	11
Net income (loss) after tax	**$ (8)**	$ (11)	**$ (22)**	$ 26

For the year annualized premium sales in this product line increased by 12% compared to 2009, and premium income increased by 6% compared to 2009.

During the fourth quarter earnings from this product line increased relative to 2009. However, for the year earnings from this product line decreased compared to 2009.

The following table provides a breakdown of the components of this year-over-year change in net income.

(millions of dollars)	Q4	Year
Individual insurance net income analysis		
Net income (loss) after tax 2010	**$ (8)**	$ (22)
Net income (loss) after tax 2009	**(11)**	26
Increase (decrease) in net income after tax	**$ 3**	$ (48)
Components of increase (decrease)		
Non-recurring 2009 gain from tax law changes	**$ -**	$ (26)
Reduced loss from tax rate changes	**2**	2
Improved (reduced) investment experience	**8**	(9)
Higher new business strain	**(2)**	(13)
Change in mortality and surrender experience	**(2)**	(1)
Increase in inforce profit margins	**-**	2
Update of policy liability assumptions	**(3)**	(3)
Total	**$ 3**	$ (48)

The 2009 non-recurring tax law change resulted from amendments to the Income Tax Act (Canada) primarily related to Financial Instruments. Investment experience gains were exceptionally strong in 2009 due to the favourable impact 2009 fixed interest investing activities had on policy liabilities. This 2009 investing activity locked in favourable future investment returns resulting in a release of policy liabilities in 2009. Fixed interest investing opportunities diminished in 2010 as corporate bond and preferred share market yields have dropped significantly. Higher new business strain resulted from the rise in sales and lower long term interest rates. The update of policy liability assumptions was unfavourable in 2010 relative to 2009. The updates primarily related to the unfavourable impact of decreases in investment return assumptions, partly offset by the favourable impact of improving mortality assumptions and updates to policyholder dividend assumptions.

Results - Capital and Surplus

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Net income after tax				
Net income (loss) after tax shareholders' portion	**$ 5**	$ (1)	**$ 21**	$ 6
Net income after tax policyholders' portion	**1**	-	**3**	1
Net income (loss) after tax	**$ 6**	**$ (1)**	**$ 24**	$ 7

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders’ Capital and Surplus and to Policyholders’ Surplus. During the fourth quarter and the full year Capital and Surplus earnings increased relative to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

(millions of dollars)	Q4	Year
Capital and surplus net income analysis		
Net income after tax 2010	**$ 6**	$ 24
Net income (loss)after tax 2009	**(1)**	7
Increase in net income after tax	**$ 7**	$ 17
Components of increase		
Non-recurring 2009 gain from tax law changes	**$ -**	$ (7)
Reduced loss from tax rate changes	**1**	-
Increased net income from sale of investments and lower impairments	**5**	20
Increased investment income	**1**	6
Increased interest expense on subordinated debt	**-**	(2)
Total	**$ 7**	$ 17

The 2009 non-recurring tax law change resulted from amendments to the Income Tax Act (Canada) primarily related to Financial Instruments. Increased net income from sale of investments and lower impairments primarily resulted from write downs of certain AFS equity investments in the third and fourth quarters of 2009 and gains from the sale of certain AFS equity investments in the first quarter of 2010. The increase in investment income resulted from a larger fixed interest portfolio due to asset mix changes and investment of the proceeds from the May 2009 subordinated debt issue. Increased interest expense primarily resulted from a larger amount of subordinated debt during 2010 relative to 2009.

Total cash flow

	Quarterly results		Year	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
Cash flow provided from (used for)				
Operating activities	**$ 36**	$ 66	**$ 170**	$ 328
Investing activities	**(25)**	(70)	**(153)**	(425)
Financing activities	**-**	-	**(15)**	74
Net change in cash and cash equivalents	**$ 11**	$ (4)	**$ 2**	$ (23)

The decrease in cash provided by operating activities during the year in 2010 relative to 2009 was primarily due to decreased cash inflows related to annuity business, the payment of income taxes, and increased commission expenses due to higher life insurance, employee benefits and segregated fund sales.

The decrease in cash used for investing activities during the year in 2010 relative to 2009 was primarily due to investment of the higher amount of cash provided by operations in 2009 and the investment of proceeds of the net increase of $74 million of subordinated debt in 2009 described below. In addition, there were higher net investment purchases in 2009 to take advantage of favourable investment yields, and reduced sales of portfolio investments in 2009 due to stock market conditions.

The cash used for financing activities during the full year 2010 was due to Empire Life's decision to pay a dividend to common shareholders in the first quarter of 2010. The cash provided during the full year 2009 of $74 million was the issuance of $200 million principal amount of subordinated debt in the second quarter of 2009 and the repayment in 2009 of $125 million of subordinated debt issued to E-L Financial. Empire Life's dividends to E-L Financial and the repayment of the subordinated debt are fully eliminated in the consolidated financial statements of E-L Financial.

Capital resources

	Dec. 31 2010	Sept. 30 2010	June 30 2010	Mar. 31 2010	Dec. 31 2009
MCCSR Ratio	**243%**	244%	251%	258%	266%

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 243% as of December 31, 2010 continued to be well above requirements and above minimum internal targets. The A (Excellent) rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength.

Other comprehensive income

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2010**	Q4 2009	**2010**	2009
OCI				
Shareholders' OCI	**$ 18**	$ 21	**$ 25**	$ 94
Non-controlling interests portion of OCI	**4**	4	**5**	19
OCI contributed to E-L by Empire Life	**$ 14**	$ 17	**$ 20**	$ 75
Policyholders' OCI	**$ 2**	$ 1	**$ 2**	$ 8

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"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. A gain reclassified to net income lowers OCI. A loss reclassified to net income increases OCI.

During the full year 2010 OCI decreased relative to 2009 due to a stronger rise in Canadian stock markets in 2009 and the reclassification to net income of a realized gain in 2010 versus a realized loss in 2009.

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 technology 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 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 achieving profitable 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 broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products and guaranteed interest products. These products compete against products offered by a variety of 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 focused on developing long-term performance in the fund marketplace. Management is expecting to grow market share through this long-term performance along with broadened distribution reach and the addition of new funds and fund products such as mutual funds.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group market comprised of employers with fewer than 200 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. Sales strain has been particularly high in 2010 due to the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases in 2011 for individual insurance products by Empire Life and many of our competitors. 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, management continues 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, 2010 Empire had $4.7 billion of segregated fund assets. Of this amount, approximately $4.4 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec. 31 2010	Dec. 31 2009
Percentage of segregated fund assets with:		
75% maturity guarantee and a 100% death benefit guarantee	**83.2%**	88.6%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.5%**	5.0%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit ("GMWB"))	**11.3%**	6.4%

All Empire Life segregated fund guarantees are policy based (not deposit-based), thereby lowering Empire Life's stock market sensitivity. 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. If period end stock markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. Based on stock market levels on December 31 for 2010 and 2009, the sensitivity of E-L Financial's shareholders' net income to changes in

segregated fund guarantee policy liabilities resulting from stock market increases and decreases is as follows:

	10% increase	10% decrease	20 % increase	20% decrease
Sensitivity to segregated fund guarantees				
2010 Shareholder's net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2009 Shareholder's net income	$ nil	$ nil	$ nil	$ nil

Based on stock market levels on the dates 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:

	10% increase	10% decrease	20 % increase	20% decrease
Sensitivity to stock markets				
December 31, 2010 MCCSR Ratio	**3.7%**	**-3.8%**	**7.2%**	**-8.5%**
December 31, 2009 MCCSR Ratio	2.5%	-7.4%	4.9%	-36.5%

Empire Life has not historically hedged or reinsured its segregated fund guarantee risk. Given the current segregated fund product mix and level of sensitivity to stock markets, Empire Life has not hedged or reinsured its segregated fund guarantee risk as of December 31, 2010. 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**
Dec. 31, 2010	**$ 113**	**$ 12**	**$ 1,422**	**$ 137**	**$ nil**	**$ nil**
Dec. 31, 2009	$ 186	$ 22	$ 2,046	$ 316	$ nil	$ nil

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 amounts at risk decreased in December 2010 from December 2009 levels primarily due to the rise 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 note 23 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 accounting estimates for Empire Life are the valuation of policy liabilities and the determination of allowances for impaired investments.

Policy liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in Note 23 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 changes in the specific provision for impairment.

AFS 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 income (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

2010 has been a continuation of 2009's positive but volatile stock market and credit market recovery from the economic turmoil of 2008. This mainly improved the inforce profit margin results for the segregated fund portion of Empire Life's Wealth Management product line. Looking forward, the improvement of the segregated fund business is expected to continue in 2011 as profit margins continue to recover. Consumers continue to be cautious about stock market exposure and Empire Life is well positioned with deferred annuity product offerings to satisfy demand for low risk investments.

The strength of the economic recovery has improved in Canada but continues to be uncertain with mixed economic indicators. As a result businesses remain cautious and this could cause continued pressure in the near term on growth prospects for the Employee Benefits product line.

A key issue for the Individual Insurance product line in 2010 was the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases for individual insurance products by Empire Life and many of our competitors. Long-term interest rates and product pricing are expected to continue to be issues for Empire's Individual Insurance product line in 2011.

Regulatory change related to segregated fund guarantees continues to evolve. The Office of the Superintendent of Financial Institutions Canada ("OSFI") is currently reviewing the overall approach for

determining capital requirements for segregated fund risks, and is implementing this change in two stages. In the first stage, the parameters within life company stochastic models will be strengthened with respect to new business issued after January 1st, 2011. This does not have a significant impact on Empire’s MCCSR ratio. In the second stage, a new approach will be implemented for all inforce segregated fund business (including new business issued in 2011 and later). With respect to the second stage, OSFI states that “we are considering a range of alternatives including a more market-consistent approach and potentially credit for hedging” and that “we expect this work stream to continue for several years, likely into 2013”.

Longer term accounting standard and regulatory changes are expected by 2014 or later regarding IFRS Insurance Contracts and Solvency II. Both of these changes aim at consistent measurement. For Insurance Contracts accounting the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. For Solvency II the goal is consistent treatment of risk within insurance companies from a capital adequacy perspective regardless of the type of business. These two items could have a material impact on Empire Life’s future net income and capital ratios, however, much remains unknown.

The potential for regulatory change also exists for MGA’s. Life insurance companies, including Empire Life, commonly contract with MGA’s as a key component of the distribution chain for insurance and wealth management products. The nature and impact of potential regulation is unclear.

March 8, 2011

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.

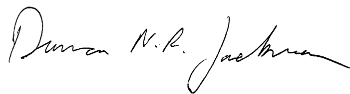
The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the consolidated financial statements.

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, 2010. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2010.

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

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

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



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

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

March 8, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of E-L Financial Corporation Limited

We have audited the accompanying consolidated financial statements of E-L Financial Corporation Limited, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss), comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

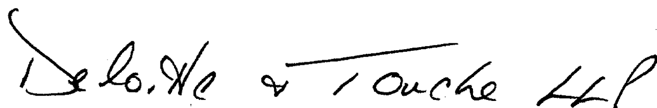
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of E-L Financial Corporation Limited as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
Toronto, Canada

March 8, 2011

CONSOLIDATED BALANCE SHEET

	As at December 31, 2010	2009 (Restated - Note 2)
	(thousands of dollars)	
Assets		
Cash and cash equivalents (Note 26)	**$ 339,073**	$ 327,529
Investments - corporate (fair value $833,540; 2009 - $751,346) (Note 5)	**785,272**	747,555
Investments - insurance operations (fair value $6,995,984; 2009 - $6,408,674) (Note 6)	**6,981,427**	6,402,741
Equity method investments (fair value $429,806; 2009 - $407,282) (Note 8)	**436,706**	400,949
Premiums receivable	**309,999**	301,547
Accrued investment income	**30,933**	31,613
Deferred acquisition expenses	**112,562**	109,078
Reinsurance recoverable (Note 11)	**81,114**	101,522
Income taxes receivable	**11,926**	2,528
Future income taxes (Note 18)	**54,361**	78,070
Other assets (Note 12)	**124,046**	88,508
	$ 9,267,419	$ 8,591,640
Segregated funds assets	**$ 4,706,658**	$ 4,310,401
Liabilities		
Policy liabilities (Note 11)	**$ 5,928,915**	$ 5,395,886
Policyholders' funds on deposit	**30,037**	29,702
Income and other taxes payable	**11,882**	79,230
Provision for profits to policyholders	**20,104**	18,558
Future income taxes (Note 18)	**30,858**	18,329
Other liabilities (Note 13)	**193,943**	186,466
Subordinated debt (Note 31)	**199,185**	198,980
	6,414,924	5,927,151
Non-controlling interests in subsidiaries	**161,513**	152,734
Participating policyholders' interest	**57,605**	60,812
	219,118	213,546
Shareholders' equity (Note 17)		
Capital stock (Note 15)	**272,388**	272,388
Retained earnings	**2,197,755**	2,065,921
Accumulated other comprehensive income	**163,234**	112,634
	2,633,377	2,450,943
	$ 9,267,419	$ 8,591,640
Segregated funds liabilities	**$ 4,706,658**	$ 4,310,401

Approved by the Board

Duncan N.R. Jackman, Director
Douglas C. Townsend, Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Years ended December 31, 2010	2009 (Restated - Note 2)
	(thousands of dollars, except per share amounts)	
Revenue		
Insurance premiums (Note 14)	**$ 1,768,176**	$ 1,625,596
Annuity premiums	**239,864**	300,306
Investment and other income (Note 9)	**440,224**	398,530
Income from equity method investments (Note 8)	**34,853**	6,744
Change in fair value of held for trading investments (Note 10)	**213,755**	109,300
Realized gain on held for trading investments	**5,003**	30,890
Realized gain (loss) on available for sale investments including impairment write downs (Notes 5 and 6)	**23,309**	(317,860)
	2,725,184	2,153,506
Expenses		
Claims and policy benefits	**1,881,762**	1,784,877
Commissions	**363,268**	328,033
Operating	**254,868**	236,762
	2,499,898	2,349,672
Income (loss) before the undernoted items	**225,286**	(196,166)
Taxes (recovery)		
Income (Note 18)	**22,563**	(86,148)
Premium	**53,097**	48,715
Investment and capital	**3,616**	4,099
	79,276	(33,334)
Income (loss) before policyholders' and non-controlling interests	**146,010**	(162,832)
Policyholders' and non-controlling interests portion of income	**1,317**	22,076
Net income (loss) (Note 20)	**$ 144,693**	$ (184,908)
Net income (loss) per share (Note 16)		
- Basic	**$ 40.66**	$ (58.75)
- Diluted	**$ 38.12**	$ (58.75)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31, 2010	2009 (Restated - Note 2)
	(thousands of dollars)	
Net income (loss)	**$ 144,693**	$ (184,908)
Other comprehensive income, net of tax (Note 19):		
Net change in unrealized gain on available for sale investments	**52,409**	376,716
Net gain on derivative instruments designated as cash flow hedges	**368**	939
The Company's net share of other comprehensive loss for equity method investments (Note 8)	**(2,177)**	(814)
Unrealized fair value change reclassified to equity method investments (Note 8)	**-**	57,570
Other comprehensive income	**50,600**	434,411
Comprehensive income	**$ 195,293**	$ 249,503

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Years ended December 31, 2010	2009 (Restated - Note 2)
	(thousands of dollars)	
Capital stock		
Balance throughout the year	**$ 272,388**	$ 272,388
Retained earnings		
Balance at beginning of year	**2,065,921**	2,264,591
Impact of prior period adjustment (Note 2)	**-**	(1,201)
	2,065,921	2,263,390
Net income (loss)	**144,693**	(184,908)
Recovery of refundable income taxes	**4,020**	4,020
Dividends	**(12,060)**	(12,060)
Provision for refundable income taxes	**(4,819)**	(4,521)
Balance at end of year	**2,197,755**	2,065,921
Accumulated other comprehensive income		
Balance at beginning of year	**112,634**	(321,777)
Other comprehensive income	**50,600**	434,411
Balance at end of year (Note 19)	**163,234**	112,634
Shareholders' equity	**$ 2,633,377**	$ 2,450,943

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2010	2009 (Restated - Note 2)
	(thousands of dollars)	
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income (loss)	**$ 144,693**	$ (184,908)
Items not affecting cash resources:		
Increase in net policy liabilities	**553,437**	513,725
Realized (gain) loss on sale of investments including impairment write downs	**(28,312)**	286,970
Change in fair value of held for trading investments	**(213,755)**	(109,300)
Future income taxes	**26,291**	(90,972)
Income from equity method investments	**(27,624)**	(1,198)
Amortization related to invested assets	**(58,168)**	(63,335)
Other items	**(27,450)**	(17,676)
	369,112	333,306
Net change in other assets and liabilities	**(78,001)**	87,030
	291,111	420,336
Financing		
Issue of units by variable interest entity to non-controlling interest	**500**	-
Repayment of short-term debt	**-**	(49,776)
Issuance of short-term debt	**-**	24,938
Issuance of subordinated debt (Note 31)	**-**	198,861
Cash dividends to shareholders	**(12,060)**	(12,060)
	(11,560)	161,963
Investing		
Purchases of investments	**(2,365,805)**	(2,272,312)
Proceeds from sale or maturity of investments	**2,023,689**	1,782,921
Net sales (purchases) of short-term investments	**88,909**	(107,689)
Net purchases of other assets	**(13,800)**	(11,064)
	(267,007)	(608,144)
Increase (decrease) in cash and cash equivalents	**12,544**	(25,845)
Cash and cash equivalents, beginning of year	**299,622**	325,467
Cash and cash equivalents, end of year (Note 26)	**$ 312,166**	$ 299,622

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 ("E-L Corporate"). Included within E-L Corporate 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, 2006, The Dominion's other employee future benefit plan liability was understated due to an error in the valuation performed by the external consulting actuary at January 1, 2006. The valuation was relied upon for recording The Dominion's other employee future benefit plan liabilities for the 2006 to 2009 financial years. The Company has restated its prior period financial statements to correct for this error, resulting in a decrease to retained earnings of $1,201 as at January 1, 2009. The retroactive impact on the consolidated balance sheet as at December 31, 2009 was an increase in other liabilities of $2,177, an increase in future income tax asset of $603 and a decrease in the closing retained earnings of $1,574. The impact of this adjustment on the income statement was an increase in operating expenses of $501, an increase in income tax recovery of $128 and an increase in consolidated net loss of $373 for the year ended December 31, 2009. Basic and diluted earnings per share decreased $0.11.

3. Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In accordance with the requirements of the Canadian Accounting Standards Board, all publicly accountable enterprises will adopt IFRS as of January 1, 2011 with comparatives for the prior year. The Company's first annual consolidated financial statements in accordance with IFRS will be for the year ending December 31, 2011.

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 (loss).

Use of estimates and assumptions

The preparation of financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the year. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Estimates and assumptions are made in the areas of determining policy liabilities, reinsurance recoverable, 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 the Company has significant influence are accounted for by the equity method, and are included in equity method investments on the consolidated balance sheets. The Company's 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 (loss).

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 (loss) 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 ("OCI") 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 are reclassified to the consolidated statements of income (loss). 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 (loss).

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 has designated its investments in bonds and debentures, preferred shares and common shares, short-term investments and cash equivalents as AFS, except for those required to be designated HFT. 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.

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 suggests that timely collection of the contractual principal or interest is no longer reasonably assured. An impairment charge equal to the cumulative loss recorded in AOCI is recognized in the consolidated statement of income (loss) when impairment is considered other than temporary ("OTT"). In assessing whether an impairment is OTT, we consider our intent and ability 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 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 if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or if the issuer is experiencing

financial difficulties. In assessing whether impairment is OTT, we also consider our intent and ability 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 (loss) is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in the consolidated statements of income (loss) cannot be subsequently reversed. Any subsequent increase in value is recorded in OCI.

Comprehensive income

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

Foreign currency translation

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

Revenue recognition

At The Dominion premiums, net of reinsurance, 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, are 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 (loss).

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.

All changes in policy liability estimates are recorded in claims and policy benefits in the consolidated statements of income (loss) 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 net 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 comprised of office properties (including land, building and leasehold improvements), furniture and equipment and computer hardware. All classes of assets are carried at cost less accumulated amortization, except for land, which is not subject to amortization, and any impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset. 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 of 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.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Intangibles include computer software, related licenses and software development costs, which are capitalized and carried at cost less accumulated amortization and any impairment losses. Amortization of intangibles is calculated using the straight–line method to allocate the costs over their estimated useful lives, which are generally between three to seven years. Amortization is included in operating expenses in the consolidated statements of income (loss). For intangibles under development, amortization begins when the asset is available for use. The Company does not have intangibles with indefinite useful lives.

Intangibles under development are reviewed annually for impairment by comparing the fair value of the intangible asset to its carrying amount. When the carrying value of the intangible asset exceeds its fair value, an impairment loss is recorded directly to the statements of statement of income (loss) to reflect the difference. Impairment losses for intangible assets are not reversed, even if the fair value subsequently increases.

Changes in the estimated useful lives or the expected pattern of consumption of future economic benefits embodied in the asset are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis, and are treated as changes in accounting estimates.

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 offsetting 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 income.

Empire Life enters into fair value hedging relationships associated with currency risk in AFS 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 AFS investments related to the hedged risk is also 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 (loss) 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 (loss) minus dividends on preferred shares, divided by the number of diluted adjusted common shares outstanding for the period. Diluted adjusted common shares reflect the effect of converting the First Preference shares into common shares to the extent that the conversion would be dilutive.

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:

	2010					
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	$ -	$ -	$ -	$ 18,913	$ 18,913	$ 18,913
Canadian provincial governments	-	-	-	5,004	5,004	5,004
Canadian corporate	-	-	-	10,175	10,175	10,175
Total short-term investments	-	-	-	34,092	34,092	34,092
Bonds issued or guaranteed by:						
Canadian federal government	-	-	-	-	-	-
Canadian provincial and municipal governments	-	-	-	-	-	-
Total government bonds issued or guaranteed	-	-	-	-	-	-
Canadian corporate bonds by industry sector:						
Financial services	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-
Utilities	-	-	-	-	-	-
Consumer staples	-	-	-	-	-	-
Industrials	-	-	-	-	-	-
Total Canadian corporate bonds	-	-	-	-	-	-
Total bonds	-	-	-	-	-	-
Preferred shares						
Canadian	-	-	1,058	-	1,058	1,058
Other	2,846	-	-	-	2,846	2,846
Total preferred shares	2,846	-	1,058	-	3,904	3,904
Common shares and units						
Canadian	-	-	497,533	-	497,533	545,801
U.S.	-	87,942	-	47,097	135,039	135,039
Other	28,315	26,171	-	60,218	114,704	114,704
Total common shares and units	28,315	114,113	497,533	107,315	747,276	795,544
Total	$ 31,161	$ 114,113	$ 498,591	$ 141,407	$ 785,272	$ 833,540

	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 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	-	-	1,058	-	1,058	1,058
Other	794	-	-	-	794	794
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

Investments in common shares and units includes shares of public and 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.

AFS at cost is comprised of securities of investment companies and investment funds. The fair value for these entities, $546,859 (2009 - $493,880), reflects the net asset value per share multiplied by the number of shares held. The net asset values are determined based on the fair values of the underlying net assets within these entities adjusted to reflect the Company’s proportionate interest in its own common shares, where applicable. Realization of the fair value of these securities 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

Based on the impairment review as at December 31, 2010 of AFS investments carried at fair value, an impairment loss of $3,251 (2009 - $nil) has been recorded in the consolidated statements of income (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 and the intention of our investment managers regarding the investment.

The impairment review also identified AFS investments which are considered temporarily impaired. These investments have been assessed as being temporarily impaired as there has been evidence supporting management's expectations that the unrealized losses are expected to recover and the Company has 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 are:

	2010		2009	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ -	$ -	$ 35,240	$ 745
Common shares and units	4,228	235	-	-
Total	$ 4,228	$ 235	$ 35,240	$ 745

AFS at cost

An impairment review has been performed on all of the AFS investments carried at cost where there was an unrealized loss at December 31, 2010. Based on the impairment review as at December 31, 2010 on AFS investments carried at cost, an impairment loss of $nil (2009 - $124,291) has been recorded in the consolidated statements of income (loss). In 2009 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 and the amount of time the investment had an unrealized loss.

6. Investments – insurance operations

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

	Carrying Value		Fair Value	
	2010	2009	2010	2009
The Dominion	$ 2,303,686	$ 2,204,288	$ 2,307,728	$ 2,208,189
Empire Life	4,677,741	4,198,453	4,688,256	4,200,485
Total	$ 6,981,427	$ 6,402,741	$ 6,995,984	$ 6,408,674

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

(a) The Dominion

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

	2010					
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	$ -	$ -	$ 84,738	$ -	$ 84,738	$ 84,738
Canadian provincial and municipal governments	-	-	14,259	-	14,259	14,259
Canadian corporate	-	-	19,970	-	19,970	19,970
Total short-term investments	-	-	118,967	-	118,967	118,967
Bonds issued or guaranteed by:						
Canadian federal government	-	-	253,773	-	253,773	253,773
Canadian provincial and municipal governments	-	-	215,417	-	215,417	215,417
Total government bonds issued or guaranteed	-	-	469,190	-	469,190	469,190
Canadian corporate bonds by industry sector:						
Financial services	6,867	-	830,570	-	837,437	837,437
Infrastructure	-	-	174,586	-	174,586	174,586
Utilities	-	-	118,756	-	118,756	118,756
Energy	-	-	31,815	-	31,815	31,815
Consumer staples	-	-	15,057	-	15,057	15,057
Industrials	-	-	13,889	-	13,889	13,889
Telecommunication services	-	-	8,412	-	8,412	8,412
Total Canadian corporate bonds	6,867	-	1,193,085	-	1,199,952	1,199,952
Total bonds	6,867	-	1,662,275	-	1,669,142	1,669,142
Preferred shares						
Canadian	-	-	126,221	-	126,221	126,221
Total preferred shares	-	-	126,221	-	126,221	126,221
Common shares						
Canadian	-	-	263,976	-	263,976	263,976
U.S.	-	-	49,566	-	49,566	49,566
Other	-	-	41,444	-	41,444	41,444
Total common shares			354,986		354,986	354,986
Commercial loans	-	-		33,064	33,064	33,064
Real estate - office properties	-	-		1,306	1,306	5,348
Total	$ 6,867	$ -	$ 2,262,449	$ 34,370	$ 2,303,686	$ 2,307,728

	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 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	5,000	-	697,564	-	702,564	702,564
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	5,000	-	1,043,003	-	1,048,003	1,048,003
Total bonds	5,000	-	1,393,657	-	1,398,657	1,398,657
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	-	-	-	50,010	50,010	50,010
Real estate - office properties	-	-	-	1,367	1,367	5,268
Total	$ 5,000	$ -	$ 2,147,911	$ 51,377	$ 2,204,288	$ 2,208,189

The Dominion's investment in common shares consists of common shares owned directly by The Dominion and managed by a third party investment manager.

Real estate – office properties is carried at amortized cost and the carrying value is net of accumulated amortization of $2,194 (2009 - $2,134).

Impairment

Based on the impairment review as at December 31, 2010 on AFS investments, an impairment loss of $1,242 (2009 - $8,149) has been recorded in the consolidated statements of income (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 and the intention of our investment managers regarding the investment.

The impairment review also identified AFS investments which are considered temporarily impaired. These investments have been assessed as being temporarily impaired as there has been evidence supporting management's expectations that the unrealized losses are expected to recover and the Company has 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 are:

	2010		2009	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Short-term investments	$ 116,680	$ 20	$ 109,650	$ 17
Bonds	146,149	2,254	179,675	3,830
Preferred shares	1,393	89	1,323	159
Common shares	7,063	291	46,521	1,877
Total	$ 271,285	$ 2,654	$ 337,169	$ 5,883

(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:

	2010					
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	$ 1,990	$ 1,997	$ 34,954	$ -	$ 38,941	$ 38,941
Canadian provincial government	-	-	11,973	-	11,973	11,973
Canadian corporate	-		-	-	-	-
Total short-term investments	1,990	1,997	46,927	-	50,914	50,914
Bonds issued or guaranteed by:						
Canadian federal government	7,148	46,536	107,870	-	161,554	161,554
Canadian provincial and municipal governments	4,410	1,847,287	150,735	-	2,002,432	2,002,432
Total government bonds issued or guaranteed	11,558	1,893,823	258,605	-	2,163,986	2,163,986
Canadian corporate bonds by industry sector:						
Financial services	9,052	479,173	158,274	-	646,499	646,499
Infrastructure	2,370	143,065	26,656	-	172,091	172,091
Utilities	1,541	119,347	17,221	-	138,109	138,109
Energy	480	19,782	4,937	-	25,199	25,199
Consumer staples	206	37,981	3,152	-	41,339	41,339
Industrials	189	24,869	2,695	-	27,753	27,753
Health Care	-	6,932	-		6,932	6,932
Total Canadian corporate bonds	13,838	831,149	212,935	-	1,057,922	1,057,922
Total bonds	25,396	2,724,972	471,540	-	3,221,908	3,221,908
Preferred shares						
Canadian	-	250,187	121,143	-	371,330	371,330
Total preferred shares	-	250,187	121,143	-	371,330	371,330
Common shares						
Canadian *	127,351	-	484,970	-	612,321	612,476
U.S.	16,934	-	-	-	16,934	16,934
Other	1,653	-	-	-	1,653	1,653
Total common shares	145,938	-	484,970	-	630,908	631,063
Mortgages	-	-	-	226,887	226,887	236,824
Real estate	-	-	-	15,656	15,656	16,079
Loan policies	-	-	-	40,242	40,242	40,242
Policy contract loans	-	-	-	119,896	119,896	119,896
Total	$ 173,324	$ 2,977,156	$ 1,124,580	$ 402,681	$ 4,677,741	$ 4,688,256

* Includes AFS at cost assets with a carrying value of $2,280 and a fair value of $2,435.

	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 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
Loan 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

* Includes AFS at cost assets with a carrying value of $2,280 and a fair value of $2,316.

Net unrealized investment gains of $2,080 ($2,025) relating to real estate are included in real estate in the balance sheet.

Impairment

AFS at fair value

Based on the impairment review as at December 31, 2010 on AFS investments carried at fair value, an impairment loss of $3,447 (2009 - $34,970) has been recorded in the consolidated statements of income (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 and the intention of our investment managers regarding the investment.

The impairment review also identified AFS investments which are considered temporarily impaired. These investments have been assessed as being temporarily impaired as there has been evidence supporting management's expectations that the unrealized losses are expected to recover and the Company has 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 are:

	2010		2009	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Bonds	$ 47,394	$ 490	$ 186,873	$ 3,059
Preferred shares	7,141	309	20,093	1,803
Common shares	14,706	1,043	-	-
Total	$ 69,241	$ 1,842	$ 206,966	$ 4,862

AFS at cost

An impairment review has been performed on all of the AFS investments carried at cost where there was an unrealized loss at December 31, 2010. Based on the impairment review as at December 31, 2010 on AFS investments carried at cost, an impairment loss of $nil (2009 - $140) has been recorded in the consolidated statements of income (loss). In 2009 impairment was assessed as being other than temporary on these investments due to the amount of time the investment had an unrealized 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 $10,649 (2009 - $10,214), have been reduced by an allowance for impairment of $2,421 (2009 - $2,061) and policy contract loans with a recorded value of $812 (2009 - $813) have been reduced by an allowance for impairment of $565 (2009 – $578). Empire Life holds collateral of $8,268 (2009 - $8,301) in respect of these mortgages and $247 (2009 - $235) in respect of these policy loans. Policy loans are secured by the related life insurance policies. Empire Life has recorded interest income of $1,046 (2009 - $994) on these assets.

As at December 31, 2010, financial assets past due, but not impaired are $nil (2009 - $9,270). The 2009 amount was comprised entirely of mortgages past due less than 90 days.

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	2010			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 1,044	$ 21,439	$ -	$ 22,483
Available for sale:				
Short-term investments	-	34,092	-	34,092
Common shares	107,315	-	-	107,315
Held for trading:				
Common shares and units	28,315	114,113	-	142,428
Preferred shares	2,846	-	-	2,846
Total	$ 139,520	$ 169,644	$ -	$ 309,164

Investments - The Dominion	2010			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 1,328	$ 163,930	$ -	$ 165,258
Bank indebtedness	(26,907)	-	-	(26,907)
Available for sale:				
Short-term investments	-	118,967	-	118,967
Bonds	-	1,662,275	-	1,662,275
Common shares	354,986	-	-	354,986
Preferred shares	126,221	-	-	126,221
Held for trading:				
Bonds	-	6,867	-	6,867
Total	$ 455,628	$ 1,952,039	$ -	$ 2,407,667

Investments - Empire Life	2010			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ (15,979)	$ 167,311	$ -	$ 151,332
Available for sale:				
Short-term investments	-	46,927	-	46,927
Bonds	-	471,540	-	471,540
Common shares	482,690	-	-	482,690
Preferred shares	121,143	-	-	121,143
Held for trading:				
Short-term investments	-	3,987	-	3,987
Bonds	-	2,750,368	-	2,750,368
Common shares	145,938	-	-	145,938
Preferred shares	250,187	-	-	250,187
Derivatives	-	47	-	47
Total	$ 983,979	$ 3,440,180	$ -	$ 4,424,159

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	-	77,674	-	77,674
Held for trading:				
Common shares and units	26,075	80,301	-	106,376
Preferred shares	794	-	-	794
Total	$ 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	-	1,393,657	-	1,393,657
Common shares	420,861	-	-	420,861
Preferred shares	149,686	-	-	149,686
Held for trading:				
Bonds	-	5,000	-	5,000
Total	$ 543,004	$ 1,734,342	$ -	$ 2,277,346

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	-	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 have been priced using exchange listed prices or broker quotes representing actual transactions in an active market.

Instruments measured under Level 2 are priced through a vendor supplied evaluated prices (matrix pricing) or valued by management using observable market information.

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, 2010.

For additional information on the composition of the Company's invested assets, refer to Notes 5 and 6. For analysis of the Company's risk arising from financial instruments, refer to Note 23 – Risk management.

8. Equity method investments

	2010		2009	
	Ownership	Carrying value	Ownership	Carrying value
United Corporations Limited	48.8%	$ 302,577	47.6%	$ 276,467
Algoma Central Corporation	25.4%	79,162	25.4%	75,573
Economic Investment Trust Limited	22.1%	54,967	21.0%	48,909
Total		$ 436,706		$ 400,949

The following table details the movement during the year:

	2010	2009
Balance, beginning of the year	$ 400,949	$ 221,205
Transfer from investments - corporate to equity method investments	-	168,951
	400,949	390,156
Purchase of additional shares	10,737	10,409
Income recorded in the consolidated statements of income:		
Share of income	34,853	66,713
Impairment write downs	-	(59,969)
	34,853	6,744
Loss recorded in the consolidated statement of comprehensive income:		
Share of loss	(2,604)	(814)
Dividends received during the year	(7,229)	(5,546)
Balance, end of the year	$ 436,706	$ 400,949

As at December 31, 2010, the total fair value of the equity method investments was $429,806 (2009 - $407,282). 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, 2010 impairment losses of $nil (2009 - $59,969) were recorded in the consolidated statements of income (loss). Impairment was assessed in 2009 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.

In 2009 the Company acquired additional common shares of Algoma and Economic increasing its ownership to above 20%. Management concluded that the Company had the ability to exert significant influence over Algoma and Economic and commenced using the equity method of accounting for these investments. 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 AOCI were reversed and included in the 2009 opening assignable cost of the equity method investment. Related income taxes of $3,608 for Economic and $2,845 for Algoma recorded in AOCI were also reversed and recorded as an increase to future income tax liabilities.

9. Investment and other income

Investment and other income is comprised of the following:

	2010	2009
Interest income	$ 242,600	$ 229,113
Fee income	113,151	95,453
Dividend income	72,887	65,057
Real estate income	1,056	1,300
Other	10,530	7,607
Total	$ 440,224	$ 398,530

Included in interest income is $122,719 (2009 - $120,045) related to assets not classified as HFT.

10. HFT investments

Composition of change in fair value of HFT investments:

	2010	2009
Change in fair value of instruments required to be classified as HFT	$ 15,719	$ 30,793
Change in fair value of instruments designated as HFT	198,036	78,507
Total	$ 213,755	$ 109,300

Composition of realized gain on held for trading investments:

	2010	2009
Realized gain on instruments required to be classified as HFT	$ (599)	$ (2,358)
Realized gain on instruments designated as HFT	5,602	33,248
Total	$ 5,003	$ 30,890

11. Policy liabilities

Policy liabilities are comprised of:

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
The Dominion unearned premiums provision	$ 597,406	$ 9,390	$ 588,016	$ 572,713	$ 9,327	$ 563,386
The Dominion unpaid and unreported claims provision	1,619,028	71,724	$ 1,547,304	1,568,288	62,904	$ 1,505,384
Empire Life benefits and expense provision	3,712,481	-	$ 3,712,481	3,254,885	29,291	$ 3,225,594
Total	$ 5,928,915	$ 81,114	$ 5,847,801	$ 5,395,886	$ 101,522	$ 5,294,364

The Dominion

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 2010 was 3.2% (2009 – 3.1%). The average discount rate used by the Facility Association was 2.1% (2009 – 2.2%).

Given 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.

The change in The Dominion's unpaid and unreported claims provision, net of reinsurance is outlined below:

	2010	2009
Balance, beginning of year	$ 1,505,384	$ 1,415,529
Change in prior years' claims estimates	(74,780)	(57,765)
Interest cost	35,970	50,035
Impact of change in discount rate	(245)	43,300
Current year claims incurred	888,327	867,861
Claims payments	(807,352)	(813,576)
Balance, end of year	$ 1,547,304	$ 1,505,384

The 2010 reduction in prior year claims estimates of $74,780 consists of: $40,260 favourable in automobile lines, most of which reflects better than expected experience in recent years; $13,425 favourable in personal property reflecting better than expected experience from recent accident years; and $21,095 favourable in commercial property and casualty, arising mainly from better than expected experience for general liability claims estimates and lower severity than expected for property claims in recent years. The reduction in claims estimates of $57,765 recognized in 2009 consisted of: $20,535 favourable in automobile lines, most of which was attributable to a combination of the failure of constitutional challenges of regulations in Alberta and Nova Scotia that cap damage awards for minor injuries, and better than expected experience in recent years; $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 for general liability claims estimates.

From time to time, The Dominion purchases annuities from life insurance companies to settle certain obligations to claimants. The Dominion guarantees the life insurers' obligations under these annuities, which are estimated to be $215,052 based on the net present value of the projected future cash flows of these guarantees in 2010 (2009 - $204,491). The Dominion acquires these annuities from reputable credit-worthy life insurance companies whose obligations are insured, within limits, by Assuris. Accordingly, The Dominion considers its credit risk to be negligible.

Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that The Dominion considers credit-worthy.

Empire Life

Empire Life's policy liabilities are increased by $25,494 on account of reinsurance ceded. The 2010 reinsurance ceded amount is a liability for Empire Life because the present value of the estimated future claim amounts expected to be recovered from the reinsurers is less than the present value of the future reinsurance premium amounts expected to be paid to the reinsurers.

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

	2010	2009
Balance, beginning of year	$ 3,225,594	$ 2,843,701
Changes in methods and assumptions	7,668	(5,056)
Normal changes - new business	250,302	310,975
- in-force business	228,917	75,974
Balance, end of year	$ 3,712,481	$ 3,225,594

Changes in actuarial assumptions are made based on emerging and evolving experience with respect to major factors affecting estimates of future cash flows and consideration of economic forecasts of investment returns, industry studies and requirements of the CIA and OSFI.

The changes in actuarial methods and assumptions in 2010 include a net decrease of $29,715 (2009 - $28,756) to reflect improving mortality/morbidity experience and a net increase of $36,987 (2009 - $12,072) to reflect decreases in the investment return assumptions. The net impact of other changes amounted to a net increase of $396 (2009 - $11,628).

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.

For additional analysis of the Company's insurance risks please see Note 23 – Risk Management.

12. Other assets

	2010	2009
Due from Facility Association	$ 7,346	$ 8,765
Capital assets, at cost (net of accumulated amortization of $24,607 (2009 - $23,082))	15,538	13,414
Intangibles, at cost (net of accumulated amortization of $55,437 (2009 - $48,172))	48,351	31,080
Due from reinsurance companies	21,856	6,960
Pension asset (Note 21)	14,235	11,376
Other	16,720	16,913
Total	$ 124,046	$ 88,508

13. Other liabilities

	2010	2009 (Restated - Note 2)
Accounts payable	$ 89,068	$ 72,981
Bank indebtedness (Note 26)	26,907	27,907
Accrued employee future benefit liabilities (Note 21)	24,944	23,505
Unearned premium finance fee income	6,022	5,621
Other	47,002	56,452
Total	$ 193,943	$ 186,466

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.

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 (2009 - $600,000), 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.

Most of Empire Life's individual life reinsurance (with the exception of its Term 10 and Term 20 products) is on an excess basis (with a $500 retention limit), meaning Empire Life retains 100% of the risk up to $500 in face amount. With Empire Life's Term 10 and 20 products, however, all amounts over $100 are reinsured at an 80% level, meaning that Empire Life retains only 20% of the risk on coverage over $100 to a maximum retention of $500. In addition, Empire Life also retains a maximum of $100 on individual accidental death policies.

Empire Life reinsures excess risks with major OSFI regulated reinsurance companies. Empire Life's retention limit on any one life is $600 for individual insurance (life and accidental death combined) and $200 for group insurance (life and accidental death combined). Most of the reinsurance is under yearly renewable term treaties.

These reinsurance arrangements are reflected in the consolidated statements of statements of income (loss) as a reduction of $131,373 (2009 - $119,368) in insurance premiums.

15. Share capital

	Authorized	Issued and outstanding	2010	2009
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, 2010 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 modifications are being proposed 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 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.

   (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

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:

	2010	2009
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
Total	$ 12,060	$ 12,060

16. Earnings per share

	2010	2009 (Restated - Note 2)
Basic earnings per common share:		
Net income (loss)	$ 144,693	$ (184,908)
Dividends on First Preference shares	(10,050)	(10,050)
Net income (loss) after dividends on First Preference shares	$ 134,643	$ (194,958)
Average number of Adjusted Common Shares outstanding	3,311,458	3,318,164
Basic earnings per common share	$ 40.66	$ (58.75)
Diluted earnings per common share:		
Net income (loss)	$ 144,693	$ (184,908)
Average number of Adjusted Common Shares outstanding	3,311,458	3,318,164
Dilutive effect of the conversion of First Preference shares into common shares	484,211	534,018
Average number of diluted Adjusted Common Shares outstanding	3,795,669	3,852,182
Diluted earnings per common share	$ 38.12	$ (58.75)

Net income (loss) per share has been calculated using Adjusted Common Shares outstanding of 4,019,667 less 708,209 (2009 - 701,503), which is the Company's proportionate interest in its own common shares held indirectly.

17. Shareholders' equity entitlement

Shareholders' entitlement to $5,098 (2009 - $5,381) 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 2010 approximates 30.7% (2009 - 32.8%). 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:

	2010	2009 (Restated - Note 2)
Income taxes (recovery) at statutory rate	$ 51,822	$ (81,688)
Variance as a result of:		
Tax-paid dividends	(17,102)	(17,039)
Non-taxable portion of (gains) losses	(7,120)	17,239
Substantively enacted changes in income tax rates	(2,275)	7,952
Impact of recognizing tax rule changes	-	(12,565)
Other	(2,762)	(47)
Income tax provision (recovery)	$ 22,563	$ (86,148)

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

	2010	2009 (Restated - Note 2)
Current	$ (3,728)	$ 4,695
Future	26,291	(90,843)
Income tax provision (recovery)	$ 22,563	$ (86,148)

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:

	2010	2009 (Restated - Note 2)
Investments	$ (71,287)	$ (94,902)
Policy liabilities	35,840	73,806
Losses recoverable in future years	54,475	76,030
Other	4,475	4,807
Future income taxes receivable	$ 23,503	$ 59,741
Recorded as:		
Future income tax asset	$ 54,361	$ 78,070
Future income tax liability	(30,858)	(18,329)
	$ 23,503	$ 59,741

During 2010, the Company and its subsidiaries paid income tax instalments and assessments totalling $62,795 (2009 - $10,126) and paid income tax in respect of prior years totalling $19,560 (2009 – received net income tax refunds totalling $73,305).

Under the Income Tax Act (Canada), 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, 2010 amount to $10,425 (2009 - $9,615). 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 (Canada) passed third reading causing these amendments to be considered substantively enacted for financial reporting purposes. Under these amendments, certain capital losses were re-characterized as income losses for tax purposes. These amendments also resulted 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.

19. Accumulated other comprehensive income

The components of accumulated other comprehensive income as at December 31, 2010 and 2009 and other comprehensive income for the years then ended are as follows:

Accumulated other comprehensive income

Shareholders' accumulated other comprehensive (loss) income is comprised of unrealized gains net of income tax on AFS assets of $166,873 (2009 - $115,279), unrealized losses net of income tax on derivatives designated as cash flow hedges $1,462 (2009 – $1,831) and the Company's share of other comprehensive loss for equity method investments of $2,177 (2009 - $814).

Other comprehensive income (loss)

The following table summarizes the changes in the components of other comprehensive (loss) income, net of tax:

	2010	2009
Net change in unrealized gain on available for sale investments		
Net unrealized gain on available for sale investments	$ 64,670	$ 164,964
Reclassification of net (gain) loss to net income	(12,261)	211,752
	52,409	376,716
Net gain on derivative instruments designated as cash flow hedges		
Net gain on derivative instruments designated as cash flow hedges	-	726
Reclassification of net loss to net income	368	213
	368	939
The Company's net share of other comprehensive loss for equity method investments	(2,177)	(814)
Unrealized fair value change reclassified to equity method investments (Note 8)	-	57,570
Other comprehensive income	$ 50,600	$ 434,411

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	
	2010	2009	2010	2009
Net change in unrealized gain on available for sale investments				
Net unrealized gain on available for sale investments	$ 26,239	$ 133,060	$ 9,246	$ 20,398
Reclassification of net (gain) loss to net income	(8,386)	(24,486)	(2,346)	6,812
	17,853	108,574	6,900	27,210
Net gain on derivative instruments designated as cash flow hedges				
Net gain on derivative instruments designated as cash flow hedges	-	424	-	186
Reclassification of net loss to net income	222	129	94	55
	222	553	94	241
The Company's net share of other comprehensive loss for equity method investments	(428)	-	-	-
Unrealized fair value change reclassified to equity method investments (Note 8)	-	(6,453)	-	-
Total expense included in OCI	$ 17,647	$ 102,674	$ 6,994	$ 27,451

In anticipation of the issuance of unsecured subordinated debentures (Note 31), Empire Life entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative was accounted for as a hedging item in a cash flow hedging relationship.

On a year to date basis, the Company recognized a loss of $nil (2009 - $1,265) related to the ineffective portion of its cash flow hedge in investment income on the consolidated statements of income (loss). The Company expects to reclassify a loss of $735 from AOCI to investment income on the consolidated statements of loss in the next twelve months.

20. Analysis of net income (loss)

Components of net income (loss), each net of policyholders’ and non-controlling interest, are as follows:

	2010	2009 (Restated - Note 2)
Income excluding undernoted	$ 102,792	$ 44,925
Realized income (loss) on available for sale investments including impairment write downs	11,404	(242,288)
Income from equity method investments	30,497	12,455
Total	$ 144,693	$ (184,908)

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 2010, 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 $10,729 (2009 - $16,879).

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

	Pension Benefit Plans		Other Benefit Plans	
	2010	2009	2010	2009 (Restated - Note 2)
Accrued benefit obligations				
Balance at beginning of year	$ 134,941	$ 125,337	$ 23,456	$ 23,058
Current service cost	3,716	2,438	645	599
Employee contributions	2,094	1,933	-	-
Interest cost	8,523	8,322	1,494	1,491
Benefits paid	(7,612)	(8,298)	(776)	(1,039)
Actuarial loss (gain)	10,862	5,209	6,707	(653)
Balance at end of year	$ 152,524	$ 134,941	$ 31,526	$ 23,456
Plan assets				
Fair value at beginning of year	$ 148,860	$ 122,824	$ -	$ -
Actual return on plan assets	9,883	20,330	-	-
Employer contributions	6,059	12,071	-	-
Employee contributions	2,094	1,933	-	-
Purchase of annuity for ad-hoc pension increase	-	(204)	-	-
Benefits paid	(7,612)	(8,094)	-	-
Fair value at end of year	$ 159,284	$ 148,860	$ -	$ -
Funded status - plan surplus (deficit)	$ 6,760	$ 13,919	$ (31,526)	$ (23,456)
Unamortized net actuarial loss (gain)	9,349	(221)	7,180	417
Unamortized transitional obligation (asset)	(2,528)	(3,070)	56	282
Accrued benefit asset (liability)	$ 13,581	$ 10,628	$ (24,290)	$ (22,757)
Recorded in the consolidated balance sheets as:				
Other assets (Note 12)	$ 14,235	$ 11,376	$ -	$ -
Other liabilities (Note 13)	(654)	(748)	(24,290)	(22,757)
Accrued benefit asset (liability)	$ 13,581	$ 10,628	$ (24,290)	$ (22,757)

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

	Pension Benefit Plans		Other Benefit Plans	
	2010	2009	2010	2009 (Restated - Note 2)
Accrued pension obligation	$ 4,276	$ 3,136	$ 31,526	$ 23,456
Plan assets at fair value	$ 2,620	$ 1,963	$ -	$ -

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

	Pension Benefit Plans		Other Benefit Plans	
	2010	2009	2010	2009 (Restated - Note 2)
Annual net benefit cost (income)				
Current service cost	$ 3,716	$ 2,438	$ 645	$ 599
Interest cost	8,523	8,322	1,494	1,491
Actual return on plan assets	(9,883)	(20,330)	-	-
Actuarial loss (gain)	10,862	5,209	6,707	(653)
Employee future benefit cost (income) prior to adjustments to recognize long-term nature	13,218	(4,361)	8,846	1,437
Adjustments to recognize long-term nature:				
Difference between expected return and actual return on plan assets	1,143	12,517	-	-
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain)	(10,713)	(5,171)	(6,692)	580
Amortization of transitional obligation (asset)	(542)	(577)	226	439
Net benefit cost recognized for the year	$ 3,106	$ 2,408	$ 2,380	$ 2,456

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, 2010	January 1, 2013
Staff Pension Plan (Empire and E-L)	December 31, 2009	December 31, 2012
Executive Pension Plan (The Dominion)	September 30, 2010	September 30, 2011
Supplemental Employee Retirement Benefit Plan (Empire and E-L)	December 31, 2010	December 31, 2011
Retiree Health Benefits (The Dominion)	January 1, 2009	January 1, 2012
Retiree Health Benefits (Empire and E-L)	December 31, 2008	December 31, 2011

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:

	2010	2009
Staff Pension Plan (The Dominion)	12 years	7 years
Staff Pension Plan (Empire and E-L)	12 years	12 years
Executive Pension Plan (The Dominion)	14 years	15 years
Supplemental Employee Retirement Benefit Plan (Empire and E-L)	10 years	10 years
Retiree Health Benefits (The Dominion)	13 years	11 years
Retiree Health Benefits (Empire and E-L)	9 years	9 years

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Benefit Plans	
	2010	2009	2010	2009
Accrued benefit obligations at December 31:				
Discount rate	5.5%	6.3%	5.4%	6.3%
Rate of compensation increase	3.6%	3.6%	n/a	n/a
Benefit costs for the years ended December 31:				
Discount rate	6.3%	7.3%	6.3%	7.3%
Expected long-term rate of return on plan assets	5.8%	6.3%	n/a	n/a
Rate of compensation increase	3.6%	3.6%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	5.8%	6.3%
Cost trend rate declines to	n/a	n/a	4.5%	4.5%
Year ultimate rate reached	n/a	n/a	2017	2018

A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

	Increase	Decrease
Annual total service and interest cost	$ 577	$ (439)
Accrued benefit obligation	$ 5,449	$ (4,300)

Plan assets consist of the following asset categories:

	Percentage of Plan Assets	
	2010	2009
Equity securities	52%	52%
Debt securities	34%	34%
Refundable tax deposits and cash	14%	14%
Total	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 $3,812 (2009 - $3,713).

22. Segmented information

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

2010	E-L Corporate	The Dominion	Empire Life	Total
Premium income	$ -	$ 1,190,329	$ 817,711	$ 2,008,040
Change in fair value of held for trading investments	13,777	1,867	198,111	213,755
Realized gain (loss) on held for trading investments	(3,245)	-	8,248	5,003
Realized gain (loss) on available for sale investments including impairment write downs	(837)	8,683	15,463	23,309
Investment and other income	20,906	100,807	318,511	440,224
Income from equity method investments	34,853	-	-	34,853
Taxes	6,821	59,493	12,962	79,276
Policyholders' and non-controlling interests portion of income	42	-	1,275	1,317
Segment net income	53,114	67,535	24,044	144,693
Segment assets	1,247,624	3,119,868	4,899,927	9,267,419

2009 (Restated - Note 2)	E-L Corporate	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)	(27,968)	16,158	(33,334)
Policyholders' and non-controlling interests portion of income	-	-	22,076	22,076
Segment net (loss) income	(75,781)	(151,977)	42,850	(184,908)
Segment assets	1,179,028	2,981,268	4,431,344	8,591,640

23. Risk Management

The objective of the Company's risk management process is to ensure that the operations of the Company that expose it to risk are consistent with the Company's objectives and risk philosophy, while maintaining an appropriate risk/reward balance. The Company is exposed to financial risks arising from investing activities as well as its insurance operations. The risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company, are outlined below in order of importance.

Investment risks

a) 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 market price fluctuations, interest rate risk, and foreign currency risk.

i) Market price fluctuations

E-L Corporate:

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 disclosures in Note 5 provide the breakdown of investments by type and by geographic region.

The Company maintains a strategy of long-term growth through investments in common equities as management believes 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.

The externally managed portfolios of equities and fixed income securities have mandates against 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 E-L Corporate 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 Dominion and Empire Life:

The investments held by the insurance subsidiaries consist primarily of bonds, debentures and equity securities. The disclosures in Note 6 provide the breakdown of both The Dominion's and Empire Life's investments by type and by geographic region. A core aspect of the insurance operations investment strategy is to invest a significant portion of its shareholder capital in publicly-listed "large cap" common stocks, in pursuit of their superior long- term returns. As a result, the insurance operations have a relatively large common stock portfolio and are exposed to significant loss from declines in their fair values.

The fair values of these investments are inherently volatile and frequently decline in value as a result of factors beyond the control of The Dominion and Empire Life, including general economic and capital market conditions. Declines in investment values could significantly reduce The Dominion's and Empire Life's net income, shareholder's equity and the adequacy of their regulatory capital.

To mitigate these risks, 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 (Canada) and by 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.

Empire Life's exposure to interest rate, foreign currency and other price risks in its HFT financial assets is generally offset by a corresponding exposure to these risks in its policy obligations. As the policy liability for these policy obligations is calculated based on market value, increases and decreases in these risk variables affect both investment income and the change in policy liabilities.

The 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. The Company has also disclosed a 20% increase or decrease in its equity markets 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.

	2010		2009	
	Effect on net income	Effect on OCI	Effect on net income	Effect on OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 12,711	$ 9,390	$ 9,377	$ nil
20% fluctuation	25,423	18,780	18,755	nil
Equity method investments				
10% fluctuation	38,610	nil	34,294	nil
20% fluctuation	77,220	nil	68,588	nil
The Dominion				
10% fluctuation	nil	24,590	nil	28,446
20% fluctuation	nil	49,180	nil	56,892
Empire Life				
Insurance operations				
10% fluctuation	6,219	25,111	5,614	20,870
20% fluctuation	12,526	50,221	11,278	41,739
Segregated fund guarantee				
10% increase (decrease)	nil	nil	nil	nil
20% increase (decrease)	nil	nil	nil	nil

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. If period end stock markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

E-L Corporate's largest exposure to common equities relates to its investment of $436,706 (2009 - $400,949) in equity method investments which represents 35% (2009 - 34%) of E-L Corporate's total assets.

	The Dominion		Empire Life	
	2010	2009	2010	2009
Exposure to the ten largest common share holdings	$ 128,018	$ 121,273	$ 245,668	$ 200,399
As a percentage of the segment's total cash and investments	5.2%	5.1%	5.1%	4.6%
Exposure to the largest single issuer of common shares	$ 15,413	$ 19,297	$ 46,192	$ 42,430
As a percentage of the segment's total cash and investments	0.6%	0.8%	1.0%	1.0%

ii) Interest rate risk

Interest rate risk is the risk of economic loss due to the need to reinvest or divest during periods of changing 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 E-L Corporate and the Insurance Operation's fixed income investments, which total $5.5 billion at December 31, 2010 (2009 - $5.0 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.

The following table provides the impact that a change in market interest rates would have on net income and OCI. 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.

2010	1% Increase	1% Decrease	2% Increase	2% Decrease
E-L Corporate				
Net income	$ nil	$ nil	$ nil	$ nil
OCI	nil	nil	nil	nil
The Dominion				
Net income	$ nil	$ nil	$ nil	$ nil
OCI	(42,346)	44,009	(83,102)	89,754
Empire Life				
Net income	$ nil	$ nil	$ nil	$ nil
OCI	(10,323)	10,986	(20,010)	21,983

2009	1% Increase	1% Decrease	2% Increase	2% Decrease
E-L Corporate				
Net income	$ nil	$ nil	$ nil	$ nil
OCI	(2,855)	2,855	(5,710)	5,710
The Dominion				
Net income	$ nil	$ nil	$ nil	$ nil
OCI	(30,989)	32,126	(60,887)	65,437
Empire Life				
Net income	$ nil	$ nil	$ nil	$ nil
OCI	(10,788)	11,486	(20,929)	21,884

iii) 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, bonds 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 the non-Canadian portion of its investments. The equity investments are managed by both Empire Life's in-house investment managers and third party investment managers, with decisions regarding exposure to currency risk as part of the investment manager's strategy. As of December 31, 2010, the exposures to the U.S. dollar and other currencies have not been hedged. The Company has no significant foreign currency exposure in its financial liabilities.

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

E-L Corporate: Approximately $13,575 (2009 - $10,279) on net income and $4,799 (2009 - $4,712) on other comprehensive income.

The Dominion: Approximately $nil (2009 - $nil) on net income and $3,433 ($2009 – 5,761) on other comprehensive income.

Empire Life: Approximately $nil (2009 - $nil) on net income and $643 (2009 - $2,846) on other comprehensive income.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation

The gross credit risk exposure for the Company related to its financial instruments is as follows:

	2010	2009
Cash equivalents and short-term	$ 556,653	$ 631,552
Bonds and debentures	4,891,050	4,272,227
Preferred shares	501,455	552,163
Mortgages	226,887	223,642
Loans on policies	40,242	38,728
Policy contract loans	119,896	137,764
Commercial loans	33,064	50,010
Investment income accrued	30,933	31,613
Recoverables from reinsurers	81,114	101,522
Premiums receivables	309,999	301,547
Total	$ 6,791,293	$ 6,340,768

Mortgages, loans on policies, policy contract loans and premiums receivable are fully or partially secured. The Company has made provisions in its balance sheet for credit losses. Provisions have been made partly through reduction in the value of the assets and partly through a provision in policy liabilities (refer to Note 6).

Concentration of Credit risk:

Investments in bonds and debentures

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

E-L Corporate	2010		2009	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ -	-	$ 32,812	42%
AA	-	-	5,572	7%
A	-	-	33,188	43%
BBB	-	-	6,102	8%
Total	$ -	-	$ 77,674	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, which was approximately 2.0% of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of December 31, 2009 was $1,637, which was approximately 0.2% of total cash and investments.

The Dominion	2010		2009	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 293,060	18%	$ 249,767	18%
AA	298,536	18%	249,372	18%
A	933,047	56%	784,783	56%
BBB	137,632	8%	109,735	8%
Not rated	6,867	0%	5,000	0%
Total	$ 1,669,142	100%	$ 1,398,657	100%

As of December 31, 2010, holdings of fixed income securities in the ten issuers (excluding federal governments) to which The Dominion had the greatest exposure were $806,345 (2009 – $795,766), which was approximately 32.7% (2009 – 33.8%) of total cash and investments. The exposure to the largest single issuer as of December 31, 2010 was $99,048 (2009 – $112,723), which was approximately 4.0% (2009– 4.8%) of total cash and investments.

Empire Life	2010		2009	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 172,028	5%	$ 323,732	12%
AA	1,025,075	32%	811,887	29%
A	1,858,650	58%	1,523,876	54%
BBB	166,155	5%	130,882	5%
BB	-	0%	5,519	0%
Total	$ 3,221,908	100%	$ 2,795,896	100%

As of December 31, 2010, holdings of provincial bonds was $1,978,770 (2009 - $1,559,947), which was approximately 61% (2009 – 56%) of total bond holdings.

The contractual maturities of bonds as at December 31 are shown in the table below:

Empire Life	2010		2009	
	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 82,431	3%	$ 146,214	5%
1 - 5 years	359,701	11%	344,287	12%
5 - 10 years	297,073	9%	270,540	10%
Over 10 years	2,482,703	77%	2,034,855	73%
Total	$ 3,221,908	100%	$ 2,795,896	100%

As of December 31, 2010, holdings of fixed income securities in the ten issuers (excluding federal governments) to which Empire Life had the greatest exposure were $2,539,709 (2009 - $2,174,181), which was approximately 52.6% (2009 – 50.0%) of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of December 31, 2010 was $102,940 (2009 – $88,790), which was approximately 2.1% (2009 – 2.0%) of total cash and investments.

Preferred shares

The Dominion's preferred share investments are all issued by Canadian companies with 78% (2009 – 79%) of these investments rated as P1 as at December 31, 2010 and the remaining 22% (2009 – 21%) rated as P2.

Empire Life's preferred share investments are all issued by Canadian companies with 81% (2009 – 82%) of these investments rated as P1 as at December 31, 2010 and the remaining 19% (2009 – 18%) rated as P2.

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 subject to internal financial and credit analysis, approval limits and security requirements established by the investment guidelines.

Mortgages and policy contract loans

Empire Life's mortgages in the province of Ontario represent the largest concentration with $218,903 (2009 - $213,885) of the total mortgage portfolio.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its cash flow commitments associated with its financial instruments, including claims liabilities. 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.

E-L Corporate:

The majority of the Corporate Investment's obligations relate to its ability to pay annual dividend commitments of $12,060 (2009 - $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 cash flow 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 cash flow deficiencies.

Composition of E-L Corporate's liquidity:

E-L Corporate	2010	2009
Cash and cash equivalents	$ 22,483	$ 26,046
Short-term investments	34,092	72,622
Bonds	-	77,674
Total	$ 56,575	$ 176,342

In 2009 the average duration of the bond portfolio at December 31 was 4.1 years with 92% of the bonds with an issuer credit rating of A or better.

The Dominion:

The majority of The Dominion's obligations relate to its claims liabilities. The following table provides the estimated maturity profile for The Dominion's net unpaid and unreported claims as of December 31:

The Dominion	2010		2009	
1 year or less	$ 439,010	28%	$ 428,552	28%
1 - 3 years	480,371	32%	465,331	31%
3 - 5 years	280,842	18%	284,233	19%
Over 5 years	347,081	22%	327,268	22%
Total	$ 1,547,304	100%	$ 1,505,384	100%

The Dominion is able to fund its short term cash outflow requirements by generating positive cash flow from operations (in most years) 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, 2010, 11.5% (2009 – 14.2%) 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):

The Dominion	2010		2009	
	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 268,505	16%	$ 224,820	16%
1 - 3 years	515,547	31%	527,574	37%
3 - 5 years	371,597	22%	273,017	20%
5 - 10 years	403,378	24%	295,031	21%
Over 10 years	110,115	7%	78,215	6%
Total	$ 1,669,142	100%	$ 1,398,657	100%

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 and morbidity). The remaining obligations of Empire Life relate to the subordinated debenture which matures in 2019 (refer to Note 31 - Subordinated debt) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

Empire Life monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short term investments.

The following table provides the estimated maturity profile of Empire Life's undiscounted obligations with respect to its financial and policy liabilities.

	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Policy liabilities	$ 131,018	$ 415,814	$ 440,167	$ 9,562,776	$ 10,549,775
Subordinated debt	13,460	55,487	249,542	-	318,489
Total	$ 144,478	$ 471,301	$ 689,709	$ 9,562,776	$ 10,868,264

Empire Life is able to fund its short term cash outflows requirements by generating positive cash flow from operations 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, to the extent possible, 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, 2010, 4.2% (2009 – 4.3%) of cash and investments were held in these shorter duration investments.

Insurance risk

The Company is exposed to insurance risks through its two insurance subsidiaries.

The Dominion:

The Dominion operates in a mature insurance market with products that are standard in nature and are very price sensitive. The Dominion underwrites general insurance products that are concentrated by product and by geographical region as follows:

	Gross Premiums Written	
	2010	2009
By product:		
Automobile	$ 788,965	$ 726,486
Personal Property	268,085	242,359
Commercial Property & Casualty	215,357	211,029
	$ 1,272,407	$ 1,179,874
By geographic region:		
Ontario	$ 933,894	$ 828,090
Western Canada	211,891	223,536
Atlantic Canada	126,622	128,248
Total	$ 1,272,407	$ 1,179,874

The Dominion is exposed to product design and pricing risk, underwriting and claims risk, and reinsurance risk arising from its insurance operations.

i) Pricing risk

The Dominion's insurance products are exposed to pricing risk, which is the risk that the price charged for the insurance coverage provided is, or becomes, insufficient to produce an adequate return for the shareholder. This risk may result from inadequate estimates of claims, competitive pressures, price regulation and other decisions made by regulators, factors, as well as legislative changes to products that could result in claims costs that exceed pricing assumptions. To mitigate these risks, 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, based on their experience and underwriting guidance, as part of the underwriting process. Mitigation of the foregoing insurance risks is dependent on an accurate understanding of claims costs and trends, in order to set appropriate prices and change insurance products.

Government Regulation of Automobile Insurance

A significant portion of The Dominion's premiums are generated from underwriting automobile products which are 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".

In addition, the automobile product is changed frequently by the provincial governments, which impacts The Dominion's ability to estimate claims and determine appropriate pricing assumptions.

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 $780,115 (2009 - $718,711), 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 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.

ii) Underwriting and claims risk

The Dominion is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Underwriting risk is mitigated through training, documented rules and guidelines, and internal quality control reviews. In addition, underwriting rules and guidelines are amended based on knowledge gained through analysis of claims experience.

Claims risk is the exposure to loss caused by claims experience that is less favourable than expected. Actual claims experience and ultimate claims costs inevitably will vary from current estimates, possibly by material amounts. Many factors contribute to ultimate claims costs such as claims frequency and severity, claims payment trends, inflation and interest rates, changes in legislation and in the interpretation of liability by the courts and catastrophic events. Unexpected results could arise from, but are not limited to, such causes as an unforeseen large loss (e.g. a large commercial property fire loss), from an accumulation of many losses under a catastrophic event (e.g. property claims from an earthquake or forest fire) or due to significant trends of increasing claims frequency or severity that may be difficult to detect or to adequately price (e.g. underlying changes in trends for automobile bodily injury claims or weather patterns, that are masked by annual volatility). Catastrophes can be caused by hurricanes, windstorms, hailstorms and other types of severe weather, and by earthquakes, forest fires, explosions, crashes or derailments. Exposure to large losses and large accumulations from single events mainly is mitigated through the purchase of reinsurance. The Dominion remains fully exposed to adverse claims experience from the exposure it retains, net of reinsurance coverage. An inherent component of claims risk is the risk of misestimating claims provisions by a material amount. It is particularly challenging to understand and project changes in underlying claims trends, or to identify them on a timely basis, especially in claim categories that experience annual volatility that can mask underlying trends such as automobile bodily injury and accident benefit claims. The Dominion regularly conducts actuarial analysis, reviews trends arising in its claims settlement processes and monitors industry claims experience, in order to identify and respond to adverse trends. To mitigate future claims risk, The Dominion monitors and

may change insurance coverage on future policies (where permitted by law), adjust prices or modify its claims settlement procedures.

A 5% variation in the net unpaid and unreported claims carrying value is a reasonably likely net change that could result from changes in the assumptions that underlie claims estimates. A 5% increase (decrease) in the net unpaid and unreported claims carrying value (holding all other variables constant) would result in an increase (decrease) in Claims of $77,365 (2009 - $75,269) and a decrease (increase) in Net income (loss) of $53,800 (2009 - $51,138), net of tax.

iii) Reinsurance risk

The Dominion purchases reinsurance to protect capital and surplus from claims risk caused by large losses or by a large accumulation of losses relating to single events, such as catastrophes. Reinsurance treaties provide coverage in layers in which multiple reinsurers provide agreed upon portions of each layer's coverage. Treaties typically renew annually. The Dominion's reinsurance coverage is mainly in the form of excess of loss treaties that provide coverage above a deductible ("retention") up to the treaty limits, per claim or, in the case of the catastrophe treaty, for the aggregate loss of a series of claims arising from a single event up to a specified limit. Management selects the catastrophe treaty limit based on analysis using several catastrophe models. The Dominion's net exposure to claims, as a result of reinsurance coverage, and its catastrophe limit are disclosed in Note 14.

Reinsurance does not relieve The Dominion of its primary liability as the originating insurer and The Dominion is exposed to potential default by reinsurers for any ceded Reinsurance recoverable on claims incurred by The Dominion. Please refer to the Credit Risk section of this note for further discussion. The cost of reinsurance coverage fluctuates in a cyclical fashion based on global reinsurance results and competitive factors and as a result, some coverage may not be available for all risks and increased reinsurance prices may reduce The Dominion's operating margin. There is also the risk that an insurer's reinsurance program is not adequately designed to provide the protection intended.

To mitigate reinsurance risk, the terms and conditions of reinsurance treaties and reinsurer participations are reviewed and approved by a Reinsurance Committee established by management and are reported to The Dominion's Board of Directors. To mitigate credit risk, management reviews the financial performance and condition of reinsurers annually and only reinsurers that have a credit rating of "A-" or better are accepted in our reinsurance program as it renews each year.

The Dominion writes personal and commercial property business in British Columbia and, accordingly, is exposed to loss from a major earthquake. In addition to carrying appropriate reinsurance coverage, management mitigates earthquake exposure through underwriting guidelines, effective use of deductibles, adequate pricing and management of the earthquake exposure capacity allocated to each broker.

Empire Life:

Empire Life provides a broad range of life insurance and wealth management products, employee benefit plans, and financial services that are concentrated by product line as follows:

	Wealth Management		Employee Benefits		Individual Insurance	
	2010	2009	2010	2009	2010	2009
Premium income	$ 239,864	$ 300,306	$ 261,659	$ 241,916	$ 316,188	$ 297,654
Fee and other income	103,829	86,854	6,462	5,884	1,341	1,423
Total	$ 343,693	$ 387,160	$ 268,121	$ 247,800	$ 317,529	$ 299,077

The most important insurance risks in terms of likelihood and potential impact on Empire Life are experience risk, product design and pricing risk, underwriting and claims risk and reinsurance risk.

i) Experience risk

The principal risk Empire Life faces under insurance contracts is the risk that experience on claims, policy lapse rates and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. The objective of Empire is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

Policy liability assumptions are reviewed and updated at least annually, and the impact of changes in those assumptions is reflected in earnings in the year of the change.

Based on recent experience, Empire has estimated that a decrease (or increase) in the individual insurance mortality assumption equal to 3% of the CIA mortality table would result in an increase (or decrease) of approximately $33,900 (2009 $27,800) in shareholders' net income and $1,600 (2009 $700) in policyholders' net income, and that a decrease in reinvestment rate assumptions caused by a decrease of 1% in current market interest rates would result in a decrease of approximately $34,800 (2009 $32,300) in shareholders' net income and $2,100 (2009 $800) in policyholders' net income, and that net income is not sensitive to short term swings in expenses.

ii) Product design and pricing risk

Empire is subject to the risk of financial loss resulting from transacting insurance business where the costs and liabilities assumed in respect of a product exceed the expectations reflected in the pricing of the product. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through dividends and experience rating refunds, or through the fact that Empire can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, Empire assumes the entire risk, and thus must carry out a full valuation of the commitments in this regard.

(iii) Underwriting and claims risk

Empire is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of Empire's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related

premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

(iv) Reinsurance risk

Empire Life is subject to the risk of financial loss due to improper reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. Empire Life also maintains a catastrophe reinsurance program, which provides protection in the event that multiple insured lives perish in a common accident or catastrophic event. Although Empire Life relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and availability, which can also affect earnings. Empire Life's net exposure to claims, as a result of reinsurance coverage is disclosed in Note 14.

As reinsurance does not release a company from its primary commitments to its policyholders, Empire Life reviews the financial soundness of reinsurers before entering into any reinsurance treaty and thereafter once a treaty is in place. Please refer to the Credit Risk section of this note for further discussion. Retention amounts are lower for group business but are in addition to those noted for individual business. As a result of this reinsurance strategy, Empire Life utilizes lower than average levels of reinsurance and absorbs the resultant negative impact on short-term earnings due to additional sales strain. Empire Life does not have any material assumed reinsurance annual premium revenue and it does not reinsure segregated fund guaranteed products issued by other insurance companies.

Empire Life enters into reinsurance agreements only with reinsurance companies that have an independent credit rating of "A-" or better.

24. Commitments

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

	2010
2011	$ 19,289
2012	12,760
2013	10,113
2014	7,620
2015	3,996
Thereafter	9,892
	$ 63,670

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 also use futures contracts and foreign currency forward contracts in its shareholders' and policyholders' equity accounts. Other equity derivative contracts are used by Empire Life as part of a portfolio of assets to match policy liabilities as to duration and amounts. Empire Life periodically uses bond contracts for cash flow hedging purposes (refer to Note 4 - Hedge accounting).

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.

	2010			2009		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Positive	Negative	Amount	Positive	Negative
Exchange-traded						
Equity index futures	$ 9,424	$ 25	$ 154	$ 10,128	$ 66	$ -
Equity options	-	-	-	7	3	-
Over-the-counter						
Foreign currency forwards	6,571	12	40	22,425	124	247
Other equity contracts	11,545	730	526	15,515	2,300	-
Total		$ 767	$ 720		$ 2,493	$ 247

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

26. Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid instruments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

	2010	2009
Cash	$ (13,607)	$ (10,614)
Cash equivalents	352,680	338,143
	339,073	327,529
Bank indebtedness (Note 13)	(26,907)	(27,907)
Total	$ 312,166	$ 299,622

27. 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.

28. Related party transactions

In the normal course of business, the Company enters into transactions with investees involving administration services. These transactions are recorded at exchange amounts. The Company received administrative service fees of $1,021 (2009 - $907) from United and Economic.

The Company's investments in common and preferred stock include $333,579 (2009 - $328,580) 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 (loss) are cash dividends from these companies amounting to $10,758 (2009 - $11,092).

29. Variable interest entities ("VIE")

In the ordinary course of business, the E-L Corporate segment invests in investment funds managed by third parties which are considered VIEs for financial reporting purposes. Investments with a carrying value of $191,183 (2009 - $161,509) represent significant variable interests in VIEs where the Company is not considered the primary beneficiary. As such, the Company has not consolidated these entities.

30. Capital management

The Company's capital is comprised of its shareholders' equity and consists mainly of investments in equities and the two insurance subsidiaries. It is 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. Throughout 2009 and 2010, The Dominion's MCT Ratio exceeded OSFI's supervisory target MCT of 150%. During the third quarter of 2010, The Dominion's Board of Directors approved an internal capital target MCT ratio of 190% and The Dominion's MCT ratio has exceeded the internal capital target since then. The internal capital target is based on actuarial and sensitivity analyses of material risks. The internal capital target will be reviewed annually, or more frequently if material changes in risks are identified, and may be changed accordingly. The Dominion's decisions regarding investments and declaration of dividends will continue to be made with the intention of maintaining sufficient regulatory capital. 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, 2010, Empire Life continued to be well above requirements and above minimum internal targets.

31. 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 on 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 $13,460 (2009 - $6,730) was paid on the debentures. The debenture has been recorded at amortized cost using the effective interest rate method. At December 31, 2010, the subordinated debenture had a carrying value of $199,185 (2009 - $198,980) and a fair value of $218,858 (2009 - $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.

32. Comparative information

Certain comparative information has been restated.

Summary of Consolidated Results

(Unaudited)	2010	2009 [1]	2008	2007	2006
Premium income	$ 2,008,040	$ 1,925,902	$ 1,709,435	$ 1,630,208	$ 1,628,870
Gain on sale of investments	-	-	-	-	73,289
Amortization of investment gains	-	-	-	-	61,967
Income (loss) from equity method investments	34,853	6,744	(117,313)	(20,119)	56,850
Change in unrealized appreciation of portfolio investments					124,951
Change in fair value of held for trading investments	213,755	109,300	(245,544)	(83,317)	-
Realized gain on held for trading investments	5,003	30,890	16,986	65,916	-
Realized gain (loss) on available for sale investments including impairment write downs	23,309	(317,860)	(167,171)	175,397	-
Investment and other income	440,224	398,530	403,755	394,861	374,867
Total revenues	2,725,184	2,153,506	1,600,148	2,162,946	2,320,794
Claims and policy benefits	1,881,762	1,784,877	1,106,568	1,273,824	1,220,550
Expenses (including commissions)	618,136	564,795	551,881	561,914	527,023
Taxes	79,276	(33,334)	62,447	109,410	167,573
	146,010	(162,832)	(120,748)	217,798	405,648
Policyholders' and non-controlling interest portion of income	1,317	22,076	6,565	7,110	33,128
Net income (loss)	$ 144,693	$ (184,908)	$ (127,313)	$ 210,688	$ 372,520
Net income (loss) per share - basic	$ 40.66	$ (58.75)	$ (41.30)	$ 60.29	$ 109.97
Assets					
Cash and cash equivalents	$ 339,073	$ 327,529	$ 357,294	$ 364,785	$ 219,400
Equity method investments	436,706	400,949	221,205	309,861	331,698
Investments - corporate	785,272	747,555	878,947	1,097,886	1,026,175
Investments - insurance operations	6,981,427	6,402,741	5,398,721	5,687,639	4,983,381
Reinsurance recoverable	81,114	101,522	104,867	199,957	183,598
Premiums receivable	309,999	301,547	276,911	259,894	258,004
Other assets	333,828	309,797	326,225	320,966	356,356
	9,267,419	8,591,640	7,564,170	8,240,988	7,358,612
Segregated funds	4,706,658	4,310,401	3,348,827	4,594,300	3,847,800
	$ 13,974,077	$ 12,902,041	$ 10,912,997	$ 12,835,288	$ 11,206,412
Liabilities					
Policy liabilities	$ 5,928,915	$ 5,395,886	$ 4,885,506	$ 5,050,514	$ 4,271,352
Other liabilities	486,009	531,265	298,602	303,589	549,371
Policyholders' and non-controlling interest	219,118	213,546	164,860	186,439	140,168
	6,634,042	6,140,697	5,348,968	5,540,542	4,960,891
Capital stock	272,388	272,388	272,388	272,388	272,388
Retained earnings	2,197,755	2,065,921	2,264,591	2,399,714	2,125,333
Accumulated other comprehensive income (loss)	163,234	112,634	(321,777)	28,344	-
	2,633,377	2,450,943	2,215,202	2,700,446	2,397,721
	9,267,419	8,591,640	7,564,170	8,240,988	7,358,612
Segregated funds	4,706,658	4,310,401	3,348,827	4,594,300	3,847,800
	$ 13,974,077	$ 12,902,041	$ 10,912,997	$ 12,835,288	$ 11,206,412

[1] Restated, see Note 2

Summary of The Dominion

(Unaudited)	2010	2009 [1]	2008	2007	2006
Premium income	$ 1,190,329	$ 1,086,026	$ 1,023,257	$ 998,882	$ 1,026,997
Other income	15,038	13,827	13,132	12,921	13,888
Claims	(849,272)	(903,431)	(768,579)	(714,655)	(644,017)
Operating expenditures including commissions and premium taxes	(366,285)	(340,959)	(319,048)	(312,873)	(316,512)
Underwriting (loss) income	(10,190)	(144,537)	(51,238)	(15,725)	80,356
Realized gain (loss) on available for sale investments including impairment write downs	8,683	(159,913)	(31,909)	120,478	-
Change in the fair value of held for trading investments	1,867	-	-	-	-
Gain on sale of investments	-	-	-	-	55,924
Investment and other income	85,769	87,226	88,509	82,561	77,578
Income (loss) before taxes	86,129	(217,224)	5,362	187,314	213,858
Income taxes (recovery)	18,594	(65,247)	9,741	42,725	64,335
Net income (loss)	$ 67,535	$ (151,977)	$ (4,379)	$ 144,589	$ 149,523
Claims ratio	71.3%	83.2%	75.1%	71.5%	62.7%
Expense ratio	30.8%	31.4%	31.2%	31.4%	30.8%
Combined ratio	102.1%	114.6%	106.3%	102.9%	93.5%
Gross premiums written					
Automobile	$ 788,965	$ 726,486	$ 666,175	$ 633,082	$ 649,637
Property	389,142	361,100	335,340	315,356	317,839
Casualty	94,300	92,288	90,594	90,719	91,250
	$ 1,272,407	$ 1,179,874	$ 1,092,109	$ 1,039,157	$ 1,058,726
Assets	$ 3,119,868	$ 2,981,268	$ 2,648,264	$ 2,817,289	$ 2,629,599

[1] Restated, see Note 2

Summary of Empire Life

(Unaudited)	2010	2009	2008	2007	2006
Premium income	$ 817,711	$ 839,876	$ 686,178	$ 631,326	$ 601,873
Amortization of investment gains	-	-	-	-	61,967
Change in fair value of held for trading investments	198,111	106,699	(244,384)	(84,349)	-
Realized gain on held for trading investments	8,248	30,641	19,920	61,834	-
Realized gain (loss) on available for sale investments including impairment write downs	15,463	(34,409)	(47,207)	38,878	-
Investment and other income	318,511	279,417	273,871	269,863	258,837
Total revenues	1,358,044	1,222,224	688,378	917,552	922,677
Policy benefits	1,032,490	881,446	337,989	559,169	576,533
Expenses (including commissions)	287,273	259,694	265,012	278,671	241,089
Taxes	12,962	16,158	40,289	29,000	42,901
	25,319	64,926	45,088	50,712	62,154
Profits allocated to policyholders	(4,871)	11,124	(3,282)	(4,035)	4,687
Profits allocated to non-policyholders	6,146	10,952	9,847	11,145	11,699
Net contribution to E-L	$ 24,044	$ 42,850	$ 38,523	$ 43,602	$ 45,768
Premium income by line					
Individual:					
Insurance	$ 299,390	$ 281,751	$ 283,981	$ 272,859	$ 243,153
Annuities	232,719	292,200	113,731	87,281	116,774
Health	16,799	15,902	14,930	13,569	11,826
	548,908	589,853	412,642	373,709	371,753
Group:					
Insurance	23,623	23,121	23,470	23,002	20,724
Annuities	7,145	8,106	3,974	3,802	3,651
Health	238,035	218,796	246,092	230,813	205,745
	268,803	250,023	273,536	257,617	230,120
Total premiums	$ 817,711	$ 839,876	$ 686,178	$ 631,326	$ 601,873
Assets including segregated funds	$ 9,606,585	$ 8,712,454	$ 7,095,633	$ 8,449,823	$ 7,096,748

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Net Common Shareholders' Equity	Net Income (Loss)	Net Income (Loss) Per Share
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ 0.58
1970	178,204	48,024	57,637	24,656	2,607	0.75
1971	192,863	52,386	62,985	27,007	2,504	0.72
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	0.60
1975	282,000	88,314	105,793	39,741	2,990	0.85
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)	(0.46)
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	1,582,143	129,886	31.91
2005	9,830,984	1,600,708	2,201,191	1,815,670	293,703	86.68
2006	11,206,412	1,628,870	2,320,794	2,197,721	372,520	109.97

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

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
2005 - Changes in fair value of E-L Financial's Corporate Investments are recognized in income in the period in which the change occurs

(Continued)

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Net Common Shareholders' Equity	Comprehensive Income (Loss)	Comprehensive Income (Loss) Per Share
2007	$ 12,835,288	$ 1,630,208	$ 2,162,946	$ 2,500,446	$ 81,860	$ 21.58
2008	10,912,997	1,709,435	1,600,148	2,015,202	(470,235)	(144.42)
2009	12,902,041	1,925,902	2,153,506	2,250,943	249,876	72.28
2010	13,974,077	2,008,040	2,725,184	2,433,377	195,293	55.94

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

2007 - All investments are carried at fair value except for those which do not have a quoted price in an active market. The change in fair value of certain investments are reflected in net income ('held for trading' investments) with the remainder in other comprehensive income ('available for sale' investments). Comprehensive income consists of net income and other comprehensive income.

Corporate Management

President and
Chief Executive Officer
GEORGE L. COOKE

Chief Information Officer
JANET E. BABCOCK

Chief Actuary
NATHALIE BÉGIN

Senior Vice-President, Field Operations
ALAN J. HANKS

Chief Financial Officer
R. DOUG HOGAN

Senior Vice-President, Claims
NORA P. HOHMAN

Chief Compliance Officer and Corporate Secretary
WENDY E. MILLS

Chief Operating Officer
BRIGID MURPHY

Chief Legal Officer
KATHLEEN A. NICCOLS

Senior Vice-President, Corporate Development
SHELLY A. RAE

Senior Vice-President, Commercial Lines
LINDA REGNER-DYKEMAN

Chief Risk Officer
KATHLEEN E. THOMAS

Senior Vice-President,
Personal Lines and Business Solutions
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

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

STOCK EXCHANGE LISTINGS

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

REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

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

Mr. Douglas Townsend
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
M5H 3B8
Email: auditchair@tkactuarial.ca
Phone: 613-532-1216

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.