E-L Financial Corporation Limited

2011 ANNUAL REPORT

The Year at a Glance

(Thousands of dollars)		**2011**		**2010**
Net Premiums	**$**	**1,972,790**	$	2,006,855
Total Revenues	**$**	**2,805,547**	$	2,783,352
Shareholders'				
Net Operating Income (1)	**$**	**30,307**	$	90,318
Net (Loss) Income	**$**	**(44,723)**	$	182,701
Comprehensive (Loss) Income	**$**	**(57,752)**	$	229,213

Changes in Shareholders' Equity:				
Beginning of the year	**$**	**2,790,539**	$	2,577,426
Comprehensive (loss) income:				
Net (loss) income		**(44,723)**		182,701
Other comprehensive (loss) income		**(13,029)**		46,512
		(57,752)		229,213
Dividends		**(12,060)**		(12,060)
Net refundable dividend taxes		**(1,076)**		(799)
Elimination of the cost of reciprocal shares		**(258)**		(3,241)
End of the year	**$**	**2,719,393**	$	2,790,539

Per Share Information:(2)				
Net Operating Income (1)	**$**	**5.15**	$	20.36
Net (Loss) Income				
- basic	**$**	**(13.93)**	$	43.80
- diluted	**$**	**(13.93)**	$	41.28
Comprehensive (Loss) Income	**$**	**(17.24)**	$	55.60
Net Equity Value (1)	**$**	**642.98**	$	658.39

(1) See Management's Discussion and Analysis for use of non-GAAP measures.
(2) All earnings per share figures are net of dividends paid on First Preference shares.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:30 a.m. on Wednesday May 10, 2012, 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,
President, Longview Asset 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.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, 2011 and 2010. This MD&A should be read in conjunction with: the December 31, 2011 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2011 Annual Report dated March 5, 2012. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on an IFRS basis in these consolidated financial statements. In the MD&A the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars.

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, 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 common shares held indirectly through investments in associates (“Adjusted Common Shares”).

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

Conversion to IFRS

Over the past year, the Company has provided supplementary disclosure in its MD&A on how the transition to IFRS was expected to impact the Company’s consolidated financial statements. The Company’s results are now being reported in accordance with IFRS. Note 3 of the consolidated financial statements for the year ended December 31, 2011 contains a detailed description of the transition to IFRS. The note disclosure includes a line-by-line reconciliation of consolidated financial statements previously reported under Canadian GAAP to those under IFRS for the year ended December 31, 2010 as well as explanations of the individual adjustments that resulted from the transition.

Use of non-GAAP measures

The MD&A contains reference to net operating income, net operating income per share and net equity value per share. These terms do not have any standardized meaning according to IFRS 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, the Company’s share of income (loss) from associates and the fair value change in fair value through profit or loss (“FVTPL”) investments in the E-L Corporate portfolio. Net operating income per share is net operating 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.

The Company

E-L Financial operates as an investment and insurance holding company. The Company owns 100% of The Dominion of Canada General Insurance Company ("The Dominion") and 80% of The Empire Life Insurance Company ("Empire" or "Empire Life"). Both Empire and The Dominion are consolidated into E-L Financial for financial reporting purposes. The Company also invests in equities 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 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 classified as investments in associates 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 oversees 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 attributable to shareholders of E-L Financial

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

	2011			
(thousands of dollars)	**E-L Corporate**	**The Dominion**	**Empire Life**	**Total**
Net operating income	**$ 11,200**	**$ 5,929**	**$ 13,178**	**$ 30,307**
Realized gain on available for sale investments including impairment write downs	**5,029**	**19,313**	**12,552**	**36,894**
Share of loss of associates	**(23,886)**	**-**	**-**	**(23,886)**
Fair value change in fair value through profit or loss investments	**(88,038)**			**(88,038)**
Net (loss) income	**(95,695)**	**25,242**	**25,730**	**(44,723)**
Other comprehensive (loss) income	**(467)**	**1,365**	**(13,927)**	**(13,029)**
Comprehensive (loss) income	**$ (96,162)**	**$ 26,607**	**$ 11,803**	**$ (57,752)**

	2010			
(thousands of dollars)	**E-L Corporate**	**The Dominion**	**Empire Life**	**Total**
Net operating income	$ 14,526	$ 62,695	$ 13,097	$ 90,318
Realized (loss) gain on available for sale investments including impairment write downs	(3,449)	7,532	2,701	6,784
Share of income of associates	27,857	-	-	27,857
Fair value change in fair value through profit or loss investments	57,742			57,742
Net income	96,676	70,227	15,798	182,701
Other comprehensive income	12,003	18,332	16,177	46,512
Comprehensive income	$ 108,679	$ 88,559	$ 31,975	$ 229,213

Net operating income

E-L Financial earned consolidated net operating income of $30.3 million or $5.15 per share in 2011 compared with $90.3 million or $20.36 per share in 2010.

The $60.0 million decrease in net operating income in 2011 versus 2010 is principally attributable to a $56.8 million decrease in net operating income for The Dominion. The Dominion's decrease in net operating income is due mainly to changes in assumptions made in the fourth quarter actuarial analysis for automobile bodily injury claims provisions. Net operating income for Empire Life continued to be negatively impacted by the low longer term interest rate environment.

Net income (loss)

E-L Financial incurred a consolidated net loss of $44.7 million or $13.93 per share compared with net income of $182.7 million or $43.80 per share in 2010.

In addition to the decrease in net operating income described above, 2011 net income was negatively impacted by decreases in the value of equity investments held at E-L Corporate of $88.0 million compared with gains of $57.7 million in 2010, reflecting market turmoil. Decreases in the value of the Company's interest in Economic and United, partially offset by positive income from Algoma, resulted in a loss from associates for 2011 of $23.9 million compared to income of $27.9 million in 2010.

Comprehensive income (loss)

E-L Financial incurred a consolidated comprehensive loss of $57.8 million or $17.24 per share in 2011 compared with income of $229.2 million or $55.60 per share in 2010. Consolidated other comprehensive loss ("OCL") was $13.1 million or $3.31 per share compared with other comprehensive income ("OCI") of $46.5 million or $11.80 per share in 2010.

The $59.6 million decline in OCI compared to the prior year is a result of a decrease in unrealized gains on AFS investments for the year combined with an increase in realized gains being reclassified to net income.

Net equity value per share

Under IFRS, investments in associates are reported at their carrying value and not at fair value. Therefore, to provide an indication of the accumulated shareholder value, the following table adjusts shareholders’ equity to reflect investments in associates at fair value:

(thousands of dollars)	**December 31, 2011**	December 31, 2010	January 1, 2010
E-L Financial shareholders' equity	**$ 2,719,393**	$ 2,790,539	$ 2,577,426
Less: First preference shares	**(200,000)**	(200,000)	(200,000)
	2,519,393	2,590,539	2,377,426
Adjustments for E-L Corporate not carried at fair value:			
Investments in associates			
Carrying value	**(419,784)**	(449,363)	(420,278)
Fair value	**429,046**	450,078	426,407
	9,262	715	6,129
Deferred income tax	**(1,158)**	(89)	(766)
	8,104	626	5,363
Net equity value	**$ 2,527,497**	$ 2,591,165	$ 2,382,789
Adjusted Common Shares outstanding at period end	**3,930,906**	3,935,604	3,947,502
Net equity value per Adjusted Common Share	**$ 642.98**	$ 658.39	$ 603.62

E-L Financial’s net equity value per Adjusted Common Share decreased 2.3% on a year over year basis.

Under Canadian GAAP, the Company adjusted the number of shares outstanding for the impact of its proportionate interest in its own shares held directly and indirectly within investments - corporate and equity method investments. As disclosed in the 2010 Annual Report, under IFRS the Company adjusts for only the impact of the shares in investments in associates owned directly. On an IFRS-adjusted basis, the number of Adjusted Common Shares outstanding at December 31, 2010 increased to 3,935,604 (January 1, 2010 – 3,947,502) from 3,304,752 (January 1, 2010 – 3,318,164) under Canadian GAAP.

Fourth quarter

<u>Net operating income (loss)</u>

For the three months ended December 31, 2011, E-L Financial incurred consolidated net operating loss of $20.4 million or $5.83 per share compared with net operating income of $54.6 million or $13.22 per share for the comparable period in 2010.

The Dominion had a $67.7 million decrease in fourth quarter net operating income compared to the prior year due to changes in assumptions made in the 2011 fourth quarter actuarial analysis for automobile bodily injury claims provisions and worse results for commercial property and casualty, which was impacted by a decrease in favourable claims development and an increase in large losses.

<u>Net income (loss)</u>

For the three months ended December 31, 2011, E-L Financial had consolidated net income of $11.1 million or $2.20 per share compared with net income of $117.5 million or $29.22 per share in 2010.

In addition to the decrease in net operating income of $67.7 million described above, the fourth quarter net income was impacted by the reduction in the appreciation of equity markets at E-L Corporate from $38.3 million in 2010 to $1.9 million in 2011.

Comprehensive income (loss)

For the three months ended December 31, 2011, E-L Financial had a consolidated comprehensive income of $15.6 million or $3.33 per share compared with $125.3 million or $31.20 per share for the comparable period in 2010. OCI was $4.5 million or $1.13 per share compared with $7.8 million or $1.99 per share for the comparable period in 2010.

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

(millions of dollars, except per share amounts)	IFRS							
	2011				2010			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue								
Net premium income	**$ 489**	**$ 499**	**$ 490**	**$ 494**	$ 504	$ 496	$ 495	$ 512
Associates [1]	**11**	**(19)**	**(27)**	**8**	24	36	(26)	(2)
FVTPL [2]	**190**	**143**	**40**	**(37)**	14	191	36	49
AFS [3]	**32**	**(10)**	**18**	**19**	5	2	(5)	13
Investment and other	**119**	**116**	**117**	**113**	118	111	107	103
Total	**$ 841**	**$ 729**	**$ 638**	**$ 597**	$ 665	$ 836	$ 607	$ 675
Net (loss) income [4]	**$ 11**	**$ (95)**	**$ (11)**	**$ 50**	$ 118	$ 84	$ (38)	$ 19
Net (loss) income [4] per share								
- basic	**$ 2.20**	**$ (24.71)**	**$ (3.53)**	**$ 12.11**	$ 29.22	$ 20.84	$ (10.33)	$ 4.13
- diluted	**$ 2.20**	**$ (24.71)**	**$ (3.53)**	**$ 11.46**	$ 26.57	$ 19.12	$ (10.33)	$ 4.13

(1) Share of income (loss) of associates, including impairment write downs
(2) Realized and unrealized gains on FVTPL investments
(3) Realized gain on AFS, including impairment write downs
(4) Attributable to shareholders

Quarterly trend analysis

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

Revenue

For the past eight quarters, The Dominion and Empire Life have maintained relatively steady levels of net premium income. The quarterly fluctuations found in the investments in associates, FVTPL and AFS categories have been significant and can be attributed to the volatility in equity markets. Prolonged negative equity markets have resulted in impairment write downs of investments in associates and AFS investments which impacts are included in their respective revenues. Investment and other income has been fairly stable over the last eight quarters.

Shareholders' net income

Consolidated net income dropped in the second quarter of 2010 from the first quarter primarily due to the after-tax losses attributable to the investments in associates within E-L Corporate and a decline in The Dominion's underwriting results. In the third quarter of 2010, the increase in net income was mainly attributable to the positive impact the equity markets had on the after–tax income of the investments in associates. During this quarter, The Dominion experienced higher than normal weather-related claims, which is customary for the third quarter. Consolidated net income for the fourth quarter of 2010 reflected the impact of stronger equity markets on the Company's investments in associates and AFS investments. The Dominion experienced improved net operating income resulting from improved underwriting results while Empire's results were negatively impacted as a result of unfavourable policy liability assumption updates due to low long term interest rates.

In the first quarter of 2011, net income was positively impacted by realized gains on AFS investments by The Dominion and improved mortality and surrender experience within Empire. Net income declined in the second quarter primarily due to its share of losses from associates in E-L Corporate and a reduction in the fair value of FVTPL investments in E-L Corporate. In the third quarter of 2011, the net loss increased further due to a decline in the fair value of FVTPL investments in E-L Corporate, and due to its share of losses in associates, reflecting overall declines in equity markets. Consolidated net income for the fourth quarter was slightly positive, reflecting the impact positive equity markets had on E-L Corporate's share of income from associates and the fair value change in the Company's FVTPL and AFS investments. This was significantly offset by The Dominion's net operating loss which resulted from increased actuarial reserves for automobile bodily injury claims.

Selected annual information

(millions of dollars)	IFRS		Previous Canadian GAAP
	2011	2010	2009
Revenue			
E-L Corporate	**$ (99)**	$ 115	$ (96)
The Dominion	**1,348**	1,305	1,027
Empire Life	**1,557**	1,363	1,223
	$ 2,806	$ 2,783	$ 2,154
Shareholder net income (loss)			
E-L Corporate	**$ (96)**	$ 97	$ (76)
The Dominion	**25**	70	(152)
Empire Life	**26**	16	43
	$ (45)	$ 183	$ (185)
Assets			
E-L Corporate	**$ 1,329**	$ 1,437	$ 1,179
The Dominion	**3,256**	3,120	2,981
Empire Life	**10,015**	9,531	8,741
Total assets	**$ 14,600**	$ 14,088	$ 12,901

Revenue

Revenues over the period have been significantly impacted by the volatility in the global stock markets.

- E-L Corporate recorded a revenue loss of $95.9 million in 2009, as a result of significant impairment write downs during the year. E-L Corporate had revenue from FVTPL investments of $57.7 million for 2010 followed by a loss of $88.0 million in 2011. During the three year period, investments in associates showed significant fluctuations with income of $6.7 million in 2009 and $27.9 in 2010 followed by a loss of $23.9 million in 2011.
- Revenue from The Dominion was impacted by significant net realized investment losses generated by the redemption of equity pooled fund units in 2009. Revenue in 2010 increased as a

result of premium rate increases and modest investment gains in contrast to the large investment loss in 2009. Revenue in 2011 increased as a result of earned premium rate increases and higher investment income and realized gains.

- Empire Life has 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 2010 increased mainly due to unrealized investment gains. In 2011, Empire Life's revenue increased due primarily to gains on FVTPL investments resulting from a large increase in bond prices in 2011 compared to a smaller increase in bond prices in 2010.

Net income (loss)

Net income for the Company in 2009 was negatively impacted by the decline and slow recovery in global stock markets whereas 2010 showed significant improvement. 2011 continued to experience extremely volatile equity markets with improvements noted during the fourth quarter.

- E-L Corporate's net income is directly related to its revenue, which declined significantly as previously discussed.
- The Dominion experienced a large net loss in 2009 resulted from deteriorating underwriting results and a realized investment loss generated by the redemption of equity pooled fund units. Net income increased in 2010 from an improvement in underwriting results and the realizing of moderate investment gains in contrast to a large investment loss in 2009. Net income declined in 2011 as a result of a significantly higher underwriting loss reflecting a decrease in favourable prior year claims development from automobile and commercial property and casualty lines and deterioration in commercial property and casualty results.
- Empire Life's 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. In 2011 Empire Life's net income increased as a result of realized gains from the sale of AFS investments.

Assets

In 2009 total assets were positively impacted by the 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. Total assets increased modestly in 2011 as a result of improvements in bond valuations.

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, 2011. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2011.

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 consolidated 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, 2011. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2011. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Analysis of business segments

The remainder of this MD&A discusses the individual 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 investments in associates and investments – corporate.

Investments in associates

E-L Corporate's share of the loss from investments in associates for the year ended December 31, 2011 was $23.9 million after tax compared to income of $27.9 million after tax in 2010. The Company's proportionate share of the income from investments in associates for the year was $1.4 million (2010 - $27.9 million), offset by $25.3 million in impairment write downs (2010 - $nil) during the year. In addition, income of $ 1.0 million after tax (2010 – a loss of $2.1 million) was recorded in OCL relating to E-L Financial's share of Algoma's unrealized gains on the currency translation of the financial statements of foreign self-sustaining operations.

E-L Corporate's share of the income from investments in associates for the three months ended December 31, 2011 was $9.8 million after tax compared with $21.0 million in 2010. In addition, a loss of $1.2 million after tax (2010 – $1.5 million) relating to Algoma was recorded in OCL.

During the year, the Company invested $nil (2010 - $6.9 million) in United and $4.2 million (2010 - $3.8 million) in Economic.

(thousands of dollars)	**December 31, 2011**		December 31, 2010		January 1, 2010	
	Ownership	**Carrying value**	Ownership	Carrying value	Ownership	Carrying value
United	**48.8%**	**$ 256,122**	48.8%	$ 302,577	47.6%	$ 276,467
Algoma	**25.4%**	**91,750**	25.4%	76,062	25.4%	75,573
Economic	**23.3%**	**71,912**	22.1%	70,724	21.0%	68,238
Total		**$ 419,784**		$ 449,363		$ 420,278

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.

E-L Corporate had a net operating income of $11.2 million for the year and $4.5 million for the three months ended December 31, 2011. The $3.3 million decrease in net operating income for the year and $0.6 million for the fourth quarter compared to the prior year was due primarily to the tax effect related to non-deductible unrealized capital losses.

As a result of the redesignation of investments under IFRS, described below, 87% of the investments – corporate portfolio at December 31, 2011 are held in FVTPL investments. Therefore, movements in the market values of these redesignated investments now directly flow through net income.

During the year, the fair value of FVTPL investments decreased $88.0 million after tax. For the three months ended December 31, 2011, the fair value of FVTPL investments increased $1.9 million after tax reflecting overall volatility in stock markets.

Realized gain on AFS investments, including impairment write downs increased $8.5 million during 2011 and $0.9 million for the three months ended December 31, 2011 compared to the prior year.

IFRS redesignation

Under IFRS, the Company has redesignated the investments that were classified under Canadian GAAP as AFS at cost within its investments – corporate portfolio to FVTPL. The redesignation increased 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 was eliminated in deriving fair value for these investments. Under IFRS these reciprocal shareholdings are permitted to be carried at fair value on the Company's statement of financial position. The impact of the redesignation to FVTPL at January 1, 2010 and the related change in accounting for reciprocal shareholdings resulted in an increase in investments – corporate of $121.9 million, an increase in deferred tax liabilities of $15.2 million and an increase in retained earnings of $106.7 million.

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, 2011, The Dominion's Minimum Capital Test ratio was 216% and Empire Life's Minimum Continuing Capital and Surplus Requirements ratio was 207%.

Refer to The Dominion and Empire Life's MD&A sections for their discussion of capital resources and cash flows.

Composition of cash flows:

Year ended December 31	**E-L Corporate**		**The Dominion**		**Empire Life**		**Total**	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Cash flows from:								
Operating activities	**$ 19**	$ 22	**$ 127**	$ 102	**$ 180**	$ 170	**$ 326**	$ 294
Financing activities	**(12)**	(12)	**-**	-	**(3)**	(3)	**(15)**	(15)
Investing activities	**(13)**	(23)	**(231)**	(89)	**(160)**	(153)	**(404)**	(265)
Net change in cash and cash equivalents	**$ (6)**	$ (13)	**$ (104)**	$ 13	**$ 17**	$ 14	**$ (93)**	$ 14

E-L Corporate's operating cash flows for 2011 consisted of net investment income of $19 million (2010 - $22 million) and cash dividends received from its insurance subsidiaries of $13 million (2010 - $12 million). These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $12 million (2010 - $12 million), provided $20 million (2010 - $22 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:

(thousands of dollars)	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
Cash and cash equivalents	**$ 30,187**	$ 23,302	$ 25,283
Short-term investments	**30,600**	34,092	72,622
Bonds	**-**	-	77,674
Total	**$ 60,787**	$ 57,394	$ 175,579

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 29 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.

Impairment of AFS securities and investments in associates

Available for sale securities are subject to a regular review for losses that are significant or prolonged. Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

Investments in associates recognize an impairment loss if the investment in associate's recoverable amount is determined to be lower than the investment's carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment's fair value less costs to sell and value in use. Impairment losses are recognized in the consolidated statements of income (loss). Previously recognized impairment losses are reversed if the investment's recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

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 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.

The Dominion's results are now being reported in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and as incorporated into Part 1 of the Handbook of The Canadian Institute of Chartered Accountants. The transition from previous Canadian GAAP to IFRS has had an insignificant impact on The Dominion's financial results.

In addition to IFRS measurements, The Dominion uses "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 expense 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 all other costs. Unless otherwise indicated, in this MD&A claims expense is net of applicable reinsurance recoveries.

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 reflect underlying underwriting results without the distorting effects of market interest rate volatility.

Unless otherwise indicated, the loss ratios quoted in this MD&A are "calendar year" loss ratios, meaning they are determined using claims expense as reported in net income (and may exclude changes in claims discount rates where indicated). The calendar year loss ratio comprises estimates for the ultimate cost of claims that occurred in the current financial reporting period as well as changes made in the current reporting period to estimates for claims that occurred in prior years ("prior year claims development"). In this MD&A, prior year claims development is as determined in the financial reporting period in which it is recognized, and is not adjusted for subsequent changes made to estimates for those prior year claims in subsequent financial reporting periods. "Accident year" loss ratios quoted in this MD&A are determined by deducting prior year claims development from claims expense to reflect the underwriting performance relating to claims occurring in the reporting period.

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.

Overview

	Quarterly results		Year	
(dollars in millions)	**Q4 2011**	Q4 2010	**2011**	2010
Net (loss) income, contribution to E-L	**$ (12.6)**	$ 49.8	**$ 25.2**	$ 70.2
Other comprehensive income (loss)	**6.4**	(2.0)	**1.4**	18.4
Comprehensive (loss) income	**$ (6.2)**	$ 47.8	**$ 26.6**	$ 88.6
Combined Ratio %	**118.4**	89.9	**108.3**	102.1
Combined Ratio % - excluding the effects of changes in discount rate	**115.0**	91.9	**106.4**	102.2

The Dominion earned a net income of $25.2 million in 2011 compared to net income of $70.2 million in 2010. The decrease in earnings in 2011 versus 2010 is due to a significantly higher underwriting loss in the fourth quarter of 2011. The combined ratio for 2011 was 108.3%, a deterioration of 6.2 points from 102.1% for 2010. The combined ratio excluding the effects of changes in the claims discount rate was 106.4% for 2011 and 102.2% for 2010. The deterioration of 4.2 points reflects two main factors. First, automobile results were negatively impacted by changes in assumptions made in the fourth quarter actuarial analysis for automobile bodily injury claims provisions (for both prior year claims and 2011 claims). Second, commercial property and casualty results deteriorated versus the prior year as a result of much lower favourable claims development, higher claims from water damage and other weather-related losses and higher claims expense for large losses.

Comprehensive income was $26.6 million in 2011 compared to $88.6 million in 2010, reflecting the decrease in 2011 net income from 2010, as well as a decrease in OCI which was $1.4 million in 2011 and $18.4 million in 2010. The decrease in OCI reflects a decrease in net unrealized gain on AFS investments and an increase in the reclassification offset for realized gains that are recognized in net income.

In the fourth quarter of 2011, The Dominion incurred a net loss of $12.6 million in contrast to a net income of $49.8 million in the fourth quarter of 2010. The change in earnings is mainly due to a significantly higher underwriting loss. The combined ratio for the fourth quarter of 2011 was 118.4% compared to 89.9% in the fourth quarter of 2010. Excluding the effects of changes in discount rates, the combined ratio was 115.0% for the fourth quarter of 2011, compared to 91.9% for the fourth quarter of 2010. The 23.1 point deterioration is mainly due to the factors mentioned above for the year: changes in assumptions made in the fourth quarter's actuarial analysis for automobile bodily injury claims provisions and worse results for commercial property and casualty versus the prior year's fourth quarter.

Page 136 provides an overview of financial results and position for the five-year period from 2007 to 2011.

Total revenue

(millions of dollars)	Quarterly results Q4 2011	Q4 2010	Year 2011	2010
Gross premiums written	**$ 310.4**	$ 303.9	**$ 1,272.1**	$ 1,272.4
Revenue				
Net premiums earned	**304.5**	305.1	**1,214.4**	1,190.3
Finance fee income	**4.4**	4.5	**15.1**	15.0
Investment income (interest and dividends)	**23.3**	21.4	**90.4**	85.6
Fair value change of investments classified as fair value through profit and loss	**0.2**	1.9	**0.2**	1.9
Net realized gains on sale of investments including impairment write downs	**11.3**	4.1	**27.4**	12.4
Total Revenue	**$ 343.7**	$ 337.0	**$ 1,347.5**	$ 1,305.2

Total revenue increased 3.2% as a result of increases in several components, as follows:

Gross premiums written are flat with the prior year as a result of decreases in policies written, offset by increases in average premiums for automobile and personal property. Explanations by major line of business are provided under the "Results of operations" section below.

Net premiums earned reflects the earning of net premiums written (gross premiums written less reinsurance ceded) on a straight-line basis over the terms of the individual policies. Approximately half of the premiums written in a calendar year are earned in that year and the rest are deferred as unearned premium, to be earned in the following year. The increase in net premiums earned in 2011 reflects the earning of the prior year's unearned premiums written which grew 7.8% in 2010.

Finance fee income is earned on premiums collected directly from policyholders under The Dominion's instalment billing plans.

(millions of dollars)	Quarterly results Q4 2011	Q4 2010	Year 2011	2010
Investments				
Investment income (interest and dividends) before tax	**$ 23.3**	$ 21.4	**$ 90.4**	$ 85.6
Annualized investment yield	**3.8%**	3.7%	**3.8%**	3.8%
Realized investment gains	**$ 12.9**	$ 3.7	**$ 36.5**	$ 12.5
Impairment (write downs) reversal	**$ (1.6)**	$ 0.4	**$ (9.1)**	$ (0.1)

The increase in investment income in both the fourth quarter and for the year is mainly due to higher interest income on bonds and debentures (as a result of higher average portfolio balance) which more than offset a decline in dividend income from preferred share investments. On an amortized cost basis, the investment yield for the year remained unchanged at 3.8%.

Realized investment gains before tax were $12.9 million in the fourth quarter ($3.7 million in the fourth quarter of 2010) and $36.5 million for the year ($12.5 million in 2010). The increase from 2010 reflects realized gains on the sale of Canadian common share investments resulting from a decision to increase the proportion of Global equities in the common share portfolio. 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 a third party investment manager. An impairment write down, before taxes, was $1.6 million for the quarter ($0.4 million reversal in the fourth quarter of 2010) and $9.1 million for the year ($0.1 million in 2010). Impairment write downs for the year mainly reflect declines in our Canadian common share investment values offset by impairment reversal related to the sale of preferred share investments that were impaired in prior periods.

Total claims and expenses

	Quarterly results		Year	
(dollars in millions)	**Q4 2011**	Q4 2010	**2011**	2010
Claims and Expenses				
Claims - excluding impact of changes in discount rate	**$ 251.5**	$ 184.4	**$ 903.0**	$ 850.7
Claims - impact of changes in discount rate	**10.5**	(6.0)	**23.1**	(1.4)
Total Claims	**$ 262.0**	$ 178.4	**$ 926.1**	$ 849.3
Commissions	**54.2**	53.1	**215.3**	206.2
Operating	**33.9**	32.1	**131.5**	119.0
Premiums taxes	**10.5**	10.7	**41.6**	40.9
Total Expenses	**98.6**	95.9	**388.4**	366.1
Total Claims and Expenses	**$ 360.6**	$ 274.3	**$ 1,314.5**	$ 1,215.4
Loss Ratio %	**86.0**	58.5	**76.3**	71.3
Expense Ratio %	**32.4**	31.4	**32.0**	30.8
Combined Ratio %	**118.4**	89.9	**108.3**	102.1
Combined Ratio % excluding impact of changes in discount rate	**115.0**	91.9	**106.4**	102.2

Explanations of claims expense and loss ratios are provided in the "Results of operations" section below.

Broker base commissions and premium taxes comprise approximately two thirds of expenses and vary directly with premiums. The remaining third, operating expenses, mainly consists of salaries and benefits and information technology costs. Since the majority of expenses vary with premium volume, management uses the expense ratio (the sum of commissions, operating expenses and premium taxes, divided by net premiums earned) to monitor, analyze and budget expenses. Included in commissions are contingent profit bonuses which are earned by brokers, based on the profitability of their business to The Dominion, and which can produce variation in annual expense ratios.

The Dominion's expense ratio increased in 2011 by 1.2 points to 32.0% (30.8% in 2010). Commissions were 17.8% of net premiums earned in 2011 (17.4% in 2010). The increase is mainly due to higher contingent profit bonuses as a result of improving broker loss ratios.

Operating expenses were 10.8% of net premiums earned in 2011 (10.0% in 2010). The increase is due mainly to staff additions and planned increases in application development costs related to The Dominion's multi-year initiative to replace core insurance systems.

Premium taxes were 3.4% of net premiums earned in both 2011 and 2010.

Results of operations

The Dominion's financial results, by major line of business, for the fourth quarters of 2011 and 2010 and the years ended 2011 and 2010 are summarized as follows (figures in the tables may differ from the text due to rounding):

For the three months ended December 31	Automobile		Personal Property		Commercial Property & Casualty		Total	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Gross premiums written	**$ 188**	$ 184	**$ 68**	$ 66	**$ 54**	$ 54	**$ 310**	$ 304
Growth rate %	**2.5**	5.5	**3.0**	9.3	**(0.2)**	2.5	**2.1**	5.8
Mix of business %	**61**	60	**22**	22	**17**	18	**100**	100
Loss Ratio %	**100.7**	70.9	**40.6**	49.7	**87.7**	17.9	**86.0**	58.5
Loss Ratio % excluding changes in discount rate	**95.7**	73.5	**41.6**	50.4	**84.6**	18.7	**82.6**	60.5
Expense Ratio %							**32.4**	31.4
Combined Ratio % excluding changes in discount rate							**115.0**	91.9
Revenue								
Net premiums earned							**$ 305**	$ 305
Premium finance fee income							**4**	4
Interest and dividends							**23**	21
Net realized gains on investments and impairment write downs							**12**	7
							344	337
Expenses								
Claims expense							**262**	178
Other expenses, including premium taxes							**99**	96
Income tax (recovery) expense							**(4)**	13
							357	287
Net (loss) income							**$ (13)**	$ 50

For the year ended December 31	Automobile		Personal Property		Commercial Property & Casualty		Total	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Gross premiums written	**$ 779**	$ 789	**$ 278**	$ 268	**$ 215**	$ 215	**$ 1,272**	$ 1,272
Growth rate %	**(1.2)**	8.6	**3.6**	10.6	**(0.2)**	2.1	**-**	7.8
Mix of business %	**61**	62	**22**	21	**17**	17	**100**	100
Loss Ratio %	**80.2**	76.1	**62.7**	69.2	**78.4**	54.8	**76.3**	71.3
Loss Ratio % excluding changes in discount rate	**77.7**	75.8	**62.6**	69.5	**76.6**	56.1	**74.4**	71.4
Expense Ratio %							**32.0**	30.8
Combined Ratio % excluding changes in discount rate							**106.4**	102.2

	2011	2010
Revenue		
Net premiums earned	**$ 1,214**	$ 1,190
Premium finance fee income	**15**	15
Interest and dividends	**91**	86
Net realized gains on investments and impairment write downs	**28**	14
	1,348	1,305
Expenses		
Claims expense	**926**	849
Other expenses, including premium taxes	**389**	366
Income tax expense	**8**	20
	1,323	1,235
Net income	**$ 25**	$ 70

The Dominion underwrites standard general insurance products concentrated in three geographic areas. The geographic mix of premiums for 2011 is as follows: Ontario 74% (73% in 2010), Western Canada 16% (17% in 2010) and Atlantic Canada 10% (10% in 2010). 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 in the fourth quarter by 2.1% (5.8% increase in the fourth quarter of 2010) consisting of a decrease in policies written of 4.1% (1.1% decrease in the fourth quarter of 2010), an increase in average premiums of 5.7% (7.0% increase in the fourth quarter of 2010), and a 0.5% increase from The Dominion's share of Facility Association business (0.1% decrease in the fourth quarter of 2010). For the year, total gross premiums written were unchanged from the prior year (increased 7.8% in 2010) reflecting a 4.8% decrease in policies written (0.6% increase in 2010) offset by a 4.2% increase in average premiums (7.3% increase in 2010) and a 0.6% increase from The Dominion's share of Facility Association premiums (0.1% decrease in 2010). The decrease in policies written in 2011 mainly reflects the impact of underwriting actions, including broker cancellations and targeted rate changes. As a result of these actions, non-renewed policies exceeded new business policies for the year and quarter. The increase in average premiums in 2011 is mainly from personal property rate increases and from growth in larger commercial automobile accounts with higher average premiums.

The fourth quarter loss ratio of 86.0% in 2011 is 27.5 points higher than prior year's fourth quarter loss ratio of 58.5%; 5.4 points of the increase is due to the effects of changes in the claims discount rates for the fourth quarters of 2011 and 2010. 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 decrease in the claims discount rate in the fourth quarter of 2011 increased claims expense by

$10.5 million (3.4 points), in contrast to a net increase in the claims discount rate in the fourth quarter of 2010 which decreased that quarter's claims expense by $6.0 million (2.0 points). Excluding changes in claims discount rates, the fourth quarter loss ratio was 82.6% in 2011 and 60.5% in 2010. This 22.1 point deterioration consists of significant unfavourable prior year claims development in the quarter (mainly for automobile bodily injury) versus favourable development in the fourth quarter of 2010 (mainly for automobile and commercial general liability) and a particularly adverse fourth quarter result for commercial property and casualty, including significant large losses and insignificant favourable prior year development, in contrast to an extremely favourable fourth quarter of 2010, in which there was significant favourable prior year development and no net claims incurred from large losses.

For the year, the loss ratio of 76.3% for 2011 is 5.0 points higher than the prior year's loss ratio of 71.3%; 2.0 points of the increase is due to the effects of changes in the claims discount rates for 2011 and 2010. A net decrease in the claims discount rate in 2011 increased claims expense by $23.1 million (1.9 points), in contrast to a net increase in the claims discount rate in 2010 which decreased that year's claims expense by $1.4 million (0.1 points). Excluding changes in the claims discount rates, the loss ratio was 74.4% in 2011 and 71.4% in 2010. The remaining 3.0 point increase in the loss ratio consists of a 5.6 point increase from differences in prior year claims development (favourable of $8.2 million or 0.7 points in 2011 versus $74.8 million favourable or 6.3 points in 2010), partly offset by the benefit of earned rate increases on automobile and personal property lines. The favourable prior year development recognized in 2011 consists of $9.6 million unfavourable for automobile ($40.3 million favourable in 2010), $10.7 million favourable for personal property ($13.4 million favourable in 2010) and $7.1 million favourable for commercial property and casualty ($21.1 million favourable in 2010).

The following chart provides calendar year and accident year loss ratios for 2011 and 2010 by major line of business. The difference between calendar and accident year loss ratios mainly consists of the impacts on prior year claims from (i) changes in estimates of ultimate claims payments (prior year claims development), (ii) interest cost (the increase in the value of discounted claims liabilities to reflect the effect of the time value of money) and (iii) changes in claims discount rates, which are excluded from accident year loss ratios. Accident year loss ratios measure the underwriting results of a period for only those claims occurring in the respective reporting period. Changes in accident year loss ratios, from year to year, reveal whether underlying current results are improving or deteriorating.

Loss ratios excluding impact of changes in discount rate	**2011**	2010	Change
Automobile			
Calendar year loss ratio	**77.7%**	75.8%	1.9%
Accident year loss ratio	**73.1%**	78.7%	(5.6%)
Personal Property			
Calendar year loss ratio	**62.6%**	69.5%	(6.9%)
Accident year loss ratio	**66.2%**	74.5%	(8.3%)
Commercial Property and Casualty			
Calendar year loss ratio	**76.6%**	56.1%	20.5%
Accident year loss ratio	**76.7%**	63.6%	13.1%
Total - all lines			
Calendar year loss ratio	**74.4%**	71.4%	3.0%
Accident year loss ratio	**72.2%**	75.5%	(3.3%)

Accident year results improved for automobile mainly due to positive results from the Ontario government reforms introduced in September 2010 and earned rate increases. In contrast, the calendar year loss ratio for automobile deteriorated as a result of a significant decrease in favourable prior year claims development versus 2010, as explained in the "Automobile" section below. The personal property's accident year loss ratio also improved as a result of lower claims expense for large losses, lower claims severity and earned rate increases. Accident year results in 2011 for commercial property and casualty deteriorated versus 2010 as a result of higher claims expense for large losses in 2011 versus 2010. Calendar year results in 2011 for commercial property and casualty deteriorated more so versus 2010, due to a decrease in favourable prior year claims development recognized in 2011 versus 2010. As a result of the accident year improvements for automobile and personal property, the total accident year loss ratio improved in 2011 versus 2010.

Automobile

For the fourth quarter, gross premiums written for automobile increased 2.5% (5.5% increase in the fourth quarter of 2010). The increase consists of a 4.1% decrease in policies written (0.8% decrease in the fourth quarter of 2010), a 5.7% increase in average premiums (6.6% increase in the fourth quarter of 2010), and a 0.9% increase from The Dominion's share of Facility Association business (0.3% decrease in the fourth quarter of 2010). For the year, gross premiums written decreased 1.2% (increase of 8.6% in 2010) consisting of a 5.4% decrease in policies written (1.2% increase in 2010), offset by a 3.3% increase in average premiums (7.6% increase in 2010) and a 0.9% increase from Facility Association premiums (0.2% decrease in 2010). Average premiums increased largely as a result of an increase in larger commercial auto programs (which entail larger average premiums), although small increases were seen in personal auto as well. Anticipated savings from government reforms (discussed below) have contained automobile insurers' premium rates in Ontario relative to 2010. The Dominion's decrease in automobile policies written, for the quarter and year, is largely the result of underwriting actions, including broker cancellations and targeted rate changes, which resulted in non-renewed policies exceeding new business policies.

The automobile loss ratio for the fourth quarter was 100.7% in 2011 and 70.9% in 2010. The 29.8 point increase includes a 7.6 point increase due to the effects of changes in the claims discount rates in both years. A decrease in the claims discount rates applicable to automobile claims liabilities in the fourth quarter of 2011 increased the automobile loss ratio by 5.0 points, in contrast to an increase in the claims discount rates in the fourth quarter of 2010 which decreased the loss ratio by 2.6 points. Excluding the effects of changes in claims discount rates, the fourth quarter automobile loss ratio was 95.7% in 2011 compared to 73.5% in 2010. The 22.2 point deterioration is due to significant unfavourable prior year claims development for automobile bodily injury claims, partly offset by favourable development for accident benefits claims, and increases in provisions for 2011 bodily injury claims, as explained below.

The full year automobile loss ratio was 80.2% for 2011 compared to 76.1% in 2010. The 4.1 point increase includes a 2.2 point increase due to the effects of changes in the claims discount rates in both years. Changes in the claims discount rates increased the automobile loss ratio by 2.5 points in 2011, in contrast to an increase of 0.3 points in 2010. Excluding the effects of changes in claims discount rate, the full year automobile loss ratio was 77.7% for 2011 compared to 75.8% in 2010. This 1.9 point increase includes a 6.5 point increase from variances in prior year claims development (unfavourable of $9.6 million or 1.2 points in 2011 versus $40.3 million favourable or 5.3 points in 2010). This was partly offset by improvement in accident benefit claims resulting from the Ontario automobile product reforms and by the effect of rate increases earned in 2011. The net unfavourable development in 2011 consisted of $37.7 million unfavourable development for Ontario bodily injury claims (favourable $5.9 million in 2010); $11.0 million unfavourable development for non-Ontario bodily injury claims (favourable $0.2 million in 2010); $26.0 million favourable development for accident benefits claims (favourable $15.2 million in 2010) and $13.1 million net favourable development for other loss categories ($19.0 million favourable in 2010).

The unfavourable prior year development for Ontario bodily injury claims was driven by changes in actuarial assumptions for prior year claims, in particular for claims occurring in 2009 and 2010, of which there is a higher number being reported and remaining open compared to the development patterns of previous years. Some bodily injury claims have been reported in 2011 and others that were previously closed and have been reopened. Although management believes many of these claims lack merit and have been opportunistically presented in reaction to the September 2010 government automobile product reforms, the change in pattern increases the uncertainty of the predictability and measurement of these claims. Accordingly, provisions for these claims were increased in the fourth quarter reflecting the possibility that these claims will succeed to some extent. Non-Ontario bodily injury claims provisions for prior years were also increased mainly in response to increased severity of such claims in the Atlantic region.

In 2011, claims provisions for Ontario auto accident benefits for recent accident years and 2011 were reduced as a result of positive results driven by government auto reforms. Effective September 1, 2010, the Ontario government implemented comprehensive automobile insurance reforms that give consumers more choice and introduce other changes which are intended to reduce the escalation of costs and deter fraud, especially for accident benefit claims. One feature of the reforms was the establishment of the Minor Injury Guideline which expanded the types of injuries defined as minor injuries and provided for better control of the costs associated with these types of claims. Another feature was 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. The vast majority of drivers elected the standard coverages. Claims procedure changes impacted claims immediately from September 1, 2010. Coverage aspects of the reforms took effect only as policies renewed. Insurers were required to file revised premium rates based on the reforms effective September 1, 2010.

In addition to prior year development, provisions for 2011 Ontario and non-Ontario bodily injury claims were increased in the fourth quarter of 2011. Notwithstanding the fact that Ontario bodily injury claims occurring in 2011 are exhibiting a pattern more in line with accident years 2008 and earlier, provisions for 2011 bodily injury claims were also increased in the fourth quarter as a result of the assumptions adopted for accident years 2009 and 2010. Provisions for 2011 accident benefit claims were also decreased in line with the positive experience emerging as a result of the government automobile product reforms.

Personal property

Personal property gross premiums written for the fourth quarter increased 3.0% (9.3% increase in the fourth quarter of 2010), consisting of a 5.2% decrease in policies written (1.7% decrease in the fourth quarter of 2010) offset by a 8.2% increase in average premiums (11.0% increase in the fourth quarter of 2010). For the year, personal property premiums increased 3.6% (increase of 10.6% in 2010), consisting of a 4.9% decrease in policies written (0.1% increase in 2010) offset by a 8.5% increase in average premiums (increase of 10.5% in 2010). The increase in average premium reflects rate increases and increases in insured values. Since personal property policies tend to be bundled with auto, the decrease in personal property policies written followed similar trends as auto policies, declining due to broker cancellations, targeted rate increases and other underwriting efforts taken to improve overall profitability of personal lines.

The fourth quarter loss ratio was 40.6% in 2011 and 49.7% in 2010. Excluding the effects of changes in claims discount rates, the fourth quarter loss ratio was 41.6% in 2011 and 50.4% in 2010. Almost half of this 8.8 point improvement is due to lower water damage and other weather-related losses, and lower claims incurred for large losses.

For the year, the loss ratio was 62.7% in 2011 and 69.2% in 2010. Excluding the effects of changes in claims discount rates, the loss ratio was 62.6% in 2011 and 69.5% in 2010. This 6.9 point improvement reflects lower claims incurred for large losses in 2011 versus 2010, the impact of earned rate increases in 2011 and lower claims severity.

Commercial property and casualty

Commercial property and casualty 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 for the fourth quarter decreased 0.2% (2.5% increase in the fourth quarter of 2010), consisting of a 4.3% increase in policies written (2.2% increase in the fourth quarter of 2010) and a 4.5% decrease in average premiums (0.3% increase in the fourth quarter of 2010). For the year, gross premiums written decreased by 0.2% (increase of 2.1% in 2010) reflecting an increase in policies written of 0.9% (decrease of 0.6% in 2010), and an average premium decrease of 1.1% (increase of 2.7% in 2010). Our small business policies written increased 9%, which reduces overall average premiums. Soft market price competition continues to constrain commercial prices especially for larger accounts.

For the quarter, the loss ratio for commercial property and casualty was 87.7% in 2011 and 17.9% in the fourth quarter of 2010. Excluding the effects of changes in claims discount rates, the fourth quarter loss ratio was 84.6% in 2011 and 18.7% in 2010. The 65.9 point deterioration reflects the inherent volatility of commercial lines on a quarterly basis. The fourth quarter of 2011 had insignificant prior year claims development in contrast with significant favourable claims development in the fourth quarter of 2010. The fourth quarter of 2011 was significantly impacted by large losses whereas there was no net claims impact from large losses in the fourth quarter of 2010.

For the year, the loss ratio was 78.4% in 2011 and 54.8% in 2010. Excluding the effects of changes in claims discount rates, the loss ratio was 76.6% in 2011 and 56.1% in 2010. The 20.5 point deterioration includes a 7.4 point decrease in favourable prior year claims development recognized in 2011 versus 2010. Weather-related losses were higher in 2011, accounting for 4.6 points of the increase in loss ratio in 2011 versus 2010. Claims expense for large losses was higher in 2011, accounting for 3.1 points of the increase.

Total Cash flow and liquidity

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Cash flow provided from (used for)				
Operating activities	**$ 27.8**	$ 32.9	**$ 127.1**	$ 102.4
Investing activities	**(34.1)**	12.5	**(230.9)**	(88.5)
Financing activities	**-**	-	**-**	-
Net change in cash and cash equivalents	**$ (6.3)**	$ 45.4	**$ (103.8)**	$ 13.9

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 $127.1 million for 2011 ($102.4 million in 2010). All of the operating cash inflow as well as cash and cash equivalents and reinvested realized gains were used to increase investments ($230.9 million). The Dominion did not pay dividends to E-L Financial in 2011 and 2010.

At December 31, 2011, the investment portfolio mix consisted of 4% in cash and short-term investments (2010 – 12%), 76% in bonds (2010 – 67%), 15% in common stocks (2010 – 14%) and 4% in preferred stocks (2010 – 5%). As at December 31, 2011, in addition to the liquidity provided by cash and short-term investments, 12% of The Dominion's bonds have a maturity date within one year (2010 – 16%).

Capital resources

The Dominion's shareholder capital at December 31 was $809.6 million in 2011 and $783.0 million in 2010. The Dominion's shareholder capital consists mainly of retained earnings and is invested 47% in common equities (45% in 2010) with the remainder invested in bonds. This reflects The Dominion's strategy to invest a significant portion of its shareholder capital in publicly-traded "large cap" common equities.

	2011	2010
Minimum capital test ("MCT")	**216%**	220%
(millions of dollars)		
Capital in excess of legally required minimum of 100%	**$ 433**	$ 411
Capital in excess of OSFI supervisory target of 150%	**246**	240
Capital in excess of Board-approved internal capital target of 190%	**96**	103

The Dominion's capital has exceeded the requirements of the Insurance Companies Act (Canada) and its regulations thereunder throughout 2011 and to the date of this report. Capital adequacy is predominantly determined by the 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, The Dominion's Board has 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 is 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 regularly monitors the sensitivity of existing capital to potential threats from negative claims development, declines in investment values and operating leverage (ratio of premiums to capital). At December 31, 2011, The Dominion's MCT result was 216% (220% at the end of 2010) which equates to $246 million of excess capital above the regulator's supervisory target and $96 million of excess capital above The Dominion's internal capital target of 190%. The decrease in the MCT in 2011 is due to a decline in the fair value of common share investments and an increase in capital required for growth in unpaid claims liabilities that exceeded the impact of an increase in capital available from 2011 net income.

To demonstrate The Dominion's sensitivity to portfolio risk, a 20% decline in the fair value of the common stock portfolio as at December 31, 2011 would decrease shareholder's equity by $54.4 million (7%) and decrease The Dominion's MCT by 9 points to 207%.

Other comprehensive (loss) income

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Comprehensive (loss) income				
Net (loss) income	**$ (12.6)**	$ 49.8	**$ 25.2**	$ 70.2
Unrealized investments gains	**14.5**	0.8	**20.7**	27.1
Reclassification of net investments gains to net income	**(8.1)**	(2.8)	**(19.3)**	(8.7)
Other comprehensive income (loss)	**6.4**	(2.0)	**1.4**	18.4
Comprehensive (loss) income	**$ (6.2)**	$ 47.8	**$ 26.6**	$ 88.6

OCI was $6.4 million for the fourth quarter (OCL) of $2.0 million in the fourth quarter of 2010), consisting of $14.5 million of after tax net unrealized investment gains on AFS investments, partly offset by a $8.1 million after tax reclassification adjustment for the net realized investment gains transferred from accumulated other comprehensive income ("AOCI") to net income. Fourth quarter unrealized investment gains mostly reflect an increase in the fair value of common and preferred shares of $16.2 million partly offset by a decrease in the fair value of bonds and debentures of $1.7 million. The fourth quarter reclassification adjustment mainly reflects the sale of Canadian common stock investments resulting from a decision to increase the proportion of Global equities in the common stock portfolio.

For the year, The Dominion earned OCI of $1.4 million, consisting of an after tax net unrealized investment gains of $20.7 million offset by a $19.3 million after tax reclassification adjustment. For the year, the net unrealized investment gains reflect an increase in the fair value of bonds and debentures of $22.5 million partly offset by a decrease in the fair values of preferred and common shares of $1.8 million. Reclassification adjustment for the year mainly reflects the sale of Canadian common stock investments mentioned above. Comprehensive income for the year, which is the sum of net income and OCI, was $26.6 million in 2011 ($88.6 million in 2010).

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. Most P&C products are, however, price sensitive and management carefully considers the impact of price increases on policyholders whom it seeks to retain.

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

Risk management

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact The Dominion is included in the Annual Information Form of E-L Financial Corporation Limited, which is available at www.sedar.com. Disclosures regarding The Dominion's financial instruments, including financial risk management, are included in Notes 4, 5 and 24 to the financial statements.

Critical accounting estimates

The financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the financial statements. Note 2 to the financial statements describes the significant accounting policies. The most critical of these estimates, with a potentially material impact on reported results, are the valuation of policy liabilities and the determination of allowances for impaired investments.

Policy liabilities

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

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

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

A 5% variation in the net unpaid and unreported claims (that is, unpaid and unreported claims less reinsurance recoverable) is a reasonably likely net change that could result from changes in the many assumptions that underlie these estimates. A 5% change in the net unpaid and unreported claims would result in a change in claims expense of $83.4 million ($59.9 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 $46.5 million ($33.3 million after tax).

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 2010 and 2011.

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.

Impairment of investments

Management regularly reviews investments for impairment (those investments with a market value below cost) and has determined that certain investments were impaired at December 31, 2011, resulting in an impairment write down of $16.4 million ($11.4 million after tax) in 2011. An impairment write down of $2.3 million ($1.6 million after tax) was recorded in 2010. The impairment write down 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

Management believes that personal lines results will improve as a result of Ontario automobile reforms and moderate price increases in 2012. The Ontario government's efforts to assist the industry with combating insurance fraud and containing costs and premiums for the benefit of drivers are encouraging and we believe these efforts may produce additional supportive measures in 2012. Commercial lines prices remain competitively soft in general; management expects that ongoing underwriting actions, including targeted price increases and reducing exposure in underperforming segments, should cause commercial lines results to improve in 2012. Investment income yields likely will remain low as a result of a continued low interest rate environment. Stock market volatility is expected to persist as the credit crisis continues in Europe.

REPORT ON EMPIRE LIFE

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

Empire Life reported full year shareholders' net income of $32.3 million for 2011, compared to $19.8 million for 2010. Empire Life's net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Net income, contribution to E-L by Empire Life				
Shareholders' net income	**$ 8.2**	$ 4.0	**$ 32.3**	$ 19.8
Non-controlling interests portion of net income	**1.7**	0.8	**6.6**	4.0
Net income, contribution to E-L from Empire Life	**$ 6.5**	$ 3.2	**$ 25.7**	$ 15.8

For the year shareholders' net income was higher relative to 2010 due primarily to gains from the sale of portfolio assets backing Capital and Surplus. In addition both the Wealth Management and Employee Benefits product lines reported improved net income in 2011. These favourable items were partly offset by a shareholders' net loss from the Individual Insurance product line due primarily to the impact of low interest rates.

Shareholders' net income includes a $17 million after tax gain in 2011 related to new Canadian Institute of Actuaries (CIA) guidance for reflecting mortality improvements. This gain increased 2011 Individual Insurance net income by $27 million and decreased 2011 Wealth Management net income by $10 million.

For Individual Insurance, net income includes a $6 million after tax loss in the first quarter of 2010 related to a change in actuarial methods. The change in actuarial methods was related to the January 1, 2010 transition to IFRS and is described further in the next paragraph.

Prior year shareholders' net income for the year was $10.4 million lower under IFRS than Canadian GAAP (IFRS $19.8 million versus Canadian GAAP $30.2 million). The decrease impacted primarily Individual Insurance and occurred primarily in the first quarter of 2010. $3.5 million of the decrease was due primarily to the re-designation of equity assets supporting insurance contract liabilities from AFS to FVTPL. Upon transition on January 1, 2010, cumulative unrealized gains and losses were reclassified from AOCI to Retained earnings. As a result, realized gains related to these former AFS assets were lower under IFRS in 2010 than was previously reported under Canadian GAAP. In addition, during the first quarter of 2010 the method for setting the investment return on insurance contract liabilities was updated by utilizing a modified mean reversion approach. This method change was made due to the IFRS transition decision to re-designate equity assets supporting insurance liabilities. $6 million of the above mentioned 2010 shareholders' net income decrease resulted from this method change.

Prior year fourth quarter shareholders' net income was $1.8 million lower under IFRS than Canadian GAAP (IFRS $4.0 million versus Canadian GAAP $5.8 million).

Policyholders' net income (which is not included in the above table) includes a $9 million after tax gain in 2011 related to reflecting the impact of moving to an adjusted book value method for participating insurance business. The method change results in greater consistency with industry peers.

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

2011 net income compared to 2010 is shown in the Product Line Results sections later in this report.

This 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. Annualized premium sales is used as a method of measuring sales volume. It is equal to the premium expected to be received in the first twelve months for all new Individual Insurance and Employee Benefit policies sold during the period. Empire Life believes that this measure provides information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

Empire Life established a mutual fund subsidiary during the second quarter of 2011, Empire Life Investments Inc. ("ELII"). During the third quarter of 2011, Empire Life provided working capital to ELII. ELII became operational in January 2012. Empire Life's consolidated financial statements include ELII.

In August 2011, Empire Life announced changes to its Company Staff Pension Plan that became effective on January 1, 2012. The Empire Life Insurance Company Staff Pension Plan consists of a defined benefit component and a newly created defined contribution component. The defined contribution component became effective January 1, 2012. Plan participants as of September 30, 2011 were offered the choice of continuing membership in the defined benefit component or switching to the newly created defined contribution component on January 1, 2012. Empire Life discontinued new enrolments in the defined benefit component effective October 1, 2011. Plan participants advised Empire Life of their decisions on November 30, 2011. Approximately 5.8% of employees opted to switch from the defined benefit component to the defined contribution component of the pension plan.

The Summary of Life Insurance Operations on page 137 of this Annual Report provides an overview of results for the five-year period from 2007 to 2011. The analysis and discussion which follows is focused on the full year 2011 and comparative 2010 line of business net income after tax.

The following tables provide 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)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Revenue										
Net premium income	**$ 141**	$ 239	**$ 278**	$ 262	**$ 339**	$ 316	**$ -**	$ -	**$ 758**	$ 817
Fee and other income	**110**	104	**7**	6	**1**	1	**2**	2	**120**	113
Investment income	**56**	58	**6**	6	**118**	104	**37**	36	**217**	204
Realized gain on FVTPL investments	**6**	4	**2**	-	**33**	4	**-**	-	**41**	8
Realized (loss) gain on available for sale investments including impairment write downs	**-**	-	**-**	**-**	**-**	(1)	**26**	8	**26**	7
Fair value change in FVTPL investments	**25**	10	**14**	8	**356**	196	**-**	-	**395**	214
	338	415	**307**	282	**847**	620	**65**	46	**1,557**	1,363
Expenses										
Benefits and expenses	**320**	408	**280**	258	**892**	657	**15**	15	**1,507**	1,338
Income and other taxes	**2**	(3)	**12**	11	**(10)**	(6)	**13**	8	**17**	10
	322	405	**292**	269	**882**	651	**28**	23	**1,524**	1,348
Net income (loss) after tax	**$ 16**	$ 10	**$ 15**	$ 13	**$ (35)**	$ (31)	**$ 37**	$ 23	**$ 33**	$ 15
Policyholders' portion									**1**	(5)
Shareholders' net income									**32**	20
Non-controlling interests portion of net income									**6**	4
Net income attributable to E-L Financial									**$ 26**	$ 16
Assets under management										
General fund assets	**$ 1,137**	$ 1,141								
Segregated fund assets	**$ 4,392**	$ 4,592			**$ 23**	$ 28				
Annualized premium sales			**$ 41**	$ 43	**$ 73**	$ 68				

Total revenue

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Revenue				
Net premium income	**$ 184**	$ 200	**$ 758**	$ 817
Investment income	**56**	54	**217**	204
Fair value change in FVTPL investments including realized amounts	**188**	(32)	**436**	222
Realized gain on available for sale investments including impairment write downs	**19**	1	**26**	7
Fee and other income	**29**	30	**120**	113
Total	**$ 476**	$ 253	**$ 1,557**	$ 1,363

For the year, total revenue at Empire Life increased by 14% to $1.6 billion compared to $1.4 billion in 2010. Major revenue items are discussed below.

Net premium income for the year decreased in 2011 relative to 2010. The decrease related to fixed interest annuity premiums which declined to more typical levels from 2010's strong levels.

Fair value change in FVTPL investments including realized amounts often cause large revenue volatility. These assets experienced a net gain for the year in both 2011 and 2010 from primarily an increase in bond prices (due to a decrease in market interest rates). This was partly offset by a decrease in common share prices for the year in 2011. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities (discussed in the Total Benefits and Expenses section below).

Realized gain on available for sale investments including impairment write downs was a larger gain for the year in 2011 relative to 2010 due primarily to the sale of certain AFS equity investments. 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 assets sold and the impaired assets written down back primarily capital and surplus.

Total benefits and expenses

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Benefits and Expenses				
Net benefits and claims	**$ 128**	$ 140	**$ 513**	$ 534
Net change in insurance contract liabilities	**248**	26	**664**	497
Change in investment contracts provision	**-**	-	**1**	1
Policy dividends	**6**	5	**21**	19
Operating expenses	**34**	32	**130**	116
Net commissions	**39**	42	**164**	157
Interest expense	**3**	3	**14**	14
Total	**$ 458**	$ 248	**$ 1,507**	$ 1,338

Total benefits and expenses at Empire Life for the year increased by 13% to $1.5 billion compared to $1.3 billion in 2010. Major benefit and expense items are discussed below.

Net benefits and claims variability is dependent on the claims incurred. Generally, claims rise year over year due to growth of the insurance blocks. However, for the year, a decrease in claims occurred related primarily to Individual Insurance. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract 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 insurance contract liabilities. Year over year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

Net change in insurance contract 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 insurance contract liabilities. For the year, the main reason for the large change from 2010 for this item was the change in insurance contract liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the increase in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of comprehensive income.

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

Operating expenses and commission expenses increased year over year due to growth in annualized premium sales and business inforce. Operating expenses also increased due to higher expenditure on strategic initiatives, related primarily to branding, web site enhancement and investment in the wealth management line of business.

Product line results - Wealth Management

	As at December 31	
(millions of dollars)	**2011**	2010
Assets under management		
General fund annuities	**$ 1,137**	$ 1,141
Segregated funds	**4,392**	4,592

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Selected financial information				
Fixed interest annuity premiums	**$ 30**	$ 50	**$ 141**	$ 239
Segregated fund gross sales	**185**	226	**725**	778
Segregated fund net sales	**(1)**	14	**(24)**	79
Segregated fund fee income	**27**	28	**110**	104
Net income after tax-fixed income annuity portion	**$ 4**	$ 3	**$ 7**	$ 4
Net income after tax-segregated fund portion	**1**	3	**9**	6
Net income after tax	**$ 5**	$ 6	**$ 16**	$ 10

Assets in Empire Life general fund annuities decreased by less than 1%, while segregated fund assets decreased by 4% during the last twelve months. The decrease over the last twelve months for segregated funds was attributable to negative investment returns, due to the stock market decline, and negative 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 41% compared to 2010 due primarily to decreased sales of fixed interest deferred annuities. However, 2010 was a strong year for fixed interest annuity sales. 2011 fixed interest annuity premiums represent a return to more typical levels.

For the year, segregated fund gross sales were down 7% compared to 2010. Net sales were a small negative for the year and were lower than 2010 due to decrease gross sales and increased withdrawals.

For the year, segregated fund fee income increased by 7% in 2011 relative to 2010 as management and insurance fees earned on segregated funds grew. This increase was due to higher average assets under management in 2011 compared to 2010 as stock markets were higher on average in 2011 than they were in 2010, combined with growth of the guaranteed minimum withdrawal benefit (GMWB) product.

During the fourth quarter earnings from this product line decreased relative to 2010. However, for the year 2011 earnings from this product line increased compared to 2010. 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 2011	**$ 5**	**$ 16**
Net income after tax 2010	**6**	**10**
(Decrease) increase in net income after tax	**$ (1)**	**$ 6**
Components of (decrease) increase		
2011 loss re update of insurance liability to reflect new actuarial guidance related to mortality assumptions	**$ (10)**	**$ (10)**
Update of policy liability assumptions	**13**	**13**
(Decrease) increase in inforce profit margins	**(1)**	**2**
Worsened investment experience	**(2)**	**-**
(Worsened) improved segregated fund death benefit guarantee and mortality results	**(1)**	**1**
Total	**$ (1)**	**$ 6**

In 2011 a loss occurred in this product line related to updating insurance liabilities to reflect new industry guidance from the Canadian Institute of Actuaries ("CIA"), for annuitant mortality assumptions. This new guidance revised methods for reflecting mortality improvements up to and beyond the valuation date, generally resulting in higher levels of mortality improvement in the valuation assumption.

The update of policy liability assumptions was favourable in 2011 relative to 2010. The 2011 updates for general fund annuities related primarily to favourable updates to investment assumptions and favourable annuitant mortality experience.

Higher net income on inforce business in 2011 was due to the increase in average segregated funds under management relative to 2010 and growth of the GMWB product which generates higher fees than other segregated fund products.

Product line results - Employee Benefits

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Selected financial information				
Annualized premium sales	**$ 9**	$ 10	**$ 41**	$ 43
Premium income	**70**	66	**278**	262
Net income after tax	**$ 3**	$ 1	**$ 15**	$ 13

For the year, sales in this product line decreased by 5% relative to 2010. The 2011 sales reflect a slow down, but remain strong compared to the recessionary lows experienced two years ago. This product line's premium income for the year increased by 6% relative to 2010 due to continuing growth of the inforce block.

During the fourth quarter and for the year earnings from this product line increased relative to 2010. 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 2011	**$ 3**	**$ 15**
Net income after tax 2010	**1**	**13**
Increase in net income after tax	**$ 2**	**$ 2**
Components of increase		
Update of policy liability assumptions	**2**	**2**
Total	**$ 2**	**$ 2**

Net income was strong in both years in this product line as claims experience was favourable in both years. The update of policy liability assumptions was more favourable in 2011 than 2010.

Product line results - Individual Insurance

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Selected financial information				
Annualized premium sales	**$ 14**	$ 19	**$ 73**	$ 68
Premium income	**85**	83	**339**	316
Net loss after tax shareholders' portion	**$ (19)**	$ (8)	**$ (34)**	$ (23)
Net income (loss) after tax policyholders' portion	**6**	(2)	**(1)**	(8)
Net loss after tax	**$ (13)**	$ (10)	**$ (35)**	$ (31)

For the year, annualized premium sales in this product line increased by 8% compared to 2010, and premium income increased by 7% compared to 2010. This product line's sales result is attributable primarily to increased volume resulting from distributor concerns that further price increases may occur for several long-term products. Empire Life has been increasing prices on long-term products due to the low long-term interest rate environment, a trend we have observed with many of our competitors.

During the fourth quarter and for the year, earnings from this product line decreased relative to 2010. 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 loss analysis		
Net loss after tax 2011	**$ (13)**	**$ (35)**
Net loss after tax 2010	**(10)**	**(31)**
Increase in net loss after tax	**$ (3)**	**$ (4)**
Components of net loss increase		
2010 loss re update of insurance liability method for setting investment return	**$ -**	**$ 6**
2011 gain re update of insurance liability to reflect new actuarial guidance related to mortality assumptions	**27**	**27**
2011 gain re update of insurance liability to reflect change in method related to participating insurance	**9**	**9**
Update of policy liability assumptions	**(36)**	**(36)**
Worsened investment experience	**(6)**	**(18)**
Improved mortality, surrender and other experience	**-**	**5**
Lower new business strain	**3**	**3**
Total	**$ (3)**	**$ (4)**

During the first quarter of 2010 the method for setting the investment return on insurance contract liabilities was updated by utilizing a modified mean reversion approach. This method change was made due to the IFRS transition decision to re-designate $151 million of financial assets supporting insurance liabilities. These assets, which were previously designated as AFS under Canadian GAAP, are now designated as FVTPL under IFRS.

In 2011 a gain occurred in this product line related to updating insurance liabilities to reflect new industry guidance from the CIA, related to individual life insurance mortality assumptions. This new guidance revised methods for reflecting mortality improvements up to and beyond the valuation date, generally resulting in higher levels of mortality improvement in the valuation assumption.

In 2011 a gain occurred in this product line related to updating insurance liabilities to reflect the impact of moving to an adjusted book value method for participating insurance business. The method change results in greater consistency with industry peers.

The update of policy liability assumptions was very unfavourable in 2011 relative to 2010. The 2011 updates related primarily to unfavourable updates to investment assumptions caused by a significant drop in long-term interest rates (decreased 2011 shareholders' net income by $66 million). This unfavourable assumption update was partly offset by a favourable assumption update in 2011 resulting from favourable mortality experience in the individual life insurance business (increased 2011 shareholders' net income by $26 million). These two 2011 items were the primary reason for the negative $36 million year over year change related to update of policy liability assumptions.

Worsened investment experience was caused by a significant drop in long-term interest rates and a significant stock market drop in 2011. While the impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities, net income is impacted as it is not possible to perfectly match future liability cash flows with future asset cash flows.

Results - Capital and Surplus

	Quarterly results		Year	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Net income after tax shareholders' portion	**$ 18**	$ 5	**$ 35**	$ 20
Net income after tax policyholder's portion	**1**	1	**2**	3
Net income after tax	**$ 19**	$ 6	**$ 37**	$ 23

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 2010. 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		
2011 net income after tax	**$ 19**	**$ 37**
2010 net income after tax	**6**	**23**
Increase in net income after tax	**$ 13**	**$ 14**
Components of increase		
Increased net income from sale of investments	**$ 14**	**$ 16**
Higher impairment write downs	**(1)**	**(4)**
Increased investment income	**-**	**2**
Total	**$ 13**	**$ 14**

Increased net income from sale of investments resulted primarily from higher gains from the sale of certain AFS equity investments compared to 2010. Approximately $7 million of this increase in net income resulted from gains on the sale of $100 million of equities in the fourth quarter of 2011 aimed at lowering equity exposure in Empire Life's asset mix.

Higher impairment write downs resulted primarily from the sharp decline in stock markets during the third quarter of 2011.

Total cash flow

	Year	
(millions of dollars)	**2011**	2010
Cash flow provided from (used for)		
Operating activities	**$ 180**	$ 170
Investing activities	**(160)**	(153)
Financing activities	**(16)**	(15)
Net change in cash and cash equivalents	**$ 4**	$ 2

The increase in cash provided by operating activities in 2011 relative to 2010 was due primarily to lower cash outflows related to income taxes and higher cash inflows related to all major business lines except annuities. These items were partially offset by decreased cash inflows related to annuity business.

The increase in cash used for investing activities during 2011 relative to 2010 was due primarily to the increase in cash provided by operating activities.

The cash used for financing activities during both 2011 and 2010 was due to the payment of dividends to common shareholders. Empire Life's dividends to E-L Financial are fully eliminated in the consolidated financial statements of E-L Financial.

Capital resources

	Dec. 31 2011	Sept. 30 2011	June 30 2011	Mar. 31 2011	Dec. 31 2010
MCCSR Ratio	**207%**	215%	232%	237%	239%

Empire Life continues to maintain a strong balance sheet and capital position. The A (Excellent) rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength. Empire Life's risk-based capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements ("MCCSR"), of 207% as at December 31, 2011 continued to be well above requirements and above minimum internal targets.

The MCCSR ratio decreased by 8 points from the previous quarter due to increases in capital requirements partly offset by increases in total available capital. Capital requirements increased due primarily to higher lapse rate exposures related to lower interest rates. However this increase was partially offset by lower required capital due to the sale of $100 million of equities in the fourth quarter of 2011 aimed at lowering equity exposure in Empire Life's asset mix. Total available capital increased due to the impact of the net income on Tier 1 available capital partly offset by the impact of the OCL related to the sale of equity assets on Tier 2 capital. In addition, an increase in negative insurance contract liabilities resulted in an $18 million decrease in Tier 1 capital and an $18 million increase in Tier 2 capital.

The MCCSR ratio decreased by 32 points for the year for the same reasons as described above related to Tier 2 available capital and required capital. In addition, Tier 2 available capital was unfavourably impacted for the year by lower stock markets in 2011. Total available capital was reduced for the year due to net income being more than offset by the OCL and by the payment of shareholder dividends.

Other comprehensive income

	Quarterly results		**Year**	
(millions of dollars)	**Q4 2011**	Q4 2010	**2011**	2010
Other comprehensive income (loss)				
Shareholders' (OCL) OCI	**$ (6)**	$ 10	**$ (18)**	$ 20
Non-controlling interests portion of (OCL) OCI	**(1)**	2	**(4)**	4
(OCL) OCI contributed to E-L from Empire Life	**$ (5)**	$ 8	**$ (14)**	$ 16
Policyholders' OCI (OCL)	**$ 1**	$ 2	**$ (1)**	$ 2

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as OCI or 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 causes a loss in OCI. A loss reclassified to net income causes a gain in OCI.

For the year a loss resulted in 2011, due primarily to the reclassification to net income of a large realized gain in 2011 versus a small realized gain in 2010. In addition, this 2011 loss was due to a stock market decline in 2011 versus a stock market rise in 2010.

Prior year fourth quarter shareholders' OCI was $8 million lower under IFRS than Canadian GAAP (IFRS OCI $10 million versus Canadian GAAP OCI $18 million). The decrease was due primarily to the re-designation of equity assets supporting insurance contract liabilities from AFS to FVTPL.

Prior year shareholders' OCI for the year was $5 million lower under IFRS than Canadian GAAP (IFRS OCI $20 million versus Canadian GAAP OCI $25 million). The decrease was due primarily to the re-designation of equity assets supporting insurance contract liabilities from AFS to FVTPL.

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. In January 2012 mutual funds were added to this product line. 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 the recently launched mutual fund products.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group market comprised of employers with fewer than 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 and 2011 due to the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in significant 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, among other things, is sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2011 Empire had $4.4 billion of segregated fund assets and liabilities. Of this amount, approximately $4.2 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec 31 2011	Dec. 31 2010
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 100% death benefit guarantee	**77.7%**	83.2%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.6%**	5.5%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit ("GMWB"))	**16.7%**	11.3%

All Empire Life segregated fund guarantees are policy based (not deposit-based), thereby lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. For segregated fund guarantee insurance contract 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 at December 31 for 2011 and 2010, the sensitivity of shareholders' net income (attributable to the owners of E-L Financial) to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

(millions of dollars)	**10% increase**	**10% decrease**	**20 % increase**	**20% decrease**
Sensitivity to segregated fund guarantees				
2011 Net income attributable to E-L	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2010 Net income attributable to E-L	$ 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, 2011 MCCSR Ratio	**0.9%**	**-2.4%**	**1.7%**	**-19.1%**
December 31, 2010 MCCSR Ratio	0.7%	-0.7%	1.3%	-2.2%

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 or December 31, 2011. 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 *(millions of dollars)*	**Guarantee > Fund Value**		**Death Benefit > Fund Value**		**Actuarial Liabilities**	**MCCSR Req'd Capital**
	Fund Value	**Amount at Risk**	**Fund Value**	**Amount at Risk**		
December 31, 2011	**$ 176**	**$ 19**	**$ 2,089**	**$ 212**	**$ nil**	**$ nil**
December 31, 2010	$ 113	$ 12	$ 1,422	$ 137	$ nil	$ nil

The above table shows all segregated fund policies where the future maturity guarantee or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. 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 in December 2011 increased from the December 2010 levels, due primarily to the decline in many global stock markets including Canada's.

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 29 and 30 to the consolidated financial statements.

Critical accounting estimates

Empire Life's significant accounting policies are described in Note 2 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 29 and 30 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.

Available for sale securities are subject to a regular review for losses that are significant or prolonged. Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

Outlook

In 2011 economic growth remained weak, interest rates dropped significantly, and stock markets were extremely volatile. Canada's main stock market declined significantly. The European sovereign debt crisis and U.S. fiscal issues contributed strongly to these unfavourable trends and impacted consumer confidence. However, stock and credit markets continue to be improved from the economic turmoil of 2008 and early 2009. Stock market conditions mainly impact inforce profit margin results and new business growth for the segregated fund portion of Empire Life's Wealth Management product line. Looking forward consumers continue to be cautious about stock market exposure and Empire Life is well positioned with segregated fund, mutual fund and fixed interest annuity product offerings to satisfy demand for lower risk investments.

The strength of the economic recovery is relatively robust in Canada compared to other countries, 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 2011 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 2012.

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 were strengthened with respect to new business issued after January 1st, 2011. This did 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 the target date for this is 2016 or later.

Longer term accounting standard and regulatory changes are expected by 2015 or later regarding IFRS for 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.

In 2011 OSFI implemented substantial regulatory changes for Canadian banks related to Basel III capital standards. These new banking regulations provide a transition plan for banks to move towards more restrictive capital requirements, including tighter restrictions on bank issued financial instruments. New financial instruments issued by banks must comply with these new regulations in order to be included in the bank’s capital ratios. It is unclear whether similar changes will occur for life insurance companies in the future.

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.

Other

It is with great sadness we recognize the passing of James W. McCutcheon in October 2011. Jim was a member of the Board of Directors of E-L Financial, The Dominion and Empire Life for over 17 years, retiring in 2010. We benefited from Jim’s commitment, support and advice over many years. We miss him.

Duncan N.R. Jackman

Chairman, President and Chief Executive Officer

March 5, 2012

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, 2011. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2011.

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.

PricewaterhouseCoopers 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 5, 2012

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries, which comprise the consolidated Statements of Financial Position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated Statements of (Loss) Income, Comprehensive (Loss) Income, Changes in Equity and Cash Flows for the years ended December 31, 2011 and December 31, 2010 and the related notes, which comprise 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 International Financial Reporting Standards 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 audits 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 in our audits 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 and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
March 5, 2012
Toronto, Ontario

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

		December 31, 2011		December 31, 2010		January 1, 2010
Assets						
Cash and cash equivalents (Note 10)	**$**	**248,838**	$	339,892	$	326,766
Investments - corporate (Note 5)		**872,889**		961,188		870,218
Investments - insurance operations (Note 6)		**7,859,822**		6,964,620		6,385,809
Investments in associates (Note 8)		**419,784**		449,363		420,278
Accrued investment income		**33,168**		30,933		31,613
Premiums receivable		**316,539**		309,999		301,547
Reinsurance recoverable (Note 19)		**74,311**		87,799		109,050
Income taxes receivable		**18,136**		11,879		2,528
Deferred tax assets (Note 24)		**49,545**		54,828		78,562
Other assets (Note 14)		**80,793**		63,686		48,190
Deferred acquisition expenses (Note 11)		**113,005**		112,562		109,078
Property and equipment (Note 12)		**31,890**		31,801		30,382
Intangible assets (Note 13)		**65,545**		48,351		31,080
Segregated fund assets (Note 15)		**4,415,318**		4,620,899		4,186,585
Total assets	**$**	**14,599,583**	$	14,087,800	$	12,931,686
Liabilities						
Accounts payable	**$**	**108,295**	$	74,406	$	75,243
Policyholders' funds on deposit		**30,263**		30,037		29,702
Reinsurance liabilities (Note 19)		**156,119**		17,680		-
Insurance contract liabilities (Note 19)		**6,557,459**		5,928,096		5,389,056
Investment contract liabilities		**15,076**		16,978		17,566
Provision for profits to policyholders		**21,791**		20,104		18,558
Income and other taxes payable		**7,228**		11,561		79,209
Deferred tax liabilities (Note 24)		**41,000**		50,114		36,966
Other liabilities (Note 16)		**112,420**		111,792		107,898
Subordinated debt (Note 17)		**199,405**		199,185		198,980
Segregated fund liabilities (Note 15)		**4,415,318**		4,620,899		4,186,585
Total liabilities	**$**	**11,664,374**	$	11,080,852	$	10,139,763
Equity (Note 21)						
Capital stock (Note 20)	**$**	**272,388**	$	272,388	$	272,388
Retained earnings		**2,304,961**		2,363,078		2,196,477
Accumulated other comprehensive income		**142,044**		155,073		108,561
Total E-L Financial shareholders' equity		**2,719,393**		2,790,539		2,577,426
Non-controlling interests in subsidiaries		**158,605**		158,804		153,685
Participating policyholders' interests		**57,211**		57,605		60,812
Total equity	**$**	**2,935,209**	$	3,006,948	$	2,791,923
Total liabilities and equity	**$**	**14,599,583**	$	14,087,800	$	12,931,686

Approved by the Board

Duncan N.R. Jackman, Director

Douglas C. Townsend, Director

The accompanying notes are an integral part of these consolidated financial statements.

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF (LOSS) INCOME

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

	2011	2010
Revenue		
Gross premiums	**$ 2,114,259**	$ 2,138,227
Premiums ceded to reinsurers	**(141,469)**	(131,372)
Net premiums	**1,972,790**	2,006,855
Investment and other income (Note 9)	**465,348**	439,650
Share of (loss) income of associates (Note 8)	**(27,298)**	31,837
Fair value change in fair value through profit or loss investments	**335,458**	289,551
Realized gain on available for sale investments including impairment write downs (Notes 5, 6 & 25)	**59,249**	15,459
	2,805,547	2,783,352
Expenses		
Gross claims and benefits	**2,060,642**	1,945,449
Claims and benefits ceded to reinsurers (Note 22)	**64,468**	(45,790)
Net claims and benefits	**2,125,110**	1,899,659
Change in investment contracts provision	**745**	910
Commissions	**379,526**	363,268
Operating (Note 23)	**270,859**	244,935
Interest expense	**13,680**	13,665
Premium taxes	**54,544**	53,097
	2,844,464	2,575,534
(Loss) income before income taxes	**(38,917)**	207,818
Income taxes (Note 24)	**(1,609)**	25,968
Net (loss) income	**(37,308)**	181,850
Less: Participating policyholders' income (loss)	**838**	(4,890)
Non-controlling interests in net income	**6,577**	4,039
	7,415	(851)
E-L Financial shareholders' net (loss) income	**$ (44,723)**	$ 182,701
(Loss) earnings per share on net (loss) income attributable to E-L Financial common shareholders (Note 26)		
- Basic	**$ (13.93)**	$ 43.80
- Diluted	**$ (13.93)**	$ 41.28

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

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

	2011	2010
Net (loss) income	**$ (37,308)**	$ 181,850
Other comprehensive (loss) income, net of tax (Note 27)		
Net unrealized fair value (decrease) increase on available for sale invesments	**(19,328)**	54,001
Net gain on amortization of derivatives designated as cash flow hedges reclassified to net income	**496**	462
Share of other comprehensive income (loss) of associates (Note 8)	**1,011**	(2,134)
	(17,821)	52,329
Comprehensive (loss) income	**(55,129)**	234,179
Less: Participating policyholders' comprehensive loss	**(394)**	(3,207)
Non-controlling interests in comprehensive income	**3,017**	8,173
	2,623	4,966
E-L Financial shareholders' comprehensive (loss) income	**$ (57,752)**	$ 229,213

The accompanying notes are an integral part of these consolidated financial statements.

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	E-L Financial shareholders' equity									
	Capital stock	Retained earnings	AFS financial assets	Cash flow hedges	Share of other comprehensive income of associates after taxes	Total accumulated other comprehensive income	Total	Non-controlling interests in subsidiaries	Participating policyholders' interests	Total equity
At January 1, 2011	$ 272,388	$ 2,363,078	$ 157,315	$ (1,463)	$ (779)	$ 155,073	$ 2,790,539	$ 158,804	$ 57,605	$ 3,006,948
Net (loss) income for the year	-	(44,723)	-	-	-	-	(44,723)	6,577	838	(37,308)
Other comprehensive (loss) income	-	-	(14,435)	395	1,011	(13,029)	(13,029)	(3,560)	(1,232)	(17,821)
Total comprehensive (loss) income	-	(44,723)	(14,435)	395	1,011	(13,029)	(57,752)	3,017	(394)	(55,129)
Recovery of refundable dividend taxes	-	4,020	-	-	-	-	4,020	-	-	4,020
Dividends paid during the year	-	(12,060)	-	-	-	-	(12,060)	(3,216)	-	(15,276)
Provision for refundable dividend taxes	-	(5,096)	-	-	-	-	(5,096)	-	-	(5,096)
Reciprocal holding in associates	-	(258)	-	-	-	-	(258)	-	-	(258)
	-	(13,394)	-	-	-	-	(13,394)	(3,216)	-	(16,610)
At December 31, 2011	$ 272,388	$ 2,304,961	$ 142,880	$ (1,068)	$ 232	$ 142,044	$ 2,719,393	$ 158,605	$ 57,211	$ 2,935,209

	E-L Financial shareholders' equity									
	Capital stock	Retained earnings	AFS financial assets	Cash flow hedges	Share of other comprehensive income of associates after taxes	Total accumulated other comprehensive income	Total	Non-controlling interests in subsidiaries	Participating policyholders' interests	Total equity
At January 1, 2010	$ 272,388	$ 2,196,477	$ 109,036	$ (1,831)	$ 1,356	$ 108,561	$ 2,577,426	$ 153,685	$ 60,812	$ 2,791,923
Net income (loss) for the year	-	182,701				-	182,701	4,039	(4,890)	181,850
Other comprehensive income (loss)	-	-	48,279	368	(2,135)	46,512	46,512	4,134	1,683	52,329
Total comprehensive income (loss)	-	182,701	48,279	368	(2,135)	46,512	229,213	8,173	(3,207)	234,179
Recovery of refundable dividend taxes	-	4,020	-	-	-	-	4,020	-	-	4,020
Dividends paid during the year	-	(12,060)	-	-	-	-	(12,060)	(3,054)	-	(15,114)
Provision for refundable dividend taxes	-	(4,819)	-	-	-	-	(4,819)	-	-	(4,819)
Reciprocal holding in associates	-	(3,241)	-	-	-	-	(3,241)	-	-	(3,241)
	-	(16,100)	-	-	-	-	(16,100)	(3,054)	-	(19,154)
At December 31, 2010	$ 272,388	$ 2,363,078	$ 157,315	$ (1,463)	$ (779)	$ 155,073	$ 2,790,539	$ 158,804	$ 57,605	$ 3,006,948

The accompanying notes are an integral part of these consolidated financial statements.

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	2011	2010
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net (loss) income	**$ (37,308)**	$ 181,850
Items not affecting cash resources:		
Change in insurance and investment contract liabilities	**755,059**	561,201
Realized gain on available for sale of investments including impairment write downs	**(59,249)**	(15,459)
Fair value change in fair value through profit or loss investments	**(335,458)**	(289,551)
Deferred taxes	**(8,738)**	26,934
Share of loss (income) of associates, net of dividends received	**34,602**	(24,608)
Amortization related to investments	**(73,094)**	(58,168)
Other items	**22,415**	(6,022)
	298,229	376,177
Net change in other assets and liabilities	**28,115**	(81,806)
	326,344	294,371
Financing		
Cash dividends to shareholders	**(12,060)**	(12,060)
Cash dividends by subsidiary to non-controlling interests	**(3,216)**	(3,054)
	(15,276)	(15,114)
Investing		
Purchases of investments	**(2,669,559)**	(2,331,293)
Proceeds from sale or maturity of investments	**2,197,126**	1,991,053
Net sales of short-term investments	**94,680**	88,909
Net purchases of other assets	**(26,000)**	(13,800)
	(403,753)	(265,131)
(Decrease) increase in cash and cash equivalents	**(92,685)**	14,126
Cash and cash equivalents, beginning of the year	**312,985**	298,859
Cash and cash equivalents, end of the year (Note 10)	**$ 220,300**	$ 312,985

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of Company and summary of operations

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 significantly influenced 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.

The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

The consolidated financial statements were approved by the Company's Board of Directors on March 5, 2012.

2. Significant accounting policies

(A) Basis of preparation

The Company's consolidated financial statements for the year ended December 31, 2011 represent the first annual consolidated financial statements of the Company prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in Part I of the Handbook of The Canadian Institute of Chartered Accountants which represent International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the December 31, 2010 annual financial statements prepared in accordance with previously issued Canadian GAAP. Subject to certain transition elections and exceptions disclosed in Note 3, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They have also been applied in preparing an opening IFRS statement of financial position as at January 1, 2010, as if these policies had always been in effect, as required by IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The impact of the transition from previous Canadian GAAP to IFRS is explained in Note 3 – First-time adoption of International Financial Reporting Standards.

These consolidated financial statements have been prepared on a fair value measurement basis, with the exception of insurance contract liabilities, reinsurance recoverable and reinsurance liabilities which are measured on a discounted basis in accordance with accepted actuarial practice and certain assets and liabilities which are measured on a historical cost basis, as explained throughout this note. Investment contract liabilities are carried at amortized cost. All figures included in the consolidated financial statements are presented in thousands of Canadian dollars, rounded to the nearest thousand.

In the consolidated financial statements and throughout these notes, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

(B) Critical accounting estimates and judgements

The preparation of consolidated 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 consolidated 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. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

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

The table below sets out those items the Company considers particularly susceptible to changes in estimates and assumptions, along with the relevant accounting policy and note references.

Item	Accounting Policy	Note
Impairment of financial instruments and investments in associates	I	5, 6 & 8
Reinsurance	K	22
Impairment of intangible assets	N	13
Employee benefits	P	18
Insurance contract liabilities	Q	19, 29 & 30

(C) Basis of consolidation

The Company's consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company and its subsidiaries, The Dominion (wholly-owned), and E-L Financial Services Limited (81.0% owned) including its 98.3% owned subsidiary company, Empire Life. The Company has a shareholding of more than 50% of the voting rights in its subsidiaries. Subsidiaries are consolidated from the date on which control is acquired by the Company. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intercompany transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in the equity of subsidiaries are included as a separate line item in equity on the consolidated statements of financial position.

The Company's insurance subsidiaries are regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Any dividends paid by Empire Life or The Dominion must comply with regulatory requirements.

(D) Investments in associates

Investments in companies over which the Company has significant influence are considered investments in associates and are accounted for using the equity method. The Company holds between 20% and 50% of the voting rights in each of its associates. Under the equity method, investments in associates are initially recognized at cost in the consolidated statements of financial position. The carrying value of the Company's interest in an associate is adjusted for the Company's share of income (loss), other comprehensive income (loss) ("OCI") and distributions of the investee, net of any impairment write downs. When the Company's share of losses in an associate equals or exceeds its investment in the associate, the company does not record further losses unless it has incurred obligations on behalf of the associate.

The Company's share of earnings from these investments, net of impairment write downs, is included in share of income (loss) of associates in the consolidated statements of income (loss). The Company's share of the associates' other comprehensive income (loss) is recognized in the consolidated statements of comprehensive income (loss).

Where the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognised in OCI is reclassified to the consolidated statement of financial position.

The most recent available financial statements of associates are used in applying the equity method. The difference between the end of the reporting period of the associates and that of the company is no more than three months. Adjustments are made, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Company.

(E) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Internal reports about these segments are regularly reviewed by the Company's Chief Executive Officer and by the Board of Directors to assess their performance and to allocate capital and resources.

(F) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the insurance operation agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario where the insured event does not occur. Scenarios considered include those which have commercial substance. Any contracts not meeting the definition of an insurance contract are classified as investment contracts or service contracts, as appropriate.

All of the insurance policies issued by The Dominion transfer significant insurance risk and have been classified as insurance contracts.

Products issued by Empire Life that transfer significant insurance risk have been classified as insurance contracts. Otherwise, products issued by Empire Life are classified as either investment contracts or service contracts, as appropriate. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

(G) Classification and measurement

Cash and cash equivalents and short-term investments are short term, highly liquid investments 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 and short-term investments comprise financial assets with maturities of greater than three months and less than one year when acquired.

The Company's financial assets are designated as fair value through profit or loss ("FVTPL"), available for sale ("AFS") or loans and receivables based on management's intentions or characteristics of the instrument. All transactions are recorded on a trade date basis. Transaction costs are expensed for FVTPL instruments and capitalized for all others when the transaction costs are directly attributable to the acquisition of the financial asset.

FVTPL instruments are carried at fair value in the consolidated statements of financial position 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 and AFS short-term investments, bonds and debentures are carried at fair value in the consolidated statements of financial position. Changes in the fair value of AFS instruments are recorded in OCI in the consolidated statements of comprehensive income (loss) until realized, or required to be written down due to impairment, at which time, these gains and losses will be reclassified to the consolidated statements of income (loss). Loans and receivables may include mortgage loans, loans on policies, policy contract loans, and premiums receivable. Loans and receivables 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 FVTPL. The Dominion has designated almost all of its investments in preferred shares, common shares, bonds and debentures, short-term investments and cash equivalents as AFS. From time to time, The Dominion may hold investments that have been designated as FVTPL. Commercial loans are classified as loans and receivables. Empire Life classifies most financial assets supporting insurance contract liabilities and investment contract liabilities as FVTPL. These assets may be comprised of cash, short-term investments, bonds and debentures, common shares, preferred shares, futures, forwards and options. Most financial assets supporting capital and surplus are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures and common and preferred shares.

Derecognition

A financial asset is derecognized, when the contractual rights to its cash flows expire, or the Company has transferred its economic rights to the asset and substantially all risks and rewards. In instances where substantially all risks and rewards have not been transferred or retained, the assets are derecognized if the asset is not controlled through rights to sell or pledge the asset.

(H) Fair value of financial instruments

Fair value is the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset quoted in an active market is generally the bid price and, for a financial liability quoted in an active market, the fair value is generally the ask price. For financial instruments such as cash equivalents and short-term investments that have a short duration, 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 unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as level 1 generally include cash and exchange traded common and preferred shares.

Level 2 – Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of financial instruments classified as level 2 generally include government bonds, certain corporate and private bonds, and short-term investments.

Level 3 – Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect our expectations about the assumptions market participants would use in pricing the asset or liability.

(I) Impairment

All investments other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in the consolidated statements of income (loss), when there is objective evidence that a loss event has occurred which has impaired the estimated future cash flows of an asset.

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through the consolidated statements of income (loss). Impairment losses previously recorded through the consolidated statements of income (loss) are to be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in the consolidated 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 in the consolidated statements of comprehensive income (loss).

Loans and receivables

Mortgages and loans are individually evaluated for impairment in establishing the allowance for impairment.

Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a commercial loan, mortgage or policy contract loan. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in the consolidated statements of income (loss) to reduce the carrying value of the financial asset to its present value of estimated future cash flows. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed and the reversal is recognized in the consolidated statements of income (loss).

Investments in associates

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its carrying amount or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

An impairment loss is recognized if the investment in associate’s recoverable amount is determined to be lower than the investment’s carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment’s fair value less costs to sell and value in use. Impairment losses are recognized in the consolidated statements of income (loss). Previously recognized impairment losses are reversed if the investment’s recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

(J) Deferred acquisition expenses

The Dominion defers acquisition expenses, which are comprised primarily of commissions and premium taxes, and are amortized on the same basis as the related premiums are earned. The amount deferred is limited to the amount recoverable. The related amortization forms part of commissions, operating and premium taxes in the consolidated statements of comprehensive income (loss).

Empire Life defers acquisition expenses relating to deferred sales charges on certain segregated funds distribution costs. Deferred acquisition expenses are amortized over the term of the related deposits or the applicable period of such sales charges, as appropriate. These deferred costs form part of insurance contract liabilities on the consolidated statements of financial position and the related amortization forms part of claims and benefits in the consolidated statements of comprehensive income (loss).

(K) 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 are recorded as premiums ceded to reinsurers in net income (loss). Reinsurance recoveries on claims and policy benefits incurred are recorded as claims and benefits ceded in the consolidated statements of income (loss). Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance recoverable in the consolidated statements of financial position. Reinsurance recoverable is valued on a discounted basis, in accordance with accepted actuarial practice.

Reinsurance recoverable is reviewed for impairment at each reporting date. If there is objective evidence, as a result of an event that occurred after initial recognition, that an insurance subsidiary may not receive all amounts due under contract, and the event has a reliably measurable impact on the amounts that the insurance subsidiary will receive from the reinsurer, the carrying amount is reduced accordingly. Any impairment loss is recorded in the consolidated statements of income (loss).

(L) Due from Facility Association

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

(M) Property and equipment

Property and equipment is 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. 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.

Amortization is calculated to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

Land	No amortization
Building	Five percent (declining balance)
Furniture and equipment	Three to five years (straight-line)
Leasehold improvements	Remaining lease term (straight-line)

The estimated useful lives, residual values and amortization method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses are recognized in the consolidated statements of income (loss).

(N) Intangible assets

Intangible assets 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 intangible assets is calculated using the straight-line method to allocate the cost 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 intangible assets under development, expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met; otherwise they are expensed as incurred. Amortization begins when the asset is available for use. The Company does not have intangible assets with indefinite useful lives.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Impairment reviews are performed on the Company’s intangible assets when there are indicators that the carrying value may not be recoverable. The Company assesses its internally-generated intangible assets that are not yet available for use for impairment annually by comparing their carrying amount to their recoverable amount. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses are recognized in the consolidated statements of income (loss).

(O) Income taxes

Income tax comprises both current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the consolidated financial statements or income tax returns.

Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and consolidated financial statement bases for assets and liabilities and for certain carry-forward items.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred 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 tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

(P) Employee benefits

The Company provides employee pension benefits through either a defined benefit option or a defined contribution option. The Company discontinued new enrolments in the defined benefit option effective October 1, 2011 and introduced a defined contribution option effective January 1, 2012 for new enrolments and for any existing employees who chose to transfer from the defined benefit option.

The Company provides post-employment health and dental insurance benefits to eligible employees and their dependents.

The Company accrues its obligations for its employee defined benefit plans, net of plan assets. The cost of defined benefit pensions and other post-employment benefits earned by employees is actuarially determined using the projected unit credit method pro-rated on services and using management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, expected mortality and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. 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 defined benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the defined benefit obligation and the fair value of plan assets as at the end of the prior year is amortized over the expected average remaining working lives of active employees. The vested portion of past service cost arising from plan amendments is recognized immediately in the consolidated statements of income (loss). The unvested portion is amortized on a straight-line basis over the average remaining service period until the benefits become vested.

For funded plans, surpluses are only recognized as an asset to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered. Once the contributions have been paid, the Company has no further payment obligations.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(Q) Insurance and investment contract liabilities

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder and the insurance contract has commercial substance. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, as appropriate. Products issued by the Company that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 Insurance Contracts. Otherwise, products issued by the Company are classified as either investment contracts in accordance with IAS 39 Financial Instruments: Recognition and Measurement or service contracts in accordance with IAS 18 Revenue. The Company defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, the Company uses the terminology policy contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts, however, can be reclassified as insurance contracts after inception if insurance risk becomes significant.

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

The Dominion's insurance contract 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, which are not significant.

Determination of the ultimate costs of investigation and settlement of insurance claims is inherently subject to uncertainty. 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.

On a case-by-case basis, The Dominion's claims adjusters use their experience and judgment and follow a documented claims reserving philosophy to enter a case reserve for each individual claim in The Dominion's claims system. For certain claims, the system automatically applies an average reserve established by The Dominion's actuaries. Case 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. 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. Measurement uncertainty in these estimates arises from many internal and external factors, including changes to the product, regulations, internal claims handling procedures, economic inflation and legal trends. The knowledge and judgment of The Dominion's senior management on these factors is taken into account in the actuary's selection of assumptions where appropriate.

Empire Life's insurance contract liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes on policies in force. Empire Life's insurance contract liabilities were determined using accepted actuarial practices according to the standards established by the CIA and the requirements of OSFI. As confirmed by guidance provided by the CIA, the Canadian Asset Liability Method of valuation of insurance contracts satisfies requirements for eligibility for use under IFRS. The liabilities incorporate management's best estimate assumptions regarding such factors as mortality and morbidity, investment returns, rates of policy terminations, level of operating expenses, inflation, policyholder dividends and taxes. Due to the long-term risks and 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 insurance contract liabilities are adequate to pay future benefits.

Annually, Empire Life's Appointed Actuary determines whether insurance contract liability reserves are sufficient to cover the obligations and deferred acquisition costs that relate to policies in force at the reporting date. A number of valuation methods are applied, including discounted cash flows and stochastic modeling. Aggregation levels and the level of prudence applied in assessing liability adequacy are consistent with requirements of the CIA. Any adjustment is recorded as an increase in insurance contract liabilities in the consolidated statements of income (loss).

As required by the federal regulator, the valuation work of each subsidiary's Appointed Actuary is reviewed by an external actuary at least once every three years. Management assumptions are reviewed and updated at least annually and all changes in insurance contract liability estimates are recorded in claims and benefits in the consolidated statements of comprehensive income (loss) in the period in which they occur.

(R) Segregated funds

The segregated fund asset and liability amounts in the consolidated statements of financial position are in respect of investment funds held on behalf of Empire Life insurance policyholders. Certain policy contracts allow the policyholder to invest in segregated investment funds managed by Empire Life for the benefit of those policyholders. The policyholder bears the risks and rewards associated with these assets except to the extent there are guarantees, and, as a result, the assets and liabilities associated with segregated funds are not included with other assets and liabilities, but are presented as separate line items on the consolidated statements of financial position.

The assets of these funds are carried at their period-end fair values, which also represents the policy liabilities. The Company's consolidated statements of income (loss) includes fee income earned for management of these segregated funds, as well as expense related to the acquisition, investment management, administration and benefit guarantees of these funds.

Empire Life provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees. The actuarial liabilities associated with these minimum guarantees are recorded within insurance contract liabilities on the consolidated statements of financial position.

(S) Participating policyholders' interest

Certain life, disability and annuity policies issued by Empire Life are defined as participating policies by contractual provisions, and are eligible for periodic dividends. Empire Life maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by the Office of the Superintendent of Financial Institutions under section 456 of the *Insurance Companies Act*. The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. The distribution of dividends is made from the earnings attributed to the performance of the participating business. Most policies are credited with dividends annually, while a few older plans receive dividends every five years as per contractual provisions. Empire Life has discretion over the amount and timing of the distribution of these earnings to policyholders. Participating policyholder dividends are expensed through the consolidated statement of operations.

At the end of the reporting period, all participating policy liabilities, both guaranteed and discretionary are held within insurance contract liabilities, policyholders' funds on deposit, and provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within reinsurance recoverable or reinsurance liabilities. The participating policyholders' portion of equity is reported separately in the Company's total equity section of the consolidated statements of financial position.

(T) Revenue recognition

For The Dominion, premiums are recognized 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.

For Empire Life, gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

Fee income includes fund management fees, policy administration and surrender charges, and is recognized on an accrual basis. 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 fund asset market values.

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument. Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date. Interest income and dividend income are included in investment and other income in the consolidated statements of income (loss) for all financial assets, regardless of classification.

(U) Foreign currency translation

The Company uses the Canadian dollar as both its functional and presentational currency.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income (loss).

Translation differences on FVTPL non-monetary items are reported as part of the fair value gain or loss. Translation differences on AFS non-monetary financial assets are recognized in OCI in the consolidated statements of comprehensive income (loss). On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in OCI is recognized in the consolidated statements of income (loss).

(V) Earnings per share (“EPS”)

Basic EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on preferred shares, divided by the weighted average number of adjusted common shares outstanding for the period. “Adjusted Common Shares” is determined based on the total common shares and Series A Preference shares less the Company’s proportionate interest in its own common shares held indirectly through investments in associates.

Diluted EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on preferred shares, divided by the weighted average number of diluted adjusted common shares outstanding for the period. Diluted adjusted common shares reflect the potential dilutive effect of converting the First Preference shares into common shares.

(W) Comprehensive income

Comprehensive income consists of net income and OCI. OCI includes unrealized gains or losses on AFS financial assets, net of amounts reclassified to net income (loss), and the effective portion of the change in the fair value of cash flow hedging instruments, net of amounts reclassified to net income (loss), all net of taxes. Also included is the Company’s share of OCI of its associates. The balance of AOCI is shown as a separate component of shareholders’ equity.

(X) 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 net income (loss). 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 net income (loss).

(Y) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in the consolidated statements of income (loss). Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

(Z) Leases

The Company leases certain property and equipment. The Company does not have substantially all of the risks and rewards of ownership and these leases are therefore classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

(AA) Future accounting changes

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013. The company has not yet determined the impact of these standards and amendments on its consolidated financial statements.

IFRS 9 – Financial Instruments – Classification and Measurement

This is part of a new series of standards on the classification and measurement of financial assets, financial liabilities and derecognition of financial instruments that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. Under fair value, any unrealized gains or losses on financial instruments would be recognized in net income. Equity instruments are required to be measured at fair value and under almost all circumstances, changes in the fair value of equity instruments are recognized in net income. Debt instruments are permitted to use amortized cost only if the entity is holding the instruments to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, debt instruments would be recorded at fair value. This standard is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 – Consolidated Financial Statements

The IASB issued IFRS 10 which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are included in the consolidated financial statements of the entity that is the parent.

IFRS 12 – Disclosure of Interests in Other Entities

This is a new and comprehensive standard on disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires an entity to disclose information that enables users of consolidated financial statements to evaluate the nature and risks associated with its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 - Fair Value Measurement

The IASB issued IFRS 13 *Fair Value Measurement* to provide a single source of guidance for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 applies when other IFRSs require or permit fair value measurements or disclosures about fair value measurements.

IAS 19 – Employee Benefits

An amended version of IAS 19 *Employee Benefits* was issued which eliminates the option that allows an entity to defer the recognition of actuarial gains and losses arising from defined benefit plans. The amendments require service cost and net interest to be recognized in profit or loss, whereas remeasurements, which include actuarial gains and losses arising from defined benefit plans, are recognized in other comprehensive income (loss). Net interest is comprised of interest expense on the defined benefit obligation and interest income on plan assets. Interest income on plan assets is determined using the same discount rate selected to discount the defined benefit obligation, rather than an expected rate of return as under existing IAS 19. The amended IAS 19 also includes enhanced disclosure requirements relating to the characteristics and risks associated with defined benefit plans.

IAS 1 – *Presentation of Consolidated Financial Statements*

An amendment to IAS 1 was issued which requires the grouping of items presented in other comprehensive income (loss) on the basis of whether or not they will be reclassified to profit or loss in the future. This amendment is effective for annual periods beginning on or after July 1, 2012.

3. First-time adoption of International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with previous Canadian GAAP. The Company's consolidated financial statements for the year ended December 31, 2011 are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these consolidated financial statements, with a transition date of January 1, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information adjusted from previous Canadian GAAP;
- applied the same accounting policies throughout all periods presented; and
- retrospectively applied all IFRS standards effective as of December 31, 2011, except for certain optional exemptions and mandatory exceptions applicable for first-time adopters of IFRS that the Company has applied, as discussed below.

Subject to certain transition exemptions and exceptions as set out below, the Company's IFRS accounting policies presented in Note 2 – Significant accounting policies have been applied in preparing these consolidated financial statements, the comparative information and the opening consolidated statement of financial position at the date of transition.

First-time adoption exemptions applied

IFRS 1 provides for some exemptions from full retrospective application of certain standards. In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied the following optional exemptions and applicable mandatory exceptions.

<u>IFRS Exemption Options</u>

1. **Business combinations** – IFRS 1 provides the option not to apply IFRS 3 *Business Combinations* retrospectively. The Company has taken this election with respect to business combinations that occurred prior to its transition date and therefore such business combinations have not been 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 has elected to disclose only six 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 previous Canadian GAAP in opening retained earnings at the date of transition. The Company has elected 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.

   The Company has also elected 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 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 has elected 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 was broadly comparable to fair value at the date of the revaluation. The property, which was previously presented as a real estate investment under previous Canadian GAAP, was last valued as of September 22, 2009. The Company has not applied 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*, FVTPL. The Company has elected 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 represents a measurement change for certain investments from cost to fair value. The redesignated assets related to Empire Life were previously valued at fair value.

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 are the same as the estimates made under previous 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. The Company discontinued hedge accounting on foreign exchange effective January 1, 2010. The impact was not material.

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

IFRS Reconciliations

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The adoption of IFRS has resulted in certain changes to the Company's reported financial position, results of operations and cash flows. The following represents the reconciliations of the Company's total equity and comprehensive income from previous Canadian GAAP to IFRS for the respective periods noted, reflecting the Company's transitional adjustments that have an impact on these consolidated financial statement line items. Explanations for the transitional adjustments are provided below.

Reconciliation of equity as at the transition date – January 1, 2010

	Reference	Capital stock	Retained earnings	AOCI	Shareholders' equity	Non-controlling interests	Participating policyholders' interests	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 interests in subsidiaries								
to equity under IFRS	a	-	-	-	-	152,734	-	152,734
Reclassification of participating policyholders' interests								
to equity under IFRS	a	-	-	-	-	-	60,812	60,812
Differences increasing (decreasing) reported amount:								
Redesignation of AFS financial assets	b	-	114,929	(8,249)	106,680	7	-	106,687
Employee benefits	c	-	1,217	-	1,217	698	-	1,915
Investment in Algoma Central Corporation	d	-	(2,170)	2,170	-	-	-	-
Investment in Economic Investment Trust Limited	e	-	17,603	-	17,603	-	-	17,603
Deconsolidation of variable interest entity	f	-	21	-	21	-	-	21
Income taxes	g	-	(1,077)	1,077	-	-	-	-
Contract classification	h	-	948	-	948	242	-	1,190
Other		-	(915)	929	14	4	-	18
Total increase (decrease) to reported equity		-	130,556	(4,073)	126,483	153,685	60,812	340,980
Total under IFRS - as at January 1, 2010		**$ 272,388**	**$ 2,196,477**	**$ 108,561**	**$ 2,577,426**	**$ 153,685**	**$ 60,812**	**$ 2,791,923**

Reconciliation of equity as at December 31, 2010

	Reference	Capital stock	Retained earnings	AOCI	Shareholders' equity	Non-controlling interests	Participating policyholders' interests	Total equity
As reported under Canadian GAAP - December 31, 2010		$ 272,388	$ 2,197,755	$ 163,234	$ 2,633,377	$ -	$ -	$ 2,633,377
Reclassification of non-controlling interests in subsidiaries								
to equity under IFRS	a	-	-	-	-	161,513	-	161,513
Reclassification of participating policyholders' interests								
to equity under IFRS	a	-	-	-	-	-	57,605	57,605
Differences increasing (decreasing) reported amount:								
Redesignation of AFS financial assets	b	-	155,921	(12,214)	143,707	(2,938)	-	140,769
Employee benefits	c	-	1,147	-	1,147	660	-	1,807
Investment in Algoma Central Corporation	d	-	(4,925)	2,213	(2,712)	-	-	(2,712)
Investment in Economic Investment Trust Limited	e	-	14,197	-	14,197	-	-	14,197
Deconsolidation of variable interest entity	f	-	389	-	389	(542)	-	(153)
Income taxes	g	-	(645)	645	-	-	-	-
Contract classification	h	-	840	-	840	214	-	1,054
Other		-	(1,601)	1,195	(406)	(103)	-	(509)
Total increase (decrease) to reported equity		-	165,323	(8,161)	157,162	158,804	57,605	373,571
Total under IFRS - as at December 31, 2010		**$ 272,388**	**$ 2,363,078**	**$ 155,073**	**$ 2,790,539**	**$ 158,804**	**$ 57,605**	**$ 3,006,948**

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

Reconciliation of comprehensive income for the year ended December 31, 2010

	Reference	Year ended December 31, 2010
Comprehensive income under Canadian GAAP		$ 195,293
Add back: Non-controlling interests in subsidiaries	a	11,291
Add back: Participating policyholders' interests	a	(3,207)
Differences increasing (decreasing) reported comprehensive income:		
Differences in net income:		
Redesignation of AFS financial assets	b	39,061
Employee benefits	c	(108)
Investment in Algoma Central Corporation	d	(2,755)
Investment in Economic Investment Trust Limited	e	(164)
Deconsolidation of variable interest entity	f	367
Income taxes	g	571
Contract classification	h	(136)
Other		(935)
Net increase to net income		35,901
Differences in other comprehensive income:		
Redesignation of AFS financial assets	b	(4,979)
Investment in Algoma Central Corporation	d	43
Income taxes	g	(571)
Other		408
Net increase (decrease) to other comprehensive income		(5,099)
Comprehensive income under IFRS		**$ 234,179**

IFRS has also resulted in a number of presentation changes to the Company's consolidated financial statements. In order to allow the users of the consolidated financial statements to better understand the impact of these changes and the transitional adjustments noted above, the Company has reconciled its consolidated statements of financial position as at December 31, 2011, consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows for the year ended December 31, 2010 as well as the opening consolidated statement of financial position as at January 1, 2010 from previous Canadian GAAP to an IFRS basis. Explanations for the presentation reclassifications are provided below.

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

Reconciliation of consolidated statement of financial position as at January 1, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
Assets					**Assets**
Cash and cash equivalents	f	$ 327,529	$ (763)	$ 326,766	Cash and cash equivalents
Investments - corporate	b,f	747,555	122,663	870,218	Investments - corporate
Investments - insurance operations	b	6,402,741	(16,932)	6,385,809	Investments - insurance operations
Equity method investments	d,e	400,949	19,329	420,278	Investments in associates
Accrued investment income		31,613	-	31,613	Accrued investment income
Premiums receivable		301,547	-	301,547	Premiums receivable
Reinsurance recoverable	l	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,f,j	88,508	(40,318)	48,190	Other assets
Deferred acquisition expenses		109,078	-	109,078	Deferred acquisition expenses
	j		30,382	30,382	Property and equipment
	j		31,080	31,080	Intangible assets
	i		4,186,585	4,186,585	Segregated fund assets
		$ 8,591,640	$ 4,340,046	$ 12,931,686	Total assets
Segregated funds assets	i	$ 4,310,401	$ (4,310,401)	$ -	
Liabilities					**Liabilities**
	k		$ 75,243	$ 75,243	Accounts payable
Policyholders' funds on deposit		$ 29,702	-	29,702	Policyholders' funds on deposit
Policy liabilities	h,k,l	5,395,886	(6,830)	5,389,056	Insurance contract liabilities
	h		17,566	17,566	Investment contract liabilities
Provision for profits to policyholders		18,558	-	18,558	Provision for profits to policyholders
Income and other taxes payable	f	79,230	(21)	79,209	Income and other taxes payable
Future income taxes	b,c,e,f,h	18,329	18,637	36,966	Deferred tax liabilities
Other liabilities	c,j,k	186,466	(78,568)	107,898	Other liabilities
Subordinated debt		198,980	-	198,980	Subordinated debt
	i		4,186,585	4,186,585	Segregated fund 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,h	2,065,921	130,556	2,196,477	Retained earnings
Accumulated other comprehensive income	b,d,g	112,634	(4,073)	108,561	Accumulated other comprehensive income
		2,450,943	126,483	2,577,426	Total E-L Financial shareholders' equity
	a,b,c,h		153,685	153,685	Non-controlling interests in subsidiaries
	a		60,812	60,812	Participating policyholders' interests
			340,980	2,791,923	Total equity
		$ 8,591,640	$ 4,340,046	$ 12,931,686	Total liabilities and equity
Segregated funds liabilities	i	$ 4,310,401	$ (4,310,401)	$ -	

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

Reconciliation of consolidated statement of financial position as at December 31, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
Assets					**Assets**
Cash and cash equivalents	f	$ 339,073	$ 819	$ 339,892	Cash and cash equivalents
Investments - corporate	b,f	785,272	175,916	961,188	Investments - corporate
Investments - insurance operations	b	6,981,427	(16,807)	6,964,620	Investments - insurance operations
Equity method investments	d,e	436,706	12,657	449,363	Investments in associates
Accrued investment income		30,933	-	30,933	Accrued investment income
Premiums receivable		309,999	-	309,999	Premiums receivable
Reinsurance recoverable	b,l	81,114	6,685	87,799	Reinsurance recoverable
Income taxes receivable	b	11,926	(47)	11,879	Income taxes receivable
Future income taxes	c	54,361	467	54,828	Deferred tax assets
Other assets	c,f,j	124,046	(60,360)	63,686	Other assets
Deferred acquisition expenses		112,562	-	112,562	Deferred acquisition expenses
	j		31,801	31,801	Property and equipment
	j		48,351	48,351	Intangible assets
	i		4,620,899	4,620,899	Segregated fund assets
		$ 9,267,419	$ 4,820,381	$ 14,087,800	Total assets
Segregated funds assets	i	$ 4,706,658	$ (4,706,658)	$ -	
Liabilities					**Liabilities**
	k		$ 74,406	$ 74,406	Accounts payable
Policyholders' funds on deposit		$ 30,037	-	30,037	Policyholders' funds on deposit
	l		17,680	17,680	Reinsurance liabilities
Policy liabilities	b,h,k,l	5,928,915	(819)	5,928,096	Insurance contract liabilities
	h		16,978	16,978	Investment contract liabilities
Provision for profits to policyholders		20,104	-	20,104	Provision for profits to policyholders
Income and other taxes payable	f	11,882	(321)	11,561	Income and other taxes payable
Future income taxes	b,c,d,e,f,h	30,858	19,256	50,114	Deferred tax liabilities
Other liabilities	c,j,k	193,943	(82,151)	111,792	Other liabilities
Subordinated debt		199,185	-	199,185	Subordinated debt
	i		4,620,899	4,620,899	Segregated fund liabilities
		6,414,924	4,665,928	11,080,852	Total liabilities
Non-controlling interest in subsidiaries	a,f	161,513	(161,513)	-	
Participating policyholders' interest	a	57,605	(57,605)	-	
		219,118	(219,118)	-	
Shareholders' equity					**Equity**
Capital stock		272,388	-	272,388	Capital stock
Retained earnings	b,c,d,e,f,g,h	2,197,755	165,323	2,363,078	Retained earnings
Accumulated other comprehensive income	b,d,g	163,234	(8,161)	155,073	Accumulated other comprehensive income
		2,633,377	157,162	2,790,539	Total E-L Financial shareholders' equity
	a,b,c,h		158,804	158,804	Non-controlling interests in subsidiaries
	a		57,605	57,605	Participating policyholders' interests
			373,571	3,006,948	Total equity
		$ 9,267,419	$ 4,820,381	$ 14,087,800	Total liabilities and equity
Segregated funds liabilities	i	$ 4,706,658	$ (4,706,658)	$ -	

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

Reconciliation of consolidated statement of income for the year ended December 31, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
Revenue					**Revenue**
	h,l		$ 2,138,227	$ 2,138,227	Gross premiums
	l		(131,372)	(131,372)	Premiums ceded to reinsurers
			2,006,855	2,006,855	Net premiums
Insurance premiums	l	$ 1,768,176	(1,768,176)	-	
Annuity premiums	l	239,864	(239,864)	-	
Investment and other income	f	440,224	(574)	439,650	Investment and other income
Income from equity method investments	d,e	34,853	(3,016)	31,837	Share of income of associates
Change in fair value of held for trading investments	b,f	218,758	70,793	289,551	Fair value change in fair value through profit or loss investments
Realized gain on available for sale investments including impairment write downs	b	23,309	(7,850)	15,459	Realized gain on available for sale investments including impairment write downs
		2,725,184	58,168	2,783,352	
Expenses					**Expenses**
	b,h,l		1,945,449	1,945,449	Gross claims and benefits
	b,l		(45,790)	(45,790)	Claims and benefits ceded to reinsurers
			1,899,659	1,899,659	Net claims and benefits
Claims and policy benefits	l	1,881,762	(1,881,762)	-	
	h		910	910	Change in investment contracts provision
Commissions		363,268	-	363,268	Commissions
Operating	c,f,m	258,484	(13,549)	244,935	Operating
	m		13,665	13,665	Interest expense
Premium taxes		53,097	-	53,097	Premium taxes
		2,556,611	18,923	2,575,534	
Income before income taxes		168,573	39,245	207,818	**Income before income taxes**
Income taxes	b,c,d,e,f,g,h	22,563	3,405	25,968	Income taxes
Income before policyholders' and non-controlling interests		146,010	35,840	181,850	
Policyholders' and non-controlling interests portion of income	a,f,g	1,317	(1,317)	-	
Net income		$ 144,693	$ 37,157	$ 181,850	**Net income**
	a		(4,890)	(4,890)	Less: Participating policyholders' loss
	a,b,c,g,h		4,039	4,039	Non-controlling interests in net income
			(851)	(851)	
	b,c,d,e,f,g,h		$ 38,008	$ 182,701	**E-L Financial shareholders' net income**
Net income per share					**Earnings per share on net income attributable to E-L Financial common shareholders**
- Basic		$ 40.66	$ 3.14	$ 43.80	- Basic
- Diluted		$ 38.12	$ 3.16	$ 41.28	- Diluted

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

Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010

Reconciliation of consolidated statements of comprehensive income for the year ended December 31, 2010
(thousands of dollars except per share amounts)

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
Net income		$ 144,693	$ 37,157	$ 181,850	**Net income**
Other comprehensive income, net of tax					**Other comprehensive income, net of tax**
Net change in unrealized gain on available for sale investments	a,b,g	52,409	1,592	54,001	Net unrealized fair value increase on available for sale investments
Net gain on derivative instruments designated as cash flow hedges	a	368	94	462	Net gain on derivatives designated as cash flow hedges
The Company's net share of other comprehensive loss for equity method investments	d	(2,177)	43	(2,134)	Share of other comprehensive loss of associates
Other comprehensive income		50,600	1,729	52,329	
Comprehensive income		195,293	38,886	234,179	**Comprehensive income**
	a		(3,207)	(3,207)	Less: Participating policyholders' comprehensive loss
	a,b,c,h		8,173	8,173	Non-controlling interests in comprehensive income
			4,966	4,966	
	b,c,d,e,f,h		$ 33,920	$ 229,213	**E-L Financial shareholders' comprehensive income**

Reconciliation of consolidated statement of cash flows for the year ended December 31, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
Net inflow of cash related to the following activities:					**Net inflow of cash related to the following activities:**
Operating					**Operating**
Net income	a,b,c,d,e,f,g,h	$ 144,693	$ 37,157	$ 181,850	Net income
Items not affecting cash resources:					Items not affecting cash resources:
Increase in net policy liabilities	b,h,k,l	553,437	7,764	561,201	Change in insurance and investment contract liabilities
Realized gain on sale of investments including impairment write downs	b,f	(23,309)	7,850	(15,459)	Realized gain on available for sale investments including impairment write downs
Change in fair value of held for trading investments	b,f	(218,758)	(70,793)	(289,551)	Fair value change in fair value through profit or loss investments
Future income taxes	b,c,d,e,f,h	26,291	643	26,934	Deferred income taxes
Income from equity method investments	d,e	(27,624)	3,016	(24,608)	Share of income of associates, net of dividends received
Amortization related to invested assets		(58,168)	-	(58,168)	Amortization related to invested assets
Other items	a,b,d,e,f,g,h,l	(27,450)	21,428	(6,022)	Other items
		369,112	7,065	376,177	
Net change in other assets and liabilities	c,k	(78,001)	(3,805)	(81,806)	Net change in other assets and liabilities
		291,111	3,260	294,371	
Financing					**Financing**
Issue of units by variable interest entity to non-controlling interest	f	500	(500)	-	
	a		(3,054)	(3,054)	Cash dividends by subsidiary to non-controlling interests
Cash dividends to shareholders		(12,060)	-	(12,060)	Cash dividends to shareholders
		(11,560)	(3,554)	(15,114)	
Investing					**Investing**
Purchases of investments	f	(2,365,805)	34,512	(2,331,293)	Purchases of investments
Proceeds from sale or maturity of investments	f	2,023,689	(32,636)	1,991,053	Proceeds from sale or maturity of investments
Net sales of short-term investments		88,909	-	88,909	Net sales of short-term investments
Net purchases of other assets		(13,800)	-	(13,800)	Net purchases of other assets
		(267,007)	1,876	(265,131)	
Increase in cash and cash equivalents	f	12,544	1,582	14,126	**Increase in cash and cash equivalents**
Cash and cash equivalents, beginning of year	f	299,622	(763)	298,859	**Cash and cash equivalents, beginning of year**
Cash and cash equivalents, end of year		$ 312,166	$ 819	$ 312,985	**Cash and cash equivalents, end of year**
Comprised of:					Comprised of:
Cash and cash equivalents	f	339,073	819	339,892	Cash and cash equivalents
Bank indebtedness		(26,907)	-	(26,907)	Bank indebtedness
		$ 312,166	$ 819	$ 312,985	

Notes to the IFRS Reconciliations

The following narratives explain the significant differences between previous Canadian GAAP and IFRS impacting the Company's consolidated financial statements. 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 previous Canadian GAAP, non-controlling interest in the equity of consolidated subsidiaries was classified as a separate component between liabilities and equity in the consolidated statements of financial position. Under IFRS, non-controlling interest is classified as a component of equity separate from the equity of the owners of the parent. Accordingly, the Company has reclassified non-controlling interest to equity in the consolidated statements of financial position and adjusted the presentation of non-controlling interest in the consolidated statements of income and consolidated statements comprehensive income.

The Company has also reclassified participating policyholders' interest to equity in the consolidated statements of financial position and adjusted the presentation of participating policyholders' interest in the consolidated statements of income and consolidated statements of comprehensive income for the same reason.

b. Redesignation of AFS financial instruments

As noted in the "IFRS Exemption Options" section, the Company has elected to redesignate some of its financial assets previously classified as AFS under previous Canadian GAAP, and measured either at cost or at fair value, as FVTPL under IFRS at January 1, 2010. The financial assets that have been redesignated are held within E-L Corporate and Empire Life, as explained below.

E-L Corporate

The Company has redesignated the investments that were classified under previous Canadian GAAP as AFS at cost within its investments – corporate portfolio to FVTPL. The redesignation increased 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 previous Canadian GAAP purposes, any increase in the value of the Company's shares held by these investees was eliminated in deriving fair value for these investments. As AFS at cost financial assets, the fair value of these investments was used to test the investments for impairment and was disclosed in the Company's note disclosures under previous Canadian GAAP. These reciprocal shareholdings are carried at fair value in the Company's consolidated statements of financial position under IFRS. The impact of the election related to this portfolio at January 1, 2010 and the related change in accounting for reciprocal shareholdings was 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.

For the year ended December 31, 2010, the impact of this adjustment was an increase of $55,344 in the carrying value of investments – corporate and an increase of $48,548 in net income. A realized gain of $315 was also reclassified from realized gain (loss) on AFS investments including impairment write downs to realized gain (loss) on FVTPL investments in the consolidated statement of income for the year ended December 31, 2010.

Empire Life

Empire Life has redesignated certain financial assets supporting insurance liabilities from AFS at fair value to FVTPL. As a result, the Company reclassified the cumulative unrealized gains and losses recognized on these investments from AOCI to retained earnings at January 1, 2010. In addition to the redesignation, Empire Life revalued certain AFS financial assets measured at cost under previous Canadian GAAP to fair value at January 1, 2010. The impact of these adjustments in the Company's opening consolidated statement of financial position was an increase in investments – insurance operations of $36, an increase in retained earnings of $8,278, a decrease in AOCI of $8,249 and an increase in non-controlling interest in subsidiaries of $7.

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

During 2010, Empire Life updated its method for setting the investment return on its insurance contract liabilities, which resulted in an increase to insurance contract liabilities on the Company's consolidated statements of financial position at December 31, 2010. The effect of this adjustment combined with the impact of Empire Life's redesignated financial assets on transition on the Company's December 31, 2010 comparative period was a decrease in net income of $9,487 and a decrease in OCI of $4,979. The significant cumulative impacts from the date of transition to the Company's consolidated statement of financial position at December 31, 2010 were an increase of $19,326 in insurance contract liabilities, a decrease of $5,180 in deferred tax liabilities, an increase of $722 in retained earnings, a decrease of $12,214 in AOCI and a decrease of $2,938 in non-controlling interest in subsidiaries.

The following table shows the investments' fair values at the date of redesignation and their classification and carrying amounts in the Company's previous annual consolidated financial statements.

Financial assets redesignated as FVTPL	Carrying amount under Canadian GAAP December 31, 2009	Fair value as at January 1, 2010
AFS financial assets measured at cost	$ 490,089	$ 611,968
AFS financial assets measured at fair value	223,669	223,669
Total	$ 713,758	$ 835,637

c. Employee benefits

As noted in the "IFRS Exemption Options" section, the Company has elected 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 has also recognized 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 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 has chosen to continue 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. As a result of having recognized the unamortized actuarial gains and losses and transitional assets and obligations in full at January 1, 2010, the Company has adjusted its defined benefit plan expense for the 2010 comparative period to remove the amortization of these balances. The net impact of this adjustment was a decrease in net income of $108 for the year ended December 31, 2010. The Company's defined benefit assets and liabilities recognized in the consolidated statements of financial position at December 31, 2010 have also been adjusted to reflect the revised defined benefit plan expense recognized under IFRS.

d. Investment in Algoma

This adjustment reflects the net impact to the Company's investment in 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 $7,425 to investments in associates, a decrease of $928 in deferred tax liabilities, a decrease of $8,667 to retained earnings and an increase of $2,170 in AOCI in the Company's opening consolidated statement of financial position.

The Company has reassessed the impairment provision previously recognized under previous 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 increased investments in associates by $7,425, increased deferred tax liabilities by $928 and increased retained earnings by $6,497 at January 1, 2010.

The aggregate impact of these two adjustments in the Company's opening consolidated statement of financial position is a decrease in retained earnings of $2,170 and an increase of the same amount to AOCI.

The impact of the Company's share of Algoma's IFRS transitional adjustments for the year ended December 31, 2010, after assessing the revised carrying amount of the investment for impairment, was a decrease of $2,755 in net income and an increase of $43 in OCI.

e. Investment in Economic

Economic owns shares both directly and indirectly in the Company. In applying the equity method under previous Canadian GAAP to the Company's investment in Economic, the Company adjusted for the impact of its proportionate interest in its own shares held directly and indirectly by Economic. Under IFRS, the Company has only adjusted for the impact of the shares that Economic owns directly in the Company. The Company has also eliminated 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 opening consolidated statement of financial position as an increase in investments in associates of $19,329, an increase in deferred tax liabilities of $1,726 and an increase in retained earnings of $17,603.

For the year ended December 31, 2010, the impact of these adjustments was a decrease of $164 to net income. The cumulative impact of the opening and comparative period transitional adjustments increased the carrying value of investments in associates at December 31, 2010 by $15,757and increased retained earnings by $14,197 in the consolidated statements of financial position.

f. Deconsolidation of variable interest entity

Under previous Canadian GAAP, the conclusion as to whether an entity should be consolidated is determined by using one of two different frameworks: the variable interest entity ("VIE") model or voting control model. One of the Company's investments within the investments – corporate portfolio was considered a VIE under previous Canadian GAAP and, as the primary beneficiary, the Company consolidated the investment. IFRS does not include the concept of a VIE and, instead, requires the Company to consolidate an entity, including Special Purpose Entities ("SPE"), only where the Company controls the entity. Control is defined under IFRS as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On transition to IFRS, the Company has determined that it does not control the investment previously consolidated as a VIE. Accordingly, the Company has deconsolidated its interest in the investment in the opening consolidated statement of financial position and 2010 comparative consolidated financial statements, and designated the investment as FVTPL.

The impact of the deconsolidation at January 1, 2010 is a decrease of $763 in cash and cash equivalents, an increase of $784 in investments – corporate, a decrease of $22 in other assets, a decrease of $21 in income and other taxes payable, a decrease of $1 in deferred tax liabilities and an increase of $21 in retained earnings in the Company's consolidated statement of financial position. For the year ended December 31, 2010, the impact of this adjustment was an increase in net income of $367.

g. Income taxes

Under previous 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. Accordingly, the unrealized tax recovery at January 1, 2010 of $1,077 associated with this tax law change was reclassified from retained earnings to AOCI in the opening consolidated statement of financial position.

For the year ended December 31, 2010, the Company reclassified tax recoveries of $571 from OCI to net income to recognize realized tax recoveries. The reclassified amounts related mainly to Empire Life's investments that were sold during 2010.

h. Contract classification

Under previous Canadian GAAP, all policy contracts were presented as a single item on the face of the consolidated financial statements. Under IFRS, investment contracts without a significant insurance element are required to be presented as investment contract liabilities. Deposits and withdrawals on these contracts have been 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, have been reclassified to investment contracts. Investment contract liabilities of $19,270 have been removed from insurance contract liabilities in the Company's January 1, 2010 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.

For the year ended December 31, 2010, deposits of $1,185, and withdrawals of $2,683 were removed from previously reported Premiums, and Benefits and claims respectively. The change in policy contract liabilities increased by $1,772. These adjustments, together with the related reduction in income taxes of $138, resulted in a reduction to 2010 Net income of $136.

<u>Presentation Reclassifications</u>

Certain amounts on the consolidated statements of financial position and consolidated statements of income have been reclassified to conform to the presentation adopted under IFRS. The following presentation differences between previous Canadian GAAP and IFRS have no impact on reported total equity.

i. Segregated funds

Under previous Canadian GAAP, segregated fund assets and liabilities were 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 liabilities are also presented as a separate line item and included in total liabilities. Segregated fund assets and segregated fund liabilities were decreased by $123,816 in the opening consolidated statement of financial position to eliminate the Company's investment in segregated funds.

As at December 31, 2010, segregated fund assets and segregated fund liabilities were decreased by $85,759 in the consolidated statements of financial position to eliminate the Company's investment in segregated funds. There was no change to the Company's consolidated statements of income and consolidated statements of comprehensive income on account of segregated funds.

j. Disaggregation of other assets

IFRS requires that property and equipment and intangible assets be presented separately in the consolidated statements of financial position. These line items have been reclassified from other assets, where they were presented under previous Canadian GAAP.

k. Disaggregation of other liabilities

IFRS requires that accounts payable be presented separately in the consolidated statements of financial position. This line item has been reclassified from other liabilities, where it was presented under previous Canadian GAAP.

l. Presentation of reinsurance

A portion of reinsurance ceded related to the Company's life insurance subsidiary was presented within policy liabilities under previous Canadian GAAP. IFRS does not permit assets and liabilities to be offset, therefore the Company has reclassified reinsurance balances from insurance contract liabilities to reinsurance recoverable or reinsurance liabilities in the consolidated statements of financial position.

Under previous Canadian GAAP, insurance premiums, annuity premiums and claims and policy benefits were also presented net of reinsurance on the Company's consolidated statements of income (loss). Under IFRS, premiums and claims expense are required to be disaggregated into gross premiums and premiums ceded to reinsurers, and gross claims and benefits and claims and benefits ceded in the Company's consolidated statements of income.

m. Presentation of interest expense

Under previous Canadian GAAP, interest expense was presented as part of the Company's operating expenses in the consolidated statements of income (loss). Interest expense has been presented separately in the consolidated statements of income in accordance with IFRS.

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

4. Operating Segments

In managing its investments, the Company distinguishes between E-L Corporate and its investments in The Dominion and Empire Life. As disclosed in Note 1 – Description of Company and summary of operations, The Dominion underwrites property and casualty insurance while Empire Life underwrites life and health insurance policies and annuity contracts for individuals and groups. The Company's E-L Corporate segment includes investments – corporate and investments in associates.

The following is an analysis of significant items of profit and loss by operating segment, operating segment assets and operating segment liabilities, reconciled to the Company's consolidated financial statements. The accounting policies applied by the operating segments are the same as those for the Company as a whole. Any transactions between the operating segments are on normal commercial terms and market conditions.

Year ended December 31, 2011	E-L Corporate	The Dominion	Empire Life	Total
Net premiums	$ -	$ 1,214,336	$ 758,454	$ 1,972,790
Investment and other income	22,792	105,531	337,025	465,348
Share of loss of associates	(27,298)	-	-	(27,298)
Fair value change in fair value through profit or loss investments	(100,616)	238	435,836	335,458
Realized gain on available for sale investments including impairment write downs	5,989	27,414	25,846	59,249
Net claims and benefits	-	(926,114)	(1,198,996)	(2,125,110)
Change in investment contracts provisions	-	-	(745)	(745)
Commissions	-	(215,320)	(164,206)	(379,526)
Operating expenses	(6,048)	(131,546)	(133,265)	(270,859)
Interest expense	-	-	(13,680)	(13,680)
Premium taxes	-	(41,559)	(12,985)	(54,544)
Income taxes	9,486	(7,738)	(139)	1,609
Non-controlling interests in subsidiaries and participating policyholders' interest	-	-	(7,415)	(7,415)
Segment net income	(95,695)	25,242	25,730	(44,723)
Additions to property and equipment and intangible assets	-	28,744	3,058	31,802

As at December 31, 2011	E-L Corporate	The Dominion	Empire Life	Total
Investments in associates	$ 419,784	$ -	$ -	$ 419,784
Segment assets	1,328,738	3,256,023	10,014,822	14,599,583
Segment liabilities	40,206	2,446,453	9,177,715	11,664,374

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

Year ended December 31, 2010	E-L Corporate	The Dominion	Empire Life	Total
Net premiums	$ -	$ 1,190,329	$ 816,526	$ 2,006,855
Investment and other income	21,552	100,656	317,442	439,650
Share of income of associates	31,837	-	-	31,837
Fair value change in fair value through profit or loss investments	65,991	1,867	221,693	289,551
Realized gain (loss) on available for sale investments including impairment write downs	(4,424)	12,387	7,496	15,459
Net claims and benefits	-	(849,272)	(1,050,387)	(1,899,659)
Change in investment contracts provisions	-	-	(910)	(910)
Commissions	-	(206,187)	(157,081)	(363,268)
Operating expenses	(6,274)	(118,950)	(119,711)	(244,935)
Interest expense	-	-	(13,665)	(13,665)
Premium taxes	-	(40,899)	(12,198)	(53,097)
Income taxes	(12,006)	(19,704)	5,742	(25,968)
Non-controlling interests in subsidiaries and participating policyholders' interest	-	-	851	851
Segment net income	96,676	70,227	15,798	182,701
Additions to property and equipment and intangible assets	-	27,245	3,949	31,194

As at December 31, 2010	E-L Corporate	The Dominion	Empire Life	Total
Investments in associates	$ 449,363	$ -	$ -	$ 449,363
Segment assets	1,436,701	3,120,173	9,530,926	14,087,800
Segment liabilities	51,197	2,337,210	8,692,445	11,080,852

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

5. Investments – corporate

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

As at December 31, 2011

Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Total fair value
Short-term investments				
Canadian federal government	$ 4,149	$ -	$ 4,149	$ 4,149
Canadian provincial governments	11,441	-	11,441	11,441
Canadian corporate	15,010	-	15,010	15,010
Total short-term investments	30,600	-	30,600	30,600
Preferred shares - Canadian	1,058	-	1,058	1,058
Total preferred shares	1,058	-	1,058	1,058
Common shares and units				
Canadian	637,897	-	637,897	637,897
U.S.	71,389	59,051	130,440	130,440
Other	16,716	56,178	72,894	72,894
Total common shares and units	726,002	115,229	841,231	841,231
Total	$ 757,660	$ 115,229	$ 872,889	$ 872,889

As at December 31, 2010

Asset category	Fair value through profit or loss	Available for sale	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
Preferred shares - Canadian	1,058	-	1,058	1,058
Total preferred shares	1,058	-	1,058	1,058
Common shares and units				
Canadian	704,611	-	704,611	704,611
U.S.	87,942	47,097	135,039	135,039
Other	26,170	60,218	86,388	86,388
Total common shares and units	818,723	107,315	926,038	926,038
Total	$ 853,873	$ 107,315	$ 961,188	$ 961,188

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

As at January 1, 2010				
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Total fair value
Short-term investments				
Canadian federal government	$ 32,971	$ -	$ 32,971	$ 32,971
Canadian provincial governments	10,995	-	10,995	10,995
Canadian corporate	28,656	-	28,656	28,656
Total short-term investments	72,622	-	72,622	72,622
Bonds				
Bonds issued or guaranteed by:				
Canadian federal government	-	30,190	30,190	30,190
Canadian provincial and municipal governments	-	12,588	12,588	12,588
Total government bonds issued or guaranteed	-	42,778	42,778	42,778
Canadian corporate bonds by industry sector:				
Financial services	-	19,257	19,257	19,257
Infrastructure	-	5,562	5,562	5,562
Utilities	-	5,990	5,990	5,990
Consumer staples	-	890	890	890
Industrials	-	3,197	3,197	3,197
Total Canadian corporate bonds	-	34,896	34,896	34,896
Total bonds	-	77,674	77,674	77,674
Preferred shares - Canadian	1,058	-	1,058	1,058
Total preferred shares	1,058	-	1,058	1,058
Common shares and units				
Canadian	639,415	-	639,415	639,415
U.S.	79,449	-	79,449	79,449
Other	-	-	-	-
Total common shares and units	718,864	-	718,864	718,864
Total	$ 792,544	$ 77,674	$ 870,218	$ 870,218

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.

Impairment

Based on the impairment review as at December 31, 2011, an impairment loss on AFS investments of $2,081 before tax (December 31, 2010 - $3,251) has been recorded in net income (loss). Impairment was assessed 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.

For additional information on the fair values of the Company's AFS investments, refer to Note 7 – Fair value of financial instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 29 – Investment risk management.

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

6. Investments – insurance operations

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

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

	Carrying value			Fair value		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
The Dominion	$ 2,534,040	$ 2,302,380	$ 2,202,921	$ 2,534,040	$ 2,302,380	$ 2,202,921
Empire Life	5,325,782	4,662,240	4,182,888	5,341,399	4,672,177	4,184,406
Total	$ 7,859,822	$ 6,964,620	$ 6,385,809	$ 7,875,439	$ 6,974,557	$ 6,387,327

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

(a) The Dominion

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

As at December 31, 2011					
Asset category	Fair value through profit or loss	Available for sale	Loans and receivables	Total carrying value	Total fair value
Short-term investments					
Canadian federal government	$ -	$ 3,986	$ -	$ 3,986	$ 3,986
Canadian provincial and municipal governments	-	4,983	-	4,983	4,983
Canadian corporate	-	35,897	-	35,897	35,897
Total short-term investments	-	44,866	-	44,866	44,866
Bonds and debentures					
Bonds and debentures issued or guaranteed by:					
Canadian federal government	-	332,912	-	332,912	332,912
Canadian provincial and municipal governments	-	304,693	-	304,693	304,693
Total government bonds and debentures issued or guaranteed	-	637,605	-	637,605	637,605
Canadian corporate bonds and debentures by industry sector:					
Consumer staples	-	17,982	-	17,982	17,982
Energy	-	14,501	-	14,501	14,501
Financial services	-	926,203	-	926,203	926,203
Industrials	-	22,573	-	22,573	22,573
Infrastructure	-	236,199	-	236,199	236,199
Utilities	-	118,582	-	118,582	118,582
Total Canadian corporate bonds and debentures	-	1,336,040	-	1,336,040	1,336,040
Total bonds and debentures	-	1,973,645	-	1,973,645	1,973,645
Preferred shares - Canadian	5,988	101,592	-	107,580	107,580
Total preferred shares	5,988	101,592	-	107,580	107,580
Common shares					
Canadian	-	211,843	-	211,843	211,843
U.S.	-	96,477	-	96,477	96,477
Other	-	70,676	-	70,676	70,676
Total common shares	-	378,996	-	378,996	378,996
Commercial loans	-	-	28,953	28,953	28,953
Total	$ 5,988	$ 2,499,099	$ 28,953	$ 2,534,040	$ 2,534,040

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

As at December 31, 2010					
Asset category	Fair value through profit or loss	Available for sale	Loans and receivables	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					
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 and debentures	6,867	1,193,085	-	1,199,952	1,199,952
Total bonds and debentures	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
Total	$ 6,867	$ 2,262,449	$ 33,064	$ 2,302,380	$ 2,302,380

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

As at January 1, 2010					
Asset category	Fair value through profit or loss	Available for sale	Loans and receivables	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					
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 and debentures	5,000	1,043,003	-	1,048,003	1,048,003
Total bonds and debentures	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
Total	$ 5,000	$ 2,147,911	$ 50,010	$ 2,202,921	$ 2,202,921

Impairment

Based on the impairment review as at December 31, 2011, a year to date impairment loss on AFS investments of $16,395 before tax (December 31, 2010 - $2,341) has been recorded in net income (loss). Impairment was assessed 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.

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

(b) Empire Life

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

As at December 31, 2011

Asset category	Fair value through profit or loss	Available for sale	Loans and receivables	Total carrying value	Total fair value
Short-term investments					
Canadian federal government	$ 5,979	$ 14,908	$ -	$ 20,887	$ 20,887
Canadian provincial governments	3,994	8,986	-	12,980	12,980
Total short-term investments	9,973	23,894	-	33,867	33,867
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	62,729	229,091	-	291,820	291,820
Canadian provincial and municipal governments	2,301,634	161,880	-	2,463,514	2,463,514
Total government bonds issued or guaranteed	2,364,363	390,971	-	2,755,334	2,755,334
Canadian corporate bonds by industry sector:					
Financial services	462,997	206,259	-	669,256	669,256
Infrastructure	196,681	34,838	-	231,519	231,519
Utilities	176,436	15,360	-	191,796	191,796
Energy	36,783	17,135	-	53,918	53,918
Consumer staples	36,754	9,001	-	45,755	45,755
Industrials	37,012	4,732	-	41,744	41,744
Health care	69,011	5,564	-	74,575	74,575
Total Canadian corporate bonds	1,015,674	292,889	-	1,308,563	1,308,563
Total bonds	3,380,037	683,860	-	4,063,897	4,063,897
Preferred shares - Canadian	215,582	108,648	-	324,230	324,230
Total preferred shares	215,582	108,648	-	324,230	324,230
Common shares					
Canadian	276,934	183,625	-	460,559	460,559
U.S.	13,766	6,957	-	20,723	20,723
Other	3,169	-	-	3,169	3,169
Total common shares	293,869	190,582	-	484,451	484,451
Mortgages	-	-	264,238	264,238	279,855
Loans on policies	-	-	41,981	41,981	41,981
Policy contract loans	-	-	113,118	113,118	113,118
Total	$ 3,899,461	$ 1,006,984	$ 419,337	$ 5,325,782	$ 5,341,399

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

As at December 31, 2010					
Asset category	Fair value through profit or loss	Available for sale	Loans and receivables	Total carrying value	Total fair value
Short-term investments					
Canadian federal government	$ 3,987	$ 34,954	$ -	$ 38,941	$ 38,941
Canadian provincial government	-	11,973	-	11,973	11,973
Total short-term investments	3,987	46,927	-	50,914	50,914
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	53,684	107,870	-	161,554	161,554
Canadian provincial and municipal governments	1,851,697	150,735	-	2,002,432	2,002,432
Total government bonds issued or guaranteed	1,905,381	258,605	-	2,163,986	2,163,986
Canadian corporate bonds by industry sector:					
Financial services	488,225	158,274	-	646,499	646,499
Infrastructure	145,435	26,656	-	172,091	172,091
Utilities	120,888	17,221	-	138,109	138,109
Energy	20,262	4,937	-	25,199	25,199
Consumer staples	38,187	3,152	-	41,339	41,339
Industrials	25,058	2,695	-	27,753	27,753
Health care	6,932	-	-	6,932	6,932
Total Canadian corporate bonds	844,987	212,935	-	1,057,922	1,057,922
Total bonds	2,750,368	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	299,648	312,828	-	612,476	612,476
U.S.	16,934	-	-	16,934	16,934
Other	1,653	-	-	1,653	1,653
Total common shares	318,235	312,828	-	631,063	631,063
Mortgages	-	-	226,887	226,887	236,824
Loans on policies	-	-	40,242	40,242	40,242
Policy contract loans	-	-	119,896	119,896	119,896
Total	$ 3,322,777	$ 952,438	$ 387,025	$ 4,662,240	$ 4,672,177

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

As at January 1, 2010					
Asset category	Fair value through profit or loss	Available for sale	Loans and receivables	Total carrying value	Total fair value
Short-term investments					
Canadian federal government	$ 4,099	$ 12,986	$ -	$ 17,085	$ 17,085
Canadian corporate	-	19,995	-	19,995	19,995
Total short-term investments	4,099	32,981	-	37,080	37,080
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	126,759	191,664	-	318,423	318,423
Canadian provincial and municipal governments	1,426,409	149,427	-	1,575,836	1,575,836
Other foreign governments	153	1,418	-	1,571	1,571
Total government bonds issued or guaranteed	1,553,321	342,509	-	1,895,830	1,895,830
Canadian corporate bonds by industry sector:					
Financial services	465,020	122,544	-	587,564	587,564
Infrastructure	87,472	19,109	-	106,581	106,581
Utilities	118,297	20,108	-	138,405	138,405
Energy	9,488	5,252	-	14,740	14,740
Consumer staples	38,444	4,176	-	42,620	42,620
Industrials	8,829	1,327	-	10,156	10,156
Total Canadian corporate bonds	727,550	172,516	-	900,066	900,066
Total bonds	2,280,871	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	245,901	227,816	-	473,717	473,717
U.S.	26,308	19,290	-	45,598	45,598
Other	10,440	19,398	-	29,838	29,838
Total common shares	282,649	266,504	-	549,153	549,153
Mortgages	-	-	223,642	223,642	225,160
Loans on policies	-	-	38,728	38,728	38,728
Policy contract loans	-	-	137,764	137,764	137,764
Total	$ 2,843,259	$ 939,495	$ 400,134	$ 4,182,888	$ 4,184,406

Impairment

AFS investments

Based on the impairment review as at December 31, 2011, a year to date impairment loss on AFS investments of $10,199 before tax (December 31, 2010 - $5,380) has been recorded in net income (loss). Impairment was assessed 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.

Loans and receivables

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 $8,010 (December 31, 2010 - $10,649) have been reduced by an allowance for impairment of $2,571 (December 31, 2010 - $2,421) and policy contract loans with a recorded value of $813 (December 31, 2010 - $813) have been reduced by an allowance for impairment of $549 (December 31, 2010 - $565).

For additional information on the fair values of the Company's AFS investments, refer to Note 7 – Fair value of financial instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 29 – Investment risk management.

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

7. Fair value of financial instruments

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy as described in Note 2:

	December 31, 2011			
Investments - corporate	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 1,199	$ 28,988	$ -	$ 30,187
Available for sale:				
Common shares	115,229	-	-	115,229
Fair value through profit or loss:				
Short-term investments	-	30,600	-	30,600
Common shares and units	-	726,002	-	726,002
Preferred shares	-	1,058	-	1,058
	$ 116,428	$ 786,648	$ -	$ 903,076

	December 31, 2011			
Investments - The Dominion	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 9,604	$ 53,488	$ -	$ 63,092
Available for sale:				
Short-term investments	-	44,866	-	44,866
Bonds	-	1,973,645	-	1,973,645
Common shares	378,996	-	-	378,996
Preferred shares	101,592	-	-	101,592
Fair value through profit or loss:				
Preferred shares	5,988	-	-	5,988
	$ 496,180	$ 2,071,999	$ -	$ 2,568,179

	December 31, 2011			
Investments - Empire Life	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 155,559	$ -	$ -	$ 155,559
Available for sale:				
Short-term investments	-	23,894	-	23,894
Bonds	-	683,860	-	683,860
Common shares	190,582	-	-	190,582
Preferred shares	108,648	-	-	108,648
Fair value through profit or loss:				
Short-term investments	-	9,973	-	9,973
Bonds	-	3,380,037	-	3,380,037
Common shares	293,869	-	-	293,869
Preferred shares	215,582	-	-	215,582
	$ 964,240	$ 4,097,764	$ -	$ 5,062,004

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

Investments - corporate	December 31, 2010			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 1,863	$ 21,439	$ -	$ 23,302
Available for sale:				
Common shares	107,315	-	-	107,315
Fair value through profit or loss:				
Short-term investments	-	34,092	-	34,092
Common shares and units	-	818,723	-	818,723
Preferred shares	-	1,058	-	1,058
	$ 109,178	$ 875,312	$ -	$ 984,490

Investments - The Dominion	December 31, 2010			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 1,328	$ 163,930	$ -	$ 165,258
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
Fair value through profit or loss:				
Bonds	-	6,867	-	6,867
	$ 482,535	$ 1,952,039	$ -	$ 2,434,574

Investments - Empire Life	December 31, 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	312,828	-	-	312,828
Preferred shares	121,143	-	-	121,143
Fair value through profit or loss:				
Short-term investments	-	3,987	-	3,987
Bonds	-	2,750,368	-	2,750,368
Common shares	318,235	-	-	318,235
Preferred shares	250,187	-	-	250,187
	$ 986,414	$ 3,440,133	$ -	$ 4,426,547

Investments - corporate	January 1, 2010			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 704	$ 24,579	$ -	$ 25,283
Available for sale:				
Bonds	-	77,674	-	77,674
Fair value through profit or loss:				
Short-term investments	-	72,622	-	72,622
Common shares and units	-	718,864	-	718,864
Preferred shares	-	1,058	-	1,058
	$ 704	$ 894,797	$ -	$ 895,501

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

	January 1, 2010			
Investments - The Dominion	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 364	$ 151,978	$ -	$ 152,342
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
Fair value through profit or loss:				
Bonds	-	5,000	-	5,000
	$ 570,911	$ 1,734,342	$ -	$ 2,305,253

	January 1, 2010			
Investments - Empire Life	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	266,504	-	-	266,504
Preferred shares	124,985	-	-	124,985
Fair value through profit or loss:				
Short-term investments	-	4,099	-	4,099
Bonds	-	2,280,871	-	2,280,871
Common shares	282,649	-	-	282,649
Preferred shares	275,640	-	-	275,640
	$ 937,333	$ 2,994,562	$ -	$ 3,931,895

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, 2011.

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 29 – Investment risk management.

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

8. Investments in associates

The company has the following investments in associates, all of which are held within the E-L Corporate segment:

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Ownership	Carrying value	Ownership	Carrying value	Ownership	Carrying value
United	48.8%	$ 256,122	48.8%	$ 302,577	47.6%	$ 276,467
Algoma	25.4%	91,750	25.4%	76,062	25.4%	75,573
Economic	23.3%	71,912	22.1%	70,724	21.0%	68,238
Total		$ 419,784		$ 449,363		$ 420,278

The following table details the movement during the year:

	Dec. 31, 2011	Dec. 31, 2010
Balance, beginning of the year	$ 449,363	$ 420,278
Purchase of additional shares	4,164	10,737
Income (loss) recorded in the statement of comprehensive income:		
Share of income	1,609	31,837
Net impairment write downs	(28,907)	-
	(27,298)	31,837
Share of other comprehensive income (loss)	1,155	(2,555)
	(26,143)	29,282
Elimination of the cost of reciprocal shares	(295)	(3,705)
Dividends received during the year	(7,305)	(7,229)
Balance, end of the year	$ 419,784	$ 449,363

The Company's associates are listed on the Toronto Stock Exchange. As at December 31, 2011, the fair value of the investments in associates was $429,046 (December 31, 2010 - $450,078, January 1, 2010 - $426,407). Fair value is based on the bid price for each investment multiplied by the corresponding number of common shares held.

Impairment

The Company has significant investments in United and Economic which it regards as associates and which it accounts for using the equity method. United and Economic are closed ended investment companies which are listed on the Toronto Stock Exchange. Economic and United have historically traded at significant discounts to their net asset values. The company is required to test the values of its associates for impairment by comparing their carrying values to their recoverable amounts which is the higher of their fair value less costs to sell and their values in use. In performing its impairment assessments, the company regards the fair value less costs to sell as the most objective evidence of the net recoverable amounts of both United and Economic, since the Company cannot unilaterally control the timing of realization of any benefit related to the difference between the traded price of United and Economic and their net asset values.

Based on the impairment review of all of the investments in associates as at December 31, 2011, a year to date impairment loss of $35,952 (December 31, 2010 - $nil) on United and a reversal of impairment of

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

$7,045 (December 31, 2010 - $nil) on Economic have been recorded in net income. The recoverable amount for both United and Economic is the investment's fair value less costs to sell based on the fair value calculation noted above. Previously recognized impairment losses on Economic were reversed as a result of an increase in the investment's recoverable amount. Impairment was recognized on United due to objective evidence of impairment.

Summarized below are the total assets, liabilities, revenue and net income or loss of the Company's associates.

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
Total assets	$	2,170,650	$	2,096,227	$	1,985,627
Total liabilities	$	355,633	$	145,287	$	266,991
Total revenue	$	472,400	$	495,751		N/A
Net (loss) income after tax	$	(34,109)	$	102,191		N/A

9. Investment and other income

Investment and other income is comprised of the following:

	2011		2010	
Interest income on:				
Available for sale	$	125,174	$	118,505
Fair value through profit or loss investments		133,657		123,099
Loans and receivables		1,333		1,948
Fee income		120,243		113,094
Dividend income		72,532		71,891
Other		12,409		11,113
Total	$	465,348	$	439,650

	2011		2010	
Interest income received	$	188,666	$	178,808
Dividend income received		72,749		71,583
Total	$	261,415	$	250,391

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

10. 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. Cash and cash equivalents are measured at fair value under Level 1 or Level 2 of the fair value hierarchy. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

	2011	2010
Cash	$ 73,332	$ (12,788)
Cash equivalents	175,506	352,680
	248,838	339,892
Bank indebtedness (Note 16)	(28,538)	(26,907)
	$ 220,300	$ 312,985

11. Deferred acquisition expenses

The following is a summary of the change in deferred acquisition expenses:

	2011	2010
Balance, beginning of year	$ 112,562	$ 109,078
Acquisition costs deferred	243,508	240,581
Amortization	(243,065)	(237,097)
Balance, end of year	$ 113,005	$ 112,562

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

12. Property and equipment

Property and equipment are comprised of:

	Office Properties	Furniture and equipment	Computer hardware	Total
Cost				
As at January 1, 2011	$ 38,947	$ 18,533	$ 1,823	$ 59,303
Additions	2,235	2,376	344	4,955
Disposals	-	(46)	-	(46)
Retirements	(81)	-	-	(81)
As at December 31, 2011	41,101	20,863	2,167	64,131
Accumulated amortization				
As at January 1, 2011	(13,532)	(12,860)	(1,110)	(27,502)
Amortization	(2,217)	(2,166)	(442)	(4,825)
Disposals	-	30	-	30
Retirements	56	-	-	56
As at December 31, 2011	(15,693)	(14,996)	(1,552)	(32,241)
Net book value as at December 31, 2011	$ 25,408	$ 5,867	$ 615	$ 31,890

	Office Properties	Furniture and equipment	Computer hardware	Total
Cost				
As at January 1, 2010	$ 36,248	$ 17,877	$ 1,528	$ 55,653
Additions	2,711	3,265	529	6,505
Disposals	-	(2,609)	-	(2,609)
Retirements	(12)	-	(234)	(246)
As at December 31, 2010	38,947	18,533	1,823	59,303
Accumulated amortization				
As at January 1, 2010	(11,336)	(13,311)	(624)	(25,271)
Amortization	(2,196)	(2,158)	(486)	(4,840)
Disposals	-	2,609	-	2,609
Retirements	-	-	-	-
As at December 31, 2010	(13,532)	(12,860)	(1,110)	(27,502)
Net book value as at December 31, 2010	$ 25,415	$ 5,673	$ 713	$ 31,801

Office properties consist of land, building and leasehold improvements on leased office space.

There were no asset impairments in 2011 or 2010.

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

13. Intangible assets

Intangibles are comprised of software and intangibles under development, as follows:

	2011			2010		
	Software	Intangibles under development	Total	Software	Intangibles under development	Total
Cost						
As at January 1	$ 73,234	$ 30,554	$ 103,788	$ 68,579	$ 10,673	$ 79,252
Additions - internally developed	-	21,494	21,494	-	23,661	23,661
Additions - purchased	5,074	279	5,353	550	478	1,028
Transfers	42,384	(42,384)	-	4,105	(4,105)	-
Disposals	(893)	-	(893)	-	-	-
Retirements	-	-	-	-	(153)	(153)
As at December 31	119,799	9,943	129,742	73,234	30,554	103,788
Accumulated amortization						
As at January 1	(55,437)	-	(55,437)	(48,172)	-	(48,172)
Amortization	(9,339)	-	(9,339)	(7,265)	-	(7,265)
Disposals	579	-	579	-	-	-
As at December 31	(64,197)	-	(64,197)	(55,437)	-	(55,437)
Net book value as at December 31	$ 55,602	$ 9,943	$ 65,545	$ 17,797	$ 30,554	$ 48,351

Software is mainly comprised of software development costs related to assets that have been put in use. Intangibles under development are comprised of software development costs related to assets that have not yet been put in use.

There were no asset impairments in 2011 or 2010.

14. Other assets

Other assets are comprised of the following:

	As at Dec. 31, 2011	As at Dec. 31, 2010	As at Jan. 1, 2010
Due from facility association	$ 6,451	$ 7,346	$ 8,765
Due from reinsurance companies	25,620	21,856	6,960
Pension asset (note 18)	20,513	17,789	15,326
Other	28,209	16,695	17,139
Total	$ 80,793	$ 63,686	$ 48,190

Of the above total, $20,989 (December 31, 2010 – $18,450, January 1, 2010 – $16,095) is expected to be recovered more than one year after the statement of financial position date.

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

15. Segregated funds

a) The following table identifies segregated fund assets by category of asset:

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash and cash equivalents	$ 139,781	$ 233,078	$ 142,279
Short-term investments	163,846	109,150	230,409
Bonds	909,071	768,350	627,045
Common and preferred shares	3,270,227	3,576,969	3,294,346
Net other (liabilities) assets	(6,204)	19,111	16,322
	4,476,721	4,706,658	4,310,401
Less general fund investments	(61,403)	(85,759)	(123,816)
Total	$ 4,415,318	$ 4,620,899	$ 4,186,585

b) The following table presents the change in segregated funds:

	2011	2010
Segregated funds - beginning of the year	$ 4,620,899	$ 4,186,585
Additions to segregated funds:		
Amount received from policyholders	1,081,150	1,081,289
Interest	41,258	36,230
Dividends	114,256	95,929
Net unrealized increase in market value of investments	-	354,406
	1,236,664	1,567,854
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,130,268	1,049,679
Net realized losses on sale of investments	106,327	16,109
Net unrealized decrease in market value of investments	107,544	-
Management fees and other operating costs	122,462	105,809
	1,466,601	1,171,597
Net change in general fund investments	24,356	38,057
Segregated funds - end of the year	$ 4,415,318	$ 4,620,899

16. Other liabilities

Other liabilities are comprised of the following:

	As at Dec. 31, 2011	As at Dec. 31, 2010	As at Jan. 1, 2010
Bank indebtedness	$ 28,538	$ 26,907	$ 27,907
Employee benefit liabilities (Note 18)	27,790	26,052	24,860
Due to reinsurance companies	9,076	10,446	7,798
Premiums paid in advance	8,472	7,769	7,328
Due to segregated funds	-	5,064	4,679
Unearned premium finance fee income	6,028	6,022	5,621
Other	32,516	29,532	29,705
Total	$ 112,420	$ 111,792	$ 107,898

Of the above total, $28,168 (December 31, 2010 - $26,313; January 1, 2010 – $25,104) is expected to be settled more than one year after the statement of financial position date.

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

17. 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 (December 31, 2010 - $13,460) was paid on the debentures. The debenture is recorded at amortized cost using the effective interest rate method. The fair value of these debentures was $218,032 at December 31, 2011 (December 31, 2010 - $218,858; January 1, 2010 - $213,420).

The debt is subordinated in right of payment to all insurance contract 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.

18. Employee benefit plans

Pension benefit plans include defined benefit plans available to certain employees. The Company and its subsidiaries also provide for post-employment health and dental coverage and other future benefits to qualifying employees and retirees. In the past, the Company and its subsidiaries have provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of the Board of Directors.

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

The amounts recognized in the Company's consolidated statement of financial position were as follows:

	Pension Benefit Plans			Other Post-Employment Benefit Plans		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Present value of funded obligations	$ (172,503)	$ (152,520)	$ (134,940)	$ -	$ -	$ -
Fair value of plan assets	164,166	159,286	148,862	-	-	-
Funded status - (deficit) surplus	(8,337)	6,766	13,922	-	-	-
Present value of unfunded obligations	-	-	-	(36,402)	(31,527)	(23,456)
Unrecognized net actuarial loss	27,769	9,720	-	9,693	6,778	-
Defined benefit asset (liability)	$ 19,432	$ 16,486	$ 13,922	$ (26,709)	$ (24,749)	$ (23,456)

The defined benefit asset (liability) is included in the Company's consolidated statement of financial position as follows:

	Pension Benefit Plans			Other Post-Employment Benefit Plans		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Recorded in the consolidated statements of financial position as:						
Other assets (Note 14)	$ 20,513	$ 17,789	$ 15,326	$ -	$ -	$ -
Other liabilities (Note 16)	(1,081)	(1,303)	(1,404)	(26,709)	(24,749)	(23,456)
Defined benefit asset (liability)	$ 19,432	$ 16,486	$ 13,922	$ (26,709)	$ (24,749)	$ (23,456)

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

The movement in the present value of the defined benefit obligation and changes in the fair value of plan assets in the Company and its subsidiaries over the year are as follows:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Present value of defined benefit obligation				
Opening defined benefit obligation	$ 152,520	$ 134,940	$ 31,527	$ 23,456
Current service cost	4,973	3,714	1,028	645
Employee contributions	2,244	2,094	-	-
Interest cost	8,474	8,521	1,712	1,495
Benefits paid	(6,871)	(7,613)	(1,104)	(776)
Actuarial loss on obligations	11,163	10,864	3,239	6,707
Closing defined benefit obligation	$ 172,503	$ 152,520	$ 36,402	$ 31,527
Plan assets				
Fair value at beginning of year	$ 159,286	$ 148,862	$ -	$ -
Expected return on plan assets	8,606	8,740	-	-
Actuarial (loss) gains on assets	(6,918)	1,144	-	-
Employer contributions	7,819	6,059	-	-
Employee contributions	2,244	2,094	-	-
Purchase of annuity of ad-hoc pension	(201)	-	-	-
Benefits paid	(6,670)	(7,613)	-	-
Fair value at end of year	$ 164,166	$ 159,286	$ -	$ -

The actual return on plan assets for the year ended December 31, 2011 was a gain of $1,688 (2010 – gain of $9,884).

The movements in actuarial gains and losses due to differences between actual and expected experience on the plan assets and defined benefit obligations, together with the impact of changes in actuarial assumptions to reflect economic conditions at the year end are summarized below:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Unrecognized actuarial loss as of January 1	$ 9,720	$ -	$ 6,778	$ -
Experience adjustments on plan obligations	904	(2,781)	(293)	(158)
Experience adjustments on plan assets	6,918	(1,144)	-	-
Changes due to discount rate assumptions	10,585	13,657	3,532	3,658
Changes due to other actuarial assumptions	(327)	(12)	-	3,278
Total net actuarial loss in the year	18,080	9,720	3,239	6,778
Less: net actuarial loss recognized in the year	31	-	324	-
Total unrecognized actuarial loss as of December 31	$ 27,769	$ 9,720	$ 9,693	$ 6,778

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

The following summarizes income and expense activity for the Company and its subsidiaries' defined benefit plans:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Defined benefit plan expense				
Current service cost	$ 4,973	$ 3,714	$ 1,028	$ 645
Interest cost	8,474	8,521	1,712	1,495
Expected return on plan assets	(8,606)	(8,740)	-	-
Amortization of actuarial loss	31	-	324	-
	$ 4,872	$ 3,495	$ 3,064	$ 2,140

Defined benefit plan expense is recognized in operating expenses in the Company's consolidated statements of comprehensive income.

Defined benefit plan assets consist of:

	Percentage of Plan Assets	
	2011	2010
Equity securities	51%	52%
Debt securities	34%	34%
Short-term securities	5%	5%
Other	10%	9%
Total	100%	100%

The average remaining working years of the active employees covered by the pension benefit and other benefit plans as at December 31 are as follows:

	2011	2010
Staff Pension Plan (The Dominion)	12 years	12 years
Staff Pension Plan (Empire and E-L)	10 years	12 years
Executive Pension Plan (The Dominion)	14 years	14 years
Supplemental Employee Retirement Benefit Plan (Empire and E-L)	10 years	10 years
Retiree Health Benefits (The Dominion)	13 years	13 years
Retiree Health Benefits (Empire and E-L)	9 years	9 years

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

The following weighted average assumptions were used in the actuarial calculations:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Defined benefit obligations at December 31:				
Discount rate	5.0%	5.5%	4.7%	5.4%
Inflation assumption	2.0%	2.0%	2.0%	2.0%
Rate of compensation increase	3.6%	3.6%	n/a	n/a
Future pension increases	3.0%	3.0%	n/a	n/a
Benefit costs for the years ended December 31:				
Discount rate	5.5%	6.3%	5.4%	6.3%
Expected long-term rate of return on plan assets	5.4%	5.8%	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%	5.8%
Cost trend rate declines to	n/a	n/a	4.5%	4.5%
Year that the rate reaches the rate that it is assumed to remain at	n/a	n/a	2017	2017

The discount rate was selected based on a review of current market interest rates of high-quality, corporate bonds adjusted to reflect the duration of expected future cash outflows for pension and other post-employment benefit payments. A 1% increase in this rate would reduce the defined benefit obligation by approximately $25,899 (December 31, 2010 – $21,380) and the service cost by approximately $1,380 in 2011 (2010 –- $1,084).

The expected return on plan assets is determined for each asset class by considering both market conditions at the beginning of the reporting period and any expectations for longer-term changes in current returns. A 1% increase in the expected rate of return on assets would decrease pension expense by approximately $1,509 in 2011 (2010 – $1,415).

A 1% change in assumed health care cost trend rates would have the following effects on non-pension benefit plans:

	2011		2010	
	Increase	Decrease	Increase	Decrease
Defined benefit obligation	$ 7,347	$ (5,704)	$ 5,449	$ (4,300)
Total service and interest cost	$ 693	$ (521)	$ 577	$ (439)

The mortality assumptions used to assess the Company and its subsidiaries’ defined benefit obligations for the pension and other post-employment benefit plans are based on actuarial standards as established by the CIA.

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

The table below provides additional information on the defined benefit plans for the current and previous periods:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
As at December 31				
Present value of defined benefit obligation	$ (172,503)	$ (152,520)	$ (36,402)	$ (31,527)
Fair value of plan assets	164,166	159,286	-	-
Funded status (deficit) surplus	$ (8,337)	$ 6,766	$ (36,402)	$ (31,527)
Experience adjustments on plan liabilities	$ 904	$ (2,781)	$ (293)	$ (158)
Percentage of the present value of plan liabilities	(0.52%)	1.82%	0.80%	0.50%
Experience adjustments on plan assets	$ 6,918	$ (1,144)	-	-
Percentage of plan assets	(4.21%)	0.72%	-	-

Expected contributions (including both employer and employee amounts) to the Company and its subsidiaries' defined benefit pension plans for the year ending December 31, 2012 are approximately $7,871.

In August 2011, E-L Corporate and Empire Life announced changes to their Staff Pension Plans that became effective on January 1, 2012. The Staff Pension Plans consists of a defined benefit component and a newly created defined contribution component. The defined contribution component became effective January 1, 2012. Plan participants as of September 30, 2011 were offered the choice of continuing membership in the defined benefit component or switching to the newly created defined contribution component on January 1, 2012. E-L Corporate and Empire Life discontinued new enrolments in their defined benefit component effective October 1, 2011. Plan participants advised the companies of their decisions on November 30, 2011. Approximately 5.8% of employees opted to switch from the defined benefit component to the defined contribution component of the pension plan.

19. Insurance contract liabilities and reinsurance recoverable

Insurance contract liabilities are comprised of:

	As at December 31, 2011			As at December 31, 2010			As at January 1, 2010		
	Gross	Reinsurance assets (liabilities)	Net	Gross	Reinsurance assets (liabilities)	Net	Gross	Reinsurance assets (liabilities)	Net
The Dominion unearned premiums provision	$ 593,705	$ 9,104	$ 584,601	$ 597,406	$ 9,390	$ 588,016	$ 572,713	$ 9,327	$ 563,386
The Dominion unpaid and unreported claims provision	1,732,643	65,207	1,667,436	1,619,028	71,724	1,547,304	1,568,288	62,904	1,505,384
	$ 2,326,348	$ 74,311	$ 2,252,037	$ 2,216,434	$ 81,114	$ 2,135,320	$ 2,141,001	$ 72,231	$ 2,068,770
Empire Life insurance contract liabilities	4,231,111	(156,119)	4,387,230	3,711,662	(10,995)	3,722,657	3,248,055	36,819	3,211,236
Total	$ 6,557,459	$ (81,808)	$ 6,639,267	$ 5,928,096	$ 70,119	$ 5,857,977	$ 5,389,056	$ 109,050	$ 5,280,006

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

The Dominion

Unearned premiums

The Dominion's unearned premiums provision represents the portion of premiums that relate to the unexpired terms of coverage. These amounts are determined to be sufficient to fund anticipated claims and expenses.

The change in The Dominion's unearned premiums provision is outlined below:

	2011			2010		
	Gross	Ceded	Net	Gross	Ceded	Net
Balance, beginning of year	$ 597,406	$ 9,390	$ 588,016	$ 572,713	$ 9,327	$ 563,386
Premiums written	1,272,136	61,215	1,210,921	1,272,407	57,448	1,214,959
Premiums earned	(1,275,837)	(61,501)	(1,214,336)	(1,247,714)	(57,385)	(1,190,329)
Changes in provision for unearned premiums	(3,701)	(286)	(3,415)	24,693	63	24,630
Balance, end of year	$ 593,705	$ 9,104	$ 584,601	$ 597,406	$ 9,390	$ 588,016

Unpaid and unreported claims

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

	2011	2010
Balance, beginning of year	$ 1,547,304	$ 1,505,384
Change in prior year's claims estimates	(8,246)	(74,780)
Interest cost	39,740	35,970
Impact of change in discount rate	16,535	(245)
Current year claims incurred	878,085	888,327
Claims payments	(805,982)	(807,352)
Balance, end of year	$ 1,667,436	$ 1,547,304

The 2011 reduction in prior year gross claims estimates of $8,246 consists of: $9,568 unfavourable development in automobile lines, most of which reflects worse than expected experience in bodily injury claims from recent accident years; $10,731 favourable development in personal property claims reflecting better than expected experience from recent accident years; and $7,083 favourable development in commercial property and casualty, arising mainly from better than expected experience for general liability claims estimates related to older accident years. The reduction in claims estimates of $74,780 recognized in 2010 consisted of: $40,260 favourable development in automobile lines, most of which reflects better than expected experience in recent years; $13,425 favourable development in personal property claims reflecting better than expected experience from recent accident years; and $21,095 favourable development in commercial property and casualty claims, arising mainly from better than expected experience for general liability claims estimates and lower severity than expected for property claims in recent years.

Unpaid and unreported claims and reinsurance recoverable are discounted in accordance with accepted actuarial practice in Canada. The weighted average discount rate used for 2011 was 2.7% (2010 – 3.2%). The average discount rate used by the Facility Association was 1.5% (2010 – 2.1%).

Given the absence of an active market for the sale of claims liabilities, the actuarially discounted carrying values for unpaid and unreported claims and reinsurance recoverable provide an appropriate representation of fair value.

The Dominion expects to pay $1,206,888 (December 31, 2010 - $1,108,294) of unpaid and unreported claims, net of reinsurance, more than one year after the consolidated statement of financial position date.

From time to time, The Dominion purchases annuities from life insurance companies to settle certain obligations to claimants. The Dominion's guarantees the life insurers' obligations under these annuities which are estimated to be $224,209 based on the net present value of the projected future cash flows of these guarantees in 2011 (December 31, 2010 - $215,052; January 1, 2010 - $204,491). The Dominion acquires these annuities from reputable credit-worthy life insurance companies whose obligations are insured, within limits, by Assuris. The Dominion considers the credit risk to be negligible.

The following tables show the development of unpaid and unreported claims over a period of time. The first table reflects development for gross claims, which excludes any reductions for reinsurance recoveries. The second table reflects development for net claims, which is gross claims less reinsurance recoveries. The top triangle in each table ("Estimate of ultimate claims") shows how the estimates of total claims for each accident year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Each column tracks the claims relating to a particular "accident year" which is the year in which such claims occurred, regardless of when they were reported. The rows reflect the estimates in subsequent years for each accident year's claims. Claims are presented on an undiscounted basis in the top triangle. The bottom triangle ("Cumulative claims paid") in each table presents the cumulative amounts paid for claims for each accident year at the end of each successive year.

The claims development tables exclude Facility Association ("FA"), assumed Risk Sharing Pools ("RSP") and the effect of discounting (including provisions for adverse deviation ("PfAD")), which are shown as separate reconciling items below the tables.

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

Claims development table, gross of reinsurance

				Accident Year				
	2005 and prior (1)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimate of ultimate claims								
At end of accident year	$ 1,493,403	$ 618,590	$ 722,269	$ 754,197	$ 843,412	$ 874,395	$ 847,702	
1 year later	1,484,371	622,703	700,576	765,384	831,066	882,354		
2 years later	1,471,450	606,207	698,048	749,610	843,578			
3 years later	1,490,878	604,655	694,199	754,836				
4 years later	1,465,477	606,366	703,566					
5 years later	1,478,315	610,805						
6 years later	1,494,857							
Current estimate of ultimate claims	$ 1,494,857	$ 610,805	$ 703,566	$ 754,836	$ 843,578	$ 882,354	$ 847,702	
Cumulative claims paid								
At end of accident year	$ 292,149	$ 265,104	$ 310,488	$ 330,691	$ 361,694	$ 361,354	$ 341,712	
1 year later	557,329	376,516	444,454	502,447	538,650	548,067		
2 years later	727,029	416,624	495,734	562,412	612,538			
3 years later	916,327	462,055	540,805	608,410				
4 years later	1,078,397	502,456	587,769					
5 years later	1,197,988	537,911						
6 years later	1,269,763							
Cumulative claims paid	$ 1,269,763	$ 537,911	$ 587,769	$ 608,410	$ 612,538	$ 548,067	$ 341,712	
Redundancy/(deficiency) recognized in 2011	$ (16,542)	$ (4,439)	$ (9,367)	$ (5,226)	$ (12,512)	$ (7,959)		**$ (56,045)**
Reconciliation to the statement of financial position								
Current year unpaid and unreported claims before discounting	$ 225,094	$ 72,894	$ 115,797	$ 146,426	$ 231,040	$ 334,287	$ 505,990	**$ 1,631,528**
Effect of discounting (including PfAD)								**8,286**
FA and RSP assumed from the pool unpaid and unreported								**92,829**
Unpaid and unreported claims, gross of reinsurance								**$ 1,732,643**

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

Claims development table, net of reinsurance

	Accident Year							
	2005 and prior (1)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimate of ultimate claims								
At end of accident year	$ 1,347,902	$ 613,750	$ 706,674	$ 750,243	$ 827,352	$ 842,893	$ 826,700	
1 year later	1,372,731	615,675	688,053	758,666	816,605	852,692		
2 years later	1,363,532	599,476	684,252	741,985	828,172			
3 years later	1,381,045	596,817	680,562	747,626				
4 years later	1,367,114	599,301	693,003					
5 years later	1,377,697	604,776						
6 years later	1,393,899							
Current estimate of ultimate claims	$ 1,393,899	$ 604,776	$ 693,003	$ 747,626	$ 828,172	$ 852,692	$ 826,700	
Cumulative claims paid								
At end of accident year	$ 285,737	$ 265,096	$ 307,410	$ 330,691	$ 361,367	$ 358,456	$ 341,430	
1 year later	530,603	374,354	438,359	500,102	531,638	527,895		
2 years later	693,150	413,735	488,987	558,678	601,336			
3 years later	858,952	458,480	533,531	602,999				
4 years later	1,016,589	498,296	579,499					
5 years later	1,123,768	534,539						
6 years later	1,193,015							
Cumulative claims paid	$ 1,193,015	$ 534,539	$ 579,499	$ 602,999	$ 601,336	$ 527,895	$ 341,430	
Redundancy/(deficiency) recognized in 2011	$ (16,202)	$ (5,475)	$ (12,441)	$ (5,641)	$ (11,567)	$ (9,799)		**$ (61,125)**
Reconciliation to the statement of financial position								
Current year unpaid and unreported claims before discounting	$ 200,884	$ 70,237	$ 113,504	$ 144,627	$ 226,836	$ 324,797	$ 485,270	**$ 1,566,155**
Effect of discounting (including PfAD)								**8,452**
FA and RSP assumed from the pool unpaid and unreported								**92,829**
Unpaid and unreported claims, net of reinsurance								**$ 1,667,436**

(1) The estimate of ultimate claims for accident years 2005 and prior at the end of accident year 2005 is presented as the sum of ultimate claims for accident year 2005 and the outstanding claims liabilities at the end of calendar year 2005 for the prior accident years. The cumulative claims paid for accident years 2005 and prior include all payments for accident year 2005 but only payments made in calendar years 2006 and subsequent for the prior accident years.

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

Empire Life

The change in insurance contract liabilities and reinsurance assets (liabilities) related to Empire Life is outlined below:

	2011		
	Insurance contract liabilities	Reinsurance assets/(liabilities)	Net
Balance, beginning of year	$ 3,711,662	$ (10,995)	$ 3,722,657
Changes in methods and assumptions			
- improvements in mortality/morbidity experience	(181,964)	(142,405)	(39,559)
- updated approach for establishing mortality assumption	(46,744)	(23,782)	(22,962)
- decrease in investment return assumption	81,296	(32)	81,328
- model enhancements	(8,628)	3,807	(12,435)
- other changes	2,350	8,091	(5,741)
Normal changes			
- new business	154,250	6,729	147,521
- in-force business	518,889	2,468	516,421
Balance, end of year	$ 4,231,111	$ (156,119)	$ 4,387,230

	2010		
	Insurance contract liabilities	Reinsurance assets/(liabilities)	Net
Balance, beginning of year	$ 3,248,055	$ 36,819	$ 3,211,236
Changes in methods and assumptions			
- updated approach for establishing investment return assumption	8,391	(63)	8,454
- improvements in mortality/morbidity experience	(79,878)	(50,163)	(29,715)
- decrease in investment return assumption	40,167	1,387	38,780
- revision to lapse assumptions	(9,673)	(14,357)	4,684
- other changes	(5,405)	(1,115)	(4,290)
Normal changes			
- new business	250,875	808	250,067
- in-force business	259,130	15,689	243,441
Balance, end of year	$ 3,711,662	$ (10,995)	$ 3,722,657

Changes in methods and assumptions summarized in the above tables are further explained as follows:

The improvements in mortality/morbidity experience for both 2011 and 2010 are primarily related to favourable mortality experience for individual life business.

The updated approach for establishing mortality assumption for 2011 is primarily related to new guidelines from the CIA that allow for mortality improvements after the valuation date for individual life and immediate annuity business.

The decrease in investment return assumptions for both 2011 and 2010 is primarily due to the impact of the lower interest rate environment, partially offset by changes to asset default, investment expense and preferred share asset assumptions.

The model enhancements for 2011 is related to participating insurance business. The Company is now using an adjusted book value basis for valuation which essentially assumes that dividends are adjusted to reflect changes in experience as it emerges.

The updated approach for establishing investment return assumption for 2010 is related to the introduction of a mean reversion approach for setting investment return on individual life business. This change was made due to the IFRS decision to re-designate from AFS to FVTPL $151 million of financial assets supporting insurance liabilities.

The revision to lapse assumptions for 2010 is primarily related to persistency experience for individual life business.

Other changes for 2011 relate primarily to assumption updates associated with policy termination (lapse) and administrative expense experience. For 2010 the changes relate primarily to assumption updates associated with administrative expense experience.

In the absence of an active market for the sale of insurance contract liabilities and reinsurance assets/liabilities, the actuarially determined values provide a reasonable approximation of their fair value. Investment contract liabilities are term certain annuities with a relatively short duration.

Empire Life expects to pay $4,082,809 (December 31, 2010 – $3,539,517) of insurance contract liabilities and $161,885 (December 31, 2010 – $24,911) of reinsurance liabilities more than one year after the consolidated statement of financial position date.

For additional analysis of the Company's insurance risk please see Note 30 – Insurance risk management.

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

20. Share capital

	Authorized	Issued and outstanding	2011	2010
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, 2011 there were two series of First Preference shares outstanding; the First Preference shares, Series 1 and the First Preference shares, Series 2. The First Preference shares, Series 1 and the First Preference shares, Series 2, are non-voting unless there has been a specified default in the payment of dividends or to approve of modifications attending to the series of shares.

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

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

(b) The First Preference shares, Series 2 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.1875 per share per annum. On and after October 17, 2011, the Company may redeem for cash the First Preference shares, Series 2 in whole or in part, at the Company's option at $26.00 per share if redeemed prior to October 17, 2012, $25.75 if redeemed thereafter and prior to October 17, 2013, $25.50 if redeemed thereafter and prior to October 17, 2014, $25.25 if redeemed thereafter and prior to October 17, 2015 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

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

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

Dividends during the year are as follows:

	2011	2010
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

For the year, the Company paid out a dividend of $0.50 per share on each of its common shares. When calculated on the basis of the Adjusted Common Shares, the dividend is $1,967 (2010 – $1,971).

The following dividends were declared by the Board of Directors meeting on March 5, 2012, with a record and payable date of April 2 and April 17, 2012, respectively:

- First Preference shares, Series 1, $0.33125 per share;
- First Preference shares, Series 2, $0.296875 per share;
- Series A Preference shares, $0.125 per share; and
- Common shares, $0.125 per share.

21. Shareholders' equity entitlement

Shareholders' entitlement to $5,063 (December 31, 2010 – $5,098; January 1, 2010 – $5,381) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

22. 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.

In the normal course of business, The Dominion enters into excess of loss treaty and facultative reinsurance agreements in order to limit its exposure to unusual losses. Under these agreements The Dominion's exposure to claims occurring in 2011 was limited as follows: $3,000 for an automobile claim; $2,000 for a personal or commercial property claim; $1,750 for a casualty claim; and $2,500 for a surety claim. The Dominion's catastrophe reinsurance arrangements provided coverage up to $600,000 (2010 – $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 next $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. 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.

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

23. Operating expenses

Operating expenses include the following:

	2011	2010
Salary and benefits expense	$ 142,490	$ 131,464
Rent, leasing and maintenance	27,523	26,192
Professional services	29,464	22,407
Amortization and depreciation of assets	11,557	9,686
Other	59,825	55,186
	$ 270,859	$ 244,935

24. Income taxes

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:

	December 31, 2011	December 31, 2010
Income taxes at statutory rate	$ (11,062)	$ 64,105
Variance as a result of:		
Tax-paid dividends	(16,904)	(17,567)
Non-taxable portion of losses (gains)	21,241	(15,494)
Substantively enacted changes in income tax rates	1,017	(5,921)
Other	4,099	845
Income tax (recovery) expense	$ (1,609)	$ 25,968

In 2007 the Federal government passed a tax reduction plan to lower the corporate income tax rate in Canada. The Federal government also encouraged the Provinces and Territories to do the same. The overall goal being a combined Federal/Provincial tax rate of 25%. The current enacted corporate tax rates as they impact Company in 2011 stand at 28.4% (2010 – 30.9%). The impact of the future enacted drop in corporate tax rates has been taken into consideration in the deferred tax calculation.

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

	December 31, 2011	December 31, 2010
Current	$ 7,129	$ (1,423)
Deferred	(8,738)	27,391
Income tax (recovery) expense	$ (1,609)	$ 25,968

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

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

	December 31, 2011	December 31, 2010	January 1, 2010
Investments	$ (53,106)	$ (94,100)	$ (111,855)
Insurance contract liabilities	8,548	40,644	73,292
Losses recoverable in future years	52,837	54,475	76,030
Other	266	3,695	4,129
Deferred taxes receivable	$ 8,545	$ 4,714	$ 41,596
Recorded as:			
Deferred tax assets	$ 49,545	$ 54,828	$ 78,562
Deferred tax liabilities	(41,000)	(50,114)	(36,966)
	$ 8,545	$ 4,714	$ 41,596

Of the above total, $21,493 (December 31, 2010 – $21,387) is expected to be paid more than one year after the reporting date.

Deferred tax (recovery) expense included in net income (loss) represents movements on the following items:

	December 31, 2011	December 31, 2010
Investments	$ (40,994)	$ (17,755)
Insurance contract liabilities	32,096	32,648
Losses recoverable in future years	(3,269)	12,064
Other	3,429	434
Income tax provision	$ (8,738)	$ 27,391

During 2011, the Company and its subsidiaries paid income tax instalments and assessments totalling $8,714 (2010 – $62,795) and received income tax refunds totalling $12,014 (2010 – payment of $19,560).

Under the Income Tax Act, the Company is subject to a 33 1/3% refundable tax on certain Canadian dividends received. This tax will be refunded to the Company at a rate of $1.00 for every $3.00 of taxable dividends paid in the future. The accumulated amount of refundable dividend tax at December 31, 2011 amount to $12,462 (2010 – $10,425). The potential benefit of this amount has not been reflected in these consolidated financial statements.

25. Foreign exchange gains

The amount of net foreign exchange gains recognized in net income (loss), except for those arising on financial instruments measured at FVTPL, is $1,937 (2010 – $13,483).

26. Earnings per share ("EPS")

Basic and diluted earnings per share

Earnings per share has been calculated by dividing net income (loss) attributed to equity shareholders of the Company for the year, less dividends on preference shares, by the amount equal to the total number of Adjusted Common Shares outstanding of 4,019,667 less 86,412 (December 31, 2010 – 78,114), which is the Company's proportionate interest in its own common shares held indirectly through its associate, Economic.

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

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

	2011	2010
Basic (loss) earnings per common share:		
Net (loss) income	$ (44,723)	$ 182,701
Less: Dividends on First Preference shares	(10,050)	(10,050)
Net (loss) income after dividends on First Preference shares	$ (54,773)	$ 172,651
Weighted average number of Adjusted Common Shares outstanding	3,933,255	3,941,553
Basic (loss) earnings per common share	$ (13.93)	$ 43.80
Diluted (loss) earnings per common share:		
Net (loss) income	$ (44,723)	$ 182,701
Weighted average number of Adjusted Common Shares outstanding	3,933,255	3,941,553
Dilutive effect of the conversion of First Preference shares into common shares	442,084	484,211
Weighted average number of diluted Adjusted Common Shares outstanding	4,375,339	4,425,764
Diluted (loss) earnings per common share	$ (13.93)	$ 41.28

27. Other comprehensive (loss) income

The following table summarizes the changes in the components of OCL and OCI, net of tax:

	2011	2010
Net unrealized fair value (decrease) increase on available for sale investments		
Unrealized fair value increase on AFS investments	$ 21,215	$ 63,207
Less: Realized gain on AFS investments reclassified to net income	(40,543)	(9,206)
	(19,328)	54,001
Net gain on derivatives designated as cash flow hedges		
Gain on derivatives designated as cash flow hedges	-	-
Add: Amortization of loss on derivatives designated as cash flow hedges reclassified to net income	496	462
	496	462
Share of other comprehensive income (loss) of associates	1,011	(2,134)
Other comprehensive (loss) income, net of tax	$ (17,821)	$ 52,329

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

OCL and OCI are presented net of income taxes. The following tax amounts are included in each component of OCL and OCI.

	Income Taxes	
	2011	2010
Net unrealized fair value (decrease) increase on available for sale investments		
Unrealized fair value increase on AFS investments	$ 7,268	$ 26,127
Less: Realized gain on AFS investments reclassified to net income	(18,705)	(8,527)
	(11,437)	17,600
Net gain on derivatives designated as cash flow hedges		
Gain on derivatives designated as cash flow hedges	-	-
Add: Amortization of loss on derivatives designated as cash flow hedges reclassified to net income	239	222
	239	222
Share of other comprehensive income (loss) of associates	144	(422)
Total expense in other comprehensive (loss) income	$ (11,054)	$ 17,400

In anticipation of the issuance of unsecured subordinated debentures (Note 17), 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.

28. Commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments recognized as expense in 2011 were $16,562 (2010 - $16,391). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
2011	$ -	$ 19,289
2012	19,371	12,760
2013	15,308	10,113
2014	13,691	7,620
2015	11,540	3,996
2016 (and thereafter for 2010 comparatives)	11,292	9,892
2017 and thereafter	51,852	-
	$ 123,054	$ 63,670

29. Investment risk management

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

The disclosures in notes 5 and 6 provide the breakdown of investments by type and by geographic region. The fair values of these investments are inherently volatile and frequently decline in value as a result of factors beyond the Company's control, including general economic and capital market conditions.

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

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 investments in associates.

The Company maintains a strategy of long-term growth through investments in common equities. The externally managed portfolios of equities and fixed income securities have mandates in which the manager's performance is evaluated. Their performance is reviewed by management on a monthly basis, evaluating performance over a period of time relative to their mandate. On a quarterly basis, the Board of Directors reviews the E-L Corporate investment 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 of equity and fixed income securities, mortgages and loans. 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. The Dominion and Empire Life have investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. Investing activities are subject to the Insurance Companies Act and to Investment Guidelines established by the Investment Committee of the individual company's Board of Directors. The Dominion's and Empire Life's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

Credit risk

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

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash and cash equivalents	$ 248,838	$ 339,892	$ 326,766
Short-term investments	109,333	203,973	293,409
Bonds	6,037,542	4,891,050	4,272,227
Preferred shares	432,868	498,609	551,369
Mortgages	264,238	226,887	223,642
Loans on policies	41,981	40,242	38,728
Policy contract loans	113,118	119,896	137,764
Commercial loans	28,953	33,064	50,010
Accrued investment income	33,168	30,933	31,613
Reinsurance recoverable	74,311	87,799	109,050
Premiums receivables	316,539	309,999	301,547
Total	$ 7,700,889	$ 6,782,344	$ 6,336,125

Mortgages, loans on policies, policy contract loans and commercial loans are fully or partially secured. The Company has made provisions in its consolidated statements of financial position for credit losses. Provisions have been made partly through reduction in the value of the assets and partly through a provision in insurance contract liabilities (refer to Note 19).

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

a) 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	December 31, 2011		December 31, 2010		January 1, 2010	
	Fair value	% of Fair value	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, 2011, holdings of fixed income securities (which include bonds and debentures, preferred shares and short term investments) in the ten issuers, excluding federal governments, to which the Company had the greatest exposure were $27,510 (December 31, 2010 – $16,237; January 1, 2010 – $46,895 which was approximately 3.0% (December 31, 2010 – 1.6%; January 1, 2010 – 5.2%) of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of January 1, 2010 was $1,637, which was approximately 0.2% of total cash and investments.

The Dominion:	December 31, 2011		December 31, 2010		January 1, 2010	
	Fair value	% of Fair value	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 401,289	20%	$ 293,060	18%	$ 249,767	18%
AA	435,007	22%	298,536	18%	249,372	18%
A	991,756	50%	933,047	56%	784,783	56%
BBB	145,593	8%	137,632	8%	109,735	8%
Not rated	-	0%	6,867	0%	5,000	0%
Total	$ 1,973,645	100%	$ 1,669,142	100%	$ 1,398,657	100%

As of December 31, 2011, holdings of fixed income securities (which include bonds and debentures, preferred shares and short term investments) in the ten issuers, excluding federal governments, to which The Dominion had the greatest exposure were $836,000 (December 31, 2010 – $806,345; January 1, 2010 – $795,766), which was approximately 32.2% (December 31, 2010 – 32.7%; January 1, 2010 – 33.8%) of total cash and investments. The exposure to the largest single issuer as of December 31, 2011 was $96,791 (December 31, 2010 – $99,048; January 1, 2010 – $112,723), which was approximately 3.7% (December 31, 2010 – 4.0%; January 1, 2010 – 4.8%) of total cash and investments.

Empire Life:	December 31, 2011		December 31, 2010		January 1, 2010	
	Fair value	% of Fair value	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 304,142	7%	$ 172,028	5%	$ 323,732	12%
AA	1,295,345	32%	1,025,075	32%	811,887	29%
A	2,255,901	57%	1,858,650	58%	1,523,876	54%
BBB	208,509	4%	166,155	5%	130,882	5%
BB	-	0%	-	0%	5,519	0%
Total	$ 4,063,897	100%	$ 3,221,908	100%	$ 2,795,896	100%

As of December 31, 2011, holdings of provincial bonds was $2,433,815 (December 31, 2010 – $1,978,770; January 1, 2010 – $1,559,947), which was approximately 60% (December 31, 2010 – 61%; January 1, 2010 – 56%) of total bond holdings.

As of December 31, 2011, holdings of fixed income securities (which include bonds and debentures, preferred shares and short term investments) in the ten issuers, excluding federal governments, to which Empire Life had the greatest exposure were $3,000,342 (December 31, 2010 – $2,539,709; January 1, 2010 – $2,174,181), which was approximately 54.8% (December 31, 2010 – 52.6%; January 1, 2010 – 50.0%) of total cash and investments. The exposure to the largest single issuer of corporate bonds held as of December 31, 2011 was $140,581 (December 31, 2010 – $102,940; January 1, 2010 – $88,790), which was approximately 2.6% (December 31, 2010 – 2.1%; January 1, 2010 – 2.0%) of total cash and investments.

b) Preferred shares

The Dominion's preferred share investments are all issued by Canadian companies with 83% (December 31, 2010 – 78%; January 1, 2010 – 79%) of these investments rated as P1 as at December 31, 2011 and the remaining 17% (December 31, 2010 – 22%; January 1, 2010 – 21%) rated as P2.

Empire Life's preferred share investments are all issued by Canadian companies with 86% (December 31, 2010 – 81%; January 1, 2010 – 82%) of these investments rated as P1 as at December 31, 2011 and the remaining 14% (December 31, 2010 – 19%; January 1, 2010 – 18%) rated as P2.

c) Commercial loans

The Dominion provides commercial loans to certain independent insurance brokers with whom it conducts business. These loans are provided on market terms. Substantially all of these loans are secured by the related borrower's assets, the primary asset being the borrower's book of business. In some instances, guarantees may be provided by parties related to the borrower in order to enhance the credit quality of the loan. The loan portfolio is subject to internal financial and credit analysis, approval limits and security requirements established by the investment guidelines.

d) Mortgages and policy contract loans

Empire Life's mortgages in the province of Ontario represent the largest concentration with $258,277 or 98% (December 31, 2010 – $218,903 or 96%; January 1, 2010 – $213,885 or 96%) of the total mortgage portfolio. As at December 31, 2011 loans and receivables past due but not impaired are $nil (December 31, 2010 $nil; January 1, 2010 –- $9,270).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 (2010 – $12,060) and to meet ongoing operating expenses as they fall due. In most years, the Company is able to fund these obligations by its cashflow from net investment income earned on its investment portfolio. In addition to this, the Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cashflow deficiencies.

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

Composition of E-L Corporate's liquidity:

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash and cash equivalents	$ 30,187	$ 23,302	$ 25,283
Short-term investments	30,600	34,092	72,622
Bonds	-	-	77,674
Total	$ 60,787	$ 57,394	$ 175,579

At January 1, 2010 the average duration of the bond portfolio 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 policy liabilities which cover a range of expected durations, including short-term claims expected to be substantially paid within one year relating to property and automobile damage coverage and longer term claims relating to automobile accident benefits and bodily injury claims and general liability claims. The remaining obligations of The Dominion relate to ongoing operating expenses as they fall due, all of which are expected to settle in a very short period of time.

The following table provides the estimated maturity profile for The Dominion's gross unpaid and unreported claims:

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
Less than 1 year	$ 490,543	28%	$ 474,721	29%	$ 454,332	29%
1 - 3 years	551,624	32%	496,674	31%	483,118	30%
3 - 5 years	318,908	18%	286,950	18%	291,791	19%
Over 5 years	371,568	22%	360,683	22%	339,047	22%
Total	$ 1,732,643	100%	$ 1,619,028	100%	$ 1,568,288	100%

The following table provides the estimated maturity profile for The Dominion's net unpaid and unreported claims:

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
Less than 1 year	$ 460,548	28%	$ 439,010	28%	$ 428,552	28%
1 - 3 years	535,747	32%	480,371	32%	465,331	31%
3 - 5 years	311,543	19%	280,842	18%	284,233	19%
Over 5 years	359,598	21%	347,081	22%	327,268	22%
Total	$ 1,667,436	100%	$ 1,547,304	100%	$ 1,505,384	100%

The Dominion has funded its short term cash outflows by generating positive cash flow from operations (in most years) and from investment income earned on its investment portfolio. As well, The Dominion maintains a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2011, 4.2% (December 31, 2010 – 11.5%; January 1, 2010 – 14.2%) of cash and investments were held in these shorter duration investments.

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

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

The Dominion	December 31, 2011		December 31, 2010		January 1, 2010	
	Fair value	% of fair value	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 233,633	12%	$ 268,505	16%	$ 224,820	16%
1 - 3 years	511,443	26%	515,547	31%	527,574	37%
3 - 5 years	679,087	34%	371,597	22%	273,017	20%
5 - 10 years	404,256	21%	403,378	24%	295,031	21%
Over 10 years	145,226	7%	110,115	7%	78,215	6%
Total	$ 1,973,645	100%	$ 1,669,142	100%	$ 1,398,657	100%

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

Empire Life:

The majority of Empire Life's obligations relate to its policy liabilities the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, morbidity). The remaining obligations of Empire Life relate to the subordinated debenture which matures in 2019 (refer to Note 17 – Subordinated debt) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

The actuarial and other policy liability amounts are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

The expected maturity profile of Empire Life's significant undiscounted financial liabilities and contractual commitments as at December 31, 2011 are shown in the following table:

December 31, 2011	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 112,149	$ 333,093	$ 390,290	$ 10,407,478	$ 11,243,010
Investment contract liabilities	2,082	9,328	6,217	3,588	21,215
Subordinated debt	13,460	56,010	234,558	-	304,028
Other liabilities	175,709	5,269	11,318	-	192,296
Total liabilities	$ 303,400	$ 403,700	$ 642,383	$ 10,411,066	$ 11,760,549
Operating lease commitments	2,559	6,314	2,406	-	11,279
Total	$ 305,959	$ 410,014	$ 644,789	$ 10,411,066	$ 11,771,828

December 31, 2010	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 128,290	$ 406,191	$ 433,494	$ 9,558,711	$ 10,526,686
Investment contract liabilities	2,728	9,623	6,673	4,065	23,089
Subordinated debt	13,460	55,487	249,542	-	318,489
Other liabilities	150,680	2,785	10,920	-	164,385
Total liabilities	$ 295,158	$ 474,086	$ 700,629	$ 9,562,776	$ 11,032,649
Operating lease commitments	2,355	6,551	3,065	-	11,971
Total	$ 297,513	$ 480,637	$ 703,694	$ 9,562,776	$ 11,044,620

Empire Life is able to fund its short term cash outflows by generating positive cash flow from operations and from investment income earned on its investment portfolio. An Asset-Liability Management

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

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, 2011, 3.5% (2010 – 4.2%) 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):

Empire Life	December 31, 2011		December 31, 2010		January 1, 2010	
	Fair value	% of fair value	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 81,509	2%	$ 82,431	3%	$ 146,214	5%
1 - 5 years	469,470	12%	359,701	11%	344,287	12%
5 - 10 years	379,338	9%	297,073	9%	270,540	10%
Over 10 years	3,133,580	77%	2,482,703	77%	2,034,855	73%
Total	$ 4,063,897	100%	$ 3,221,908	100%	$ 2,795,896	100%

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are interest rate risk, market price fluctuations and foreign currency risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can result from many factors including general market volatility, or specific social, political or economic events. Changing interest rates have a direct impact on the fair value of the Corporate Investment and Insurance Operation's fixed income investments, which total $6.0 billion at December 31, 2011 (2010 – $4.9 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.

E-L Corporate and The Dominion

The following table provides the impact for E-L Corporate and The Dominion that a change in market interest rates would have on shareholders' net income and shareholders' 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.

December 31, 2011	1% Increase	1% Decrease	2% Increase	2% Decrease
E-L Corporate				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	nil	nil	nil	nil
The Dominion				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(56,399)	59,010	(110,316)	120,766

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

December 31, 2010	1% Increase	1% Decrease	2% Increase	2% Decrease
E-L Corporate				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	nil	nil	nil	nil
The Dominion				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(42,346)	44,009	(83,102)	89,754

Unpaid and unreported claims and reinsurance recoverable are discounted in accordance with accepted actuarial practice in Canada. As a mitigating factor to the interest rate risk relating to The Dominion's bonds, The Dominion manages the average duration of its bond portfolio within a range that is consistent with the average duration of net unpaid claims liabilities established by the Investment Committee of the Board. 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, 2011, the average bond duration of 4.0 years (2010 – 3.7 years) is 93% (2010 - 93%) of the net unpaid and unreported claims average duration of 4.3 years (2010 – 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. Although the range does not constitute strict asset and liability matching, the majority of unrealized gains and losses on bonds that are generated by changes in the market interest rates are substantially offset by changes in the carrying value of net unpaid claims on a discounted basis that are generated by changes in the claims discount rate (due to changes in the underlying market interest rates of the bond portfolio). The impact of a 100 basis point decrease (increase) in the weighted average discount rate is an increase (decrease) in the net unpaid and unreported claims carrying value of $46,486 (2010 - $44,362) and an increase (decrease) of $33,340 (2010 - $30,730) in net income (loss), net of tax. This calculation is based on the estimated weighted average maturity of the cash flows (net of tax) on net claims, assumes a parallel shift and holds all other variables constant.

Empire Life

Empire Life has interest rate risk in its investments and in its products. Certain of Empire Life's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, Empire Life may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited; thereby adversely affecting Empire Life's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls, and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased policy surrenders. Fluctuations in interest rates may cause losses to Empire Life due to the need to reinvest or divest during periods of changing interest rates, which may force Empire Life to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on Empire Life's financial position and operating results.

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

The following tables summarize the net impact of a reasonably possible change in interest rates affecting investments and policy liabilities (there is no material impact on net income as the change in the fair value of FVTPL investments is offset by a corresponding change in policy liabilities):

December 31, 2011	1% Increase	1% Decrease	2% Increase	2% Decrease
Empire Life				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(16,414)	17,400	(31,934)	35,810

December 31, 2010	1% Increase	1% Decrease	2% Increase	2% Decrease
Empire Life				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(10,323)	10,986	(20,010)	21,983

b) Market price fluctuations

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

A core aspect of the insurance operation's investment strategy is to maintain a higher than industry average level of publicly-listed "large cap" common stocks in its capital and surplus investment portfolios, in pursuit of superior long-term returns. Therefore, the insurance companies have relatively large common stock portfolios and are exposed to significant loss from declines in fair value.

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

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

E-L Corporate and The Dominion

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

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

	December 31, 2011		December 31, 2010	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 63,618	$ 10,083	$ 71,731	$ 9,390
20% fluctuation	127,236	20,166	143,462	18,780
Investments in associates				
10% fluctuation	40,096	nil	42,172	nil
20% fluctuation	80,192	nil	84,344	nil
The Dominion				
10% fluctuation	$ nil	$ 27,182	$ nil	$ 24,590
20% fluctuation	nil	54,363	nil	49,180

Empire Life

Empire Life has risks related to global equity markets in its investments and in its products. The risk of fluctuation of the market value of Empire Life's segregated funds is generally assumed by the policyholders. Market value variations of such assets will result in variations in the income of Empire Life to the extent fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect Empire Life. Additionally, certain of Empire Life's segregated fund products contain guarantees upon death, maturity, or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on Empire Life's financial position, Minimum Continuing Capital and Surplus Requirements (MCCSR) position, and results of operations.

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of Empire Life. Cash flows arising from these investments are intended to match the liquidity requirements of Empire Life's policy liabilities, within the limits prescribed by Empire Life. However, if Empire Life does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

The following table summarizes the potential impact on Empire Life of a change in global equity markets. Empire Life uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. Empire Life has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. For insurance operations, the effect on shareholders' net income includes the impact on FVTPL equity investments, segregated fund management fees and the impact on policy liabilities (other than segregated fund guarantee policy liabilities). 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 equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantee policy liabilities represent the impact on shareholders' net income.

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

	December 31, 2011		December 31, 2010	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Empire Life				
Insurance operations				
10% fluctuation	$ 8,805	$ 9,141	$ 8,428	$ 15,529
20% increase	17,620	18,281	16,945	31,058
20% decrease	(23,051)	(18,281)	(16,945)	(31,058)
Segregated fund guarantees				
10% increase (decrease)	nil	nil	nil	nil
20% increase (decrease)	nil	nil	nil	nil

Concentration of common equity holdings

E-L Corporate's largest exposure to common equities relates to its investment in associates of $419,784 (December 31, 2010 – $449,363; January 1, 2010 – $420,278) which represents 32% (December 31, 2010 – 31%; January 1, 2010 – 32%) of E-L Corporate's total assets.

	The Dominion			Empire Life		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Exposure to the ten largest common share holdings	$ 91,521	$ 128,018	$ 121,273	$ 214,097	$ 245,668	$ 200,399
As a percentage of the segment's total cash and investments	3.5%	5.2%	5.1%	3.9%	5.1%	4.6%
Exposure to the largest single issuer of common shares	$ 11,680	$ 15,413	$ 19,297	$ 41,687	$ 46,192	$ 42,430
As a percentage of the segment's total cash and investments	0.4%	0.6%	0.8%	0.8%	1.0%	1.0%

c) Foreign currency risk

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

The Company's exposure to foreign currency is limited to its investments in common shares and units. The U.S. dollar represents the largest currency exposure. In addition, the Company has exposure to several currencies worldwide, reflecting the global diversity of its non-Canadian portion of its investments. These investments are managed by both Empire Life's in-house investment managers and third party investment managers, with decisions regarding exposure to currency risk being part of the investment manager's strategy.

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

E-L Corporate: Approximately $14,114 (2010 – $13,575) on shareholders' net income and $10,127 (2010 – $8,920) on other comprehensive income.

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

The Dominion: Approximately $nil (2010 – $nil) on shareholders' net income and $6,919 (2010 – $3,433) on other comprehensive income.

Empire Life: Approximately $935 (2010 – $388) on shareholders' net income and $327 (2010 – $254) on other comprehensive income.

30. Insurance risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to insurance risks through its two insurance subsidiaries.

The Company and insurance subsidiaries have created Risk Management Policies. Oversight and management of the policies falls under the authority of senior management, Risk Management Committees, where applicable, and the Board of the respective companies.

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 geographic region as follows:

Gross Premiums Written	2011		2010	
By product:				
Automobile	$ 779,625	61%	$ 788,965	62%
Personal Property	277,682	22%	268,085	21%
Commercial Property & Casualty	214,829	17%	215,357	17%
	$ 1,272,136	100%	$ 1,272,407	100%
By geographic region:				
Ontario	$ 947,931	74%	$ 933,894	73%
Western Canada	201,826	16%	211,891	17%
Atlantic Canada	122,379	10%	126,622	10%
Total	$ 1,272,136	100%	$ 1,272,407	100%

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

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 factors, regulatory factors, as well as changes to products that could result in claims costs that exceed pricing assumptions. Management attempts to mitigate the impacts of the market cycle of the property and casualty insurance industry by maintaining underwriting discipline and ensuring risks are appropriately priced and selected.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 on 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 $770,106 (2010 – $780,115), the majority of which are subject to rate regulation. The extent to which net premiums written would have differed in the absence of regulation is not determinable.

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

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

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. 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, especially in claim categories that experience annual volatility that can mask underlying trends such as automobile bodily injury and accidents benefit claims. The degree of difficulty in estimating claims provisions also depends on the length of time between when an insured event occurs and when the resulting claim is ultimately settled. Short-tail claims, such as claims for property and automobile damage, are easier to estimate. Longer-tail claims, such as claims for automobile bodily injury and accident benefits, are more challenging to estimate, making the underlying claims trends difficult to identify on a timely basis. Claims experience in 2011 for bodily injury has deteriorated, with a higher than expected number of claims counts opened in late 2010 and 2011 relating to accidents that occurred in late 2009 to early 2010. The causes of this recent increase in claims frequency are difficult to objectively identify which contributes to the risk of misestimating claims provisions. 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.

Sensitivity to claims misestimation risk

Claims estimates are based upon a multitude of factors but are particularly sensitive to assumptions about claims frequency and severity, claims payment trends, inflation and interest rates and changes in legislation and in the interpretation of liability by the courts.

Significant correlations exist between assumptions that underlie claims estimates. A change in one assumption will usually have a non-linear impact on the claims estimates, partly due to the fact that a change in one assumption may cause changes in other correlated assumptions. As such, it is not meaningful to disclose the quantitative impact on The Dominion's financial results of a change in an individual assumption (except for the discount rate selection – please refer to the market risk section of note 29 – Investment risk management for a discount rate sensitivity analysis). To demonstrate overall sensitivity of claims estimates, 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 $83,372 (2010 – $77,365) and a decrease (increase) in Net income (loss) of $59,911 (2010 – $53,800), net of tax.

Reinsurance risk

The Dominion purchases reinsurance to protect capital and surplus from claims risk from individual caused by large losses and from 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 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 outlined in Note 22 – reinsurance.

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 Dominion's credit risk section of Note 29 – Investment risk management 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 profitablility. There is also the risk that an insurer’s reinsurance program is not adequately designed to provide the protection intended

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

To mitigate reinsurance risk, the terms and conditions of reinsurance treaties and reinsurer participations are reviewed and approved by management’s a Reinsurance Committee established by management and are reported to The Dominion’s Board. 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, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by segment as follows:

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net premium income	$ 141	$ 239	$ 278	$ 262	$ 339	$ 316	$ -	$ -	$ 758	$ 817
Fee and other income	110	104	7	6	1	1	2	2	120	113
Total revenues	$ 251	$ 343	$ 285	$ 268	$ 340	$ 317	$ 2	$ 2	$ 878	$ 930

Empire Life is in the business of measuring and managing risk, and this is reflected in the valuation of insurance contract liabilities. Empire Life is exposed to experience risk, product design and pricing risk, underwriting and claims risk and reinsurance risk arising from its insurance operations. Empire Life regularly evaluates its exposure to foreseeable risks through Dynamic Capital Adequacy Testing analysis.

Experience risk

The principal risk Empire Life faces under insurance contracts is the risk that experience on claims, policy lapses 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. Therefore, the objective of Empire Life is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

The computation of insurance liabilities and related reinsurance recoverables requires “best estimate” assumptions covering the remaining life of the policies. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market trends and other published information. These assumptions are made for mortality, morbidity, investment returns, lapse, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. A range of allowable margins is prescribed by the CIA.

Empire Life maintains margins near the middle of the allowable range for those assumptions where the best estimate has been calculated rigorously and with a relatively high degree of credibility, and near the high end of the allowable range for assumptions where the measurement uncertainty is greater.

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. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of Empire Life's estimated shareholders' net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2011. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(a) Mortality

Empire Life carries out annual internal studies of its own mortality experience. The valuation mortality assumptions are based on a combination of this experience and recent CIA industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders.

For non-participating insurance business, a 2% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $8,680 (2010 – $10,200). For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $3,100 (2010 – $2,600).

(b) Investment returns

The computation of policy liabilities takes into account projected investment income net of investment expenses from the assets supporting policy liabilities, and investment income expected to be earned on reinvestments. The assets supporting the policy liabilities are segmented from the assets backing shareholders' and policyholders' equity.

For life and health insurance, the projected cash flows from the assets are combined with estimated future reinvestment rates based on both the current economic outlook and Empire Life's expected future asset mix. The cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, Empire Life maintains certain equity, fixed income and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored on a daily basis.

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

For annuity business, where the timing and amount of the benefit obligations can be more readily determined, the matching of the asset and liability cash flows is tightly controlled. A sudden increase or decrease in interest rates would have a negligible effect on future profits from annuity business currently in force.

The impact of an immediate change in interest rates can be found in Note 29 – Investment risk management. If the change in interest rates persisted for one year, then a change to the actuarial reinvestment assumption would be required. For non-participating insurance business, a 1% decrease in assumed reinvestment rates would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $37,750 (2010 – $27,700). This assumes no change in the ultimate reinvestment rate. For annuity business, the impact is negligible as a result of the matching process described above.

The impact of an immediate change in equity markets can be found in Note 29 – Investment risk management. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $32,000 (2010 – $24,700).

(c) Policy termination (lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of Empire Life's own internal termination studies (conducted annually) and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that an increase in lapses will occur at each renewal point, and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

Acquisition costs may not be recovered fully if lapses in the early policy years exceed those in the actuarial assumptions. An increase in policy termination rates early in the life of the policy would tend to reduce profits for shareholders. An increase in policy termination rates later in the life of the policy would tend to increase profits for shareholders if the product is lapse supported (such as term insurance to age 100), but decrease shareholder profits for other types of policies.

For non-participating insurance and annuity business a 10% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing shareholders' net income by approximately $79,600 (2010 – $60,000). For products where fewer terminations would be financially adverse to Empire Life, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to Empire Life, the change is applied as an increase to the lapse assumption.

(d) Expenses

Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses, and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $4,500 (2010 – $4,000).

(e) Morbidity

Empire Life carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent CIA industry experience.

For individual critical illness business the incidence rates (or rates of accident or sickness) are the key assumption related to morbidity. An increase in incidence rates would result in an increase in the number of claims which increases expenditures and reduces shareholders' profits. For group long-term disability business the termination rates (or rates of recovery) are the key assumption related to morbidity. A decrease in termination rates would result in disability claims persisting longer which increases expenditures.

For non-participating insurance business where the morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $4,000 (2010 – $3,500).

Product design and pricing risk

Empire Life 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 Life can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, Empire Life assumes the entire risk, and thus must carry out a full valuation of the commitments in this regard.

Empire Life manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described below. Empire Life has established policy liabilities in accordance with standards set forth by the CIA. Experience studies (both company-specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities , as well as product design and pricing, take into account emerging experience. Empire Life has established an active capital management process that includes a Capital Management policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts Dynamic Capital Adequacy Testing and reports annually to Empire Life's Audit Committee on Empire Life's financial condition, outlining the impact on capital levels should future experience be adverse. Empire Life has also developed a product design and pricing policy for each of its major product lines. This policy, which is established by management and approved by Empire Life's Board of Directors, defines Empire Life's product design and pricing risk management philosophy. The policy sets out product design and pricing approval authorities, product concentration limits, and required product development and monitoring processes and controls.

Underwriting and claims risk

Empire Life 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 Life'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.

In addition to the risk management controls described above under Product Design and Pricing Risk, Empire Life also manages underwriting and claims risk through its underwriting and liability management policy for each of its major product lines. This policy is established by management and approved by Empire Life's Board of Directors. Together, these policies define Empire Life's underwriting and risk management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. Empire Life uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines in the underwriting and liability management policy and the Board approves changes to these retention limits.

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.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Empire Life's net exposure to claims, as a result of reinsurance coverage, is outlined in Note 22 – Reinsurance.

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.

31. 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.

The Company's subsidiaries operate in the insurance industry and are subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the subsidiaries.

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.

32. Related party transactions

The Company's investments in related parties includes investments in associates of $419,784 (2010 – $449,363) and investments in other related parties within investments – corporate of $438,428 (2010 –

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$499,104). The ultimate controlling party of the Company and of its related parties, is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

During the year, the Company invested an additional $4,164 (2010 – $10,737) in its associates and $5,000 (2010 – $4,998) in other related parties in investments – corporate.

The Company received administrative service fees of $1,115 (2010 – $1,069) from its associates during the year.

Compensation of key management personnel

Key management personnel are comprised of the directors of the Company and their remuneration is as follows:

	2011	2010
Salaries and other short-term benefits	$ 1,072	$ 1,016
Post-employment benefits	90	65
Balance at the end of the year	$ 1,162	$ 1,081

33. Capital management

The Company's capital is comprised of total 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 OSFI. OSFI expects property and casualty insurers to exceed its supervisory target for the prescribed Minimum Capital Test ("MCT"), which calculates a ratio of capital available to capital required. As at December 31, 2011, December 31, 2010 and January 1, 2010, The Dominion exceeded OSFI's supervisory target level of 150%. Management of The Dominion regularly monitors the sensitivity of existing capital to potential threats including negative claims development, declines in investment values and operating leverage (ratio of premiums to capital).

Empire Life also aims to manage its capital in order to meet the capital adequacy requirements of the *Insurance Companies Act*, Canada as established by OSFI. Under the guidelines established by OSFI, Empire Life's capital consists of two tiers. Empire Life's Tier 1 Capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 Capital includes the accumulated unrealized gains on AFS equity securities, net of tax, subordinated debt, and negative reserves on policy liabilities. OSFI's supervisory target Tier 1 and total capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2011, December 31, 2010 and January 1, 2010, Empire Life exceeded both of these requirements.

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

Summary of Consolidated Results

	IFRS		Previous Canadian GAAP		
(Unaudited)	2011	2010	2009	2008	2007
Premium income	$ 1,972,790	$ 2,006,855	$ 1,925,902	$ 1,709,435	$ 1,630,208
Share of (loss) income from investments in associates	(27,298)	31,837	6,744	(117,313)	(20,119)
Fair value change in fair value through profit or loss investments	335,458	289,551	140,190	(228,558)	(17,401)
Realized gain (loss) on available for sale investments including impairment write downs	59,249	15,459	(317,860)	(167,171)	175,397
Investment and other income	465,348	439,650	398,530	403,755	394,861
Total revenues	2,805,547	2,783,352	2,153,506	1,600,148	2,162,946
Policy benefits	2,125,855	1,900,569	1,784,877	1,106,568	1,273,824
Operating expenditures including commissions and premium taxes	718,609	674,965	564,795	551,881	561,914
Income (recovery) taxes	(1,609)	25,968	(33,334)	62,447	109,410
	(37,308)	181,850	(162,832)	(120,748)	217,798
Policyholders' and non-controlling interest portion of income	7,415	(851)	22,076	6,565	7,110
Net (loss) income	$ (44,723)	$ 182,701	$ (184,908)	$ (127,313)	$ 210,688
Net (loss) income per share - basic	$ (13.93)	$ 43.80	$ (58.75)	$ (41.30)	$ 60.29
Assets					
Cash and cash equivalents	$ 248,838	$ 339,892	$ 327,529	$ 357,294	$ 364,785
Investments in associates	419,784	449,363	400,949	221,205	309,861
Investments - corporate	872,889	961,188	747,555	878,947	1,097,886
Investments - insurance operations	7,859,822	6,964,620	6,402,741	5,398,721	5,687,639
Reinsurance recoverable	74,311	87,799	101,522	104,867	199,957
Premiums receivable	316,539	309,999	301,547	276,911	259,894
Other assets	392,082	354,040	309,797	326,225	320,966
	10,184,265	9,466,901	8,591,640	7,564,170	8,240,988
Segregated funds	4,415,318	4,620,899	4,310,401	3,348,827	4,594,300
	$ 14,599,583	$ 14,087,800	$ 12,902,041	$ 10,912,997	$ 12,835,288
Liabilities					
Insurance contract liabilities	$ 6,557,459	$ 5,928,096	$ 5,395,886	$ 4,885,506	$ 5,050,514
Other liabilities	691,597	531,857	531,265	298,602	303,589
Policyholders' and non-controlling interest	215,816	216,409	213,546	164,860	186,439
	7,464,872	6,676,362	6,140,697	5,348,968	5,540,542
Capital stock	272,388	272,388	272,388	272,388	272,388
Retained earnings	2,304,961	2,363,078	2,065,921	2,264,591	2,399,714
Accumulated other comprehensive income (loss)	142,044	155,073	112,634	(321,777)	28,344
	2,719,393	2,790,539	2,450,943	2,215,202	2,700,446
	10,184,265	9,466,901	8,591,640	7,564,170	8,240,988
Segregated funds	4,415,318	4,620,899	4,310,401	3,348,827	4,594,300
	$ 14,599,583	$ 14,087,800	$ 12,902,041	$ 10,912,997	$ 12,835,288

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

Summary of The Dominion

	IFRS		Previous Canadian GAAP		
(Unaudited)	2011	2010	2009	2008	2007
Premium income	$ 1,214,336	$ 1,190,329	$ 1,086,026	$ 1,023,257	$ 998,882
Other income	15,141	15,038	13,827	13,132	12,921
Claims	(926,114)	(849,272)	(903,431)	(768,579)	(714,655)
Operating expenditures including commissions and premium taxes	(388,425)	(366,036)	(340,959)	(319,048)	(312,873)
Underwriting (loss) income	(85,062)	(9,941)	(144,537)	(51,238)	(15,725)
Realized gain (loss) on available for sale investments including impairment write downs	27,414	12,387	(159,913)	(31,909)	120,478
Fair value change in fair value through profit or loss investments	238	1,867	-	-	-
Investment and other income	90,390	85,618	87,226	88,509	82,561
Income (loss) before taxes	32,980	89,931	(217,224)	5,362	187,314
Income taxes (recovery)	7,738	19,704	(65,247)	9,741	42,725
Net income (loss)	$ 25,242	$ 70,227	$ (151,977)	$ (4,379)	$ 144,589
Claims ratio	76.3%	71.3%	83.2%	75.1%	71.5%
Expense ratio	32.0%	30.8%	31.4%	31.2%	31.4%
Combined ratio	108.3%	102.1%	114.6%	106.3%	102.9%
Gross premiums written					
Automobile	$ 779,625	$ 788,965	$ 726,486	$ 666,175	$ 633,082
Property	396,527	389,142	361,100	335,340	315,356
Casualty	95,984	94,300	92,288	90,594	90,719
	$ 1,272,136	$ 1,272,407	$ 1,179,874	$ 1,092,109	$ 1,039,157
Assets	$ 3,256,023	$ 3,120,173	$ 2,981,268	$ 2,648,264	$ 2,817,289

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

Summary of Empire Life

	IFRS		Previous Canadian GAAP		
(Unaudited)	2011	2010	2009	2008	2007
Premium income	$ 758,454	$ 816,526	$ 839,876	$ 686,178	$ 631,326
Fair value change in fair value through profit or loss investments	394,512	213,646	106,699	(244,384)	(84,349)
Realized gain on fair value through profit or loss investments	41,324	8,047	30,641	19,920	61,834
Realized gain (loss) on available for sale investments including impairment write downs	25,846	7,496	(34,409)	(47,207)	38,878
Investment and other income	337,025	317,442	279,417	273,871	269,863
Total revenues	1,557,161	1,363,157	1,222,224	688,378	917,552
Policy benefits	1,199,741	1,051,297	881,446	337,989	559,169
Operating expenditures including commissions and premium taxes	324,136	302,655	259,694	265,012	278,671
Income taxes	139	(5,742)	16,158	40,289	29,000
	33,145	14,947	64,926	45,088	50,712
Profits allocated to policyholders	838	(4,890)	11,124	(3,282)	(4,035)
Profits allocated to non-policyholders	6,577	4,039	10,952	9,847	11,145
Net contribution to E-L	$ 25,730	$ 15,798	$ 42,850	$ 38,523	$ 43,602
Premium income by line					
Individual:					
Insurance	$ 321,073	$ 299,390	$ 281,751	$ 283,981	$ 272,859
Annuities	132,681	231,534	292,200	113,731	87,281
Health	17,629	16,799	15,902	14,930	13,569
	471,383	547,723	589,853	412,642	373,709
Group:					
Insurance	25,929	23,623	23,121	23,470	23,002
Annuities	8,765	7,145	8,106	3,974	3,802
Health	252,377	238,035	218,796	246,092	230,813
	287,071	268,803	250,023	273,536	257,617
Total premiums	$ 758,454	$ 816,526	$ 839,876	$ 686,178	$ 631,326
Assets including segregated funds	$ 10,014,822	$ 9,530,926	$ 8,712,454	$ 7,095,633	$ 8,449,823

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

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)

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

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Net Common Shareholders' Equity	Shareholders' 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
2011	14,599,583	1,972,790	2,805,547	2,519,393	(57,752)	(17.24)

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.

2011 - Conversion to International Financial Reporting Standards ("IFRS")

THE DOMINION

Corporate Management

President and
Chief Executive Officer
GEORGE L. COOKE

Chief Information Officer
JANET E. BABCOCK

Chief Actuary
NATHALIE BÉGIN

Senior Vice-President, Sales
ALAN J. HANKS

Chief Financial Officer
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

Senior Vice-President, Field Operations, Western Canada
CHRISTOPHER R.D. SAYER

Chief Risk Officer
KATHLEEN E. THOMAS

Senior Vice-President, Business Solutions
STEVE 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, Chief Technology Officer
RICHARD CLEAVER

Senior Vice-President and Chief Investment Officer
GAELEN MORPHET

Senior Vice-President, Strategy and Chief Actuary
J. EDWARD GIBSON

Senior Vice-President,
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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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 www.computershare.com/service

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.