E-L Financial Corporation Limited

2012 ANNUAL REPORT

The Year at a Glance

(Thousands of dollars)		**2012**		2011
Net Premiums	**$**	**2,022,797**	$	1,972,790
Total Revenues	**$**	**3,010,100**	$	2,805,547
Shareholders'				
Net Operating Income (1)	**$**	**87,570**	$	30,307
Net Income (Loss)	**$**	**472,741**	$	(44,723)
Comprehensive Income (Loss)	**$**	**481,774**	$	(57,752)

Changes in Shareholders' Equity:				
Beginning of the year	**$**	**2,719,393**	$	2,790,539
Comprehensive income (loss):				
Net income (loss)		**472,741**		(44,723)
Other comprehensive income (loss)		**9,033**		(13,029)
		481,774		(57,752)
Dividends paid		**(16,407)**		(12,060)
Net refundable dividend taxes		**(23)**		(1,076)
Preferred share issuance, net of costs		**97,446**		-
Elimination of the net cost of reciprocal shares		**(610)**		(258)
End of the year	**$**	**3,281,573**	$	2,719,393

Per Share Information: (2)				
Net Operating Income (1)	**$**	**18.62**	$	5.15
Net Income (Loss)	**$**	**116.66**	$	(13.93)
Comprehensive Income (Loss)	**$**	**118.96**	$	(17.24)
Net Equity Value (1)	**$**	**749.42**	$	642.98

(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 Friday May 10, 2013, in the Meeting Room of The Dominion of Canada General Insurance Company, 4th floor, 165 University Avenue, Toronto. All shareholders are invited to attend.

Board of Directors

J. Christopher Barron,
Corporate Director

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

R.B. Matthews,
Chairman, Longview Asset Management Ltd.

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

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, 2012 and 2011 for E-L Financial Corporation Limited ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2012 year end consolidated financial statements and the notes, which form part of the E-L Financial 2012 Annual Report dated March 5, 2013. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Accountants. 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.

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, the fair value change in fair value through profit or loss ("FVTPL") investments in the E-L Corporate portfolio and the gain on the excess of the fair value of United Corporations Limited's ("United") assets and liabilities over the Company's carrying value of United. 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 shareholders' equity on page 6.

The Company

E-L Financial operates as an investment and insurance holding company. The Company has two operating insurance subsidiaries, The Dominion of Canada General Insurance Company ("The Dominion") (100% owned) and The Empire Life Insurance Company ("Empire" or "Empire Life") (80% owned). The Dominion underwrites property and casualty insurance while Empire underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products. The Dominion and Empire Life are consolidated into E-L Financial for financial reporting purposes.

The Company also 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 significant investments in 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. Economic and Algoma are reported as investments in associates and are accounted for using the equity method. Throughout the year United was reported as an investment in associates. At December 31, 2012 United became a subsidiary of E-L Financial and thereafter was consolidated into E-L Financial for financial reporting purposes.

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

Review of results attributable to shareholders of E-L Financial

By the end of 2012, E-L Financial had acquired over 50% of the voting shares of United and accordingly, the Company commenced recording its investment in United using the consolidated method of accounting. The consolidation of United resulted in an after tax gain of $142.2 million, reflecting the excess of the fair value of United's assets and liabilities over the Company's carrying value of United, as United's common shares trade at a discount relative to their net asset value. This gain has been included on a separate line in the consolidated statements of income.

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

	2012			
(thousands of dollars)	**E-L Corporate**	**The Dominion**	**Empire Life**	**Total**
Net operating income	**$ 23,247**	**$ 15,965**	**$ 48,358**	**$ 87,570**
Realized gain on available for sale investments including impairment write downs	**4,310**	**24,297**	**15,690**	**44,297**
Share of income of associates	**72,823**	**-**	**-**	**72,823**
E-L Corporate's fair value change in fair value through profit or loss investments	**125,810**			**125,810**
Gain on the consolidation of United	**142,241**	**-**	**-**	**142,241**
Net income	**368,431**	**40,262**	**64,048**	**472,741**
Other comprehensive income (loss)	**6,550**	**12,645**	**(10,162)**	**9,033**
Comprehensive income	**$ 374,981**	**$ 52,907**	**$ 53,886**	**$ 481,774**

	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)
E-L Corporate's 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)

Net operating income

E-L Financial earned consolidated net operating income of $87.6 million or $18.62 per share in 2012 compared with $30.3 million or $5.15 per share in 2011.

The $57.3 million increase in net operating income in 2012 versus 2011 is principally attributable to a $35.2 million increase in net operating income at Empire Life as a result of a less severe long-term interest rate drop, higher product prices, and favourable improvement in policy liability assumption updates in the Individual Insurance product line. The $10.0 million increase in The Dominion's net operating income is mainly due to lower claims expense for weather-related property losses.

Net income (loss)

E-L Financial earned consolidated net income of $472.7 million or $116.66 per share compared with a net loss of $44.7 million or $13.93 per share in 2011.

In addition to the increase in net operating income described above, improved global equity markets during 2012 resulted in a $125.8 million increase in FVTPL investments and a $72.8 million increase in the Company's share of income from associates compared to decreases in 2011 of $88.0 million and $23.9 million, respectively. In addition, the Company recognized a $142.2 million gain on the consolidation of United.

Comprehensive income (loss)

E-L Financial earned consolidated comprehensive income of $481.8 million or $118.96 per share in 2012 compared with a loss of $57.8 million or $17.24 per share in 2011. Consolidated other comprehensive income ("OCI") was $9.1 million or $2.30 per share compared with other comprehensive loss ("OCL") of $13.1 million or $3.31 per share in 2011.

The $22.2 million increase in OCI for the year is mainly due to an increase in unrealized gains on AFS investments.

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, 2012**	December 31, 2011
E-L Financial shareholders' equity	**$ 3,281,573**	$ 2,719,393
Less: First Preference shares	**(300,000)**	(200,000)
	2,981,573	2,519,393
Adjustments for E-L Corporate not carried at fair value:		
Investments in associates		
Carrying value	**(230,994)**	(419,784)
Fair value	**266,247**	429,046
	35,253	9,262
Deferred income tax	**(4,407)**	(1,158)
	30,846	8,104
Net equity value	**$ 3,012,419**	$ 2,527,497
Common Shares(1) outstanding at period end	**4,019,667**	3,930,906
Net equity value per Common Share(1)	**$ 749.42**	$ 642.98

(1) Common Shares includes Series A Convertible Preference Shares. Commencing in fiscal 2012, the above fair value adjustment for investments in associates no longer adjusts for the Company's proportionate interest in its own common shares, resulting in no adjustment to the number of common shares.

E-L Financial's net equity value per Adjusted Common Share increased 16.6% on a year over year basis.

Fourth quarter

Net operating loss

For the three months ended December 31, 2012, E-L Financial incurred consolidated net operating loss of $18.4 million or $5.67 per share compared with $20.4 million or $5.83 per share for the comparable period in 2011.

The Dominion's net operating loss increased $12.8 million during the quarter mainly as a result of a higher frequency for Ontario bodily injury claims than in the fourth quarter of 2011. This loss was partially offset by an $11.8 million increase in Empire Life's net operating income which was primarily due to the favourable impact from the update of policy liability assumptions in the Individual Insurance product line in 2012 compared to 2011.

Net income

For the three months ended December 31, 2012, E-L Financial had consolidated net income of $241.0 million or $60.39 per share compared with $11.1 million or $2.20 per share in 2011.

The $229.8 million increase in net income is due mainly to the $142.2 million gain recognized upon the consolidation of United at the end of 2012 in addition to a $66.4 million increase in FVTPL investments.

Comprehensive income

For the three months ended December 31, 2012, E-L Financial had a consolidated comprehensive income of $233.1 million or $58.37 per share compared with $15.6 million or $3.33 per share for the comparable period in 2011. OCL was $7.9 million or $2.02 per share compared with OCI of $4.5 million or $1.13 per share for the comparable period in 2011.

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

(millions of dollars, except per share amounts)	2012				2011			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue								
Net premium income	**$ 517**	**$ 516**	**$ 495**	**$ 495**	$ 489	$ 499	$ 490	$ 494
Associates [1]	**40**	**13**	**(5)**	**36**	11	(19)	(27)	8
FVTPL [2]	**47**	**96**	**43**	**15**	190	143	40	(37)
AFS [3]	**28**	**11**	**15**	**14**	32	(10)	18	19
Investment and other	**128**	**118**	**133**	**113**	119	116	117	113
Gain on consolidation of United	**142**	**-**	**-**	**-**	-	-	-	-
Total	**$ 902**	**$ 754**	**$ 681**	**$ 673**	$ 841	$ 729	$ 638	$ 597
Net income (loss) [4]	**$ 241**	**$ 48**	**$ 28**	**$ 156**	$ 11	$ (95)	$ (11)	$ 50
Net income (loss) [4] per share								
- basic	**$ 60.39**	**$ 11.11**	**$ 6.21**	**$ 38.99**	$ 2.20	$ (24.71)	$ (3.53)	$ 12.11
- diluted	**$ 50.08**	**$ 9.70**	**$ 5.80**	**$ 34.03**	$ 2.20	$ (24.71)	$ (3.53)	$ 11.46

(1) Share of income (loss) of associates, including impairment write downs
(2) Realized and unrealized gains on FVTPL investments
(3) Realized gain on AFS investments, 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 had a moderate but steady growth in 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 and movement in bond prices. Investment and other income has increased in 2012 due to higher dividend income. In the fourth quarter of 2012, the Company recorded a one-time gain on the consolidation of United.

Shareholders' net income

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.

In the first quarter of 2012, net income increased due to improved underwriting results at The Dominion combined with the favourable impact of improved stock market conditions. The second quarter of 2012 continued to experience improved underwriting results at The Dominion although losses from associates, as well decreases in the FVTPL investments in E-L Corporate resulted in an overall decline in net income. In the third quarter of 2012, net income increased as improvements in long-term interest rates and stock market conditions had a positive impact on Empire Life's operating income, as well increases in the fair value change in FVTPL revenue. This was partially offset by The Dominion's higher automobile loss ratio. The fourth quarter net income was impacted by a one-time gain relating to the consolidation of United. Income from associates and AFS investments increased during the fourth quarter, offset by increased underwriting losses relating to Ontario bodily injury claims at The Dominion.

Selected annual information

(millions of dollars)	**2012**	2011	2010
Revenue			
E-L Corporate	**$ 404**	$ (99)	$ 115
The Dominion	**1,346**	1,348	1,305
Empire Life	**1,260**	1,557	1,363
	$ 3,010	$ 2,806	$ 2,783
Shareholder net income (loss)			
E-L Corporate	**$ 369**	$ (96)	$ 97
The Dominion	**40**	25	70
Empire Life	**64**	26	16
	$ 473	$ (45)	$ 183
Assets			
E-L Corporate	**$ 2,337**	$ 1,329	$ 1,437
The Dominion	**3,401**	3,256	3,120
Empire Life	**10,924**	10,015	9,531
Total assets	**$ 16,662**	$ 14,600	$ 14,088

Revenue

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

- E-L Corporate has had significant fluctuations in the fair value change in FVTPL investments and share of income of associate's revenue streams. In 2010 the fair value change in FVTPL investments was $57.7 million followed by a loss of $88.0 million in 2011 rebounding to an increase of $125.8 million in 2012. Income from associates has shown similar movements with income of $27.9 million in 2010 followed by a loss of $23.9 million in 2011 and income of $72.8 million in 2012. In 2012 revenue includes a $142.2 million gain from the consolidation of United.

- Revenue from The Dominion in 2010 reflected premium rate increases and modest investment gains. Revenue in 2011 increased as a result of earned premium rate increases and higher investment income and realized gains. Revenue in 2012 was unchanged from 2011.
- Empire Life has experienced steady growth in insurance premium income over the past three years coupled with some volatility related to annuity premiums. 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. In 2012, Empire Life's revenue decreased due primarily to lower gains on FVTPL investments resulting from a lower increase in bond prices in 2012.

Net income (loss)

In general, the net income for the Company is significantly impacted by the movements in the global stock markets. In 2010 net income reflected a slow recovery in global stock markets whereas 2011 and 2012 have experienced continued volatility.

- E-L Corporate's net income is directly related to its revenue, which increased significantly as previously discussed.
- The Dominion's net income declined in 2011 as a result of a significantly higher underwriting loss reflecting a decrease compared with 2010 in favourable prior year claims development from automobile and commercial property and casualty lines and deterioration in commercial property and casualty results. Net income increased in 2012 mainly due to a modest improvement in underwriting results (as explained in the prior section).
- In 2011 Empire Life's net income increased relative to 2010 as a result of realized gains from the sale of AFS investments. In 2012 Empire Life's net income increased from primarily improved Individual Insurance product line net income. This was due primarily to a less severe long term interest rate drop in 2012, higher product prices in 2012, and the favourable impact from the update of policy liability assumptions in 2012 compared to 2011.

Assets

Total assets increased modestly in 2011 compared to 2010 as a result of improvements in bond valuations. For 2012, assets have increased due to $97.4 million in net proceeds from the issuance of preferred shares which was mainly invested in equities, increases in the fair value of common stock, improvements in bond fair values and a one-time gain from the consolidation of United.

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, 2012. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2012.

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, 2012. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2012. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 within E-L Corporate, as opportunities become available.

On April 2, 2012, the Company issued 4,000,000 First Preference shares, Series 3 at a price of $25.00 per share for a gross aggregate amount of $100 million. Refer to the 2012 audited consolidated financial statements – Note 19 for further detail as to the attributes of these shares.

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, 2012, The Dominion's Minimum Capital Test was 217% and Empire Life's Minimum Continuing Capital and Surplus Requirements measure was 203%.

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 2 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.

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

E-L Corporate owns investments in equities and fixed income securities directly and indirectly through pooled funds and other investment companies, as well as significant investments in United, Economic and Algoma.

Consolidation of United

In December 2012, the Company's ownership in United's common shares exceeded 50% of the voting shares of United. Accordingly, the Company commenced recording its investment in United using the consolidated method of accounting. As stated previously, $142.2 million has been recognized upon the consolidation of United at the end of 2012. This has been included on a separate line in the consolidated statements of income. The Company's investment in United was previously recorded as part of investments in associates. The significant gain which was recognized when the Company obtained voting control of United primarily relates to the difference between the net asset value of United's investment portfolio compared to the exchange traded price of United's shares.

Net operating income

E-L Corporate's net operating income for the quarter was $7.5 million after tax compared with $4.5 million after tax in 2011. The $3.0 million increase in net operating income was due primarily to the tax effect related to non-deductible unrealized capital losses.

For the year ended December 31, 2012, E-L Corporate earned net operating income of $23.2 million after tax compared to $11.2 million after tax for the comparative period. The $12.0 million increase in operating income reflects the tax effect on unrealized capital losses, as well as increases in both Canadian and foreign dividends.

Share of income (loss) of associates

E-L Corporate's share of comprehensive income from associates for the three months ended December 31, 2012 was $34.5 million after tax compared to $9.1 million after tax in 2011. The increase in income for the quarter is mainly due to improvements in the fair value of the associates, resulting in a net impairment reversal in the fourth quarter of 2012 compared to an impairment write down in 2011. As well, the Company's share of income for the fourth quarter of 2012 includes a $2.2 million after tax gain on the fair value re-measurement of United's 9.3% share of Algoma as a result of the consolidation of United.

On a year to date basis, E-L Corporate recorded $71.8 million after tax in comprehensive income compared to a loss of $22.9 million after tax in 2011. Improvements in global equity markets during 2012 combined with the items noted above have resulted in a $94.7 million after tax increase for the year.

The details of E-L Corporate's share of income of associates on an after tax basis are as follows:

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Share of income	**$ 25.1**	$ 26.0	**$ 59.0**	$ 1.4
Net impairment reversal (write downs)	**9.1**	(16.2)	**13.8**	(25.3)
	34.2	9.8	**72.8**	(23.9)
Share of OCI (OCL)	**0.3**	(0.7)	**(1.0)**	1.0
Total comprehensive income (loss)	**$ 34.5**	$ 9.1	**$ 71.8**	$ (22.9)

For the twelve month period, E-L Corporate invested $2.1 million (December 31, 2011 - $4.2 million) in Economic. The value of the investments in associates is as follows:

(millions of dollars)	**December 31, 2012**			December 31, 2011		
	Ownership	**Carrying value**	**Fair value**	Ownership	Carrying value	Fair value
Algoma	**34.7%**	**$ 153.8**	**$ 189.1**	25.4%	$ 91.8	$ 101.0
Economic	**24.0%**	**77.2**	**77.2**	23.3%	71.9	71.9
United		**-**	**-**	48.8%	256.1	256.1
Total		**$ 231.0**	**$ 266.3**		$ 419.8	$ 429.0

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

Realized gain on AFS investments

The realized gain on AFS investments, including impairment write downs for the three months ended December 31, 2012 was $0.6 million after tax compared to a $1.0 million after tax for the comparative period. An impairment write down of $0.3 million after tax (December 31, 2011 - $nil) occurred during the period due to a decline in investment values.

On a year to date basis, the realized gain on AFS investments, including impairment write downs was $4.3 million after tax compared to $5.0 million after tax in 2011.

Fair value change in FVTPL investments

Fair value change in FVTPL investments includes both realized and unrealized gains (losses). During the second quarter of 2012, the Company received $97.4 million net proceeds from the issuance of preferred shares which was mainly invested in U.S. large capitalization equities.

For the three months ended December 31, 2012, the fair value of FVTPL investments increased $66.5 million after tax compared to $1.9 million after tax in 2011. The increase in 2012 reflects improvements in global stock markets in the fourth quarter of 2012.

For the twelve months ended December 31, 2012, the fair value of FVTPL investments increased $125.8 million compared with a decrease of $88.0 million for the comparative period. The increase in 2012 reflects improvements in global stock markets in 2012 compared with the prior year.

Other comprehensive income (loss)

For the three months ended December 31, 2012, E-L Corporate earned OCI of $3.3 million after tax compared to $2.5 million after tax in 2011 resulting from increases in the Company's share of OCI for investments in associates during the fourth quarter of 2012 compared the prior quarter.

For the twelve months ended December 31, 2012, E-L Corporate earned OCI of $6.6 million after tax compared to a loss of $0.5 million after tax in 2011. The improvement in OCI for the twelve month period reflected an unrealized fair value increase on AFS investments compared with the prior year.

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 4, 6 and 28 to the consolidated financial statements.

Liquidity and capital resources

Composition of cash flows:

Year ended December 31	**E-L Corporate**		**The Dominion**		**Empire Life**		**Total**	
(millions of dollars)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Cash flows from:								
Operating activities	**$ 35**	$ 19	**$ 159**	$ 127	**$ 229**	$ 180	**$ 423**	$ 326
Financing activities								
- issue of preference shares	**97**	-	-	-	-	-	**97**	-
- cash dividends	**(15)**	(12)	-	-	-	(3)	**(15)**	(15)
- other	**-**	-	-	-	**(13)**	-	**(13)**	-
Investing activities	**(149)**	(13)	**(72)**	(231)	**(123)**	(160)	**(344)**	(404)
Net change in cash and cash equivalents	**$ (32)**	$ (6)	**$ 87**	$ (104)	**$ 93**	$ 17	**$ 148**	$ (93)

E-L Corporate's cash flows for 2012 consisted of net investment income of $35 million (2011 - $19 million), cash dividends received from its insurance subsidiaries of $38 million (2011 - $13 million) and $97 million (2011 - $nil) from the Company's issuance of preferred shares. These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $15 million (2011 - $12 million), provided $155 million (2011 - $20 million) for investment opportunities. During the year, the net proceeds from the issuance of preferred shares were mainly invested in U.S. large capitalization equities. As well, $34 million was used to purchase the Company's head office property from The Dominion. This intercompany transaction has been eliminated on the consolidated financial statements.

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 requirements.

Composition of E-L Corporate's liquidity:

(thousands of dollars)	**December 31, 2012**	December 31, 2011
Cash and cash equivalents	**$ 36,083**	$ 30,187
Short-term investments	**33,527**	30,600
Total	**$ 69,610**	$ 60,787

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.

Non-GAAP Measures

In addition to IFRS measures, The Dominion also 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 removing from claims expense (i) 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, to reflect the underwriting performance relating to claims occurring in the reporting period.

The "annualized investment yield" represents the annualized total pre-tax investment income (net of investment expenses), divided by the average cost of total investments and cash held during 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

(millions of dollars)	Fourth quarter **2012**	Fourth quarter 2011	Year **2012**	Year 2011
Net (loss) income, contribution to E-L from The Dominion	**$ (30.0)**	$ (12.6)	**$ 40.3**	$ 25.2
Other comprehensive income	**2.4**	6.4	**12.7**	1.4
Comprehensive (loss) income	**$ (27.6)**	$ (6.2)	**$ 53.0**	$ 26.6
Combined Ratio %	**123.5**	118.4	**107.0**	108.3
Combined Ratio % - excluding the effects of changes in the claims discount rates	**123.1**	115.0	**106.1**	106.4

The Dominion incurred a net loss of $30.0 million in the fourth quarter of 2012 compared to a net loss of $12.6 million in the fourth quarter of 2011. The increase in net loss over the prior year's fourth quarter is mainly due to a larger underwriting loss and lower net realized investment gains. The combined ratio for the quarter was 123.5% compared to 118.4% for the fourth quarter of 2011 and the combined ratio excluding the effects of changes in the claims discount rates for the quarter was 123.1% compared to 115.0% for the fourth quarter of 2011. Excluding the effects of changes in the claims discount rates, the 8.1 point deterioration over the prior year's fourth quarter mainly reflects an increase in the automobile loss ratio.

For the year, net income was $40.3 million compared to $25.2 million in 2011. The increase in net income compared to 2011 is mainly due to better underwriting results and higher net realized investment gains. The combined ratio was 107.0% for 2012 compared to 108.3% for 2011. The combined ratio excluding the effects of changes in the claims discount rate was 106.1% for 2012 compared to 106.4% for 2011. Excluding the effects of changes in the claims discount rates, the 0.3 point improvement from the prior year reflects improved loss ratios for personal property and commercial property and casualty which more than offset a deterioration in the automobile loss ratio.

Comprehensive loss was $27.6 million in the fourth quarter of 2012 compared to $6.2 million in the fourth quarter of 2011, reflecting the $17.4 million increase in net loss for the quarter and a decrease in OCI which was $2.4 million in the fourth quarter of 2012, compared to $6.4 million in the fourth quarter of 2011.

Comprehensive income was $53.0 million in 2012 compared to $26.6 million in 2011, reflecting the $15.1 million increase in net income for the year and an increase in OCI to $12.7 million in 2012, compared to $1.4 million in 2011.

The Summary of the General Insurance Operations on page 124 of this Annual Report provides an overview of results for the five-year period from 2008 to 2012.

Total revenue

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Gross premiums written	**$ 309.7**	$ 310.4	**$ 1,273.5**	$ 1,272.1
Revenue				
Net premiums earned	**304.5**	304.5	**1,209.3**	1,214.4
Finance fee income	**4.3**	4.4	**15.2**	15.1
Investment income (interest and dividends)	**20.5**	23.3	**86.0**	90.4
Fair value change of investments classified as fair value through profit and loss	**0.1**	0.2	**0.6**	0.2
Net realized gains on sale of investments including impairment write downs	**4.9**	11.3	**34.5**	27.4
Total Revenue	**$ 334.3**	$ 343.7	**$ 1,345.6**	$ 1,347.5

Total revenue decreased for the quarter by 2.7% and for the year by 0.1% compared to the same periods in the prior year as a result of changes in several components, as follows:

Gross premiums written have remained flat for both the quarter and on a year to date basis. 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. With the flat growth in gross premiums written, net premiums earned are also flat for both the quarter and on a year to date basis.

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

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Investments				
Investment income (interest and dividends) before tax	**$ 20.5**	$ 23.3	**$ 86.0**	$ 90.4
Annualized investment yield	**3.1%**	3.8%	**3.4%**	3.8%
Net realized investment gains before tax	**$ 7.7**	$ 14.6	**$ 38.5**	$ 43.8
Impairment write downs before tax	**$ (2.8)**	$ (3.3)	**$ (4.0)**	$ (16.4)

On an amortized cost basis, the investment yield was significantly lower for both the fourth quarter and for the year compared to the same periods in the prior year. These decreases reflect the ongoing low interest rate environment, where fixed income securities are maturing and are being reinvested into lower yielding instruments. Investment income has decreased as a result of the lower yields, partly offset by a higher average portfolio balance.

Net realized gains before tax from the investment portfolio were $7.7 million in the fourth quarter, compared to $14.6 million in the fourth quarter of 2011, and $38.5 million for the year, compared to $43.8 million in 2011. Net gains in the fourth quarter and for the year mainly came from bonds and debentures and common stock trades whereas prior year's fourth quarter and 2011 net gains were mainly from bonds and debentures, preferred stock and common stock trades. 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. Realized investment gains and losses generally result from trading decisions which are intended to maximize the total return of the portfolios and, accordingly, do not follow a predictable pattern from year to year. Impairment write downs before tax of $2.8 million for the fourth quarter reflect declines in common stock investment values whereas prior year's fourth quarter impairment write downs before tax of $3.3 million reflect declines in the values of both common stock investments and bonds and debentures. Impairment write downs before tax of $4.0 million for the year, compared to $16.4 million in 2011, reflect declines in common stock investment values.

Total claims and expenses

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Claims and Expenses				
Claims - excluding impact of changes in discount rate	**$ 276.8**	$ 251.5	**$ 872.9**	$ 903.0
Claims - impact of changes in discount rate	**1.1**	10.5	**11.1**	23.1
Total Claims	**277.9**	262.0	**884.0**	926.1
Commissions	**56.7**	54.2	**221.4**	215.3
Operating	**30.8**	33.9	**147.4**	131.5
Premium taxes	**10.5**	10.5	**41.5**	41.6
Total Expenses	**98.0**	98.6	**410.3**	388.4
Total Claims and Expenses	**$ 375.9**	$ 360.6	**$ 1,294.3**	$ 1,314.5
Loss Ratio %	**91.3**	86.0	**73.1**	76.3
Expense Ratio %	**32.2**	32.4	**33.9**	32.0
Combined Ratio %	**123.5**	118.4	**107.0**	108.3
Combined Ratio % - excluding impact of changes in discount rate	**123.1**	115.0	**106.1**	106.4

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

Commissions and premium taxes comprise approximately two thirds of expenses and vary directly with premiums, except for the portion of commission that is contingent profit bonuses, which are earned by brokers based on the size and profitability of their business with The Dominion. Contingent profit bonuses fluctuate with broker loss ratios and can contribute to variation in the expense ratio. The remaining third of expenses are operating expenses, which mainly consist of salaries and benefits and information technology costs.

Management uses the expense ratio to monitor, analyze and budget expenses. The 2012 expense ratio for the fourth quarter was 32.2%, compared to 32.4% in the fourth quarter of 2011, and for the year was 33.9%, compared to 32.0% in 2011.

Commissions for the fourth quarter were 18.7% of net premiums earned, compared to 17.8% in the fourth quarter of 2011, and for the year were 18.3%, compared to 17.8% in 2011. The increase in commissions mainly reflects an increase in contingent profit bonuses as a result of improving broker loss ratios in 2012.

Operating expenses for the fourth quarter were 10.1% of net premiums earned, compared to 11.1% in the fourth quarter of 2011, and for the year were 12.2%, compared to 10.8% in 2011. Most of the decease for the quarter is due to the recognition of a curtailment gain resulting from changes made to the post-retirement health benefit plan in 2012. The increase for the year is mainly due to increases in head count, annual salary increases and planned increases in application development costs related to The Dominion's multi-year initiative to replace core insurance systems.

Premium taxes for the fourth quarter and for the year were 3.4% of net premiums earned in both 2012 and 2011.

Results of operations

The Dominion's financial results, by major line of business, for the fourth quarters of 2012 and 2011 and the years ended 2012 and 2011 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)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Gross premiums written	**$ 186**	$ 188	**$ 67**	$ 68	**$ 57**	$ 54	**$ 310**	$ 310
Growth rate %	**(1.3)**	2.5	**(1.9)**	3.0	**5.5**	(0.2)	**(0.2)**	2.1
Mix of business %	**60**	61	**22**	22	**18**	17	**100**	100
Loss Ratio %	**115.1**	100.7	**33.4**	40.6	**69.8**	87.7	**91.3**	86.0
Loss Ratio % - excluding changes in discount rate	**114.7**	95.7	**33.4**	41.6	**69.5**	84.6	**90.9**	82.6
Expense Ratio %							**32.2**	32.4
Combined Ratio % - excluding changes in discount rate							**123.1**	115.0
Revenue								
Net premiums earned							**$ 305**	$ 305
Premium finance fee income							**4**	4
Interest and dividends							**20**	23
Net realized gains on investments and impairment write downs							**5**	12
							334	344
Expenses								
Claims expense							**278**	262
Other expenses, including premium taxes							**98**	99
Income tax recovery							**(12)**	(4)
							364	357
Net loss							**$ (30)**	$ (13)

For the year ended December 31	**Automobile**		**Personal Property**		**Commercial Property & Casualty**		**Total**	
(millions of dollars)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Gross premiums written	**$ 783**	$ 779	**$ 271**	$ 278	**$ 219**	$ 215	**$ 1,273**	$ 1,272
Growth rate %	**0.4**	(1.2)	**(2.3)**	3.6	**2.1**	(0.2)	**0.1**	-
Mix of business %	**62**	61	**21**	22	**17**	17	**100**	100
Loss Ratio %	**80.7**	80.2	**56.0**	62.7	**65.2**	78.4	**73.1**	76.3
Loss Ratio % - excluding changes in discount rate	**79.5**	77.7	**55.8**	62.6	**64.2**	76.6	**72.2**	74.4
Expense Ratio %							**33.9**	32.0
Combined Ratio % - excluding changes in discount rate							**106.1**	106.4

Revenue		
Net premiums earned	**$ 1,209**	$ 1,214
Premium finance fee income	**15**	15
Interest and dividends	**86**	91
Change in fair value of fair value through profit and loss investments	**1**	-
Net realized gains on investments and impairment write downs	**35**	28
	1,346	1,348
Expenses		
Claims expense	**884**	926
Other expenses, including premium taxes	**410**	389
Income tax expense	**12**	8
	1,306	1,323
Net income	**$ 40**	$ 25

The Dominion underwrites standard general insurance products concentrated in three geographic areas. The geographic mix of premiums for 2012 is as follows: Ontario 75% (74% in 2011), Western Canada 16% (16% in 2011) and Atlantic Canada 9% (10% in 2011). 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 decreased in the fourth quarter by 0.2% (2.1% increase in the fourth quarter of 2011) consisting of an increase in policies written of 3.1% (4.1% decrease in the fourth quarter of 2011), a decrease in average premiums of 3.1% (5.7% increase in the fourth quarter of 2011), and a 0.2% decrease from The Dominion's share of Facility Association business (0.5% increase in the fourth quarter of 2011). For the year, total gross premiums written increased by 0.1% (no change in 2011), consisting of a 1.4% increase in policies written (4.8% decrease in 2011) a 0.9% decrease in average premiums (4.2% increase in 2011), and a 0.4% decrease from The Dominion's share of Facility Association business (0.6% increase in 2011). The increase in policies written for the quarter and year to date reflects increases in all lines. The decrease in average premiums for the quarter reflects decreases in all lines. The decrease in average premiums, on a year to date basis, reflects lower average premiums for the personal property and commercial property lines which was mostly offset by no change in average automobile premiums.

The fourth quarter loss ratio of 91.3% in 2012 is 5.3 points higher than the prior year's fourth quarter loss ratio of 86.0%; the effects of changes in the claims discount rates for the fourth quarters of 2012 and 2011 reduced the fourth quarter loss ratio by 3.0 points. A decrease in the claims discount rate in the fourth quarter of 2012 increased claims expense by $1.1 million before tax (0.4 points of loss ratio), compared to an increase of $10.5 million before tax (3.4 points of loss ratio) in the same period of the prior year. The claims discount rates are adjusted quarterly based on the market yields of the investments held in support of claims liabilities. Excluding the effect of changes in the claims discount rates, the fourth quarter loss ratio was 90.9% compared to 82.6% in 2011. The 8.3 point deterioration in the fourth quarter of 2012 compared with the same period in the prior year, excluding the effect of changes in the claims discount rates, is mostly due to higher frequency for Ontario bodily injury claims than in the fourth quarter of 2011 and higher unfavourable prior year claims development for Ontario bodily injury claims, partly offset by higher favourable prior year claims development (mainly from Ontario accident benefits claims) and lower claims expense for weather-related losses.

For the year, the loss ratio of 73.1% for 2012 is 3.2 points lower than the prior year's loss ratio of 76.3%; 1.0 point of the decrease is due to the effects of changes in the claims discount rates for 2012 and 2011. A net decrease in the claims discount rate in 2012 increased claims expense by $11.1 million (0.9 points), compared to a net decrease in the claims discount rate in 2011 which increased that year's claims expense by $23.1 million (1.9 points). Excluding the effects of changes in the claims discount rate, the loss ratio for the year was 72.2%, compared to 74.4% in 2011. The 2.2 point improvement mainly reflects lower claims expense for weather-related property losses.

Automobile

Gross premiums written this quarter decreased 1.3% compared to the prior year's fourth quarter (2.5% increase in the fourth quarter of 2011). The decrease consists of a 1.3% increase in policies written (4.1% decrease in the fourth quarter of 2011), a 2.2% decrease in average premiums (5.7% increase in the fourth quarter of 2011), and a 0.4% decrease from The Dominion's share of Facility Association business (0.9% increase in the fourth quarter of 2011). For the year, the 0.4% increase in gross premiums written (1.2% decrease year in 2011) consists of a 1.1% increase in policies written (5.4% decrease year in 2011), no change in average premiums (3.3% increase in 2011), and a 0.7% decrease from The Dominion's share of Facility Association business (0.9% increase in 2011). The increase in policies written for the quarter and for the year reflects continued new business growth resulting from targeted rate changes made in the second quarter of 2012 to attract drivers with more desirable risk profiles.

The automobile loss ratio for the fourth quarter was 115.1% in 2012 and 100.7% in 2011. The 14.4 point increase includes a 4.6 point decrease 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 2012 increased the automobile loss ratio by 0.4 points, compared to a decrease in the claims discount rates in the fourth quarter of 2011 which increased the loss ratio by 5.0 points. Excluding the effects of changes in claims discount rates, the fourth quarter automobile loss ratio was 114.7% in 2012 compared to 95.7% in 2011. The 19.0 point deterioration is mainly due to higher current year Ontario bodily injury claims and an increase in unfavourable prior year claims development for Ontario bodily injury claims, partly offset by an increase in favourable prior year claims development for post-reform Ontario accident benefits claims.

The full year automobile loss ratio was 80.7% for 2012 compared to 80.2% in 2011. The 0.5 point increase includes a 1.3 point decrease 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 1.2 points in 2012, compared to an increase of 2.5 points in 2011. Excluding the effects of changes in claims discount rate, the full year automobile loss ratio was 79.5% for 2012 compared to 77.7% in 2011. This 1.8 point increase mainly reflects higher Ontario bodily injury claims, partly offset by higher favourable prior year claims development for post-2010 reform Ontario accident benefits claims.

Ontario bodily injury claims provisions for prior accident years were increased by $37.7 million in 2011 (mostly for 2009 and 2010 accident years), as reported in last year's MD&A. Ontario bodily injury claims provisions for prior accident years were further increased in the fourth quarter of 2012, resulting in a net increase of $45.7 million in 2012. The additional prior year development in 2012 follows from observations that claim counts for recent years have continued to increase, rather than decline as expected, and that smaller bodily injury claims from recent accident years are being more aggressively pursued and not settling as quickly as expected. The frequency of bodily injury claims occurring in 2012, particularly for large losses, has increased in Ontario. This, along with an increase in frequency of bodily injury claims in the Atlantic region and Alberta caused an increase in the automobile line's accident year loss ratio for 2012 versus 2011 (see the table below). The challenge of interpreting the impact of the 2010 reforms on frequency and settlement patterns also has been impacted by a process change in the Claims department that was undertaken during 2012 to address Ontario bodily injury claims more promptly and in a more focused manner. It is difficult to assess at this time the impact of this process change on adjusters' recording of bodily injury claims; more are being reported sooner and fewer are being closed than in prior years. Accordingly, provisions have been based on the frequency observed and have not been adjusted to reflect a possible acceleration in reporting or delay in closing.

Partly offsetting the deterioration in prior year Ontario bodily injury claims, Ontario accident benefits claims for prior years were reduced by $31.4 million reflecting better than expected experience that appears to be emerging from the 2010 reforms.

Personal property

Gross premiums written this quarter decreased 1.9% (3.0% increase in the fourth quarter of 2011), consisting of a 4.2% increase in policies written (5.2% decrease in the fourth quarter of 2011) and a 6.1% decrease in average premiums (8.2% increase in the fourth quarter of 2011). For the year, the 2.3% decrease in gross premiums written (3.6% increase in 2011) consists of a 0.9% increase in policies written (4.9% decrease year in 2011) and a 3.2% decrease in average premiums (8.5% increase in 2011). The increase in policies written and decrease in average premiums for the quarter and for the year reflect the impact of a pricing strategy targeted at attracting new business that has lower risk profiles and therefore results in lower average premiums.

The fourth quarter loss ratio was 33.4% in 2012 and 40.6% in 2011. Excluding the effect of changes in the claims discount rates, the fourth quarter loss ratio was 33.4% in 2012 and 41.6% in 2011. This 8.2 point improvement mostly reflects lower claims expense for weather-related losses and higher favourable prior year claims development.

For the year, the loss ratio was 56.0% in 2012 and 62.7% in 2011. Excluding the effects of changes in claims discount rates, the loss ratio was 55.8% in 2012 and 62.6% in 2011. This 6.8 point improvement mostly reflects lower claims expense for weather-related losses.

Commercial property and casualty

Gross premiums written this quarter increased 5.5% (0.2% decrease in the fourth quarter of 2011), consisting of a 10.0% increase in policies written (4.3% increase in the fourth quarter of 2011) and a 4.5% decrease in average premiums (4.5% decrease in the fourth quarter of 2011). For the year, gross written premiums increased 2.1% (0.2% decrease in 2011) consisting of a 7.4% increase in policies written (0.9% increase in 2011) and a 5.3% decrease in average premiums (1.1% decrease in 2011). The increase in written policies in the quarter and for the year continues to reflect strong new business volume. The decrease in average premiums in the quarter and for the year reflects a higher proportion of new business that consists of smaller accounts and the loss of larger accounts requiring pricing increases that obtained more favourable terms from competitors. Continued soft market competition also has resulted in rate decreases for well performing accounts and classes of business.

For the quarter, the loss ratio for commercial property and casualty was 69.8% in 2012 compared to 87.7% in the fourth quarter of 2011. Excluding the effects of changes in claims discount rates, the fourth quarter loss ratio was 69.5% in 2012 and 84.6% in 2011. The 15.1 point improvement mostly reflects an overall lower frequency and severity and lower claims expense for weather-related and large losses, partly offset by an increase in unfavourable prior year claims development.

For the year, the loss ratio was 65.2% in 2012 and 78.4% in 2011. Excluding the effects of changes in claims discount rates, the loss ratio was 64.2% in 2012 and 76.6% in 2011. The 12.4 point improvement is mainly due to lower claims expense for weather-related and large losses.

Accident year loss ratios

Accident year loss ratios measure the underwriting results of a reporting period for only those claims occurring in the respective reporting period. Comparing accident year loss ratios, from year to year, can reveal whether underlying current results are improving or deteriorating. The following chart provides calendar year and accident year loss ratios for 2012 and 2011 by major line of business. For comparison purposes, the 2012 and 2011 accident year loss ratios are calculated using the discount rate as at December 31, 2011. (The 2011 accident year loss ratios as reported in last year's MD&A were calculated using the discount rate as at December 31, 2010.)

Loss ratios excluding impact of changes in discount rate	**2012**	2011	Change
Automobile			
Calendar year loss ratio	**79.5%**	77.7%	1.8%
Accident year loss ratio	**76.1%**	73.8%	2.3%
Personal Property			
Calendar year loss ratio	**55.8%**	62.6%	(6.8%)
Accident year loss ratio	**59.0%**	66.3%	(7.3%)
Commercial Property and Casualty			
Calendar year loss ratio	**64.2%**	76.6%	(12.4%)
Accident year loss ratio	**64.9%**	77.1%	(12.2%)
Total - all lines			
Calendar year loss ratio	**72.2%**	74.4%	(2.2%)
Accident year loss ratio	**70.8%**	72.8%	(2.0%)

The accident year and calendar year loss ratios deteriorated for automobile mainly due to higher current year Ontario bodily injury claims incurred. The personal property accident year and calendar year loss ratios improved mainly as a result of improved risk selection and lower claims expense for weather-related losses. Accident year results in 2012 for commercial property and casualty improved versus 2011 mainly as a result of lower claims expense for weather-related losses and a reduced number of large losses in 2012 versus 2011. As a result of the accident year improvements for personal property and commercial property and casualty, the total accident year loss ratio improved in 2012 versus 2011 although the improvement was limited by the deterioration in accident year automobile results.

Total Cash flow and liquidity

	Year to date	
(millions of dollars)	**2012**	2011
Cash flow provided from (used for)		
Operating activities	**$ 159.6**	$ 127.1
Investing activities	**(72.2)**	(230.9)
Net change in cash and cash equivalents	**$ 87.4**	$ (103.8)

For a P&C insurer, maintaining adequate liquidity means earning sufficient premiums and investment income to fund underwriting expenses and policy liabilities as they come due. The Dominion maintains liquidity by generating positive cash flow from operations; by managing the maturity profile of bonds to provide a relatively steady cash flow from maturing bonds 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 the investment portfolio in cash and short-term investments.

The increase in cash flow from operating activities in 2012 relative to 2011 is mainly due to improved underwriting results. Cash flow used for investing activities is lower in 2012 relative to 2011, reflecting a decision to increase the cash portion of the investment portfolio.

Total cash, cash equivalents and investments were $2.8 billion at December 31, 2012, compared to $2.6 billion as at December 31, 2011, which reflects an increase of $172.0 million. The increase in the balance consisted mainly of a positive operating cash flow of $159.6 million year to date.

At December 31, 2012, the investment portfolio mix consisted of 4% in cash and short-term investments (December 31, 2011 – 4%), 75% in bonds (December 31, 2011 – 76%), 16% in common stocks (December 31, 2011 – 15%) and 4% in preferred stocks (December 31, 2011 – 4%). As at December 31, 2012, in addition to the liquidity provided by cash and short-term investments, 13% of The Dominion's bonds have a maturity date of less than one year (December 31, 2011 – 12%).

Capital resources

The Dominion's shareholder capital at December 31 was $848.9 million in 2012 and $809.6 million in 2011. The Dominion's shareholder capital consists mainly of retained earnings and is invested 51% in common stocks, compared to 47% at December 31, 2011, 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 stocks.

	2012	2012
Minimum capital test ("MCT")	**217%**	216%
(millions of dollars)		
Capital in excess of legally required minimum of 100%	**$ 450**	$ 433
Capital in excess of OSFI supervisory target of 150%	**257**	246
Capital in excess of Board-approved internal capital target of 190%	**103**	96

The Dominion's capital has exceeded the requirements of the Insurance Companies Act (Canada) and regulations thereunder throughout 2012, 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 ("OSFI"), the solvency regulator of federal financial institutions. The MCT is the ratio of regulatory "capital available" divided by regulatory "capital required" and is reported to the federal regulator in a prescribed filing each quarter. The federal regulator has established a supervisory target MCT of 150% to provide a safety buffer above the legally required minimum MCT of 100%. In addition, The Dominion's Board has approved an internal capital target MCT 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.

At December 31, 2012, The Dominion's MCT was 217% (216% at the end of 2011), which equates to $257 million of excess capital above the regulator's supervisory target and $103 million of excess capital above The Dominion's internal capital target of 190%. The increase in the MCT in 2012 mostly reflects an increase in capital available from 2012 net income and other comprehensive income, partly offset by a dividend of $37.9 million paid to E-L Financial in 2012.

Management regularly monitors the sensitivity of existing capital to potential threats from negative claims development, declines in investment values and changes in operating leverage (ratio of premiums to capital). To demonstrate The Dominion's sensitivity to investment portfolio risk, a 20% decline in the fair value of the common stock portfolio as at December 31, 2012 would decrease shareholder's equity by $63.8 million (8%) and decrease The Dominion's MCT by 10 points to 207%.

Other comprehensive income

	Fourth quarter		Year to date	
(millions of dollars, all figures net of tax)	**2012**	2011	**2012**	2011
Comprehensive (loss) income				
Net (loss) income	**$ (30.0)**	$ (12.6)	**$ 40.3**	$ 25.2
Unrealized investment gains	**5.8**	14.5	**37.1**	20.7
Reclassification of net investment gains to net income	**(3.4)**	(8.1)	**(24.4)**	(19.3)
Other comprehensive income	**2.4**	6.4	**12.7**	1.4
Comprehensive (loss) income	**$ (27.6)**	$ (6.2)	**$ 53.0**	$ 26.6

OCI was $2.4 million for the fourth quarter, compared to $6.4 million in the fourth quarter of 2011, consisting of $5.8 million of net unrealized investment gains on AFS investments, partly offset by a $3.4 million reclassification of net realized investment gains transferred from accumulated other comprehensive income ("AOCI") to net income. This quarter's unrealized investment gains mostly reflect an increase in the fair value of common stock investments of $9.9 million, partly offset by a decrease in the fair value of bonds and debentures and preferred stock investments of $3.6 million and $0.5 million, respectively. The fourth quarter's realized gains, which were reclassified from AOCI to net income, mostly reflect the sale of common stock investments and bonds and debentures. Comprehensive loss was $27.6 million for the fourth quarter in contrast to a comprehensive loss of $6.2 million in the fourth quarter of 2011.

For the year, OCI was $12.7 million, compared to $1.4 million in 2011, consisting of $37.1 million of net unrealized investment gains on AFS investments, partly offset by a $24.4 million reclassification of net realized investment gains transferred from AOCI to net income. For the year, unrealized investment gains mostly reflects an increase in the fair value of common stocks and bonds and debentures of $31.7 million and $7.0 million, respectively, partly offset by a decrease in the fair value of preferred stocks of $1.6 million. For the year, reclassification of net investment gains to net income mostly reflects the sale of common stock investments and bonds and debentures. Comprehensive income for the year was $53.0 million compared to $26.6 million in 2011.

The foreign component of the common stock portfolio was 45% at December 31, 2012 and 43% at December 31, 2011. The third party investment manager has discretion to increase the foreign component of the common stock portfolio up to 55%.

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 5, 28 and 29 to the consolidated 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 consolidated 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 $89.5 million ($65.8 million after tax). One assumption with a pervasive effect on the net claims balance is the claims discount rate. A 1% change in the selected average discount rate results in a change in net unpaid and unreported claims of $57.1 million ($42.0 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 2011 and 2012.

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, 2012, resulting in an impairment write down of $4.0 million ($2.8 million after tax) in 2012. An impairment write down of $16.4 million ($11.4 million after tax) was recorded in 2011. 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.

Future accounting changes

Note 2 to the consolidated financial statements describes future accounting policies (accounting policies that have been issued but are not yet effective as at December 31, 2012) that will be adopted by The Dominion subsequent to December 31, 2012 and includes a discussion of the impact that initial application of the accounting policies are expected to have on the financial statements, if known.

Outlook

Management believes that personal auto results will stabilize somewhat in 2013 but rate increases may be required to address escalating bodily injury claims frequency. The Ontario government has begun to implement some of the recommendations of the Insurance Fraud Task Force which should further improve accident benefits claims results in Ontario. Personal property results in 2012 enjoyed a reduction in weather-related losses which may not persist into 2013. Commercial lines prices are likely to continue to be competitively soft in 2013; management expects that ongoing underwriting actions, including targeted price increases and efforts to reduce exposure in underperforming segments, should cause commercial lines results to improve again in 2013. Investment income yields will likely decline as maturing securities are reinvested at lower market yields.

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 $80.4 million for 2012, compared to $32.3 million for 2011. 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:

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Net income, contribution to E-L Financial from Empire Life				
Shareholders' net income	**$ 25.2**	$ 8.2	**$ 80.4**	$ 32.3
Non-controlling interests portion of net income	**5.1**	1.7	**16.4**	6.6
Net income, contribution to E-L Financial from Empire Life	**$ 20.1**	$ 6.5	**$ 64.0**	$ 25.7

For the year shareholders' net income was higher relative to 2011 due primarily to improved Individual Insurance product line net income. This product line's improvement was due primarily to three items:

1. In 2012 there was a relatively small decrease in long-term interest rates, compared to the significant drop that occurred in 2011.

2. Higher prices on long-term products and lower annualized premium sales resulted in lower new business strain in 2012 compared to 2011.

3. The update of policy liability assumptions was favourable in 2012 compared to a very unfavourable impact in 2011. This favourable 2012 update of assumptions included favourable mortality and model enhancements partly offset by unfavourable lapse, reinvestment assumption and other assumptions. The 2012 reinvestment assumption update is made up of two large components. The first component is a shareholders' net loss of $116 million primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions. The second component is a shareholders' net gain of $95 million due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products.

In addition, both the Wealth Management and Employee Benefits product lines reported improved sales results in 2012. Lower Wealth Management and higher Employee Benefits net income was reported in 2012 compared to 2011, due primarily to the update of policy liability assumptions.

Shareholders' Capital and Surplus net income of $36 million in 2012 was similar to the $35 million achieved in 2011. 2012 and 2011 included gains from the sale of equity assets of $15 million and $7 million respectively. These gains resulted from asset liability management and capital management decisions to change asset mix.

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 2012 net income compared to 2011 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, Empire Life Investments Inc. (“ELII”), in 2011. ELII became a registered Investment Funds Manager on January 5, 2012. Empire Life’s consolidated financial statements include ELII.

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

The Summary of Life Insurance Operations on page 125 of this Annual Report provides an overview of results for the five-year period from 2008 to 2012. The analysis and discussion which follows is focused on the full year 2012 and comparative 2011 line of business net income after tax.

The following table provides a summary of Empire Life results by major product line (figures in Management’s Discussion and Analysis may differ due to rounding):

For the year ended December 31	**Wealth Management**		**Employee Benefits**		**Individual Insurance**		**Capital & Surplus**		**Total**	
(millions of dollars)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenue										
Net premium income	**$ 176**	$ 141	**$ 290**	$ 278	**$ 348**	$ 339	**$ -**	$ -	**$ 814**	$ 758
Fee and other income	**115**	110	**7**	7	**1**	1	**2**	2	**125**	120
Investment income	**53**	56	**6**	6	**143**	118	**35**	37	**237**	217
Realized gain on FVTPL investments	**2**	6	**2**	2	**50**	33	**-**	-	**54**	41
Realized gain on available for sale investments including impairment write downs	**-**	-	**-**	-	**-**	-	**28**	26	**28**	26
Fair value change in FVTPL investments	**1**	25	**(3)**	14	**3**	356	**-**	-	**1**	395
	347	338	**302**	307	**545**	847	**65**	65	**1,259**	1,557
Expenses										
Benefits and expenses	**341**	320	**273**	280	**526**	892	**15**	15	**1,155**	1,507
Income and other taxes	**(1)**	2	**12**	12	**7**	(10)	**13**	13	**31**	17
	340	322	**285**	292	**533**	882	**28**	28	**1,186**	1,524
Net income (loss) after tax	**$ 7**	$ 16	**$ 17**	$ 15	**$ 12**	$ (35)	**$ 37**	$ 37	**$ 73**	$ 33
Policyholders' portion									**(7)**	1
Shareholders' net income									**80**	32
Non-controlling interests portion of net income									**16**	6
Net income attributable to owners of E-L Financial									**$ 64**	$ 26
Assets under management										
General fund assets	**$ 1,147**	$ 1,137								
Segregated fund assets	**$ 4,993**	$ 4,392			**$ 21**	$ 23				
Mutual Fund assets	**$ 13**	$ -								
Annualized premium sales			**$ 44**	$ 41	**$ 65**	$ 73				

Total Revenue

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Revenue				
Net premium income	**$ 212**	$ 184	**$ 814**	$ 758
Investment income	**58**	56	**237**	217
Fair value change in FVTPL investments including realized amounts	**(29)**	188	**56**	436
Realized gain on available for sale investments including impairment write downs	**23**	19	**28**	26
Fee and other income	**35**	29	**125**	120
Total	**$ 299**	$ 476	**$ 1,260**	$ 1,557

For the year, total revenue at Empire Life decreased by 19% to $1.26 billion compared to $1.56 billion in 2011. Major revenue items are discussed below.

Net premium income for the year increased in 2012 relative to 2011. The increase related primarily to the Wealth Management product line.

Investment income for the year increased in 2012 relative to 2011. The increase related primarily to higher interest and dividend income in the Individual Insurance product line.

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 2012 and 2011. In 2012 the gain was from primarily an increase in bond prices (due to a decrease in market interest rates) and an increase in common share prices. In 2011 the gain was from primarily a large increase in bond prices (due to a large decrease in market interest rates) partly offset by a decrease in common share prices. 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 2012 relative to 2011 due primarily to common share impairment write downs in 2011. 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.

Fee and other income for the year increased in 2012 relative to 2011 due primarily to growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit ("GMWB") products. The growth in GMWB guarantee fees was due to strong GMWB product sales.

Total Benefits and Expenses

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Benefits and Expenses				
Net benefits and claims	**$ 148**	$ 128	**$ 541**	$ 513
Net change in insurance contract liabilities	**14**	248	**265**	664
Change in investment contracts provision	**-**	-	**1**	1
Policy dividends	**5**	6	**20**	21
Operating expenses	**39**	34	**140**	130
Net commissions	**55**	39	**175**	164
Interest expense	**3**	3	**14**	14
Total	**$ 264**	$ 458	**$ 1,156**	$ 1,507

Total benefits and expenses at Empire Life for the year decreased by 23% to $1.16 billion compared to $1.5 billion in 2011. 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. For the year, the increase in claims 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 2011 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 income.

Operating expenses and commission expenses increased year over year due primarily to growth in segregated fund deposits. Operating expenses also increased due to the startup of a new mutual fund business.

Product Line Results - Wealth Management

(millions of dollars)	As at December 31 **2012**	2011
Assets under management		
General fund annuities	**$ 1,147**	$ 1,137
Segregated funds	**4,993**	4,392
Mutual funds	**13**	-

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Selected financial information				
Fixed interest annuity premiums	**$ 50**	$ 30	**$ 176**	$ 141
Segregated fund gross sales	**539**	185	**1,159**	725
Segregated fund net sales	**313**	(1)	**404**	(24)
Segregated fund fee income	**32**	27	**115**	110
Mutual fund gross sales	**9**	-	**13**	-
Mutual fund net sales	**9**	-	**13**	-
Mutual fund fee income	**-**	-	**-**	-
Net (loss) income after tax fixed income annuity portion	**$ (4)**	$ 4	**$ -**	$ 7
Net income after tax segregated fund portion	**2**	1	**10**	9
Net loss after tax mutual fund portion	**(1)**	-	**(3)**	-
Net (loss) income after tax	**$ (3)**	$ 5	**$ 7**	$ 16

Assets in Empire Life general fund annuities increased by less than 1%, while segregated fund assets increased by 14% during the last twelve months. The increase over the last twelve months for segregated funds was attributable to strong net sales (gross sales net of withdrawals) described below, and positive investment returns, due to the stock market increase.

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 up 24% compared to 2011 due primarily to increased sales of fixed interest deferred annuities.

For the year, segregated fund gross sales were up 60% compared to 2011. Net sales were positive for the year and were higher than 2011 due to increased gross sales and decreased withdrawals. This product line's gross sales growth is attributable primarily to GMWB products. The growth appears to be attributable primarily to announcements by some GMWB competitors to suspend the sale of GMWB products, remove benefits, or increase fees. Empire Life has taken several steps to limit GMWB risk exposure. In the fourth quarter of 2012 Empire Life announced a new version of the GMWB product for launch in early 2013. The new version reduces the amount of risk Empire Life is taking on, while still offering a competitive guaranteed income solution to customers.

For the year, segregated fund fee income increased by 4% in 2012 relative to 2011. The increase was due to growth in GMWB guarantee fees. The growth in GMWB guarantee fees was due to strong GMWB product sales. For the year, management fees earned on segregated funds were lower than 2011 by less than 1%. The small decrease in management fees earned was due to lower average assets under management in 2012 compared to 2011, as stock markets were lower on average during 2012 than they were during 2011. This was partially offset by the positive impact on average assets under management and management fees earned, resulting from strong net sales in 2012.

Empire Life launched its new mutual fund business during the first quarter in 2012 with gross sales of $13 million for the year, including $7 million from one of Empire Life's pension plans.

During the fourth quarter and for the year earnings from this product line decreased relative to 2011. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Fourth quarter**	**Year**
Wealth management net income analysis		
Net (loss) income after tax 2012	**$ (3)**	$ 7
Net income after tax 2011	**5**	16
Decrease in net income after tax	**$ (8)**	$ (9)
Components of decrease		
2011 loss re update of insurance liability to reflect new actuarial guidance related to mortaility assumptions	**$ 10**	$ 10
2011 gain from update of policy liability assumptions	**(13)**	(13)
2012 loss from update of policy liability assumptions	**(5)**	(5)
Higher new business strain	**(5)**	(4)
Mutual fund startup expenses	**-**	(2)
Increase in inforce profit margins	**4**	5
Improved mortality results	**1**	-
Total	**$ (8)**	$ (9)

In 2011 a $10 million 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 by $13 million in 2011. The 2011 updates for general fund annuities related primarily to favourable updates to investment assumptions and favourable updates to annuitant mortality assumptions.

In contrast, the update of policy liability assumptions was unfavourable by $5 million in 2012. The 2012 updates for general fund annuities related primarily to annuitant mortality assumptions.

Higher new business strain resulted from strong GMWB sales in 2012.

Higher net income on inforce business in 2012 was due to the strong growth of the GMWB product which generates higher fees than other segregated fund products.

Product Line Results - Employee Benefits

(millions of dollars)	Fourth quarter 2012	Fourth quarter 2011	Year 2012	Year 2011
Selected financial information				
Annualized premium sales	**$ 11**	$ 9	**$ 44**	$ 41
Premium income	**74**	70	**290**	278
Net income after tax	**$ 5**	$ 3	**$ 17**	$ 15

For the year, sales in this product line increased by 9% relative to 2011. The 2012 sales reflect continuing strength compared to the recessionary lows experienced three years ago. This product line's premium income for the year increased by 4% relative to 2011 due to continuing growth of the inforce block.

During the fourth quarter and for the year earnings from this product line increased relative to 2011. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Fourth quarter	Year
Employee benefits net income analysis		
Net income after tax 2012	**$ 5**	$ 17
Net income after tax 2011	**3**	15
Increase in net income after tax	**$ 2**	$ 2
Components of increase		
2011 gain from update of policy liability assumptions	**$ (2)**	$ (2)
2012 gain from update of policy liability assumptions	**4**	4
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 2012 than 2011. The 2012 update of policy liability assumptions was due primarily to refinements of valuation models for group long-term disability claims.

Product Line Results - Individual Insurance

(millions of dollars)	Fourth quarter 2012	Fourth quarter 2011	Year 2012	Year 2011
Selected financial information				
Annualized premium sales	**$ 16**	$ 14	**$ 65**	$ 73
Premium income	**89**	85	**348**	339
Net (loss) income after tax				
Net income (loss) after tax shareholders' portion	**$ 3**	$ (19)	**$ 20**	$ (34)
Net (loss) income after tax policyholders' portion	**(3)**	6	**(8)**	(1)
Net (loss) income after tax	**$ -**	$ (13)	**$ 12**	$ (35)

For the year, annualized premium sales in this product line decreased by 11% compared to 2011, and premium income increased by 3% compared to 2011. This product line's full year sales result is attributable primarily to higher than normal volume in 2011 resulting from distributor concerns in 2011 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 increased relative to 2011. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Fourth quarter**	**Year**
Individual insurance net income (loss) analysis		
Net income after tax 2012	**$ -**	$ 12
Net loss after tax 2011	**(13)**	(35)
Increase in net income after tax	**$ 13**	$ 47
Components of income increase		
2011 gain re update of insurance liability to reflect new actuarial guidance related to mortaility assumptions	**$ (27)**	$ (27)
2011 gain re update of insurance liability to reflect change in method related to participating insurance	**(9)**	(9)
2011 loss from update of policy liability assumptions	**41**	41
2012 gain from update of policy liability assumptions	**1**	1
(Worsened) improved investment experience	**(3)**	29
Improved (worsened) mortality, surrender and other experience	**7**	(5)
Lower new business strain	**3**	17
Total	**$ 13**	$ 47

In 2011 a $27 million gain occurred in this product line related to updating insurance liabilities to reflect new industry guidance from 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 $9 million 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. 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 $41 million loss related to update of policy liability assumptions.

In contrast, the update of policy liability assumptions was favourable by $1 million in 2012. The following table provides a breakdown of the components of this amount:

Components of income increase from update of policy liability assumptions	**Year**	
Fixed income asset assumptions	$	(116)
Non-fixed income asset assumptions		95
Net re-investment assumptions	$	(21)
Mortality		16
Model enhancements		24
Lapse		(11)
Other		(7)
Total 2012 gain from update of policy liability assumptions	$	1

As shown in the above table, the update in investment return assumptions in 2012 is primarily made up of two components:

1. For fixed income asset assumptions, a shareholders' net loss of $116 million primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions; and

2. For non-fixed income asset assumptions, a shareholders' net gain of $95 million due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products. This resulted primarily from an asset liability management and capital management decision in the fourth quarter of 2012 to purchase $174 million of common equities to match longer term liabilities.

Empire Life uses an ultimate reinvestment rate ("URR") assumption of 3.1% (3.7% for 2011). Empire Life uses a best estimate return assumption for equities used to match long-term liabilities of 8.11% (8.43% for 2011). This equity return assumption is then reduced by margins to determine the net return used in the valuation. Additional information regarding investment return assumptions can be found in note 29(b) to the consolidated financial statements.

Investment experience had a year over year improvement of $29 million. This was due primarily to a relatively small decrease in long-term interest rates in 2012, compared to the significant drop that occurred in 2011. The improvement also resulted from a rise in stock markets in 2012, compared to 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.

In addition, $8 million of the full year improved investment experience resulted from the favourable impact on insurance contract liabilities of changes made to asset mix during the second quarter of 2012, and a commitment in the second quarter of 2012 to make further asset mix changes. The asset mix changes and the commitment relate to the purchase of units in a real estate limited partnership. The investment improves the matching of long-term liabilities at favourable investment yields.

New business strain had a year over year improvement of $17 million. Lower new business strain resulted from higher prices on long-term products and lower annualized premium sales.

Results - Capital and Surplus

(millions of dollars)	Fourth quarter 2012	Fourth quarter 2011	Year 2012	Year 2011
Net income after tax				
Net income after tax shareholders' portion	**$ 19**	$ 18	**$ 36**	$ 35
Net income after tax policyholders' portion	**-**	1	**1**	2
Net income after tax	**$ 19**	$ 19	**$ 37**	$ 37

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 were similar to 2011 levels. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Fourth quarter	Year
Capital and surplus net income analysis		
Net income after tax 2012	**$ 19**	$ 37
Net income after tax 2011	**19**	37
Increase in net income after tax	**$ -**	$ -
Components of increase		
Decreased net income from sale of investments	**$ -**	$ (3)
Lower impairment write downs	**-**	5
Decreased investment income	**-**	(2)
Total	**$ -**	$ -

Decreased net income from sale of investments was due primarily to lower gains from the sale of certain AFS equity investments compared to 2011. In both years, a portion of these gains relate to asset mix changes in Shareholders' Capital and Surplus. Approximately $7 million in shareholders' 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. Approximately $15 million in shareholders' net income resulted from gains on the sale of $174 million of equities in the fourth quarter of 2012. This 2012 sale of equity assets was aimed at lowering equity exposure in Empire Life's Shareholders' Capital and Surplus to allow capacity to purchase $174 million of common equities to match longer term liabilities in the Individual Insurance product line.

Lower impairment write downs was due primarily to the sharp decline in stock markets during the third quarter of 2011.

Decreased investment income was due primarily to lower dividend income in 2012, due to the above mentioned sale of $174 million of common equities.

Total Cash Flow

(millions of dollars)	Year 2012	2011
Cash flow provided from (used for)		
Operating activities	**$ 229**	$ 193
Investing activities	**(123)**	(160)
Financing activities	**(13)**	(29)
Net change in cash and cash equivalents	**$ 93**	$ 4

The increase in cash provided by operating activities in 2012 relative to 2011 was due primarily to increased cash inflows related to annuity business and increased cash inflows related to income taxes.

The decrease in cash used for investing activities during 2012 relative to 2011 was due primarily to asset mix changes in process at the end of 2012. The sale of equity assets backing Capital and Surplus was completed in 2012, and proceeds were partially re-invested in fixed income assets backing Capital and Surplus in 2012. The remainder of the re-investment into fixed income assets will occur in the first quarter of 2013.

The decrease in cash used for financing activities in 2012 relative to 2011 was due to Empire Life's decision to retain cash to finance operations growth rather than pay a dividend 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 2012	Sept. 30 2012	Jun. 30 2012	Mar. 31 2012	Dec. 31 2011
MCCSR Ratio	**203%**	203%	205%	210%	207%

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 regulatory capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements ("MCCSR"), of 203% as at December 31, 2012 continued to be well above requirements, and above minimum internal targets.

The MCCSR ratio decreased by less than 1 point from the previous quarter, and decreased by 4 points on a full year basis. These small changes were due to increases in required regulatory capital, offset by increases in available regulatory capital, as shown in the table below.

(millions of dollars)	**Dec. 31 2012**	Sept. 30 2012	Jun. 30 2012	Mar. 31 2012	Dec. 31 2011
Available regulatory capital					
Tier 1	$ 756	$ 746	$ 730	$ 718	$ 705
Tier 2	327	331	321	321	314
Total	$ 1,083	$ 1,077	$ 1,051	$ 1,039	$ 1,019
Required regulatory capital	$ 533	$ 529	$ 512	$ 494	$ 492

Regulatory capital requirements increased from the previous quarter, and on a full year basis, due primarily to higher lapse rate exposures related to lower interest rates, and higher investment exposures related to lower interest rates and higher stock markets.

Tier 1 available regulatory capital increased from the previous quarter while Tier 2 decreased slightly. Tier 1 and Tier 2 available regulatory capital increased on a full year basis.

The increase in Tier 1 available regulatory capital from the previous quarter, and on a full year basis, was due primarily to the impact of fourth quarter and full year 2012 net income. Tier 1 available regulatory capital was also maintained due to Empire Life's decision to retain cash to finance operations growth rather than paying a dividend to common shareholders in 2012.

The small decrease in Tier 2 available regulatory capital from the previous quarter was due primarily to the impact of the Other Comprehensive Loss ("OCL") related to the sale of equity assets on Tier 2 capital. This was partly offset by an increase in negative insurance contract liabilities. The increase in Tier 2 available regulatory capital on a full year basis was due primarily to an increase in negative insurance contract liabilities, partly offset by the impact of the OCL related to the sale of equity assets on Tier 2 capital. The increase in negative insurance contract liabilities in the fourth quarter resulted in a $12 million decrease in Tier 1 regulatory capital and a $12 million increase in Tier 2 regulatory capital. The increase in negative insurance contract liabilities for the full year resulted in a $23 million decrease in Tier 1 regulatory capital and a $23 million increase in Tier 2 regulatory capital.

Empire Life's MCCSR ratio will be impacted by two items in the first quarter of 2013. The estimated impact of these items is as follows:

1. There will be changes to the MCCSR standards related to lapse required regulatory capital which is expected to improve Empire Life's MCCSR ratio by 14 points.

2. Implementation of IAS 19R Employee Benefits standards (related to employee defined benefit plans) in the first quarter 2013 is expected to lower Empire Life's available regulatory capital by $26 million, which would decrease Empire Life's MCCSR ratio by 5 points.

Other Comprehensive Income

	Fourth quarter		Year	
(millions of dollars)	**2012**	2011	**2012**	2011
Other comprehensive income ("OCI") (loss) ("OCL")				
Shareholders' OCL	**$ (17)**	$ (6)	**$ (13)**	$ (18)
Non-controlling interests portion of OCL	**(3)**	(1)	**(3)**	(4)
OCL attributable to the owners of E-L Financial from Empire Life	**$ (14)**	$ (5)	**$ (10)**	$ (14)
Policyholders' OCI (OCL)	**$ -**	$ 1	**$ 2**	$ (1)

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("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.

In 2012 the full year Shareholders' loss was due primarily to the reclassification to net income of a large realized gain during the fourth quarter of 2012.

In 2011 the full year Shareholders' loss was due primarily to the reclassification to net income of a large realized gain during the fourth quarter of 2011. In addition, this 2011 loss was due to a stock market decline in 2011.

For the year a Policyholders' gain occurred in 2012 versus a loss in 2011, due primarily to a stock market rise in 2012 versus a stock market decline in 2011.

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 continue 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 has historically been 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. Empire Life achieved strong growth in its GMWB segregated fund business in 2012. However, Empire Life has taken several steps to limit GMWB risk exposure. In the fourth quarter of 2012 Empire Life announced a new version of the GMWB product for launch in early 2013. The new version reduces the amount of risk Empire Life is taking on, while still offering a competitive guaranteed income solution to customers. Empire Life will continue to monitor the competitive landscape for this product.

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 was particularly high in 2010 and 2011 due to the low long-term interest rate environment that followed the financial crisis. The low interest rate environment continued in 2012. This has impacted the entire industry resulting in significant price increases in both 2011 and 2012 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 have a cost structure that allows us to compete while generating an acceptable long-term financial contribution. Empire Life is reviewing its Individual Insurance products to improve profitability, reduce interest rate risk, reduce required regulatory capital, and improve the customer experience.

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, 2012 Empire had $5.0 billion of segregated fund assets and liabilities. Of this amount, approximately $4.8 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec. 31 2012	Dec. 31 2011
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 100% death benefit guarantee	**63.8%**	77.7%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.2%**	5.6%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit ("GMWB"))	**31.0%**	16.7%

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 2012 and December 31 for 2011, 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:				
2012 Net income attributable to E-L Financial	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2011 Net income attributable to E-L Financial	$ 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, 2012 MCCSR Ratio	**-0.5%**	**0.0%**	**-1.1%**	**-12.1%**
December 31, 2011 MCCSR Ratio	0.9%	-2.4%	1.7%	-19.1%

The increased use of common equities to match longer term liabilities in the fourth quarter of 2012 has caused the sensitivity of Empire Life's MCCSR ratio to stock market increases to be slightly negative. Increased stock markets cause a gain on common equity assets partly offset by a loss due to higher policy liabilities for a net increase in available capital. However, increased stock markets also cause an increase in required capital, as the required capital related to common equity assets increases. As of December 31, 2012, under a 10% and 20% stock market increase scenario, the increase in required capital slightly outweighs the increase in available capital resulting in a slightly negative impact on Empire Life's MCCSR ratio.

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, 2011 or December 31, 2012. In addition, Empire Life does not reinsure any other insurer's segregated fund products.

However, effective January 1, 2013 Empire Life has entered a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund customers with death benefit guarantees of at least $2 million are included in this agreement. If this agreement was in place as at December 31, 2012 approximately $8 million of the $112 million death benefit "amount at risk" reported in the table below would be ceded to the reinsurer.

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

Segregated Funds	**Guarantee > Fund Value**		**Death Benefit > Fund Value**		**GMWB Top-up**	**Actuarial**	**MCCSR**
(millions of dollars)	**Fund Value**	**Amount at Risk**	**Fund Value**	**Amount at Risk**	**Amount at Risk**	**Liabilities**	**Required Capital**
December 31, 2012	**$ 107**	**$ 11**	**$ 1,250**	**$ 112**	**$ 298**	**$ nil**	**< $1**
December 31, 2011	$ 176	$ 19	$ 2,089	$ 212	$ 147	$ nil	$ nil

The first four columns of above table show 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 fifth column of the above table shows GMWB top-up exposure. The GMWB top-up amount at risk represents the amount that could be paid by Empire Life to GMWB customers if the net return on each GMWB customer's assets is zero for remainder of each GMWB customer's life, based on life expectancy. For these three categories of risk, 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 regulatory 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, or upon the occurrence of future top-up payments to GMWB customers. The amounts at risk in December 2012 decreased from the December 2011 levels for maturity guarantee, and death benefit guarantee, due primarily to the increase in many global stock markets including Canada's. The amount at risk in December 2012 increased from the December 2011 levels for GMWB top-up exposure, due primarily to strong GMWB sales in 2012.

In addition, Empire Life's MCCSR ratio is sensitive to changes in market interest rates. The impact of an immediate 1% decrease in interest rates, and a 1% decrease in assumed initial reinvestment rate ("IRR") for nonparticipating insurance business, would result in a decrease to Empire Life's MCCSR ratio of 32 points as of December 31, 2012 (34 points as of December 31, 2011). This assumes no change in the ultimate reinvestment rate ("URR"). The impact above excludes the impact of market value changes in AFS bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. If the AFS bonds were sold to realize the gains from a 1% decrease in interest rates, the above impact would be reduced to 28 points as of December 31, 2012 (30 points as of December 31, 2011).

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form. Additional disclosures of Empire Life's sensitivity to risks are included in notes 28 and 29 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, financial instrument classification, pension and other employee future benefits 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 notes 28 and 29 to the consolidated financial statements.

Financial instrument classification

Management judgment is used to classify financial instruments as FVTPL, AFS or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income. Additional information regarding financial instrument classification is included in Notes 2, 5 and 6.

Pension and other employee future benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. If actual experience differs from the assumptions used, pension and other employee future benefits expense could increase or decrease in future years. The expected rate of return on plan assets is a management estimate that significantly affects the calculation of pension expense. The expected rate of return on plan assets is determined using the plan's target asset allocation and estimated rates of return for each asset class. Additional information regarding pension and other employee future benefits is included in Notes 2 and 17.

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 2012 economic growth remained weak, interest rates continued to drop, but the drop was far less than the large drop that occurred in 2011. Stock markets remained volatile, but most significant markets rose in 2012. Canada's main stock market rose in 2012, an improvement from the significant decline in 2011. The European sovereign debt crisis and U.S. fiscal issues contributed strongly to the volatility 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 and mutual fund portions 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 and 2012 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 Life's Individual Insurance product line in 2013.

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 1, 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.

In the first quarter of 2013 Empire Life's MCCSR ratio is expected to increase by 14 points due to a change to the MCCSR standards related to lapse risk, and decrease by 5 points due to the implementation of IAS 19R Employee Benefits standards (see Capital Resources section earlier in this report for further information).

Longer term accounting standard and regulatory changes are expected by 2016 or later regarding International Financial Reporting Standards 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 banks' 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 Managing General Agents ("MGAs"). Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. The nature and impact of potential regulation is unclear.

Duncan N.R. Jackman

Chairman, President and Chief Executive Officer

March 5, 2013

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, 2012. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2012.

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

March 5, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of E-L Financial Corporation Limited

We have audited the accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries, which comprise the consolidated Statements of Financial Position as at December 31, 2012 and December 31, 2011 and the consolidated Statements of Income (Loss), Comprehensive Income (Loss), Changes in Equity and Cash Flows for the years then ended 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, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 5, 2013

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

(in thousands of Canadian dollars)

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents (Note 9)	**$ 393,998**	$ 248,838
Investments - corporate (Note 4)	**2,026,644**	872,889
Investments - insurance operations (Note 5)	**8,222,486**	7,859,822
Investments in associates (Note 7)	**230,994**	419,784
Accrued investment income	**35,941**	33,168
Premiums receivable	**330,476**	316,539
Reinsurance recoverable (Note 18)	**77,361**	74,311
Income taxes receivable	**-**	18,136
Deferred tax assets (Note 23)	**36,741**	49,545
Other assets (Note 13)	**60,791**	80,793
Deferred acquisition expenses (Note 10)	**112,990**	113,005
Property and equipment (Note 11)	**38,599**	31,890
Intangible assets (Note 12)	**80,926**	65,545
Segregated fund assets (Note 14)	**5,014,392**	4,415,318
Total assets	**$ 16,662,339**	$ 14,599,583
Liabilities		
Accounts payable	**$ 97,302**	$ 108,295
Policyholders' funds on deposit	**30,634**	30,263
Reinsurance liabilities (Note 18)	**244,808**	156,119
Insurance contract liabilities (Note 18)	**6,849,328**	6,557,459
Investment contract liabilities	**14,591**	15,076
Provision for profits to policyholders	**22,142**	21,791
Income and other taxes payable	**26,095**	7,228
Deferred tax liabilities (Note 23)	**76,971**	41,000
Other liabilities (Note 15)	**118,802**	112,420
Subordinated debt (Note 16)	**199,642**	199,405
Segregated fund liabilities (Note 14)	**5,014,392**	4,415,318
Total liabilities	**$ 12,694,707**	$ 11,664,374
Equity (Note 20)		
Capital stock (Note 19)	**$ 372,388**	$ 272,388
Retained earnings	**2,758,108**	2,304,961
Accumulated other comprehensive income ("AOCI")	**151,077**	142,044
Total E-L Financial shareholders' equity	**3,281,573**	2,719,393
Non-controlling interests in subsidiaries ("NCI")	**633,808**	158,605
Participating policyholders' interests ("PAR")	**52,251**	57,211
Total equity	**$ 3,967,632**	$ 2,935,209
Total liabilities and equity	**$ 16,662,339**	$ 14,599,583

Approved by the Board

Duncan N.R. Jackman, Director

James F. Billett, Director

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

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

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

	2012	2011
Revenue		
Gross premiums	$ 2,178,638	$ 2,114,259
Premiums ceded to reinsurers	(155,841)	(141,469)
Net premiums	2,022,797	1,972,790
Investment and other income (Note 8)	491,710	465,348
Share of income (loss) of associates (Note 7)	83,945	(27,298)
Fair value change in fair value through profit or loss investments	201,326	335,458
Realized gain on available for sale investments including impairment write downs (Notes 4, 5 & 24)	68,081	59,249
Excess of fair value of net assets acquired over purchase price (Note 33)	142,241	-
	3,010,100	2,805,547
Expenses		
Gross claims and benefits	1,692,981	2,060,642
Claims and benefits ceded to reinsurers (Note 21)	17,330	64,468
Net claims and benefits	1,710,311	2,125,110
Change in investment contracts provision	754	745
Commissions	396,271	379,526
Operating (Note 22)	297,863	270,859
Interest expense	13,697	13,680
Premium taxes	54,955	54,544
	2,473,851	2,844,464
Income (loss) before income taxes	536,249	(38,917)
Income taxes (Note 23)	53,734	(1,609)
Net income (loss)	482,515	(37,308)
Less: Participating policyholders' (loss) income	(6,597)	838
Non-controlling interests in net income	16,371	6,577
	9,774	7,415
E-L Financial shareholders' net income (loss)	$ 472,741	$ (44,723)
Earnings (loss) per share on net income (loss) attributable to E-L Financial common shareholders (Note 25)		
- Basic	$ 116.66	$ (13.93)
- Diluted	$ 99.66	$ (13.93)

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

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

	2012	2011
Net income (loss)	$ 482,515	$ (37,308)
Other comprehensive income ("OCI") (loss) ("OCL"), net of tax (Note 26)		
Net unrealized fair value increase (decrease) on available for sale invesments ("AFS")	8,578	(19,328)
Net gain on amortization of derivatives designated as cash flow hedges reclassified to net income	534	496
Share of other comprehensive (loss) income of associates (Note 7)	(1,040)	1,011
	8,072	(17,821)
Comprehensive income (loss)	490,587	(55,129)
Less: Participating policyholders' comprehensive loss	(4,960)	(394)
Non-controlling interests in comprehensive income	13,773	3,017
	8,813	2,623
E-L Financial shareholders' comprehensive income (loss)	$ 481,774	$ (57,752)

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**	**Total AOCI**	**Total**	**NCI**	**PAR**	**Total equity**
At January 1, 2012	**$ 272,388**	**$ 2,304,961**	**$ 142,044**	**$ 2,719,393**	**$ 158,605**	**$ 57,211**	**$ 2,935,209**
Net income (loss) for the year	**-**	**472,741**	**-**	**472,741**	**16,371**	**(6,597)**	**482,515**
Other comprehensive income (loss)	**-**	**-**	**9,033**	**9,033**	**(2,598)**	**1,637**	**8,072**
Comprehensive income (loss)	**-**	**472,741**	**9,033**	**481,774**	**13,773**	**(4,960)**	**490,587**
Recovery of refundable dividend taxes	**-**	**5,469**	**-**	**5,469**	**-**	**-**	**5,469**
Dividends paid during the year	**-**	**(16,407)**	**-**	**(16,407)**	**-**	**-**	**(16,407)**
Provision for refundable dividend taxes	**-**	**(5,492)**	**-**	**(5,492)**	**-**	**-**	**(5,492)**
Preferred share issuance	**100,000**	**-**	**-**	**100,000**	**-**	**-**	**100,000**
Preferred share issuance costs, net of tax	**-**	**(2,554)**	**-**	**(2,554)**	**-**	**-**	**(2,554)**
Minority interest on assets acquired	**-**	**-**	**-**	**-**	**461,430**	**-**	**461,430**
Elimination of the cost of reciprocal shares	**-**	**(610)**	**-**	**(610)**	**-**	**-**	**(610)**
	100,000	**(19,594)**	**-**	**80,406**	**461,430**	**-**	**541,836**
At December 31, 2012	**$ 372,388**	**$ 2,758,108**	**$ 151,077**	**$ 3,281,573**	**$ 633,808**	**$ 52,251**	**$ 3,967,632**

	E-L Financial shareholders' equity						
	Capital stock	Retained earnings	Total AOCI	Total	NCI	PAR	Total equity
At January 1, 2011	$ 272,388	$ 2,363,078	$ 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	-	-	(13,029)	(13,029)	(3,560)	(1,232)	(17,821)
Comprehensive (loss) income	-	(44,723)	(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)
Elimination of the cost of reciprocal shares	-	(258)	-	(258)	-	-	(258)
	-	(13,394)	-	(13,394)	(3,216)	-	(16,610)
At December 31, 2011	$ 272,388	$ 2,304,961	$ 142,044	$ 2,719,393	$ 158,605	$ 57,211	$ 2,935,209

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)

	2012	2011
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income (loss)	**$ 482,515**	$ (37,308)
Items not affecting cash resources:		
Change in insurance and investment contract liabilities	**385,996**	755,059
Realized gain on available for sale of investments including impairment write downs	**(68,081)**	(59,249)
Fair value change in fair value through profit or loss investments	**(201,326)**	(335,458)
Deferred taxes	**27,417**	(8,738)
Share of (income) loss of associates, net of dividends received	**(71,709)**	34,602
Amortization related to investments	**(73,108)**	(73,094)
Excess of fair value of net assets acquired over purchase price	**(142,241)**	-
Other items	**63,938**	35,875
	403,401	311,689
Net change in other assets and liabilities	**19,941**	28,115
	423,342	339,804
Financing		
Issuance of preferred shares, net of expenses and tax	**97,446**	-
Cash dividends to shareholders	**(15,032)**	(12,060)
Interest paid on subordinated debt	**(13,460)**	(13,460)
Cash dividends by subsidiary to non-controlling interests	**-**	(3,216)
	68,954	(28,736)
Investing		
Purchases of investments	**(2,407,123)**	(2,669,559)
Proceeds from sale or maturity of investments	**2,034,725**	2,197,126
Net sales of short-term investments	**54,398**	94,680
Net purchases of other assets	**(26,069)**	(26,000)
	(344,069)	(403,753)
Increase (decrease) in cash and cash equivalents	**148,227**	(92,685)
Cash and cash equivalents, beginning of the year	**220,300**	312,985
Cash and cash equivalents, end of the year (Note 9)	**$ 368,527**	$ 220,300

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

1. Business 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 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, 2013.

2. Significant accounting policies

(A) Basis of preparation

The Company's consolidated financial statements have been 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.

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, except per share amounts and where otherwise stated.

(B) Critical accounting estimates and judgments

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, estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

Insurance

The assumptions used in establishing the Company's insurance claims and policy benefit liabilities are based on best estimates of possible outcomes. For property and casualty insurance, the ultimate cost to the Company will vary from the assumptions used to determine the liabilities recognized, as additional information with respect to the facts and circumstance of each claim incurred is incorporated into the liability.

For life and health insurance, actuarial liabilities consider all future policy cash flows, including premiums, claims, and expenses required to administer the policies. The Company's mortality assumptions have been derived from a combination of its own experience and industry experience. Policyholders may allow their policies to lapse by choosing not to continue to pay premiums. The Company bases its estimates of future lapse rates on previous experience when available, or industry experience. Estimates of future policy administration expenses are based on the Company's previous and expected future experience.

Additional information is included in Notes 2(Q), 18, 28 and 29.

Impairment of financial instruments

Available for sale investments, loans and receivables and investments in associates are reviewed at each quarter end reporting period to identify and evaluated investments that show indications of possible impairment. Impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows of the instrument and the impact can be reliably estimated. For investments in associates, previously recognized impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the associate's recoverable amount since the recognition of the last impairment loss. The decision to record a write-down or reversal, its amount and the period in which it is recorded could change if management's assessment of those factors were different.

Additional information regarding impairment of financial instruments is included in Notes 2(I), 4, 5, 7 and 28.

Impairment of intangible assets

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.

Additional information regarding impairment of intangible assets is included in Notes 2(N) and 12.

Pension and other employee future benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. If actual experience differs from the assumptions used, pension and other employee future benefits expense could increase or decrease in future years. The expected rate of return on plan assets is a management estimate that significantly affects the calculation of pension expense. The expected rate of return on plan assets is determined using the plan's target asset allocation and estimated rates of return for each asset class.

Additional information regarding pension and other employee future benefits is included in Notes 2(P) and 17.

Income taxes

Deferred tax assets are recognized only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized. The amount of the deferred tax asset recognized and considered realizable could, however, be reduced if projected income is not achieved due to various factors, such as unfavourable business conditions. If projected income is not expected to be achieved, the Company would decrease its deferred tax assets to the amount that it believes can be realized. The magnitude of the decrease is significantly influenced by the Company's forecast of future profit generation, which determines the extent to which it will be able to utilize the deferred tax assets.

Additional information is included in Notes 2(O) and 23.

(C) Principles of consolidation

Subsidiaries – The Company's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of the holding company and its subsidiaries. A subsidiary is an entity which is controlled, directly or indirectly, through ownership of more than 50% of the outstanding voting rights, or where The Company otherwise has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. The operating results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. All intercompany balances, profits and transactions are eliminated in full.

The consolidated financial statements are prepared as of December 31, based on individual company financial statements at the same date. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with those of E-L Financial. The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2012. The principal subsidiaries are:

Insurance

- The Dominion of Canada General Insurance Company ("The Dominion") (wholly owed) which underwrites property and casualty insurance.
- E-L Financial Services Limited (81.0% owned), whose operating subsidiary is The Empire Life Insurance Company ("Empire" or "Empire Life") (98.3%). Empire underwrites life and health insurance policies and provides segregated funds, and annuity products. Empire Life's mutual fund subsidiary, Empire Life Investments Inc. (wholly owned) is a registered Investment Funds Manager.

  Both insurance subsidiaries are registered under the *Insurance Companies Act*, Canada and 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.

Investment

- United Corporations Limited ("United") (50.3% owned) which is a closed-end investment company investing in common equities for long-term growth. United has a reporting date of March 31, therefore, certain adjustments have been made for the purpose of inclusion in the Company's consolidated financial statements.

Non-controlling interests – A non-controlling interest is initially recognized at the proportionate share of the identifiable net assets of the subsidiary on the date of its acquisition and is subsequently adjusted for the non-controlling interest's share in changes of the acquired subsidiary's earnings and capital. Effects of transactions with non-controlling interests are recorded in equity if there is no change in control.

Investments in associates – Investments in associates are accounted for using the equity method and are comprised of investments in corporations where the Company has the ability to exercise significant influence but not control. Significant influence is generally presumed to exist when the Company owns, directly or indirectly, between 20% and 50% of the outstanding voting rights of the investee. Assessment of significant influence is based on the substance of the relationship between the Company and the investee and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. These investments are reported in investments in associates in the consolidated balance sheets, with the Company's share of profit (loss) and other comprehensive income (loss) of the associate reported in the corresponding line in the consolidated statements of income (loss) and consolidated statements of comprehensive income (loss), respectively. Gains and losses realized on dispositions and charges to reflect impairment in the value of associates are included in the share of income (loss) of associates in the consolidated statements of income (loss). Under the equity method of accounting, an investment in associate is initially recognized at cost and adjusted thereafter for the post acquisition change in the Company's share of net assets of the associate. Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognized as goodwill, and is included in the carrying value of the associate. 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 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 for the effects of significant transactions or events that occur between the dates of the associates' financial statements and the date of the Company's financial statements.

(D) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the consideration transferred in a business combination is measured at fair value at the date of acquisition. This consideration includes any cash paid plus the fair value at the date of exchange of assets given, liabilities incurred and equity instruments issued by the Company or its subsidiaries. The consideration transferred also includes contingent consideration arrangements recorded at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within operating expenses. At the date of acquisition, the Company recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and liabilities assumed are initially recognized at fair value. To the extent that the consideration transferred is less than the fair value of identifiable net assets acquired, the excess is recognized in the consolidated statements of income (loss).

(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 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 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.

(l) 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 through net income (loss) 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

At each reporting date, and more frequently when conditions warrant, management assesses investments in associates for potential impairment. If management's assessment indicates that there is objective evidence of impairment, the associate is written down to its recoverable amount, which is determined as the higher of its fair value less costs to sell and its value in use. Previously recognized impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the associate's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the consolidated statement of earnings to the extent that the carrying value of the associate after reversal does not exceed the carrying value that would have been determined had no impairment loss been recognized in previous periods. Impairment losses and reversal of impairments are recognized in the share of income (loss) of associates in the consolidated statements of income (loss).

(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 are payable when employment is terminated before the normal retirement date or whenever an employee accepts an offer to encourage 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.

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 agreements 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 insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. The policyholder bears the risks and rewards associated with segregated fund assets except to the extent there are guarantees, and as a result, the assets associated with segregated funds are not reported as investments of Empire Life, but are reported as a separate item on the consolidated statement of financial position. The assets of these funds are carried at their period-end fair values, which also represents the segregated fund policy liability. The Company's consolidated statement of operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit and maturity benefit guarantees of these funds. See note 14 for details on segregated fund assets and changes in segregated fund assets.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within Insurance contract liabilities. Sensitivity of the Company’s liability for segregated fund guarantees to market fluctuations is disclosed in Note 28.

(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 456-464 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. Net income (loss) attributable to participating policyholders is shown on the consolidated statements of operations. Comprehensive income (loss) attributable to participating policyholders is shown on the consolidated statements of comprehensive income. 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 insurance 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 and mutual funds, included in investment and other income, is generally calculated and recorded as revenue daily based on the funds' closing net asset 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 First 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 First 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 amortization of the loss on derivative investments designated as cash flow hedges, 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 it remains probable that the hedged forecasted transaction will occur, then the amounts previously recognized in AOCI are reclassified and recognized in investment income in the consolidated statements of net income (loss) in the periods during which variability in the cash flows hedged or the hedged forecasted transactions are recognized in the consolidated statements of 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, except for IAS 19 Employee Benefits.

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 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 10 is not expected to have an impact on the Company's financial statements.

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 12 is not expected to have a significant impact on the Company's financial statements.

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. The fair value measurement basis of financial assets in an active market will change prospectively from bid price to closing price.

IAS 19R – 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 net income (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 19R requirements are effective for the Company beginning January 1, 2013 and will be applied retrospectively with restatement of the 2012 figures. The Company has estimated that the retrospective impact on its financial statements, as at January 1, 2012, will be a $17,000 decrease in other assets, a $20,400 increase in other liabilities, a $3,300 increase in deferred tax assets, a $6,400 decrease in deferred tax liabilities and a $27,700 decrease in AOCI.

The retrospective impact on comprehensive income for 2012 will be a $6,800 increase in net income and a $21,300 decrease in OCI resulting in a $14,500 decrease in comprehensive income.

The January 1, 2012 adjustment to AOCI and the retrospective 2012 and future charges/credits to OCI, related to IAS 19R, will remain in AOCI and will not be reclassified to net income in the future.

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

3. Operating Segments

In managing its investments, the Company distinguishes between E-L Corporate and its investments in The Dominion and Empire Life. The Dominion underwrites property and casualty insurance while Empire Life underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products. The Company's E-L Corporate segment includes United, the Company's closed-end investment subsidiary, investments in associates and investments – corporate.

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, 2012	E-L Corporate	The Dominion	Empire Life	Total
Net premiums	$ -	$ 1,209,265	$ 813,532	$ 2,022,797
Investment and other income	27,952	101,186	362,572	491,710
Share of income of associates	83,945	-	-	83,945
Fair value change in fair value through profit or loss investments	145,026	554	55,746	201,326
Realized gain on available for sale investments including impairment write downs	5,121	34,555	28,405	68,081
Excess of fair value of net assets acquired over purchase price	142,241	-	-	142,241
Net claims and benefits	-	(883,958)	(826,353)	(1,710,311)
Change in investment contracts provisions	-	-	(754)	(754)
Commissions	-	(221,432)	(174,839)	(396,271)
Operating expenses	(6,776)	(147,399)	(143,688)	(297,863)
Interest expense	-	-	(13,697)	(13,697)
Premium taxes	-	(41,489)	(13,466)	(54,955)
Income taxes	(29,078)	(11,020)	(13,636)	(53,734)
Non-controlling interests in subsidiaries and participating policyholders' interest	-	-	(9,774)	(9,774)
Segment net income	$ 368,431	$ 40,262	$ 64,048	$ 472,741

As at December 31, 2012	E-L Corporate	The Dominion	Empire Life	Total
Investments in associates	$ 230,994	$ -	$ -	$ 230,994
Segment assets	$ 2,337,130	$ 3,401,665	$ 10,923,544	$ 16,662,339
Segment liabilities	$ 93,926	$ 2,577,043	$ 10,023,738	$ 12,694,707

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

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)

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)

4. 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:

2012

Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Total fair value
Short-term investments				
Canadian federal government	$ 4,205	$ -	$ 4,205	$ 4,205
Canadian provincial governments	11,532	-	11,532	11,532
Canadian corporate	17,790	-	17,790	17,790
Total short-term investments	33,527	-	33,527	33,527
Preferred shares - Canadian	1,058	-	1,058	1,058
Total preferred shares	1,058	-	1,058	1,058
Common shares and units				
Canadian	778,864	-	778,864	778,864
U.S.	603,806	78,292	682,098	682,098
Europe	360,746	38,400	399,146	399,146
Other	119,045	12,906	131,951	131,951
Total common shares and units	1,862,461	129,598	1,992,059	1,992,059
Total	$ 1,897,046	$ 129,598	$ 2,026,644	$ 2,026,644

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
Europe	-	35,051	35,051	35,051
Other	16,716	21,127	37,843	37,843
Total common shares and units	726,002	115,229	841,231	841,231
Total	$ 757,660	$ 115,229	$ 872,889	$ 872,889

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.

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

Impairment

Based on the impairment review as at December 31, 2012, an impairment loss on AFS investments of $1,371 before tax (2011 - $2,081) 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 6 – Fair value of financial instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 28 – Investment risk management.

5. 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 5 (a) and (b).

	Carrying value		Fair value	
	2012	2011	2012	2011
The Dominion	$ 2,659,569	$ 2,534,040	$ 2,659,569	$ 2,534,040
Empire Life	5,562,917	5,325,782	5,574,735	5,341,399
Total	$ 8,222,486	$ 7,859,822	$ 8,234,304	$ 7,875,439

(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:

2012					
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	$ -	$ 4,987	$ -	$ 4,987	$ 4,987
Total short-term investments	-	4,987	-	4,987	4,987
Bonds and debentures					
Bonds and debentures issued or guaranteed by:					
Canadian federal government	-	330,732	-	330,732	330,732
Canadian provincial and municipal governments	-	448,292	-	448,292	448,292
Total government bonds and debentures issued or guaranteed	-	779,024	-	779,024	779,024
Canadian corporate bonds and debentures by industry sector:					
Consumer discretionary	-	2,108	-	2,108	2,108
Consumer staples	-	17,822	-	17,822	17,822
Energy	-	15,927	-	15,927	15,927
Financial services	-	920,857	-	920,857	920,857
Industrials	-	30,855	-	30,855	30,855
Infrastructure	-	184,024	-	184,024	184,024
Utilities	-	121,643	-	121,643	121,643
Total Canadian corporate bonds and debentures	-	1,293,236	-	1,293,236	1,293,236
Total bonds and debentures	-	2,072,260	-	2,072,260	2,072,260
Preferred shares - Canadian	28,362	94,981	-	123,343	123,343
Total preferred shares	28,362	94,981	-	123,343	123,343
Common shares					
Canadian	-	227,132	-	227,132	227,132
U.S.	-	132,867	-	132,867	132,867
Other	-	74,525	-	74,525	74,525
Total common shares	-	434,524	-	434,524	434,524
Commercial loans	-	-	24,455	24,455	24,455
Total	$ 28,362	$ 2,606,752	$ 24,455	$ 2,659,569	$ 2,659,569

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

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

Impairment

Based on the impairment review as at December 31, 2012, a year to date impairment loss on AFS investments of $3,983 before tax (2011 - $16,395) has been recorded in net income (loss). Impairment was assessed on the common and preferred shares due to the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss. Impairment was assessed on bonds and debentures based on evidence that loss events have occurred that have impaired the expected cash flows.

(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:

2012					
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	$ 3,991	$ -	$ -	$ 3,991	$ 3,991
Canadian corporate	12,449	-	-	12,449	12,449
Total short-term investments	16,440	-	-	16,440	16,440
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	66,391	186,822	-	253,213	253,213
Canadian provincial and municipal governments	2,249,585	188,453	-	2,438,038	2,438,038
Total government bonds issued or guaranteed	2,315,976	375,275	-	2,691,251	2,691,251
Canadian corporate bonds by industry sector:					
Financial services	544,631	229,081	-	773,712	773,712
Infrastructure	239,394	36,418	-	275,812	275,812
Utilities	204,291	7,348	-	211,639	211,639
Communications	-	9,986	-	9,986	9,986
Energy	37,559	31,898	-	69,457	69,457
Consumer staples	55,124	7,163	-	62,287	62,287
Industrials	44,935	6,404	-	51,339	51,339
Health care	75,944	5,881	-	81,825	81,825
Materials	21	-	-	21	21
Total Canadian corporate bonds	1,201,899	334,179	-	1,536,078	1,536,078
Total bonds	3,517,875	709,454	-	4,227,329	4,227,329
Preferred shares - Canadian	213,879	107,442	-	321,321	321,321
Total preferred shares	213,879	107,442	-	321,321	321,321
Common shares					
Canadian	479,933	53,877	-	533,810	533,810
U.S.	13,755	523	-	14,278	14,278
Other	8,676	-	-	8,676	8,676
Total common shares	502,364	54,400	-	556,764	556,764
Mortgages	-	-	302,531	302,531	314,349
Loans on policies	-	-	43,071	43,071	43,071
Policy contract loans	-	-	95,461	95,461	95,461
Total	$ 4,250,558	$ 871,296	$ 441,063	$ 5,562,917	$ 5,574,735

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

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

Impairment

AFS investments

Based on the impairment review as at December 31, 2012, a year to date impairment loss on AFS investments of $2,138 before tax (2011 - $10,199) 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)

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 $8,186 (2011 - $8,010) have been reduced by an allowance for impairment of $2,878 (2011 - $2,571) and policy contract loans with a recorded value of $813 (2011 - $813) have been reduced by an allowance for impairment of $533 (2011 - $549).

For additional information on the fair values of the Company's AFS investments, refer to Note 6 – Fair value of financial instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 28 – Investment risk management.

6. 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:

	2012			
Investments - corporate	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 8,303	$ 27,780	$ -	$ 36,083
Available for sale:				
Common shares	129,598	-	-	129,598
Fair value through profit or loss:				
Short-term investments	-	33,527	-	33,527
Common shares and units	982,228	880,233	-	1,862,461
Preferred shares	-	1,058	-	1,058
	$ 1,120,129	$ 942,598	$ -	$ 2,062,727

	2012			
Investments - The Dominion	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 291	$ 109,242	$ -	$ 109,533
Available for sale:				
Short-term investments	-	4,987	-	4,987
Bonds	-	2,072,260	-	2,072,260
Common shares	434,524	-	-	434,524
Preferred shares	94,981	-	-	94,981
Fair value through profit or loss:				
Preferred shares	28,362	-	-	28,362
	$ 558,158	$ 2,186,489	$ -	$ 2,744,647

	2012			
Investments - Empire Life	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 248,382	$ -	$ -	$ 248,382
Available for sale:				
Bonds	-	709,454	-	709,454
Common shares	54,400	-	-	54,400
Preferred shares	107,442	-	-	107,442
Fair value through profit or loss:				
Short-term investments	-	16,440	-	16,440
Bonds	-	3,517,875	-	3,517,875
Common shares	493,511	8,853	-	502,364
Preferred shares	213,879	-	-	213,879
	$ 1,117,614	$ 4,252,622	$ -	$ 5,370,236

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

	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

	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

	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

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, 2012 or during the year ended December 31, 2011.

For additional information on the composition of the Company's invested assets, refer to Notes 4 and 5. For analysis of the Company's risk arising from financial instruments, refer to Note 28 – Investment risk management.

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

7. Investments in associates

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

	2012			2011		
	Ownership		Carrying value	Ownership		Carrying value
Algoma	34.7%	$	153,812	25.4%	$	91,750
Economic	24.0%		77,182	23.3%		71,912
United			-	48.8%		256,122
Total		$	230,994		$	419,784

On December 31, 2012, the Company purchased 160,000 common shares of United for cash consideration of $8,300, that when aggregated with the common shares already owned by the Company represented 50.07% of the voting shares of United. Accordingly, the Company commenced recording its investment in United using the consolidated method of accounting. Refer to Note 33 – Acquisition of United for further information.

As a result of the consolidation of United, the Company's investment in Algoma increased by 9.3%, resulting in a $2,500 gain on the fair value measure of United's shares of Algoma. The gain has been reported in the Company's share of income of associates.

The following table details the movement during the year:

		2012		2011
Balance, beginning of the year	$	419,784	$	449,363
Purchase of additional shares		11,400		4,164
Income (loss) recorded in the statements of income and comprehensive income:				
Share of income		68,073		1,609
Net impairment (reversals) write downs		15,872		(28,907)
		83,945		(27,298)
Share of other comprehensive income (loss)		(1,199)		1,155
		82,746		(26,143)
Elimination of the cost of reciprocal shares		(703)		(295)
Dividends received during the year		(12,236)		(7,305)
Redesignation of:				
United (Note 33)		(320,757)		-
United's investment in Algoma		50,760		-
Balance, end of the year	$	230,994	$	419,784

The Company's associates are listed on the Toronto Stock Exchange. As at December 31, 2012, the fair value of the investments in associates was $266,247 (2011 - $429,046). Fair value is based on the bid price for each investment multiplied by the corresponding number of common shares held.

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

Impairment

The Company has a significant investment in Economic which it regards an associate and accounts for using the equity method. Economic is a closed-ended investment companies which is listed on the Toronto Stock Exchange. It has historically traded at significant discounts to its 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 Economic, since the Company cannot unilaterally control the timing of realization of any benefit related to the difference between the traded price of Economic and their net asset values.

Based on an impairment review of all of the investments in associates as at December 31, 2012, an impairment reversal of $15,872 on Economic (2011 – an impairment loss of $35,952 on United and an impairment reversal of $7,045 on Economic) has been recorded in net income. The recoverable amount for 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.

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

	2012	2011
Total assets	$ 1,376,380	$ 2,170,650
Total liabilities	$ 340,050	$ 355,633
Total revenue	$ 630,452	$ 472,400
Net income (loss) after tax	$ 102,644	$ (34,109)

8. Investment and other income

Investment and other income is comprised of the following:

	2012	2011
Interest income on:		
Available for sale	$ 100,849	$ 102,308
Fair value through profit or loss investments	143,128	133,671
Loans and receivables	25,217	24,185
Fee income	125,218	120,243
Dividend income	85,598	72,532
Other	11,700	12,409
Total	$ 491,710	$ 465,348

	2012	2011
Interest income received	$ 200,819	$ 188,666
Dividend income received	85,705	72,749
Total	$ 286,524	$ 261,415

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

9. 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:

	2012	2011
Cash	$ 39,164	$ 73,332
Cash equivalents	354,834	175,506
	393,998	248,838
Bank indebtedness (Note 15)	(25,471)	(28,538)
	$ 368,527	$ 220,300

10. Deferred acquisition expenses

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

	2012	2011
Balance, beginning of year	$ 113,005	$ 112,562
Acquisition costs deferred	244,368	243,508
Amortization	(244,383)	(243,065)
Balance, end of year	$ 112,990	$ 113,005

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

11. Property and equipment

Property and equipment are comprised of:

	Office Properties	Furniture and equipment	Computer hardware	Total
Cost				
As at January 1, 2012	$ 41,101	$ 20,863	$ 2,167	$ 64,131
Additions	6,434	5,052	579	12,065
As at December 31, 2012	47,535	25,915	2,746	76,196
Accumulated amortization				
As at January 1, 2012	(15,693)	(14,996)	(1,552)	(32,241)
Amortization	(2,415)	(2,502)	(439)	(5,356)
As at December 31, 2012	(18,108)	(17,498)	(1,991)	(37,597)
Net book value as at December 31, 2012	$ 29,427	$ 8,417	$ 755	$ 38,599

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

There were no asset impairments in 2012 or 2011.

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

12. Intangible assets

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

	2012			2011		
	Software	Intangibles under development	Total	Software	Intangibles under development	Total
Cost						
As at January 1	$ 119,799	$ 9,943	$ 129,742	$ 73,234	$ 30,554	$ 103,788
Additions - internally developed	-	19,850	19,850	-	21,494	21,494
Additions - purchased	8,307	1,192	9,499	5,074	279	5,353
Transfers	12,199	(12,199)	-	42,384	(42,384)	-
Disposals	-	-	-	(893)	-	(893)
Retirements	-	(78)	(78)	-	-	-
As at December 31	140,305	18,708	159,013	119,799	9,943	129,742
Accumulated amortization						
As at January 1	(64,197)	-	(64,197)	(55,437)	-	(55,437)
Amortization	(13,890)	-	(13,890)	(9,339)	-	(9,339)
Disposals	-	-	-	579	-	579
As at December 31	(78,087)	-	(78,087)	(64,197)	-	(64,197)
Net book value as at December 31	$ 62,218	$ 18,708	$ 80,926	$ 55,602	$ 9,943	$ 65,545

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 2012 or 2011.

13. Other assets

Other assets are comprised of the following:

	2012	2011
Due from facility association	$ 5,027	$ 6,451
Due from reinsurance companies	19,764	25,620
Pension asset (note 17)	20,283	20,513
Other	15,717	28,209
Total	$ 60,791	$ 80,793

Of the above total, $21,563 (2011 – $20,989) 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)

14. Segregated funds

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

	2012	2011
Cash and cash equivalents	$ 192,581	$ 139,781
Short-term investments	150,376	163,846
Bonds	1,204,163	909,071
Common and preferred shares	3,510,274	3,270,227
Net other assets (liabilities)	28,127	(6,204)
	5,085,521	4,476,721
Less segregated funds held within general fund investments	(71,129)	(61,403)
Total	$ 5,014,392	$ 4,415,318

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

	2012	2011
Segregated funds - beginning of the year	$ 4,415,318	$ 4,620,899
Additions to segregated funds:		
Amount received from policyholders	1,421,084	1,081,150
Interest	45,478	41,258
Dividends	101,066	114,256
Other income	18,221	17,679
Net realized gains on sale of investments	-	162,546
Net unrealized increase in fair value of investments	180,651	-
	1,766,500	1,416,889
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,016,535	1,130,268
Net realized losses on sale of investments	2,819	-
Net unrealized decrease in fair value of investments	-	376,417
Management fees and other operating costs	138,346	140,141
	1,157,700	1,646,826
Net change in segregated funds held within general fund investments	(9,726)	24,356
Segregated funds - end of the year	$ 5,014,392	$ 4,415,318

15. Other liabilities

Other liabilities are comprised of the following:

	2012	2011
Bank indebtedness	$ 25,471	$ 28,538
Employee benefit liabilities (Note 17)	23,517	27,790
Due to reinsurance companies	9,728	9,076
Premiums paid in advance	7,759	8,472
Unearned premium finance fee income	6,058	6,028
Other	46,269	32,516
Total	$ 118,802	$ 112,420

Of the above total, $29,195 (2011 - $28,168) 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)

16. 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 (2011 - $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 $211,432 at December 31, 2012 (2011 - $218,032).

The debt is subordinated in right of payment to all policy 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.

17. Employee benefit plans

The Company and its subsidiaries have a number of arrangements that provide pension and post-retirement benefits to retired and current employees. Pension arrangements include defined benefit statutory pension plans, as well as supplemental arrangements that provide pension benefits in excess of statutory limits. These plans are a combination of defined benefit plans and defined contribution plans. In the past, the Company has provided ad-hoc pension increases on its defined benefit pension plans. Increases take place at the discretion of the Company's Board of Directors.

The Empire Life Insurance Company pension plan now offers a recently 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 defined contribution component on January 1, 2012. The Company discontinued new enrolments in the defined benefit component effective October 1, 2011.

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	
	2012	2011	2012	2011
Present value of funded obligations	$ (201,447)	$ (172,503)	$ -	$ -
Fair value of plan assets	175,647	164,166	-	-
Funded status - deficit	(25,800)	(8,337)	-	-
Present value of unfunded obligations	-	-	(34,645)	(36,402)
Unamortized actuarial loss	44,298	27,769	12,284	9,693
Unrecognized past service cost	629	-	-	-
Defined benefit asset (liability)	$ 19,127	$ 19,432	$ (22,361)	$ (26,709)

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

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	
	2012	2011	2012	2011
Recorded in the consolidated statements of financial position as:				
Other assets (Note 13)	$ 20,283	$ 20,513	$ -	$ -
Other liabilities (Note 15)	(1,156)	(1,081)	(22,361)	(26,709)
Defined benefit asset (liability)	$ 19,127	$ 19,432	$ (22,361)	$ (26,709)

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	
	2012	2011	2012	2011
Present value of defined benefit obligation				
Opening defined benefit obligation	$ 172,503	$ 152,520	$ 36,402	$ 31,527
Current service cost	5,771	4,973	1,250	1,028
Employee contributions	2,328	2,244	-	-
Interest cost	8,862	8,474	1,750	1,712
Benefits paid	(7,445)	(6,871)	(1,054)	(1,104)
Net transfer out	(130)	-	-	-
Actuarial loss on obligations	18,929	11,163	12,342	3,239
Curtailment	-	-	(16,045)	-
Past service cost	629	-	-	-
Closing defined benefit obligation	$ 201,447	$ 172,503	$ 34,645	$ 36,402
Plan assets				
Fair value at beginning of year	$ 164,166	$ 159,286	$ -	$ -
Expected return on plan assets	8,422	8,606	-	-
Actuarial gain (loss) on assets	1,461	(6,918)	-	-
Employer contributions	6,817	7,819	-	-
Employee contributions	2,328	2,244	-	-
Purchase of annuity of ad-hoc pension	-	(201)	-	-
Benefits paid	(7,445)	(6,670)	-	-
Net transfer out	(102)	-		
Fair value at end of year	$ 175,647	$ 164,166	$ -	$ -

For other post-employment benefits, the defined benefit obligation was reduced by $16,045 (2011 - $nil) to reflect a plan amendment that resulted in the curtailment of all employer paid post-employment benefits for active plan members who will not meet plan eligibility criteria by July 1, 2023 and a decrease in employer paid post-employment benefits for active plan members who are projected to meet plan eligibility between July 2, 2018 to July 1, 2023.

The actual return on plan assets for the year ended December 31, 2012 was a gain of $9,883 (2011 – gain of $1,688).

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

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	
	2012	2011	2012	2011
Unamortized actuarial loss as of January 1	$ 27,769	$ 9,720	$ 9,693	$ 6,778
Experience adjustments on plan obligations	(1,310)	904	(3,663)	(293)
Experience adjustments on plan assets	(1,461)	6,918	-	-
Changes due to discount rate assumptions	23,739	10,585	5,641	3,532
Changes due to health care cost trend rate assumptions	-	-	7,000	-
Changes due to other actuarial assumptions	(3,500)	(327)	3,364	-
Unrecognized actuarial loss in the year	17,468	18,080	12,342	3,239
Less: net actuarial loss recognized in the year	939	31	492	324
Less: net actuarial loss recognized in the year due to curtailment	-	-	9,259	-
Total unamortized actuarial loss as of December 31	$ 44,298	$ 27,769	$ 12,284	$ 9,693

A proportionate share of previously unrecognized actuarial losses of $9,259 (2011 - $nil), which is attributed to the benefit obligations that have been affected by the plan amendment, was also recognized, resulting in a net curtailment gain of $6,786 (2011 - $nil) recognized in defined benefit plan expense.

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

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2012	2011	2012	2011
Defined benefit plan expense				
Current service cost	$ 5,771	$ 4,973	$ 1,250	$ 1,028
Interest cost	8,862	8,474	1,750	1,712
Expected return on plan assets	(8,422)	(8,606)	-	-
Curtailment gain	-	-	(6,786)	-
Amortization of actuarial loss	939	31	492	324
	$ 7,150	$ 4,872	$ (3,294)	$ 3,064

The curtailment gain of $6,786 (2011 - $nil) reflects a decrease in the defined benefit obligation of $16,045 (2011 - $nil), net of the recognition of a proportionate share of actuarial losses of $9,259 (2011 - $nil), as a result of the plan amendment to other post-employment benefits that occurred in the current year.

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

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

Defined benefit plan assets consist of:

	Percentage of Plan Assets	
	2012	2011
Equities	55%	51%
Debt securities	33%	34%
Short-term securities	1%	5%
Other	11%	10%
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:

	2012	2011
Staff Pension Plan (The Dominion)	12 years	12 years
Staff Pension Plan (Empire and E-L)	10 years	10 years
Executive Pension Plan (The Dominion)	14 years	14 years
Supplemental Employee Retirement Benefit Plan (Empire and E-L)	9 years	10 years
Retiree Health Benefits (The Dominion)	9 years	13 years
Retiree Health Benefits (Empire and E-L)	9 years	9 years

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

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2012	2011	2012	2011
Defined benefit obligations at December 31:				
Discount rate	4.2%	5.0%	4.0%	4.7%
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	5.1%	5.5%	4.7%	5.4%
Expected long-term rate of return on plan assets	5.1%	5.4%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	8.0%	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	2030	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 $31,883 (2011 – $25,899) and the service cost by approximately $1,730 in 2012 (2011 - $1,380).

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

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 $1,636 in 2012 (2011 – $1,509).

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

	2012		2011	
	Increase	Decrease	Increase	Decrease
Defined benefit obligation	$ 5,560	$ (4,470)	$ 7,347	$ (5,704)
Total service and interest cost	$ 739	$ (554)	$ 693	$ (521)

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.

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	
	2012	2011	2012	2011
As at December 31				
Present value of defined benefit obligation	$ (201,447)	$ (172,503)	$ (34,645)	$ (36,402)
Fair value of plan assets	175,647	164,166	-	-
Funded status deficit	$ (25,800)	$ (8,337)	$ (34,645)	$ (36,402)
Experience adjustments on plan liabilities	$ (1,310)	$ 904	$ (3,663)	$ (293)
Percentage of the present value of plan liabilities	0.65%	(0.52%)	10.57%	0.80%
Experience adjustments on plan assets	$ 1,461	$ (6,918)	-	-
Percentage of plan assets	0.83%	(4.21%)	-	-

Expected contributions (including both employer and employee amounts) to the Company and its subsidiaries' defined benefit pension plans for the year ending December 31, 2013 are approximately $7,590.

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

18. Insurance contract liabilities and reinsurance recoverable

Insurance contract liabilities are comprised of:

	2012			2011		
	Gross	Reinsurance assets (liabilities)	Net	Gross	Reinsurance assets (liabilities)	Net
The Dominion: unearned premiums	$ 591,323	$ 9,069	$ 582,254	$ 593,705	$ 9,104	$ 584,601
The Dominion: unpaid and unreported claims provision	1,858,688	68,292	1,790,396	1,732,643	65,207	1,667,436
	$ 2,450,011	$ 77,361	$ 2,372,650	$ 2,326,348	$ 74,311	$ 2,252,037
Empire Life insurance contract liabilities	4,399,317	(244,808)	4,644,125	4,231,111	(156,119)	4,387,230
Total	$ 6,849,328	$ (167,447)	$ 7,016,775	$ 6,557,459	$ (81,808)	$ 6,639,267

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:

	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Balance, beginning of year	$ 593,705	$ 9,104	$ 584,601	$ 597,406	$ 9,390	$ 588,016
Premiums written	1,273,523	66,605	1,206,918	1,272,136	61,215	1,210,921
Premiums earned	(1,275,905)	(66,640)	(1,209,265)	(1,275,837)	(61,501)	(1,214,336)
Changes in provision for unearned premiums	(2,382)	(35)	(2,347)	(3,701)	(286)	(3,415)
Balance, end of year	$ 591,323	$ 9,069	$ 582,254	$ 593,705	$ 9,104	$ 584,601

Unpaid and unreported claims

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

	2012	2011
Balance, beginning of year	$ 1,667,436	$ 1,547,304
Change in prior year's claims estimates	(9,663)	(8,246)
Interest cost	37,189	39,740
Impact of change in discount rate	7,658	16,535
Current year claims incurred	848,774	878,085
Claims payments	(760,998)	(805,982)
Balance, end of year	$ 1,790,396	$ 1,667,436

The 2012 reduction in prior year claims estimates of $9,663 consists of: $7,558 unfavourable development in automobile lines, most of which reflects worse than expected experience in bodily injury claims from recent accident years partly offset by better than expected experience in accident benefits claims; $9,432 favourable development in personal property claims reflecting better than expected experience from recent accident years; and $7,789 favourable development in commercial property and casualty claims, arising mainly from better than expected experience for commercial property claims estimates related to recent accident years. The reduction in claims estimates of $8,246 recognized in 2011 consisted 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 claims, arising mainly from better than expected experience for general liability claims related to older accident 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 2012 was 2.4% (2011 – 2.7%). The average discount rate used by the Facility Association was 1.3% (2011 – 1.5%).

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 $1,346,690 (December 31, 2011 - $1,206,888) 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 guarantees the life insurers' obligations under these annuities which are estimated to be $229,731 based on the net present value of the projected future cash flows of these guarantees in 2012 (2011 - $224,209). 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	2012	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	$ 818,775	
1 year later	1,484,371	622,703	700,576	765,384	831,066	882,354	831,697		
2 years later	1,471,450	606,207	698,048	749,610	843,578	898,873			
3 years later	1,490,878	604,655	694,199	754,836	865,534				
4 years later	1,465,477	606,366	703,566	764,719					
5 years later	1,478,315	610,805	710,667						
6 years later	1,494,857	620,474							
7 years later	1,494,610								
Current estimate of ultimate claims	$ 1,494,610	$ 620,474	$ 710,667	$ 764,719	$ 865,534	$ 898,873	$ 831,697	$ 818,775	
Cumulative claims paid									
At end of accident year	$ 292,149	$ 265,104	$ 310,488	$ 330,691	$ 361,694	$ 361,354	$ 341,712	$ 323,164	
1 year later	557,329	376,516	444,454	502,447	538,650	548,067	499,347		
2 years later	727,029	416,624	495,734	562,412	612,538	614,020			
3 years later	916,327	462,055	540,805	608,410	664,379				
4 years later	1,078,397	502,456	587,769	651,789					
5 years later	1,197,988	537,911	627,778						
6 years later	1,269,763	560,394							
7 years later	1,319,511								
Cumulative claims paid	$ 1,319,511	$ 560,394	$ 627,778	$ 651,789	$ 664,379	$ 614,020	$ 499,347	$ 323,164	
Redundancy/(deficiency) recognized in 2012	$ 247	$ (9,669)	$ (7,101)	$ (9,883)	$ (21,956)	$ (16,519)	$ 16,005		**$ (48,876)**
Reconciliation to the statement of financial position									
Current year unpaid and unreported claims before discounting	$ 175,099	$ 60,080	$ 82,889	$ 112,930	$ 201,155	$ 284,853	$ 332,350	$ 495,611	**$ 1,744,967**
Effect of discounting (including PfAD)									**17,012**
FA and RSP assumed from the pool unpaid and unreported									**96,709**
Unpaid and unreported claims, gross of reinsurance									**$ 1,858,688**

(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**	**2012**	**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	$ 803,298	
1 year later	1,372,731	615,675	688,053	758,666	816,605	852,692	806,141		
2 years later	1,363,532	599,476	684,252	741,985	828,172	869,269			
3 years later	1,381,045	596,817	680,562	747,626	846,158				
4 years later	1,367,114	599,301	693,003	757,516					
5 years later	1,377,697	604,777	699,732						
6 years later	1,393,899	614,079							
7 years later	1,392,214								
Current estimate of ultimate claims	$ 1,392,214	$ 614,079	$ 699,732	$ 757,516	$ 846,158	$ 869,269	$ 806,141	$ 803,298	
Cumulative claims paid									
At end of accident year	$ 285,737	$ 265,096	$ 307,410	$ 330,691	$ 361,367	$ 358,456	$ 341,430	$ 323,125	
1 year later	530,603	374,354	438,359	500,102	531,638	527,895	485,525		
2 years later	693,150	413,735	488,987	558,678	601,336	589,540			
3 years later	858,952	458,480	533,531	602,999	652,321				
4 years later	1,016,589	498,296	579,499	645,640					
5 years later	1,123,768	534,540	619,179						
6 years later	1,193,015	557,015							
7 years later	1,243,105								
Cumulative claims paid	$ 1,243,105	$ 557,015	$ 619,179	$ 645,640	$ 652,321	$ 589,540	$ 485,525	$ 323,125	
Redundancy/(deficiency) recognized in 2012	$ 1,685	$ (9,302)	$ (6,729)	$ (9,890)	$ (17,986)	$ (16,577)	$ 20,559		**$ (38,240)**
Reconciliation to the statement of financial position									
Current year unpaid and unreported claims before discounting	$ 149,109	$ 57,064	$ 80,553	$ 111,876	$ 193,837	$ 279,729	$ 320,616	$ 480,173	**$ 1,672,957**
Effect of discounting (including PfAD)									**20,730**
FA and RSP assumed from the pool unpaid and unreported									**96,709**
Unpaid and unreported claims, net of reinsurance									**$ 1,790,396**

(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:

	2012		
	Insurance contract liabilities	Reinsurance assets/(liabilities)	Net
Balance, beginning of year	$ 4,231,111	$ (156,119)	$ 4,387,230
Changes in methods and assumptions			
- improvements in mortality/morbidity experience	(97,053)	(81,111)	(15,942)
- update of investment return assumptions	28,489	(579)	29,068
- model enhancements	(49,478)	(10,238)	(39,240)
- other changes	22,799	(2,910)	25,709
Normal changes			
- new business	151,083	3,520	147,563
- in-force business	112,366	2,629	109,737
Balance, end of year	$ 4,399,317	$ (244,808)	$ 4,644,125

	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)
- update of investment return assumptions	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

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

The improvements in mortality/morbidity experience for both 2012 and 2011 are primarily related to favourable mortality experience for individual life business.

The update in investment return assumptions in 2012 is primarily made up of two components:

1. For fixed income asset assumptions, a $158,100 policy liability increase primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions; and

2. For non-fixed income asset assumptions, a $129,800 policy liability decrease due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products. This resulted primarily from an asset liability management and capital management decision in the fourth quarter to purchase $174 million of common equities to match longer term liabilities.

The update in investment return assumptions for 2011 was primarily due to the impact of the lower interest rate environment.

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

The model enhancements for 2012 are related to the refinements of CALM valuation models for individual non-participating insurance business to more accurately reflect the timing of asset default rates and investment expense on reinvestment cash flows and revise the calculation of projected valuation interest rates. In addition, refinements were made to the valuation models for group LTD claims. The model enhancements for 2011 were related to participating insurance business. Starting in 2011, the Company adopted an adjusted book value basis for valuation which essentially assumes that dividends are adjusted to reflect changes in experience as it emerges.

Other changes for 2012 relate primarily to unfavourable experience associated with policy termination (lapse) for T100 and Universal Life level cost of insurance products and higher unit costs for individual life insurance business developing in recent expense studies. Other changes for 2011 relate primarily to assumption updates associated with policy termination (lapse) and administrative expense experience.

Empire Life expects to pay $4,264,345 (2011 – $4,082,809) of insurance contract liabilities and $245,543 (2011 – $161,885) 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 29 – Insurance risk management.

19. Share capital

	Authorized	Issued and outstanding	2012	2011
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
First Preference shares, Series 3 [(2c)]	unlimited	4,000,000	100,000	-
Common shares	unlimited	4,019,409	72,387	72,387
Total			$ 372,388	$ 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, 2012 there were three series of First Preference shares outstanding; the First Preference shares, Series 1, the First Preference shares, Series 2 and the First Preference shares, Series 3. The First Preference shares 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, 2012, the Company may redeem for cash the First Preference shares, Series 1 in whole or in part, at the Company's option at $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.

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

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 date.

(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, 2012, the Company may redeem for cash the First Preference shares, Series 2 in whole or in part, at the Company's option at $25.75 per share if redeemed 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 date.

(c) The First Preference shares, Series 3, are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum. First Preference shares, Series 3 will not be redeemable prior to April 17, 2017. On and after April 17, 2017, the Company may redeem for cash the First Preference shares, Series 3 in whole or in part, at the Company's option for: $26.00 per share if redeemed on or after April 17, 2017 and prior to April 17, 2018; $25.75 per share if redeemed on or after April 17, 2018 and prior to April 17, 2019; $25.50 per share if redeemed on or after April 17, 2019 and prior to April 17, 2020; $25.25 per share if redeemed on or after April 17, 2020 and prior to April 17, 2021; and $25.00 per share if redeemed on or after April 17, 2021, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

On and after April 17, 2017, the Company may convert all or any part of the outstanding First Preference shares, Series 3 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 date.

Dividends during the year are as follows:

	2012	2011
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
First Preference shares, Series 3, $1.0868 per share	4,347	-
Common shares, $0.50 per share	2,010	2,010
Total	$ 16,407	$ 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 $1,964 (2011 – $1,967).

The following dividends were declared by the Board of Directors meeting on March 5, 2013, with a record and payable date of April 1, 2013 and April 15, 2013, respectively:

- First Preference shares, Series 1, $0.33125 per share;
- First Preference shares, Series 2, $0.296875 per share;
- First Preference shares, Series 3, $0.34375 per share;
- Series A Preference shares, $0.125 per share; and
- Common shares, $0.125 per share.

20. Shareholders' equity entitlement

Shareholders' entitlement to $4,624 (2011 – $5,063) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

21. 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 agreements 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 agreement and facultative reinsurance agreements in order to limit its exposure to unusual losses. Under these agreements The Dominion's exposure to claims occurring in 2012 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 $700,000 (2011 - $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 (2011 - $15,000) of claims. In 2011, The Dominion was also responsible for 2.5% of the first $60,000 of claims exceeding that retention level. Reinsurance premiums on an earned basis are $66,640 (2011 - $61,501) and are included as reductions in net premiums.

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, compared to Canadian competitors, 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 business 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)

22. Operating expenses

Operating expenses include the following:

	2012	2011
Salary and benefits expense	$ 162,489	$ 142,490
Rent, leasing and maintenance	28,576	27,523
Professional services	32,829	29,464
Amortization and depreciation of assets	14,943	11,557
Other	59,026	59,825
	$ 297,863	$ 270,859

23. Income taxes

Income taxes are assessed on net income before income taxes. The effective tax rate varies from the combined statutory rate as follows:

	2012	2011
Income taxes at statutory rate	$ 142,060	$ (11,062)
Variance as a result of:		
Tax-paid dividends	(18,433)	(16,904)
Non-taxable portion of (gains) losses	(77,495)	21,241
Substantively enacted changes in income tax rates	1,992	1,017
Other	5,610	4,099
Income taxes (recovery) expense	$ 53,734	$ (1,609)

The current enacted corporate tax rates as they impact Company in 2012 stand at 26.5% (2011 – 28.4%). This rate is expected to remain at 26.5% through to 2016. 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:

	2012	2011
Current	$ 25,398	$ 7,129
Deferred	28,336	(8,738)
Income taxes (recovery) expense	$ 53,734	$ (1,609)

(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:

	2012	2011
Investments - excluding United	$ (73,506)	$ (53,106)
- United	(15,777)	-
Insurance contract liabilities	9,446	8,548
Losses recoverable in future years	43,151	52,837
Other	(3,544)	266
Deferred taxes (payable) receivable	$ (40,230)	$ 8,545
Recorded as:		
Deferred tax assets	$ 36,741	$ 49,545
Deferred tax liabilities	(76,971)	(41,000)
	$ (40,230)	$ 8,545

Of the above total, $49,063 (2011 – $21,493) 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:

	2012	2011
Investments	$ 20,400	$ (40,994)
Insurance contract liabilities	(898)	32,096
Losses recoverable in future years	5,024	(3,269)
Other	3,810	3,429
Income tax provision	$ 28,336	$ (8,738)

During 2012, the Company and its subsidiaries paid income tax instalments and assessments totalling $5,033 (2011 – $8,714) and received income tax refunds totalling $21,073 (2011 – $12,014).

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, 2012 amount to $11,118 (2011 – $12,462). The potential benefit of this amount has not been reflected in these consolidated financial statements.

24. 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 $173 (2011 – $1,937).

25. 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 First Preference shares, by the amount equal to the total number of Adjusted Common Shares outstanding of 4,019,667 less 90,758 (2011 – 86,412), which is the

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

Company's proportionate interest in its own common shares held indirectly through its associate, Economic.

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

	2012	2011
Basic earnings (loss) per common share:		
Net income (loss)	$ 472,741	$ (44,723)
Less: Dividends on First Preference shares	(14,397)	(10,050)
Net income (loss) after dividends on First Preference shares	$ 458,344	$ (54,773)
Weighted average number of Adjusted Common Shares outstanding	3,928,909	3,933,255
Basic earnings (loss) per common share	$ 116.66	$ (13.93)
Diluted earnings (loss) per common share:		
Net income (loss)	$ 472,741	$ (44,723)
Weighted average number of Adjusted Common Shares outstanding	3,928,909	3,933,255
Dilutive effect of the conversion of First Preference shares into common shares	814,719	442,084
Weighted average number of diluted Adjusted Common Shares outstanding	4,743,628	4,375,339
Diluted earnings (loss) per common share	$ 99.66	$ (13.93)

26. Other comprehensive income (loss)

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

	2012	2011
Net unrealized fair value increase (decrease) on available for sale investments		
Unrealized fair value increase on AFS investments	$ 56,418	$ 21,215
Less: Realized gain on AFS investments reclassified to net income	(47,840)	(40,543)
	8,578	(19,328)
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	534	496
	534	496
Share of other comprehensive (loss) income of associates	(1,040)	1,011
Other comprehensive income (loss), net of tax	$ 8,072	$ (17,821)

(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	
	2012	2011
Net unrealized fair value increase (decrease) on available for sale investments		
Unrealized fair value increase on AFS investments	$ 17,776	$ 7,268
Less: Realized gain on AFS investments reclassified to net income	(20,241)	(18,705)
	(2,465)	(11,437)
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	257	239
	257	239
Share of other comprehensive (loss) income of associates	(159)	144
Total expense in other comprehensive income (loss)	$ (2,367)	$ (11,054)

In anticipation of the issuance of unsecured subordinated debentures (Note 16), 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.

27. 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 2012 were $15,835 (2011 - $16,562). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012	2011
2012	$ -	$ 19,371
2013	19,190	15,308
2014	17,636	13,691
2015	15,214	11,540
2016	14,140	11,292
2017 (and thereafter for 2011 comparatives)	11,641	51,852
2018 and thereafter	46,093	-
	$ 123,914	$ 123,054

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2012 there were $41,281 (December 31, 2011 $nil) of outstanding commitments to purchase units in a real estate limited partnership. These commitments are payable on demand and mature within 17 months.

28. 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 4 and 5 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.

E-L Corporate:

E-L Corporate owns investments in equities and fixed income securities directly and indirectly through pooled funds and other investment companies. In addition, the E-L Corporate segment includes the net assets of United, a closed-end investment subsidiary and significant investments in Economic, also a closed-end investment company 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 (Canada) and to Investment Guidelines established by the Investment Committee of the individual company's Board of Directors. The Dominion's and Empire Life's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

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

Credit risk

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

	2012	2011
Cash and cash equivalents	$ 393,998	$ 248,838
Short-term investments	54,954	109,333
Bonds	6,299,589	6,037,542
Preferred shares	445,722	432,868
Mortgages	302,531	264,238
Loans on policies	43,071	41,981
Policy contract loans	95,461	113,118
Commercial loans	24,455	28,953
Accrued investment income	35,941	33,168
Reinsurance recoverable	77,361	74,311
Premiums receivables	330,476	316,539
Total	$ 8,103,559	$ 7,700,889

The Dominion is also exposed to credit risk on structured settlements. For further information, refer to Note 18 – Insurance contract liabilities and reinsurance recoverable.

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 18).

The following table discloses the holdings of fixed income securities in the ten issuers, excluding the federal governments, to which the operating segments had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds:

	E-L Corporate		The Dominion		Empire Life	
	2012	2011	2012	2011	2012	2011
Holdings of fixed income securities* in the ten issuers (excluding federal governments) to which the operating segments had the greatest exposure	$ 30,380	$ 27,510	$ 769,725	$ 783,643	$ 2,935,033	$ 3,000,342
Percentage of the segment's total cash and investments	1.6%	3.0%	27.8%	30.8%	50.4%	54.8%
Exposure to the largest single issuer of corporate bonds	$ nil	$ nil	$ 103,175	$ 94,363	$ 139,727	$ 140,581
Percentage of the segment's total cash and investments	0.0%	0.0%	3.7%	3.6%	2.4%	2.6%

* Fixed income securities include bonds and debentures, preferred shares and short term investments.

(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:

The Dominion:

	2012		2011	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 391,935	19%	$ 401,289	20%
AA	566,538	27%	435,007	22%
A	936,981	45%	991,756	50%
BBB	176,806	9%	145,593	8%
Total	$ 2,072,260	100%	$ 1,973,645	100%

Empire Life:

	2012		2011	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 266,832	6%	$ 304,142	7%
AA	1,274,244	30%	1,295,345	32%
A	2,253,538	54%	2,255,901	56%
BBB	432,535	10%	208,509	5%
BB	180	0%	-	0%
Total	$ 4,227,329	100%	$ 4,063,897	100%

b) Preferred shares

The Dominion's preferred share investments are all issued by Canadian companies with 83% (2011 – 83%) of these investments rated as P1 as at December 31, 2012 and the remaining 17% (2011 – 17%) rated as P2.

Empire Life's preferred share investments are all issued by Canadian companies with 86% (2011 – 86%) of these investments rated as P1 as at December 31, 2012 and the remaining 14% (2011 – 14%) 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 $298,432 or 99% (2011 – $258,277 or 98%) of the total mortgage portfolio. As at December 31, 2012 loans and receivables past due but not impaired are $6,248 (2011 – $nil).

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

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 $16,407 (2011 – $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.

Composition of E-L Corporate's liquidity:

	2012	2011
Cash and cash equivalents	$ 36,083	$ 30,187
Short-term investments	33,527	30,600
Total	$ 69,610	$ 60,787

The Dominion:

Unpaid and unreported claims liabilities are The Dominion's only significant long duration obligation. The remaining liabilities, including unearned premiums, accrued expenses and accounts payable, and premium taxes are generally due within one year or less.

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

	2012		2011	
1 year or less	$ 474,343	26%	$ 490,543	28%
1 - 3 years	584,151	31%	551,624	32%
3 - 5 years	366,181	20%	318,908	18%
Over 5 years	434,013	23%	371,568	22%
Total	$ 1,858,688	100%	$ 1,732,643	100%

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

	2012		2011	
1 year or less	$ 443,706	25%	$ 460,548	28%
1 - 3 years	566,788	32%	535,747	32%
3 - 5 years	358,748	20%	311,543	19%
Over 5 years	421,154	23%	359,598	21%
Total	$ 1,790,396	100%	$ 1,667,436	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, 2012, 4.1% (2011 – 4.2%) of cash and cash equivalents and investments were held in these shorter duration investments.

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

The following table profiles the bond portfolio by contractual maturity (using the earliest contractual maturity date):

The Dominion	2012		2011	
	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 272,194	13%	$ 240,211	12%
1 - 3 years	660,612	32%	517,615	26%
3 - 5 years	574,920	28%	676,055	35%
5 - 10 years	464,382	22%	394,539	20%
Over 10 years	100,152	5%	145,225	7%
Total	$ 2,072,260	100%	$ 1,973,645	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 16 – 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 are shown in the following tables:

2012	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 111,573	$ 297,823	$ 386,770	$ 11,069,490	$ 11,865,656
Investment contract liabilities	2,919	7,866	5,745	3,373	19,903
Subordinated debt	13,460	53,482	218,927	-	285,869
Other liabilities	165,372	3,827	11,744	-	180,943
Total liabilities	$ 293,324	$ 362,998	$ 623,186	$ 11,072,863	$ 12,352,371
Operating lease commitments	2,722	6,238	1,937	-	10,897
Total	$ 296,046	$ 369,236	$ 625,123	$ 11,072,863	$ 12,363,268

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

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

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 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, 2012, 4.6% (2011 – 3.5%) of cash and investments were held in these shorter duration investments.

The following table profiles the bond portfolio by contractual maturity (using the earliest contractual maturity date) as at:

Empire Life	2012		2011	
	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 53,360	1%	$ 81,509	2%
1 - 5 years	434,762	10%	469,470	12%
5 - 10 years	510,229	12%	379,338	9%
Over 10 years	3,228,978	77%	3,133,580	77%
Total	$ 4,227,329	100%	$ 4,063,897	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 E-L Corporate and the insurance operations’ fixed income investments, which total $6.3 billion at December 31, 2012 (2011 – $6.0 billion) on a consolidated basis. Rising interest rates will lead to declines in the fair value of these investments and falling interest rates will lead to increases in the fair value of these investments.

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

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.

2012	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	(54,669)	56,993	(107,119)	116,422

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

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, 2012, the weighed average bond modified duration of 3.6 years (2011 – 4.0 years) is 95% (2011 - 100%) of the net unpaid and unreported claims weighed average modified duration of 3.8 years (2011 – 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 $57,125 (2011 - $46,486) and an increase (decrease) of $41,964 (2011 - $33,340) 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.

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

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.

The following tables summarize the immediate financial impact on net income and other comprehensive income as a result of a change in interest rates:

2012	1% Increase	1% Decrease	2% Increase	2% Decrease
Empire Life				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(16,264)	17,143	(31,719)	34,814

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

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 selected 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.

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.

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

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.

	2012		2011	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 124,452	$ 11,340	$ 63,618	$ 10,083
20% fluctuation	248,904	22,680	127,236	20,166
Investments in associates				
10% fluctuation	9,535	nil	40,096	nil
20% fluctuation	19,070	nil	80,192	nil
The Dominion				
10% fluctuation	$ nil	$ 31,920	$ nil	$ 27,182
20% fluctuation	nil	63,840	nil	54,363

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)

	2012		2011	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Empire Life				
Insurance operations				
10% fluctuation	$ 14,402	$ 1,215	$ 8,805	$ 9,141
20% fluctuation	28,818	2,429	17,620	18,281
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 $230,994 (2011 – $419,784) which represents 10% (2011 – 32%) of E-L Corporate's total assets.

	The Dominion		Empire Life	
	2012	2011	2012	2011
Exposure to the ten largest common share holdings	$ 104,534	$ 91,521	$ 249,655	$ 214,097
As a percentage of the segment's total cash and investments	3.8%	3.5%	4.3%	3.9%
Exposure to the largest single issuer of common shares	$ 12,231	$ 11,680	$ 39,328	$ 41,687
As a percentage of the segment's total cash and investments	0.4%	0.4%	0.7%	0.8%

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 $30,044 (2011 – $14,114) on shareholders' net income and $12,475 (2011 – $10,127) on other comprehensive income.

The Dominion: Approximately $nil (2011 – $nil) on shareholders' net income and $9,760 (2011 – $6,919) on other comprehensive income.

Empire Life: Approximately $1,018 (2011 – $935) on shareholders' net income and $nil (2011 – $327) on other comprehensive income.

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

29. 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	2012		2011	
By product:				
Automobile	$ 782,747	62%	$ 779,625	61%
Personal Property	271,405	21%	277,682	22%
Commercial Property & Casualty	219,371	17%	214,829	17%
	$ 1,273,523	100%	$ 1,272,136	100%
By geographic region:				
Ontario	$ 958,303	75%	$ 947,931	74%
Western Canada	199,594	16%	201,826	16%
Atlantic Canada	115,626	9%	122,379	10%
Total	$ 1,273,523	100%	$ 1,272,136	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 pressures, price regulation and other decisions made by regulators, as well as legislative changes to products that could result in claims costs that exceed pricing assumptions. To mitigate these risks, for personal lines and some commercial products, The Dominion sets premium rates based on actuarial analysis and consideration of competitive market forces. Personal automobile and some commercial automobile premium rates are subject to provincial regulatory approval which in most provinces involves varying degrees of review of supporting assumptions. Some commercial products are priced by individual underwriters, based on their experience and underwriting guidance, as part of the underwriting process. Mitigation of the foregoing insurance risks is dependent on an accurate understanding of claims costs and trends, in order to set appropriate prices and change insurance products.

<u>Government regulation of automobile insurance</u>

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 "take 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 $769,471 (2011 – $770,106), 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. Provisions for bodily injury claims of prior years were increased in 2012, reflecting the fact that a higher than expected number of claims were opened relating to accidents that occurred in 2010, as well as a higher than expected frequency and severity of large losses for more recent accident years. 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 28 – 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 $89,520 (2011 – $83,372) and a decrease (increase) in net income (loss) of $65,761 (2011 – $59,911), net of tax.

Reinsurance risk

The Dominion purchases reinsurance to protect capital and surplus from claims risk caused by large losses or by a large accumulation of losses relating to single events, such as catastrophes. Reinsurance treaties provide coverage in layers in which multiple reinsurers provide agreed upon portions of each layer's coverage. Treaties typically renew annually. The Dominion's reinsurance coverage is mainly in the form of excess of loss treaties that provide coverage above a deductible ("retention") up to the treaty limits, per claim or, in the case of the catastrophe treaty, for the aggregate loss of 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 21 – 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. The cost of reinsurance coverage fluctuates in a cyclical fashion based on global reinsurance results and competitive factors and as a result, some coverage may not be available for all risks and increased reinsurance prices may reduce The Dominion's operating margin. There is also the risk that an insurer's reinsurance program is not adequately designed to provide the protection intended.

To mitigate reinsurance risk, the terms and conditions of reinsurance treaties and reinsurer participations are reviewed and approved by a Reinsurance Committee established by management and are reported to The Dominion's Board. 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.

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

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	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net premium income	$ 176	$ 141	$ 290	$ 278	$ 348	$ 339	$ -	$ -	$ 814	$ 758
Fee and other income	115	110	7	7	1	1	2	2	125	120
Total revenues	$ 291	$ 251	$ 297	$ 285	$ 349	$ 340	$ 2	$ 2	$ 939	$ 878

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. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

The margins for adverse deviation used by Empire Life are within the target range established by the Canadian Institute of Actuaries. A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

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, 2012. 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 $9,900 (2011– $8,700). 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 $3,300 (2011 – $3,100).

(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 for the assets supporting policy liabilities 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, bond 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. For investment income expected to be earned on reinvestments during the rolling 20-year period, the Company uses an initial reinvestment rate ("IRR") assumption. Under Canadian actuarial standards of practice, the IRR is determined as 90% of the interest rates based on the current economic outlook and the Company's expected future asset mix, which grades to the ultimate reinvestment rate assumption (described below) over the 20-year rolling period. In order to provide a margin that recognizes the mismatch for the 20-year rolling-period, 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.

The impact of an immediate change in interest rates can be found in Note 28 – Investment risk management. If the change in interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. 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 $37,700 (2011 – $37,800). This assumes no change in the ultimate reinvestment rate.

For investment income expected to be earned on reinvestments beyond the rolling 20-year period, the Company uses an ultimate reinvestment rate ("URR") assumption. Under Canadian actuarial standards of practice, the URR must not exceed the lesser of 5% or 90% of an interest rate based on a moving average of Government of Canada long-term bond rates over the last 10 years. The maximum prescribed URR decreased from 3.8% for 2011 to 3.4% for 2012. If long-term interest rates remain at current levels for the next year, then the URR is estimated to decrease to 3.1% for 2013. 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. The Company uses an URR of 3.1% (3.7% for 2011) to reflect the downward trend in long-term interest rates. For non-participating insurance business, a 0.10% decrease in assumed URR would result in an increase to policy liabilities thereby reducing net income by approximately $13,200 ($13,000 for 2011).

The above estimates do not take into account any compensatory measures that the Company may take to mitigate the impact of lasting decreases in interest rates. The Company reviews the continuing appropriateness of the URR assumption annually.

For the life insurance business, the Company's policy is to also use equity investments to cover estimated insurance liability cash flows of non-participating life and universal life products beyond the 20-year rolling period. The value of liabilities supported by these equities depends on assumptions about the future level of equity markets. The best estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.16% (9.20% for 2011). The Company uses an assumption of 8.11% (8.43% for 2011) to include provisions for moderate changes in equity rates of return determined in accordance with Canadian actuarial standards of practice. The returns are then reduced by margins to determine the net returns used in the valuation. Changes in the current market would result in changes to these assumptions.

The impact of an immediate change in equity markets can be found in Note 28 – 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 $68,700 (2011 – $32,000).

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. For annuity business, the impact a 1% decrease in assumed initial reinvestment rates or a 0.10% decrease in assumed ultimate reinvestment rates is negligible as a result of the matching process described above. The Company does not use equity investments to match annuity liability cash flows.

(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 $83,000 (2011 – $79,600). 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 $5,000 (2011 – $4,500).

(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 $4,100 (2011 – $4,000).

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 21 – Reinsurance.

Empire Life does not have any material assumed reinsurance annual premium revenue and it does not reinsure Empire Life segregated fund guaranteed products or those issued by other insurance companies.

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

30. 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.

31. Related party transactions

The Company's investments in related parties includes investments in associates of $230,994 (2011 – $419,784) and investments in other related parties within investments – corporate of $553,478 (2011 – $438,428). 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 $9,297 in United, $8,338 of which was purchased from a related party. As well, during 2012, the Company invested an additional $2,103 (2011 – $4,164) in its associates and $6,000 (2011 – $5,000) in other related parties in investments – corporate. These transactions were conducted in the ordinary course of operations are recorded at their exchange amount, representing the amount of consideration paid (or received) as established and agreed by the related parties.

The Company received administrative service fees of $1,107 (2011 – $1,115) from related parties 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:

	2012	2011
Salaries and other short-term benefits	$ 1,127	$ 1,072
Post-employment benefits	108	90
Balance at the end of the year	$ 1,235	$ 1,162

32. 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 MCT, which calculates a ratio of capital available to capital required. As at December 31, 2012 and 2011, The Dominion exceeded

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

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 regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act, Canada as established by OSFI. Under the guidelines established by OSFI, Empire Life's regulatory capital consists of two tiers. Empire Life's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory 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 regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2012 and December 31, 2011, Empire Life exceeded both of these requirements.

33. Acquisition of United

On December 31, 2012, the Company acquired control of United with the acquisition of a further 1.31% of the common shares. After the transaction, the Company owned 6,131,859 common shares of United, representing 50.29% of all the issued and outstanding common shares of United.

The fair value of the identifiable assets and liabilities of United as at the date of acquisition were:

Fair value recognized on acquisition		
Assets:		
Cash and cash equivalents	$	10,982
Investments		934,245
Other assets		1,811
		947,038
Liabilities:		
Income taxes payable		10,423
Deferred taxes		15,777
Other liabilities		522
		26,722
Total identifiable net assets at fair value available		920,316
Cost of redemption of preferred shares		(7,747)
Total identifiable net assets at fair value available to common		912,569
Non-controlling interest		(453,683)
Purchase consideration transferred	$	458,886
Purchase consideration transferred was comprised of:		
Cash	$	8,338
Fair value of previously held equity interest in United		312,419
		320,757
Excess of fair value of net assets acquired over purchase price*		138,129
	$	458,886

* The excess of fair value of net assets acquired over purchase price on the consolidated statements of net income (loss) includes a $4,112 reversal of a deferred tax liability on E-L Financial's investment in United.

Glossary of Terms (Unaudited)

Accumulated Other Comprehensive Income ("AOCI")

A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and the Company's share of AOCI from its associates. These items have been recognized in comprehensive income, but excluded from net income.

Active Market

An active market is a market in which the items traded are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public.

Available For Sale ("AFS") Financial Assets

Non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, held to maturity investments, or held for trading.

Canadian Asset Liability Method ("CALM")

The prescribed method for valuation of policy liabilities in Canada. CALM is a prospective basis of valuation which uses the full gross premium for the policy, the estimated expenses and obligations under the policy, current expected experience assumptions plus a margin for adverse deviations, and scenario testing to assess interest rate risk and market risks.

Canadian Institute of Actuaries ("CIA")

As the national organization of the Canadian actuarial profession, the CIA means to serve the public through the provision by the profession of actuarial services and advice of the highest quality. The CIA ensures that the actuarial services provided by its members meet accepted professional standards; and assists actuaries in Canada in the discharge of their professional responsibilities.

Canadian Institute of Chartered Accountants ("CICA")

Canada's not-for-profit association for Chartered Accountants ("CA") provides information and guidance to its members, students and capital markets. Working in collaboration with its provincial member organizations, the CICA supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs.

Canadian Life and Health Insurance Association ("CLHIA")

The CLHIA is an organization representing life insurance and health insurance providers in Canada. The Canadian life and health insurance industry provides a wide range of financial security products to more than 26 million Canadians and their dependants. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair Value Through Profit or Loss ("FVTPL")

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option.

International Financial Reporting Standards (“IFRS”)

Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles (“CGAAP”).

Net Premiums Earned

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 insurance policies.

Office of the Superintendent of Financial Institutions Canada (“OSFI”)

The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI’s mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Participating Policies

The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. Empire Life has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account.

Value in Use

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

Summary of Consolidated Results (unaudited)

	IFRS			Previous Canadian GAAP	
	2012	2011	2010	2009	2008
Premium income	$ 2,022,797	$ 1,972,790	$ 2,006,855	$ 1,925,902	$ 1,709,435
Share of income (loss) from investments in associates	83,945	(27,298)	31,837	6,744	(117,313)
Fair value change in fair value through profit or loss investments	201,326	335,458	289,551	140,190	(228,558)
Realized gain (loss) on available for sale investments including impairment write downs	68,081	59,249	15,459	(317,860)	(167,171)
Investment and other income	491,710	465,348	439,650	398,530	403,755
Excess of fair value of net assets acquired over purchase price	142,241	-	-	-	-
Total revenues	3,010,100	2,805,547	2,783,352	2,153,506	1,600,148
Policy benefits	1,711,065	2,125,855	1,900,569	1,784,877	1,106,568
Operating expenditures including commissions and premium taxes	762,786	718,609	674,965	564,795	551,881
Income (recovery) taxes	53,734	(1,609)	25,968	(33,334)	62,447
	482,515	(37,308)	181,850	(162,832)	(120,748)
Policyholders’ and non-controlling interest portion of income	9,774	7,415	(851)	22,076	6,565
Net income (loss)	$ 472,741	$ (44,723)	$ 182,701	$ (184,908)	$ (127,313)
Net income (loss) per share - basic	$ 116.66	$ (13.93)	$ 43.80	$ (58.75)	$ (41.30)
Assets					
Cash and cash equivalents	$ 393,998	$ 248,838	$ 339,892	$ 327,529	$ 357,294
Investments in associates	230,994	419,784	449,363	400,949	221,205
Investments - corporate	2,026,644	872,889	961,188	747,555	878,947
Investments - insurance operations	8,222,486	7,859,822	6,964,620	6,402,741	5,398,721
Reinsurance recoverable	77,361	74,311	87,799	101,522	104,867
Premiums receivable	330,476	316,539	309,999	301,547	276,911
Other assets	365,988	392,082	354,040	309,797	326,225
	11,647,947	10,184,265	9,466,901	8,591,640	7,564,170
Segregated funds	5,014,392	4,415,318	4,620,899	4,310,401	3,348,827
	$ 16,662,339	$ 14,599,583	$ 14,087,800	$ 12,902,041	$ 10,912,997
Liabilities					
Insurance contract liabilities	$ 6,849,328	$ 6,557,459	$ 5,928,096	$ 5,395,886	$ 4,885,506
Other liabilities	830,987	691,597	531,857	531,265	298,602
Policyholders’ and non-controlling interest	686,059	215,816	216,409	213,546	164,860
	8,366,374	7,464,872	6,676,362	6,140,697	5,348,968
Capital stock	372,388	272,388	272,388	272,388	272,388
Retained earnings	2,758,108	2,304,961	2,363,078	2,065,921	2,264,591
Accumulated other comprehensive income (loss)	151,077	142,044	155,073	112,634	(321,777)
	3,281,573	2,719,393	2,790,539	2,450,943	2,215,202
	11,647,947	10,184,265	9,466,901	8,591,640	7,564,170
Segregated funds	5,014,392	4,415,318	4,620,899	4,310,401	3,348,827
	$ 16,662,339	$ 14,599,583	$ 14,087,800	$ 12,902,041	$ 10,912,997

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

Summary of The Dominion (unaudited)

	IFRS			Previous Canadian GAAP	
	2012	2011	2010	2009	2008
Premium income	$ 1,209,265	$ 1,214,336	$ 1,190,329	$ 1,086,026	$ 1,023,257
Other income	15,165	15,141	15,038	13,827	13,132
Claims	(883,958)	(926,114)	(849,272)	(903,431)	(768,579)
Operating expenditures including commissions and premium taxes	(410,320)	(388,425)	(366,036)	(340,959)	(319,048)
Underwriting loss	(69,848)	(85,062)	(9,941)	(144,537)	(51,238)
Realized gain (loss) on available for sale investments including impairment write downs	34,555	27,414	12,387	(159,913)	(31,909)
Fair value change in fair value through profit or loss investments	554	238	1,867	-	-
Investment and other income	86,021	90,390	85,618	87,226	88,509
Income (loss) before taxes	51,282	32,980	89,931	(217,224)	5,362
Income taxes (recovery)	11,020	7,738	19,704	(65,247)	9,741
Net income (loss)	$ 40,262	$ 25,242	$ 70,227	$ (151,977)	$ (4,379)
Claims ratio	73.1%	76.3%	71.3%	83.2%	75.1%
Expense ratio	33.9%	32.0%	30.8%	31.4%	31.2%
Combined ratio	107.0%	108.3%	102.1%	114.6%	106.3%
Gross premiums written					
Automobile	$ 782,747	$ 779,625	$ 788,965	$ 726,486	$ 666,175
Property	394,614	396,527	389,142	361,100	335,340
Casualty	96,162	95,984	94,300	92,288	90,594
	$ 1,273,523	$ 1,272,136	$ 1,272,407	$ 1,179,874	$ 1,092,109
Assets	$ 3,401,665	$ 3,256,023	$ 3,120,173	$ 2,981,268	$ 2,648,264

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

Summary of Empire Life (unaudited)

	IFRS			Previous Canadian GAAP	
	2012	2011	2010	2009	2008
Premium income	$ 813,532	$ 758,454	$ 816,526	$ 839,876	$ 686,178
Fair value change in fair value through profit or loss investments	1,397	394,512	213,646	106,699	(244,384)
Realized gain on fair value through profit or loss investments	54,349	41,324	8,047	30,641	19,920
Realized gain (loss) on available for sale investments including impairment write downs	28,405	25,846	7,496	(34,409)	(47,207)
Investment and other income	362,572	337,025	317,442	279,417	273,871
Total revenues	1,260,255	1,557,161	1,363,157	1,222,224	688,378
Policy benefits	827,107	1,199,741	1,051,297	881,446	337,989
Operating expenditures including commissions and premium taxes	345,690	324,136	302,655	259,694	265,012
Income taxes	13,636	139	(5,742)	16,158	40,289
	73,822	33,145	14,947	64,926	45,088
Profits allocated to policyholders	(6,597)	838	(4,890)	11,124	(3,282)
Profits allocated to non-policyholders	16,371	6,577	4,039	10,952	9,847
Net contribution to E-L	$ 64,048	$ 25,730	$ 15,798	$ 42,850	$ 38,523
Premium income by line					
Individual:					
Insurance	$ 332,160	$ 321,073	$ 299,390	$ 281,751	$ 283,981
Annuities	173,087	132,681	231,534	292,200	113,731
Health	16,091	17,629	16,799	15,902	14,930
	521,338	471,383	547,723	589,853	412,642
Group:					
Insurance	27,368	25,929	23,623	23,121	23,470
Annuities	2,685	8,765	7,145	8,106	3,974
Health	262,141	252,377	238,035	218,796	246,092
	292,194	287,071	268,803	250,023	273,536
Total premiums	$ 813,532	$ 758,454	$ 816,526	$ 839,876	$ 686,178
Assets including segregated funds	$ 10,923,544	$ 10,014,822	$ 9,530,926	$ 8,712,454	$ 7,095,633

(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)
2012	16,662,339	2,022,797	3,010,100	2,981,573	481,774	118.96

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
BRIGID MURPHY

Chief Information Officer
JANET E. BABCOCK

Senior Vice-President, Sales
ALAN J. HANKS

Chief Financial Officer
R. DOUG HOGAN

Senior Vice-President, Claims
NORA P. HOHMAN

Chief Compliance Officer and Corporate Secretary
WENDY E. MILLS

Chief Legal Officer
KATHLEEN A. NICCOLS

Senior Vice-President, Personal Lines
WILLIAM D. PREMDAS

Senior Vice-President, Corporate Development
SHELLY A. RAE

Senior Vice-President, Commercial Lines
LINDA REGNER DYKEMAN

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

Chief Actuary
ERIKA H. SCHURR

Chief Risk Officer
KATHLEEN E. THOMAS

Senior Vice-President, Business Solutions
R. 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
First Preference Shares, Series 3	ELF.PR.H

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. James Billett
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
M5H 3B8
Email: jfbillett@rogers.com
Phone: 416-284-6440

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.