Financial Corporation Limited

ANNUAL REPORT
2018

Financial Highlights

(Millions of dollars, except per share amounts)

Years ended December 31	2018	2017
Net Equity Value per Common Share [1]	**$ 1,295.65**	$ 1,316.64
Net Income per Common Share	**$ 3.96**	$ 166.17
Comprehensive (Loss) Income per Common Share	**$ (2.72)**	$ 157.33

Contribution to Shareholders' Net Income:		
E-L Corporate	**$ (105)**	$ 498
Empire Life	**136**	170
Shareholders' Net Income	**31**	668
Preferred Shareholder Dividends	**15**	15
Net Income attributable to Common Shareholders'	**$ 16**	$ 653

E-L Corporate		
Shareholders' Net (Loss) Income	**$ (105)**	$ 498
Investments - Corporate	**$ 4,596**	$ 4,853
Investments in Associates	**$ 335**	$ 330
Empire Life		
Common Shareholders' Net Income	**$ 136**	$ 170
Net Premiums and Fee Income	**$ 1,138**	$ 1,091
Assets Under Management [1]	**$ 16,415**	$ 17,578
Life Insurance Capital Adequacy Test Total Ratio (“LICAT”) (%) [2]	**149**	N/A
Minimum Continuing Capital and Surplus Requirements (“MCCSR”) (%) [2]	**N/A**	282

(1) See Non-GAAP measures within the Management’s Discussion and Analysis
(2) Effective January 1, 2018, MCCSR has been replaced by LICAT

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:30 a.m. on Thursday May 9, 2019 at Vantage Venues, Caledonia Room, 150 King Street West, 27th Floor, Toronto, Ontario. All shareholders are invited to attend.

Board of Directors

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

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

Michael J. Cooper
President and Chief Responsible Officer, Dream Unlimited Corporation

William J. Corcoran
Corporate Director

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

M. Victoria D. Jackman
Executive Director, Hal Jackman Foundation

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

Clive P. Rowe
Partner, Oskie Capital

Stephen J.R. Smith
President and CEO, First National Financial LP

Mark M. Taylor
Treasurer, Canadian Northern Prairie Lands Company Inc.

The Right Honourable John N. Turner
Honorary Director

Officers

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

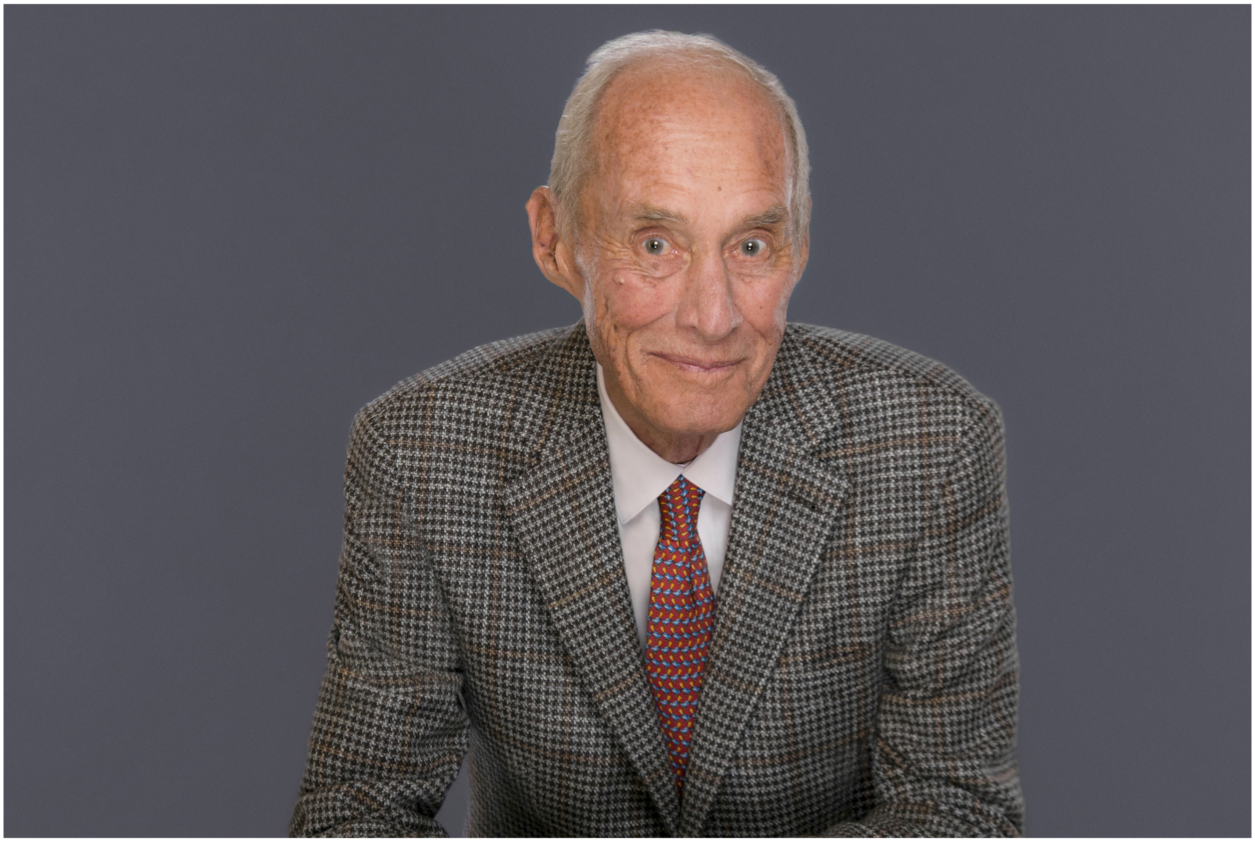
Richard B. Carty
Vice-President, General Counsel and Corporate Secretary

Susan C. Clifford
Treasurer

Scott F. Ewert
Vice-President and Chief Financial Officer

Fahad Khan
Vice-President, Investments

IN MEMORIAM



We are deeply saddened by the recent passing of J. Christopher (Chris) Barron. Chris served as a Director of E-L Financial Corporation Limited from 2003 to 2019.

Chris gave himself fully to each of the many companies and organizations he was involved with over his storied and highly respected career. His wisdom and vast business experience have contributed greatly to our ongoing success; his warmth and quick wit will never be forgotten.

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, 2018 and 2017 for E-L Financial Corporation Limited ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2018 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2018 Annual Report dated March 5, 2019. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Figures in MD&A may differ due to rounding.

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.

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

Forward-looking statements and information

Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market risks including equity risks, hedging risks, interest rate risks, foreign exchange rate risks; liquidity risks; credit risks including counterparty risks; insurance risks including mortality risks, policyholder behaviour risks, expense risks, morbidity risks, product design and pricing risks, underwriting and claims risks, reinsurance risks; operational risks, including legal and regulatory risks, model risks, human resources risks, third party risks, technology, information security and business continuity risks; and business risks, including risks with respect to competition, risks with respect to financial strength, capital adequacy risks, risks with respect to distribution channels, risks with respect to changes to applicable income tax legislation, risks with respect to litigation, risks with respect to reputation, risks with respect to risk management policies, risks with respect to intellectual property, risks with respect to significant ownership of common shares. Please see the section titled "Description of the Business" in E-L Financial's Annual Information Form available at www.sedar.com for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable; assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on the Company's forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors, assumptions and other uncertainties and potential events. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or the date indicated, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise after the date of this document, except as required by law.

Non-GAAP measures

The MD&A contains information using non-GAAP measures. Current Canadian GAAP is IFRS for the Company's consolidated financial statements. The Company believes that these measures provide useful information to its shareholders in evaluating the Company's financial results. Where non-GAAP measures are used, descriptions have been provided as to the nature of the adjustments made.

The MD&A contains reference to net equity value, net equity value per common share and growth in net equity value per common share. Net equity value per common share is described and reconciled to shareholders' equity on page 9. 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 MD&A also contains non-consolidated cash flow information of E-L Financial which is a non-GAAP presentation. The information is useful as it separates the Company's cash flows from the cash flows of its subsidiaries. This information is reconciled to the consolidated cash flows on page 11.

Other non-GAAP measures are also used in The Empire Life Insurance Company ("Empire" or "Empire Life") section of the MD&A. These include references to return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities. These provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on GAAP financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Empire Life's management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

Return on Empire Life's common shareholders' equity is a profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

Sources of earnings break down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The sources of earnings components are reconciled to Empire Life's net income on page 21 of this report.

Annualized premium sales are 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. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

Assets under management is a non-GAAP measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. They represent the total assets of Empire Life and the assets its customers invest in. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

The following table provides a reconciliation of assets under management to total assets in Empire Life's financial statements:

(in millions of dollars)		**2018**		2017
General fund assets	**$**	**8,447**	$	8,713
Segregated fund assets		**7,823**		8,682
Total Empire Life assets		**16,270**		17,395
Mutual fund assets		**145**		183
Total assets under management	**$**	**16,415**	$	17,578

The Company

E-L Financial operates as an investment and insurance holding company. In managing its operations, the Company distinguishes between two operating segments, E-L Corporate and Empire Life.

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and other private companies. E-L Financial holds a 52.2% interest in a closed-end investment corporation, United Corporations Limited ("United") which is listed on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities. The invested assets and operations of United are consolidated and included in the E-L Corporate segment. In addition, E-L Corporate has two significant investments in associates which are a 36.8% interest in Algoma Central Corporation ("Algoma") and a 24.0% interest in Economic Investment Trust Limited ("Economic"). Algoma and Economic are accounted for using the equity method.

The Company's investment in Empire Life (99.3% interest) is consolidated by E-L Financial. The Empire Life operating segment underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend and interest 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.

Overview of results attributable to shareholders of E-L Financial

E-L Financial consolidated *(millions of dollars)*	**Fourth quarter 2018**	**Fourth quarter 2017**	**Year 2018**	**Year 2017**
Contribution to net (loss) income				
E-L Corporate(1)	**$ (244)**	$ 209	**$ (105)**	$ 498
Empire Life(2)	**6**	48	**136**	170
Net (loss) income	**(238)**	257	**31**	668
Other comprehensive (loss) income(2)	**(8)**	18	**(26)**	(35)
Comprehensive (loss) income	**$ (246)**	$ 275	**$ 5**	$ 633

The following tables summarize the results of the Company's business segments:

E-L Corporate *(millions of dollars)*	**Fourth quarter 2018**	**Fourth quarter 2017**	**Year 2018**	**Year 2017**
Revenue				
Net (loss) gain on investments(3)	**$ (324)**	$ 257	**$ (206)**	$ 544
Investment and other income	**27**	26	**134**	118
Share of associates (loss) income	**(5)**	14	**10**	36
	(302)	297	**(62)**	698
Operating	**9**	9	**34**	29
Income taxes	**(41)**	37	**(6)**	92
Non-controlling interests	**(26)**	42	**15**	79
	(58)	88	**43**	200
Net (loss) income	**(244)**	209	**(105)**	498
Other comprehensive (loss) income, net of taxes(1)	**(1)**	1	**2**	(42)
Comprehensive (loss) income	**$ (245)**	$ 210	**$ (103)**	$ 456

Empire Life *(millions of dollars)*	**Fourth quarter 2018**	**Fourth quarter 2017**	**Year 2018**	**Year 2017**
Revenue				
Net premiums	**$ 237**	$ 210	**$ 874**	$ 834
Net (loss) gain on investments(3)	**(95)**	269	**(308)**	302
Investment income	**83**	78	**307**	281
Fee income	**65**	70	**264**	257
	290	627	**1,137**	1,674
Benefits and expenses	**275**	553	**934**	1,428
Income and other taxes	**4**	20	**56**	70
Non-controlling and participating policyholders' interests	**5**	6	**11**	6
	284	579	**1,001**	1,504
Net income	**6**	48	**136**	170
Other comprehensive (loss) gain, net of taxes(2)	**(7)**	17	**(28)**	7
Comprehensive (loss) income	**$ (1)**	$ 65	**$ 108**	$ 177

(1) Net of non-controlling interests
(2) Net of non-controlling interests and participating policyholders' amounts
(3) Includes fair value change on fair value through profit and loss ("FVTPL") investments and realized gains on available for sale ("AFS") investments

E-L Financial reported consolidated 2018 net income of $31 million, or $3.96 per common share compared with $668 million, or $166.17 per common share in 2017. The decrease in net income is primarily due to net losses on investments within the E-L Corporate segment. E-L Corporate reported a net loss on investments of $206 million in 2018 compared to a net gain of $544 million in 2017. E-L Corporate's global investment portfolio had a negative pre-tax total return of 2% in 2018 compared to a pre-tax return of 14% in the prior year.

The Empire Life segment reported net income of $136 million in 2018 compared to $170 million in 2017. The net income for 2018 decreased primarily due to the impacts of changes made in the assumptions used by Empire Life in the estimation of insurance contract liabilities. During 2018 and 2017 changes were made to the company's bond portfolios which improved the matching of these investments to the estimated duration of the insurance contract liabilities. These changes positively impacted net income and were more significant in the prior year. In addition fourth quarter equity market declines reduced net income compared to the prior year.

Consolidated comprehensive income for 2018 was $5 million, or a net loss of $2.72 per common share compared to $633 million, or $157.33 per common share in 2017.

Net equity value per common share

Investments in Algoma and Economic are accounted for using the equity method and are not carried 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:

(millions of dollars, except per share amounts)		**2018**		2017
E-L Financial shareholders' equity	**$**	**5,523**	$	5,553
Less: First preference shares		**(300)**		(300)
		5,223		5,253
Adjustments for investments in associates not carried at fair value:				
Carrying value		**(335)**		(330)
Fair value[1]		**315**		381
		(20)		51
Non-controlling interest and deferred tax		**5**		(11)
		(15)		40
Net equity value	**$**	**5,208**	$	5,293
Common Shares[2] outstanding at year end		**4,019,667**		4,019,667
Net equity value per common share[2] [3]	**$**	**1,295.65**	$	1,316.64

[1] Based on quoted market prices
[2] Common Shares includes Series A Convertible Preference Shares
[3] See non-GAAP measures

Growth in net equity value

The Company's objective is to build long-term shareholder value by compounding growth in net equity value per common share over the long term. Set out below is a table that shows the net equity value per common share and growth for the respective fiscal periods. The growth in net equity value includes dividends paid to common shareholders.

Annual	Net equity value*	Growth*
	$	%
2009	681.51	23.6
2010	747.28	9.7
2011	642.98	(13.9)
2012	740.49	15.2
2013	872.45	28.0
2014	970.65	11.3
2015	1,089.23	12.3
2016	1,159.26	6.8
2017	1,316.64	14.0
2018	1,295.65	(1.2)
Compounded annual growth in net equity value*		
2009 - 2018 - 10 years		9.7
1969 - 2018 - Since inception		12.4

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

Summary of quarterly results

The following table summarizes the quarterly results:

(millions of dollars, except per share amounts)	**2018** Q4	Q3	Q2	Q1	2017 Q4	Q3	Q2	Q1
Revenue								
Net (loss) gain on investments(1)	**$ (419)**	$ (112)	$ 75	$ (58)	$ 527	$ (240)	$ 209	$ 351
Net premium income	**237**	221	205	211	210	217	204	203
Investment and other income	**175**	175	199	158	173	158	175	150
Associates(2)	**(5)**	10	7	(3)	14	9	12	1
Total	**$ (12)**	$ 294	$ 486	$ 308	$ 924	$ 144	$ 600	$ 705
Net (loss) income(3)	**$ (238)**	$ 96	$ 108	$ 66	$ 257	$ 49	$ 98	$ 264
Earnings per common share								
- basic	**$ (61.62)**	$ 23.33	$ 26.56	$ 15.69	$ 64.47	$ 11.60	$ 23.84	$ 66.26
- diluted	**$ (61.62)**	$ 22.08	$ 24.12	$ 15.15	$ 58.80	$ 11.31	$ 22.30	$ 60.41

(1) Fair value change on FVTPL investments and realized gain (loss) on AFS investments
(2) Share of income (loss) of associates
(3) Attributable to shareholders

Quarterly trend analysis

The consolidated revenue and consolidated net income of the Company are expected to fluctuate on a quarterly basis given its two 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. Investment income includes dividend income earned by the Company. In general, dividends earned on investments outside North America peak in the second and fourth quarters of the year.

Revenue for the fourth quarter of 2018 decreased from the third quarter of 2018 and the fourth quarter of 2017 primarily due to the declines in global equity markets during the fourth quarter of 2018.

Net premiums for the fourth quarter and the full year 2018 were higher relative to the same period in 2017 due to growth in all product lines.

Fourth quarter results

E-L Financial reported a consolidated net loss of $238 million, or $61.62 per common share for the fourth quarter of 2018 compared to income of $257 million, or $64.47 per common share in 2017. The loss was attributable to the E-L Corporate fourth quarter net loss of $244 million compared to a net income of $209 million for the comparable period in 2017. The fourth quarter E-L Corporate loss for 2018 was due to a net loss on investments of $324 million. This compared to a net gain of $257 million for the same period in 2017. The pre-tax total return on E-L Corporate's investments was negative 6% in 2018 compared to a positive return of 6% in the prior year.

Empire Life reported a net income of $6 million in the fourth quarter of 2018 compared to $48 million for the comparable period in 2017. The decrease in earnings for the fourth quarter of 2018 was primarily a result of changes in assumptions used by Empire Life in the estimation of insurance contract liabilities and the impact of equity market declines.

Consolidated comprehensive loss for the fourth quarter of 2018 was $246 million, or $63.51 per common share compared to comprehensive income of $275 million, or $69.16 per common share in 2017.

Liquidity and cash flows

Consolidated cash flows

The condensed cash flow of United and Empire Life, as well as E-L Financial non-consolidated and consolidated are presented below:

Year ended December 31 (millions of dollars)	E-L Financial (non-consolidated)	United	Empire Life	Consolidation adjustments	**E-L Financial 2018**	E-L Financial 2017
Cash flows from:						
Operating activities	$ 86	$ 14	$ 346	$ (58)	**$ 388**	$ 347
Financing activities	(50)	(25)	(367)	57	**(385)**	227
Investing activities	14	44	(68)	1	**(9)**	(655)
Increase (decrease) in cash and cash equivalents	50	33	(89)	—	**(6)**	(81)
Cash and cash equivalents, beginning of the year	25	20	294	—	**339**	420
Cash and cash equivalents, end of the year	$ 75	$ 53	$ 205	$ —	**$ 333**	$ 339

The increase in cash provided from operating activities in 2018 relative to 2017, reflects the increase in cash earnings during 2018 compared to the prior year along with changes in working capital levels.

The decrease in financing activity cash flows during 2018 relative to 2017 was mainly due to Empire Life's redemption of $300 million subordinated debt on May 31, 2018. In 2017, Empire Life issued $200 million of subordinated debentures.

The change in cash from investing activities during 2018 relative to 2017 was primarily driven by the timing of portfolio investment transactions and the investment of proceeds from Empire Life's issuance of $200 million of subordinated debt in 2017. In addition, during the fourth quarter of 2018 United completed an investment manager change contributing to higher investment turnover.

Non-consolidated cash flows of E-L Financial

E-L Financial's corporate cash flows from operating activities, before payment of dividends, are primarily comprised of dividends and interest received, less operating expenses and income taxes.

The following table details the non-consolidated cash flows of the Company on a direct basis, excluding the cash flows of the subsidiaries. This table has been prepared to assist the reader in isolating the cash flows of E-L Financial (non-consolidated).

(millions of dollars)		**2018**		2017
Cash flows from:				
Operating activities				
Dividends from subsidiaries	**$**	**52**	$	14
Dividends and interest		**85**		67
Expenses and taxes, net of other income		**(51)**		(24)
		86		57
Financing activities				
Cash dividends		**(36)**		(36)
Margin loan		**(10)**		100
Interest paid on borrowings		**(1)**		(1)
Purchases of subsidiary shares		**(3)**		(103)
		(50)		(40)
Investing activities				
Purchases of investments		**(554)**		(1,132)
Proceeds from sales of investments		**540**		1,057
Net sales of short-term investments		**21**		44
Dividends from associates		**7**		7
		14		(24)
Increase (decrease) in cash and cash equivalents		**50**		(7)
Cash and cash equivalents, beginning of the year		**25**		32
Cash and cash equivalents, end of the year	**$**	**75**	$	25

For the year ended December 31, 2018, the non-consolidated cash flows of E-L Financial increased by $50 million.

Operating cash flows for 2018 increased $29 million over the prior year. E-L Financial receives dividends from its subsidiaries Empire Life and United. A large contributor to the increase was $40 million common shareholder dividends received from Empire Life during 2018. Common shareholder dividends paid by Empire Life are reviewed on a quarterly basis and will depend upon various factors including the results of operations, the economic environment and the company's financial condition taking into account regulatory restrictions and other factors relevant to Empire Life's Board of Directors. E-L Financial received $13 million of dividends from United during the year. United's dividend policy is to distribute annual net investment income in the form of dividends which consists of quarterly dividends with an additional dividend representing the balance of net investment income for the previous fiscal.

Dividends and interest increased by $18 million. Dividends received are impacted by changes in the composition of the investment portfolio, variability in foreign exchange rates and dividend yields.

During the first quarter of 2017, for diversification reasons, E-L Financial reallocated the assets managed from one of the global investment managers. This caused higher investment portfolio turnover in 2017 compared to the current year resulting in higher income taxes paid during 2018.

During 2017, the Company drew on a margin loan facility to purchase $100 million of Series 3 Preferred Shares from Empire Life. As of December 31, 2018 the margin facility is pledged with $147 million of investments. Under the facility the Company is able to borrow funds in an amount up to 80% of the fair value of investments pledged.

E-L Financial maintains sufficient liquidity through holding cash equivalents and a sufficient amount of marketable investments that may be sold, if necessary, to fund new investment opportunities and to meet any operating cash flow requirements.

Capital resources

The Company's capital management process is designed to protect capital and build shareholder value over the long-term. Effective capital management includes maintaining sufficient liquidity to be able to pay dividends to the Company's preferred shareholders, satisfy issuer credit ratings requirements, as well as providing flexibility to pursue strategic opportunities. Total capital on a consolidated basis at December 31, 2018, consisted of the Company's shareholders' equity of $5,523 million, non-controlling interests in subsidiaries of $979 million and participating policyholders' interests of $36 million.

In the normal course of business, the Company is obligated to fund investment commitments which are not recognized in the consolidated financial statements. During 2017, E-L Financial subscribed for units in a Canadian limited partnership with an aggregate capital commitment of U.S. $40 million. As of December 31, 2018, the remaining unfunded commitment was U.S. $38 million. Empire Life had $13 million of outstanding investment commitments as at December 31, 2018.

Selected annual information

(millions of dollars, except per share amounts)		**2018**		2017		2016
Revenue		**1,077**		2,373		1,660
Shareholder net (loss) income						
E-L Corporate		**(105)**		498		181
Empire Life		**136**		170		152
Total		**31**		668		333
Earnings per share						
- basic		**3.96**		166.17		80.88
- diluted		**3.96**		152.83		75.80
Assets						
E-L Corporate		**5,078**		5,245		4,722
Empire Life		**16,270**		17,395		15,862
Total assets		**21,347**		22,640		20,584
Cash dividends declared per share						
First Preference Shares, Series 1	**$**	**1.3250**	$	1.3250	$	1.3250
First Preference Shares, Series 2	**$**	**1.1875**	$	1.1875	$	1.1875
First Preference Shares, Series 3	**$**	**1.3750**	$	1.3750	$	1.3750
Common Shares	**$**	**5.00**	$	5.00	$	5.00

Revenues and net income over the period have been significantly impacted by fluctuations in the global stock markets. E-L Corporate reported net gains on investments of $156 million and $544 million for 2016 and 2017. In 2016 investment returns in local currencies improved but were partially offset by the strengthening of the Canadian dollar relative to the U.S. dollar and Euro. In 2017 equity market returns in local currency were significantly higher than 2016 but were partially offset by foreign currency movements.

The 2018 period was affected by the declines in global equity markets. The Canadian dollar depreciated against most major portfolio currencies which partially offset the net investment loss for the year.

The fluctuation in Empire Life's revenue for the three year period is primarily driven by the impact of market interest rate movements on Empire Life's FVTPL investments.

During 2016 and 2017, assets continued to increase due to the growth in the investment portfolio combined with positive investment returns. In 2018 assets declined in both E-L Corporate and Empire Life primarily due to the stock market decline during the year.

Outstanding share data

The following summarizes the issued and outstanding shares of the Company:

	Issued and outstanding
Preferred shares	
Series A Preference Shares	258
First Preference Shares, Series 1	4,000,000
First Preference Shares, Series 2	4,000,000
First Preference Shares, Series 3	4,000,000
Common Shares	4,019,409

The Series A Preference Shares are convertible, at the shareholder's option, into Common Shares on a share for share basis. The Series A Preference Shares and Common Shares are each entitled to one vote per share.

The First Preference Shares are convertible at the option of the Company, 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.

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, 2018. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2018.

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 IFRS. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2018. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2018. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Insurance contract 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 22 and 23 to the consolidated financial statements.

Impairment

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

AFS securities are subject to a regular review for losses that are 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 associates’ 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 of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. 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.

Consolidation

There could be judgment involved in assessing control or significant influence of certain of the Company’s interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Fair value estimates

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particular those items categorized within Level 3 of the hierarchy.

Accounting changes

i) New accounting pronouncements adopted in 2018

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue which was effective on January 1, 2018. The new standard replaces IAS 18 *Revenue* which covers contracts for goods and services and IAS 11 *Construction Contracts* which covers construction contracts and is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The Company adopted IFRS 15 using the modified retrospective approach with no restatement of comparative information. The adoption of IFRS 15 on January 1, 2018 did not result in any changes to the Company's accounting policies for revenue recognition and therefore, did not result in any transitional adjustments to the Company's consolidated financial statements.

ii) New accounting pronouncements issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having only three measurement categories of amortized cost, fair value through other comprehensive income ("FVTOCI") and FVTPL for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost, FVTOCI or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTOCI or FVTPL. A debt instrument will be measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk will be recognized in OCI.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (which will be subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two different solutions for insurance companies relating to IFRS 9, both of which are optional:

- a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and
- the 'overlay approach'.

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2022, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. To assess whether activities are 'predominantly connected with insurance' two criteria were satisfied:

- Carrying amount of liabilities arising from contracts within IFRS 17's scope is significant, compared to the total carrying amount of liabilities; and
- Comparison of total carrying amount of liabilities connected with insurance with the total carrying amount of all of its liabilities. Liabilities connected with insurance include segregated fund liabilities measured at FVTPL applying IAS 39, and liabilities that arise because the insurer issues or fulfills obligations arising from those insurance and segregated fund contracts. The second test is passed

if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80% and the insurer is not engaged in a significant activity unconnected with insurance.

Per the amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, companies applying the temporary exemption are required to disclose fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding ("SPPI"), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Notes 5 and 8 include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2018 include bonds and mortgages with fair values of $20.2 million and $11.5 million, respectively.

The Company has considered the total insurance liabilities, which include segregated fund liabilities, against total liabilities and have concluded that the Company meets both criteria noted above.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB published IFRS 16 which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company has evaluated the impact of IFRS 16 on its consolidated financial statements as not significant.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. The IFRS 17 standard has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flow statement. The standard establishes the principles for recognition, measurement, presentation and disclosure. It defines a general measurement model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities, and it defines a specific model for contracts of one year or less.

The provisions of this new standard will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements.

IFRS 17 is tentatively effective (subject to IASB due process for the approval of a 1 year deferral) for reporting periods beginning on or after January 1, 2022, with comparative figures required to be restated. The Company is currently evaluating the impact on presentation, disclosure and measurement of the insurance contracts that this standard will have on its consolidated financial statements.

Analysis of business segments

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

E-L CORPORATE

E-L Corporate's operations includes the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies, a limited partnership and other private companies.

Investments in Economic and Algoma are reported as investments in associates and are discussed below. Investments in equities and fixed income securities held directly by E-L Financial and through United are combined to form "Investments – corporate".

Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At December 31, 2018, investments - corporate had aggregate investments of $4.6 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2017 of $4.9 billion. The fair value of investments - corporate is summarized in the table below:

(millions of dollars)		**2018**		2017
Short-term investments	**$**	**—**	$	21
Preferred shares		**3**		1
Common shares and units				
Canadian and U.S.		**2,464**		2,784
Europe and United Kingdom		**1,078**		1,055
Emerging Markets		**469**		460
Japan		**463**		422
Other		**119**		110
Total		**4,593**		4,831
Total invested assets	**$**	**4,596**	$	4,853

The following table provides a summary of E-L Corporate's results:

		Fourth quarter				Year	
(millions of dollars)		**2018**	2017		**2018**		2017
Revenue							
Net (loss) gain on investments	**$**	**(324)**	$ 257	**$**	**(206)**	$	544
Investment and other income		**27**	26		**134**		118
Share of associates (loss) income		**(5)**	14		**10**		36
		(302)	297		**(62)**		698
Operating		**9**	9		**34**		29
Income taxes		**(41)**	37		**(6)**		92
Non-controlling interests		**(26)**	42		**15**		79
		(58)	88		**43**		200
Net (loss) income		**(244)**	209		**(105)**		498
Other comprehensive (loss) income, net of taxes		**(1)**	1		**2**		(42)
Comprehensive (loss) income	**$**	**(245)**	$ 210	**$**	**(103)**	$	456

The decrease in E-L Corporate's net income for the fourth quarter of 2018 compared to the prior year is primarily due to a net loss on investments of $324 million compared to a net gain of $257 million for the same period in 2017. The pre-tax total return on investments was negative 6% in 2018 compared to a pre-tax total return of 6% in the prior year. Investments in Canada and U.S. were the largest contributor to the 2018 fourth quarter investment performance with a negative return of approximately 7%.

For the year ended December 31, 2018, E-L Corporate had net loss on investments of $206 million compared with a net gain of $544 million in 2017. The pre-tax total return on investments was negative 2% in 2018 compared to a pre-tax total return of 14% in the prior year. The pre-tax total return for investments in Canada and U.S. was approximately nil for the year with negative returns in other significant geographic regions. Investments in emerging markets and European countries including the United Kingdom were detractors to these investment returns for 2018.

The net loss on investments for the fourth quarter and year were partly offset by foreign currency movements mostly impacted by a weaker Canadian dollar.

Share of associates income

The details of E-L Corporate's share of income of associates are as follows:

	Fourth quarter		Year	
(millions of dollars)	**2018**	2017	**2018**	2017
Algoma	**$ 9**	$ 5	**$ 20**	$ 21
Economic *	**(14)**	9	**(10)**	15
	$ (5)	$ 14	**$ 10**	$ 36

* Net of a $6.4 million impairment loss booked in the fourth quarter of 2018 (2017 - $nil).

Algoma's earnings for 2017 included net gains on the sale of investment properties that were sold within the discontinued real estate segment. Excluding these gains, Algoma's 2018 net earnings increased over the prior year. Algoma continued to grow earnings within its global short sea shipping segment that was introduced in 2016, along with improved earnings within the domestic dry bulk segment partly due to improved margins. 2018 also benefited from the gains associated with the cancellation of four ship building contracts.

Economic owns, directly and indirectly, long-term investments in the common shares of some publicly-traded Canadian companies, and a managed global investment portfolio of common shares of publicly-traded global companies.

Economic's global investment portfolio had a quarterly pre-tax total return, gross of fees, of negative 6% in the fourth quarter of 2018 versus a comparative return of 7% in the fourth quarter of 2017. On a year to date basis, Economic's global investment portfolio had a pre-tax total return, gross of fees, of 1% during 2018 compared to 12% return in 2017.

(millions of dollars)			**2018**			2017
	Ownership	**Carrying value**	**Fair value**	Ownership	Carrying value	Fair value
Algoma	**36.8%**	**$ 199**	**$ 179**	36.7%	$ 182	$ 227
Economic	**24.0%**	**136**	**136**	24.0%	148	154
Total		**$ 335**	**$ 315**		$ 330	$ 381

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

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

Market risk is the most significant risk impacting E-L Corporate as its investing activities are influenced by market price, foreign currency and interest rate risk. As the Company's investment portfolio is represented by Canadian and global equities, the value of its investments will vary from day to day depending on a number of market factors including economic conditions, global events, market news, and on the performance of the issuers of the securities in which the Company invests. Changes in foreign currency exchange rates will also affect the value of investments of non-Canadian dollar securities. As of December 31, 2018, 42% (2017 - 44%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 11% (2017 - 11%) in Euros and 10% (2017 - 9%) in the Japanese Yen representing the largest foreign currency exposures. The Company also holds investments within emerging markets. Investments in emerging markets are more likely to experience political, economic and social instability, which may result in higher levels of market value volatility.

Credit 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 22 to the consolidated financial statements.

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 its insurance company subsidiary. 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 and interest income.

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, Mutual Fund Dealers and Employee Benefits brokers and representatives.

Empire Life reported fourth quarter common shareholders' net income of $6 million for 2018, compared to $48 million for 2017. The decrease in earnings was primarily a result of unfavourable assumption updates and lower fee income in the Wealth Management product line. Full year common shareholders' net income was $137 million compared to $171 million in 2017 primarily due to unfavourable assumption updates.

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)	**2018**	2017	**2018**	2017
Empire Life common shareholders' net income	**$ 6**	$ 48	**$ 137**	$ 171
Non-controlling interests	**—**	—	**1**	1
Net income, contribution to E-L Financial	**$ 6**	$ 48	**$ 136**	$ 170
Empire Life return on common shareholders' equity (quarterly annualized)	**1.7%**	13.8%	**9.4%**	12.8%

The following table provides a breakdown of the sources of earnings for the fourth quarter and year:

Sources of Earnings	Fourth quarter		Year	
(millions of dollars)	**2018**	2017	**2018**	2017
Expected profit on in-force business	**$ 51**	$ 53	**$ 194**	$ 183
Impact of new business	**(12)**	(8)	**(16)**	(22)
Experience (losses) gains	**(26)**	8	**(3)**	16
Management actions and changes in assumptions	**(22)**	4	**(20)**	32
(Loss) earnings on operations before income taxes	**(9)**	58	**154**	209
Earnings on surplus	**15**	9	**37**	28
Income before income tax	**7**	66	**191**	236
Income taxes	**(3)**	15	**40**	56
Empire Life's shareholders' net income	**10**	52	**151**	181
Dividends on preferred shares [(1)]	**3**	3	**13**	10
Empire Life common shareholders' net income	**$ 6**	$ 48	**$ 137**	$ 171

[(1)] 2018 year includes $5 million (2017 - $1 million) preference share dividends to E-L Financial

The expected profit on in-force business for the fourth quarter decreased by 4% due to a decline in the Wealth Management product line, partially offset by growth in the Individual Insurance product line. For the year, expected profit increased by 6% primarily due to growth in the Individual Insurance and Wealth Management product lines.

The impact of new business for the fourth quarter was primarily driven by higher new business strain related to the Individual Insurance product line, and higher sales for fixed annuities in the Wealth Management product line relative to 2017. For the year, overall lower new business strain was related to lower overall sales in the Wealth Management product line, primarily due to lower segregated fund sales.

The experience losses for the fourth quarter were mainly driven by higher investment losses in the Individual Insurance and Wealth Management product lines. For the year, lower experience gains relative to 2017 were mainly driven by higher investment losses in the Wealth Management and Individual Insurance product lines, partially offset by improved health and long-term disability claims results in the Employee Benefits product line and improved surrender and lapse experience in the Individual Insurance product line.

Management actions in the fourth quarter and the year for each of 2018 and 2017 included improved matching of assets and liabilities in the Individual Insurance product line. During the first and second quarters of 2018 and first quarter of 2017, there was an increase in investment in real estate limited partnership units which resulted in a gain from updating insurance contract liabilities.

Changes in assumptions refers to the impact on actuarial reserves of changing projected assumptions related to policyholder behaviour, mortality, investment returns, expenses and other factors. Empire Life regularly reviews assumptions and updates them to reflect current company and industry experience. For the fourth quarter and the year, the change was mainly due to the increase in insurance contract liabilities to reflect the impact of changing assumptions related to policyholder behaviour on inforce universal life policies and renewable term policies.

Earnings on surplus increased for the fourth quarter and the year primarily due to gains on Empire Life's hedging program and lower interest expense as a result of a lower level of subordinated debt, partially offset by fair value losses on FVTPL.

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended December 31 and year for 2018 and 2017. A discussion of results is provided in the Product Line section of the MD&A.

Three months ended December 31	**Wealth Management**		**Employee Benefits**		**Individual Insurance**		**Capital & Surplus**		**Total**	
(millions of dollars)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue										
Net premium	**$ 53**	$ 33	**$ 86**	$ 82	**$ 99**	$ 95	**$ —**	$ —	**$ 237**	$ 210
Fee income	**62**	67	**3**	3	**—**	—	**—**	—	**65**	70
Investment income	**10**	10	**1**	1	**53**	49	**18**	17	**82**	77
Net (losses) gains on investments (1)	**(18)**	14	**1**	1	**(76)**	253	**(1)**	1	**(94)**	270
	106	125	**91**	87	**76**	397	**17**	19	**289**	627
Expenses										
Benefits and expenses	**93**	97	**85**	75	**95**	373	**1**	7	**274**	552
Income and other taxes	**3**	7	**3**	4	**(4)**	7	**3**	3	**5**	21
	96	104	**88**	80	**91**	380	**4**	10	**278**	573
Net income (loss) after tax	**$ 11**	$ 21	**$ 3**	$ 7	**$ (15)**	$ 17	**$ 13**	$ 9	**$ 11**	$ 54
Participating policyholders' portion									**1**	2
Dividends on preferred shares									**3**	3
Empire Life's common shareholders' net income									**6**	48
Non-controlling interests in net income									**—**	—
Net income attributable to owners of E-L Financial									**$ 6**	$ 48

Twelve months ended December 31 (millions of dollars)	Wealth Management 2018	Wealth Management 2017	Employee Benefits 2018	Employee Benefits 2017	Individual Insurance 2018	Individual Insurance 2017	Capital & Surplus 2018	Capital & Surplus 2017	Total 2018	Total 2017
Revenue										
Net premium	**$ 155**	$ 136	**$ 340**	$ 331	**$ 379**	$ 368	**$ —**	$ —	**$ 874**	$ 834
Fee income	**253**	246	**11**	10	**—**	—	**—**	—	**264**	257
Investment income	**39**	39	**4**	4	**199**	183	**66**	55	**308**	281
Net (losses) gains on investments [1]	**(34)**	21	**(1)**	—	**(264)**	282	**(9)**	(2)	**(308)**	301
	412	443	**354**	344	**314**	833	**58**	54	**1,138**	1,675
Expenses										
Benefits and expenses	**315**	332	**313**	308	**282**	763	**20**	20	**931**	1,423
Income and other taxes	**24**	27	**17**	16	**12**	23	**7**	8	**60**	74
	339	360	**330**	324	**295**	787	**27**	28	**991**	1,499
Net income after tax	**$ 73**	$ 83	**$ 24**	$ 20	**$ 19**	$ 46	**$ 31**	$ 27	**$ 148**	$ 176
Participating policyholders' portion									**(3)**	(5)
Dividends on preferred shares									**13**	10
Empire Life's common shareholders' net income									**137**	171
Non-controlling interests in net income									**1**	1
Net income attributable to owners of E-L Financial									**$ 137**	$ 170

[1] Includes fair value change on FVTPL investments and realized gains on AFS investments

Product Line Results - Wealth Management

(millions of dollars)	Fourth quarter 2018	Fourth quarter 2017	Year 2018	Year 2017
Fixed Annuities				
Assets under management	**$ 944**	$ 972	**$ 944**	$ 972
Gross sales	**53**	33	**155**	136
Net sales	**23**	7	**32**	3
Segregated Funds				
Assets under management	**7,806**	8,661	**7,806**	8,661
Gross sales	**244**	309	**908**	1,112
Net sales	**(18)**	56	**(118)**	140
Fee income	**61**	66	**249**	242
Mutual Funds				
Assets under management	**145**	184	**145**	184
Gross sales	**2**	9	**16**	27
Net sales	**(8)**	(4)	**(27)**	(21)
Fee income	**1**	1	**3**	3
Net income after tax	**$ 11**	$ 21	**$ 73**	$ 83

Fixed annuities assets under management decreased by 3% during the last 12 months. Despite aggressive competitive rates in the market, gross sales increased by 61% for the fourth quarter of 2018 and 14% for the full year.

Segregated fund assets under management decreased by 10% during the last 12 months primarily due to the stock market decline for the period. For the fourth quarter and year, gross sales decreased compared to 2017 primarily due to lower sales for the Guaranteed Minimum Withdrawal Benefit ("GMWB") product. On November 12, 2018, Empire Life launched a new No Load purchase option within the GIF and Class Plus 3.0 product lines, and added four global fund options to Class Plus 3.0. The No Load option gives clients full access to their investments without any surrender charges. On May 28, 2018, Empire Life introduced seven new global funds, a fee for service option and a preferred pricing program to provide clients with more global and lower cost investment options within the GIF product line of segregated funds. On October 23, 2017, Empire Life launched a new version of its GMWB product which is more capital-efficient than the previous product, resulting in overall lower costs for the consumer. The industry segregated fund sales in 2018 were down approximately 8% from 2017, while Empire Life's sales have decreased 18% over the same period.

Segregated fund fee income decreased by 8% for the fourth quarter of 2018 and increased by 3% for the full year primarily due to variations in average assets under management relative to the same periods in 2017.

Mutual fund assets under management decreased during the last 12 months due to lower mutual fund sales combined with the closure of three mutual funds in the third quarter of 2017. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

The following table provides a breakdown of the sources of earnings for the fourth quarter and year for Wealth Management:

Sources of Earnings - Wealth Management	**Fourth quarter**		**Year**	
(millions of dollars)	**2018**	2017	**2018**	2017
Expected profit on in-force business	**$ 33**	$ 36	**$ 121**	$ 118
Impact of new business	**(6)**	(2)	**(11)**	(9)
Experience (losses) gains	**(9)**	1	**(9)**	9
Management actions and changes in assumptions	**(5)**	(7)	**(5)**	(7)
Earnings on operations before income taxes	**13**	28	**97**	111
Income taxes	**3**	7	**24**	28
Empire Life's shareholders' net income	**$ 11**	$ 21	**$ 73**	$ 83

The expected profit on in-force business for the fourth quarter of 2018 decreased primarily due to lower fee income on lower segregated fund assets under management compared to the same period in 2017. The impact of new business was primarily driven by higher sales of fixed annuities partially offset by lower segregated fund and mutual fund sales. Experience losses for the fourth quarter and full year 2018 relative to experience gains in the same period in 2017 primarily related to an increase in policy liabilities for segregated fund guarantees and unfavourable investment experience on the assets matching fixed interest annuities relative to the corresponding periods in 2017. Losses in management actions and changes in assumptions for the fourth quarter and full year 2018 were primarily driven by unfavourable assumption updates in the fixed annuities business.

Product Line Results - Employee Benefits

	Fourth quarter		Year	
(millions of dollars)	**2018**	2017	**2018**	2017
Selected financial information				
Annualized premium sales	**$ 12**	$ 16	**$ 59**	$ 43
Net premium	**86**	82	**340**	331
Net income after tax	**$ 3**	$ 7	**$ 24**	$ 20

For the fourth quarter and year, annualized premium sales for Employee Benefits decreased by 25% and increased by 37% respectively relative to 2017. This is primarily due to a large block transfer from a new strategic distribution partner in the first quarter of 2018, in addition to continued growth of the small to medium-sized business owner market. Over the last two years, Empire Life has entered into a number of strategic partnerships to expand market share.

Net premiums for the fourth quarter and year increased by 5% and 3% respectively compared to the same period in 2017. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

The following table provides a breakdown of the sources of earnings for the fourth quarter and year for Employee Benefits:

Sources of Earnings - Employee Benefits	Fourth quarter		Year	
(millions of dollars)	**2018**	2017	**2018**	2017
Expected profit on in-force business	**$ 6**	$ 5	**$ 22**	$ 22
Impact of new business	**(8)**	(3)	**(13)**	(10)
Experience gains	**2**	4	**19**	12
Management actions and changes in assumptions	**4**	3	**4**	3
Earnings on operations before income taxes	**4**	9	**32**	27
Income taxes	**1**	2	**8**	7
Empire Life's shareholders' net income	**$ 3**	$ 7	**$ 24**	$ 20

Expected profit for the fourth quarter and 2018 was relatively unchanged compared to the same period in 2017. The impact of new business relates primarily to the cost of acquiring new business. Experience gains for the fourth quarter were lower mainly due to less favourable claims experience relative to the fourth quarter of 2017. Experience gains for the year were higher compared to 2017 due to continued improvements in health and long-term disability claims, offset by higher expenses related to business development activities. As Empire Life balances claims management with customer experience, it cannot predict whether claims improvement will continue.

In both 2018 and 2017, management actions and changes in assumptions was favourable primarily due to assumption updates for group long-term disability policy liabilities in the fourth quarter.

Product Line Results - Individual Insurance

(millions of dollars)	Fourth quarter 2018	Fourth quarter 2017	Year 2018	Year 2017
Selected financial information				
Shareholders' annualized premium sales	**$ 6**	$ 5	**$ 23**	$ 22
Policyholders' annualized premium sales	**5**	3	**16**	10
Shareholders' net premiums	**69**	71	**278**	281
Policyholders' net premiums	**29**	24	**101**	87
Net income after tax				
Net (loss) income after tax shareholders' portion	**$ (16)**	$ 17	**$ 24**	$ 56
Net income (loss) after tax policyholders' portion	**1**	—	**(4)**	(10)
Net (loss) income after tax	**$ (15)**	$ 17	**$ 19**	$ 46

For the fourth quarter and the year, both shareholders' and policyholders' annualized premium sales were higher than the comparable period in 2017. Shareholders' net premiums decreased whereas Policyholders' net premiums increased for the fourth quarter and the year compared to the same period in 2017 primarily due to changes in inforce business. In November 2018, Empire Life introduced Guaranteed Life Protect, which offer customers guaranteed, lifetime coverage with no health or lifestyle questions asked. Empire Life has continued to modify its EstateMax® participating policy since it was launched in 2015. In February 2017, EstateMax® 8 Pay and Optimax Wealth™ 8 Pay were introduced to provide new payment options to allow clients to pay for their participating policy in as few as eight years.

The following table provides a breakdown of the sources of earnings for the fourth quarter and year for Individual Insurance (excludes policyholders' portion):

Sources of Earnings - Individual Insurance (excludes policyholders' portion)

(millions of dollars)	Fourth quarter 2018	Fourth quarter 2017	Year 2018	Year 2017
Expected profit on in-force business	**$ 13**	$ 11	**$ 50**	$ 43
Impact of new business	**2**	(2)	**7**	(4)
Experience (losses) gains	**(19)**	4	**(14)**	(4)
Management actions and changes in assumptions	**(21)**	8	**(19)**	36
(Loss) earnings on operations before income taxes	**(25)**	21	**24**	71
Income taxes	**(9)**	4	**1**	15
Empire Life's shareholders' net (loss) income	**$ (16)**	$ 17	**$ 24**	$ 56

Expected profit for the fourth quarter and the year was mainly driven by overall growth in the in-force business. The impact of new business in the fourth quarter were primarily related to investment losses on the equity assets backing long term insurance liabilities. Experience losses for the year were primarily related to equity investment losses and unfavourable surrender and lapse experience compared to the same period in 2017, partially offset by investment gains on the fixed income and real estate assets backing insurance liabilities.

Gains from management actions to improve asset/liability matching during the fourth quarter and the year were overshadowed by net unfavourable updates to policy liability assumptions. Management will continue to make changes to the asset portfolios to reduce the mismatch between the liability and asset portfolio.

The following table provides a breakdown of the policy liability assumption updates:

(millions of dollars)		**2018**		2017
Components of pretax income increase from update of policy liability assumptions				
Lapse/premium assumptions	**$**	**(59)**	$	(19)
Net investment assumptions		**(3)**		(33)
Mortality		**28**		16
Other		**(3)**		35
Total loss from update of policy liability assumptions (excluding policyholders' portion)	**$**	**(38)**		(1)

The refinements to lapse/premium assumptions for 2018 were primarily related to the adjustment of lapse assumptions of non-participating 10-year renewable term products and the enhancement of universal life lapse assumptions by funding levels. Empire Life recorded $20 million of this assumption update in the third quarter of 2018 and the remainder was included in the fourth quarter. The refinements to lapse/premium assumptions for 2017 were primarily related to universal life projected premiums and lapse rates.

The primary change in the net investment assumptions for 2018 was minimal, whereas 2017 resulted in lower overall future yields and greater policy liabilities.

Mortality assumption changes include updates due to mortality experience and a revised mortality improvement scale which is in line with the Canadian Institute of Actuaries promulgated mortality improvement scale.

Other policy liability assumption updates for 2018 and 2017 were primarily related to refinements to the modeling of reinsurance treaties.

Results - Capital and Surplus

		Fourth quarter				**Year**		
(millions of dollars)		**2018**		2017		**2018**		2017
Net income after tax shareholders' portion	**$**	**12**	$	7	**$**	**30**	$	21
Net income after tax policyholders' portion		**—**		3		**1**		5
Net income after tax	**$**	**13**	$	9	**$**	**31**	$	27

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.

The following table provides a breakdown of the sources of earnings for the fourth quarter and year for Capital and Surplus (excludes policyholders' portion).

Sources of Earnings - Capital and Surplus (excludes policyholders' portion)

		Fourth quarter				**Year**		
(millions of dollars)		**2018**		2017		**2018**		2017
Income from investments	**$**	**9**	$	19	**$**	**54**	$	56
Gains (losses) on hedging instruments		**8**		(4)		**3**		(9)
Interest and other expenses		**(1)**		(7)		**(20)**		(20)
Earnings before income taxes		**15**		9		**37**		28
Income taxes		**3**		2		**7**		6
Empire Life's shareholders' net income	**$**	**12**	$	7	**$**	**30**	$	21

Income from investments decreased in the fourth quarter and the year compared to 2017 primarily due to fair value losses on invested assets due to the decline in the market value of preferred shares. During the fourth quarter and year, Empire Life incurred a gain on its hedging program primarily due to the decline of Canadian stock indices in 2018 compared to an increase in 2017 (discussed in the Risk Management section). Interest expense for the quarter decreased primarily as a result of a lower level of subordinated debt due to a redemption in May 2018. For the year of 2018, the interest and other expenses was relatively unchanged as a lower level of subordinated debt is offset by a higher interest rate for subordinated debt issued in 2017.

Sources of capital

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. Details of the Empire Life's outstanding preferred shares and subordinated debt are as follows:

Preferred Shares				Face amounts as at	
(millions of dollars)	Date Issued	Earliest redemption date	Yield	**December 31 2018**	December 31 2017
Preferred shares	January 2016	April 17, 2021	5.75%	**$ 150**	$ 150
Preferred shares	November 2017	January 17, 2023	4.90%	**100**	100

Subordinated debentures				Principal amounts as at	
(millions of dollars)	Date Issued	Earliest redemption date	Interest rate	**December 31 2018**	December 31 2017
Series 2013-1	May 2013	May 31, 2018	2.870%	**$ —**	$ 300
Series 2016-1 (1)	Dec. 2016	December 16, 2021	3.383%	**200**	200
Series 2017-1 (2)	Sept. 2017	March 15, 2023	3.664%	**200**	200

(1) Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate ("CDOR").
(2) Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

Empire Life's debentures and preferred shares are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best"). Empire Life's DBRS issuer rating is "A" (sixth highest of 20 categories), its subordinated debt rating is "A (low)" (seventh highest of 20 categories), its financial strength rating is "A" (sixth highest of 22 categories) and its Preferred Share rating is Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating (third highest of 16 categories), "a" long-term issuer credit rating (sixth highest of 21 categories), "bbb+" Subordinated Debt rating (eighth highest of 21 categories), and "bbb" Preferred Share rating (ninth highest of 21 categories). All ratings have a stable trend.

Regulatory Capital

Effective January 1, 2018, Minimum Continuing Capital and Surplus Requirements ("MCCSR") was replaced by the Life Insurance Capital Adequacy Test ("LICAT"). The LICAT is intended to improve the measurement of the life insurer's solvency position by recognizing the long-term economics of the life insurance business. Empire Life had a strong capital position under MCCSR and continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.

LICAT (millions of dollars)	**December 31 2018**	September 30 2018	June 30 2018	March 31 2018
Available capital				
Tier 1	**$ 1,476**	$ 1,526	$ 1,513	$ 1,480
Tier 2	**653**	608	614	915
Total	**$ 2,129**	$ 2,134	$ 2,127	$ 2,395
Surplus allowance and eligible deposits	**$ 887**	$ 1,001	$ 1,005	$ 996
Base solvency buffer	**$ 2,029**	$ 1,908	$ 1,949	$ 1,910
LICAT Total Ratio	**149%**	164%	161%	178%
LICAT Core Ratio	**103%**	117%	114%	114%

MCCSR *(millions of dollars)*	December 31 2017
Available regulatory capital	
Tier 1	$ 1,409
Tier 2	932
Total	$ 2,341
Required regulatory capital	$ 831
MCCSR Ratio	282%

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, product pricing, 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 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 10 largest life insurance companies in Canada. Empire Life has approximately 7% market share of Segregated Funds, 1% market share for employee benefits and 3% market share for new life insurance premiums. 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 its distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. 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 will continue to improve competitiveness by focusing on long-term performance, providing low cost products to customers along with broadened distribution reach. Empire Life continued to achieve strong growth in assets under management from its segregated fund business as a result of net new sales and equity market appreciation. Empire Life is continuing to monitor and manage GMWB risk exposure and the competitive landscape for this product. The fourth quarter 2017 Empire Life launched a new version of its GMWB product which is more capital efficient and reduces the amount of risk to Empire Life while still offering a competitive guaranteed income solution to customers at lower fees.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group employer market with fewer than 200 employees representing the majority of Canadian companies. 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 grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to 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. At current reinsurance price levels in the Canadian market place, a company may reduce new business strain and improve profitability in the short term by opting to increase the amount of insurance risk reinsured to third parties. Mortality trends continue to be favourable for life insurance products. 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. Low long-term interest rates continue to have an unfavourable impact on this product line. In the past few years, industry prices for longer term life insurance products have increased. Empire Life has also increased prices for these products and has focused its growth efforts on shorter term products, such as 10 year renewable term life insurance. 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 continuously reviewing its Individual Insurance product mix to improve profitability, reduce interest rate risk, reduce required regulatory capital, develop web-based products and processes, and improve the customer and advisor experience.

Risk Management

Empire Life is a financial institution offering Wealth Management, Employee Benefits and Individual Insurance products. Empire Life is exposed to a number of risks as a result of its business activities. The goal of Empire Life's risk management process is to ensure that the operations that expose it to risk are consistent with its strategy, business objectives and risk philosophy, while maintaining an appropriate risk/reward balance and enhancing stakeholder value. When making decisions about risk taking and risk management, Empire Life considers:

- The need to meet the expectations of its customers, shareholders and creditors and to protect the commitments that have been made to them;
- The need to be adequately compensated for the capital it deploys to support business activities and strategic objectives;
- The need to protect its brand; and
- The need to maintain its targeted financial strength rating.

Empire Life's risk appetite defines the aggregate level of risk Empire Life is willing to take to achieve its business strategies. The risk appetite supports the pursuit of shareholder value but does not compromise the Company's ability to pay claims and fulfill policyholder commitments.

Empire Life's risk management framework is structured based on a number of guiding principles:

- Due to the long term nature of the majority of its commitments, Empire Life accepts capital market risk provided it is managed within specific risk tolerances and limits. Empire Life takes a low-risk, value-oriented approach to managing its investments - it accepts credit and alternative asset risk provided it is rewarded through appropriately enhanced returns;

- Empire Life manages liquidity across the business to provide a high level of confidence that all obligations (to customers, creditors and shareholders) will be met when they fall due;
- Empire Life accepts insurance risks provided they are properly priced and managed in order to deliver value to its customers and shareholders;
- Empire Life is forward-looking in its business planning and takes a prudent approach to capital management. It strives to have a high level of confidence that capital is sufficient to support planned future activities;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that Empire Life is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;
- Empire Life accepts that operational risks are a part of doing business and knows that risk management is a key part of decision-making. It protects its business and customers by engaging in cost-effective risk mitigation; and
- Empire Life expects ethical conduct by all of its employees and it acts with integrity at all times.

The Board of Directors oversees and monitors Empire Life's risk management framework, processes and practices, and reviews and approves Empire Life's Enterprise Risk Management Framework and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. Empire Life has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2018 Annual Report. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and has Board reporting responsibility with respect to risk and capital management. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. Empire Life formally establishes and documents its values and risk tolerances through several company-wide policies including a code of business conduct, corporate disclosure principles, enterprise risk management, capital management and whistleblower policies. Empire Life's strategic risk management policies (including those related to product design and pricing, investment and capital management) are also approved by its Board, or a Board committee.

Caution Related to Sensitivities

In the sections that follow, Empire Life provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of Empire Life's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/ sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for Empire Life's future net income, OCI, and capital sensitivities. Given the nature of these calculations, Empire Life cannot provide assurance that actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The hedging program may employ derivatives positions including put options and futures. The extent of derivatives used is monitored and managed on an ongoing basis, giving consideration to equity risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes and policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. During the fourth quarter and for the year, Empire Life experienced a gain of $6 million and $2 million after tax respectively on its hedging program primarily due to declining Canadian stock indices. This compares to a hedging program cost of $3 million and $7 million respectively for the comparable period in 2017 primarily due to stable Canadian stock prices in 2017.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2018, Empire Life had $7.8 billion of segregated fund assets and liabilities. Of this amount, approximately $7.5 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	December 31 2018	December 31 2017
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**3%**	2%
75% maturity guarantee and a 100% death benefit guarantee	**47%**	48%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	**7%**	7%
100% maturity and death benefit guarantee (GMWB)	**43%**	43%

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all of the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignore all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, policy-based guarantees generally pay less than 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 are issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e., negative liability amounts are not permitted so zero is used instead, as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. The liabilities are the greater of: (i) the average of the amounts determined by averaging the results from adverse economic scenarios; and (ii) zero. Based on stock market levels at December 31, 2018 and December 31, 2017, the sensitivity of Empire Life shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

Sensitivity to segregated fund guarantees	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
December 31, 2018 Shareholders' net income	**$ 3**	**$ 3**	**$ (11)**	**$ (129)**	**$ (269)**
December 31, 2017 Shareholders' net income	$ nil	$ nil	$ nil	$ (34)	$ (160)

Empire Life's equity market sensitivity for segregated fund guarantees has increased primarily as a result of a positive liability position as of Q4 2018. The segregated fund guarantee liability became positive after an equity market decline in the fourth quarter. This increases net income sensitivity as any changes to the liability when it is above the zero floor will flow through net income.

As noted earlier, Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at December 31, 2018 and December 31, 2017, the sensitivity of Empire Life shareholders' net income (including changes in segregated fund guarantee insurance contract liabilities) and capital ratio resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

Excluding equity risk hedge	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
December 31, 2018 Shareholders' net income	**$ 41**	**$ 21**	**$ (25)**	**$ (176)**	**$ (387)**
December 31, 2018 LICAT total ratio	**10 %**	**9 %**	**(10) %**	**(16) %**	**(24) %**

Excluding equity risk hedge	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
December 31, 2017 Shareholders' net income	$ 49	$ 24	$ (24)	$ (83)	$ (236)
December 31, 2017 MCCSR ratio	(1) %	— %	(19) %	(43) %	(59) %

The equity risk hedging program provides some relief in adverse scenarios, but may incur losses in positive scenarios. The December 31, 2018 and December 31, 2017 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

Including equity risk hedge	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
December 31, 2018 Shareholders' net income	**$ 35**	**$ 16**	**$ (16)**	**$ (150)**	**$ (337)**
December 31, 2018 LICAT total ratio	**8 %**	**8 %**	**(9) %**	**(14) %**	**(21) %**

Including equity risk hedge	**Increase**		**Decrease**		
(millions of dollars after tax)	**20%**	**10%**	**10%**	**20%**	**30%**
December 31, 2017 Shareholders' net income	$ 48	$ 24	$ (22)	$ (74)	$ (210)
December 31, 2017 MCCSR ratio	(5) %	(2) %	(18) %	(39) %	(50) %

Empire Life also has a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement. Empire Life does not reinsure any other insurer's segregated fund products.

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting policy liabilities and LICAT base solvency buffer for December 31, 2018 for Empire Life's segregated funds is provided in the following table:

Segregated Funds	**Withdrawal Benefit > Fund Value**		**Maturity Guarantee > Fund Value**		**Death Benefit > Fund Value**			
(millions of dollars)	**Fund Value**	**Amount at Risk**	**Fund Value**	**Amount at Risk**	**Fund Value**	**Amount at Risk**	**Policy Liabilities**	**LICAT Capital**
December 31, 2018	**$ 2,689**	**$ 1,057**	**$ 301**	**$ 24**	**$ 3,789**	**$ 165**	**$ 4**	**$ 433**
December 31, 2017	$ 2,708	$ 689	$ 31	$ 1	$ 409	$ 3	$ nil	$ N/A

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. As at December 31, 2018, the aggregate amount at risk for all three categories of risk was $1,246 million. At December 31, 2017, the aggregate amount at risk for these three categories of risk was $692 million. 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 policy liabilities and required regulatory capital in the above table 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 on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders.

In addition, Empire Life considers the sensitivity of its LICAT ratio to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates and a 50 basis point decrease in assumed initial reinvestment rate ("IRR") for non-participating insurance business and segregated fund guarantees for December 31, 2018 and December 31, 2017, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR"). The first column below excludes the impact of market value changes in AFS bonds. The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire

Life's product liabilities. The second column below shows the impact if the AFS bonds were sold to realize the gains from a 50 basis point decreases in interest rates.

Sensitivity to market interest rates LICAT/MCCSR:	**Before the sale of AFS assets**	**After the sale of AFS assets**
	50bps decrease	**50bps decrease**
December 31, 2018 LICAT Total ratio	**(5)%**	**(5)%**
December 31, 2017 MCCSR ratio	(23)%	(17)%

Operational Risk

Operational risk relates to the uncertainty arising from larger than expected losses or damages as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk is naturally present in all of Empire Life's business activities and encompasses a broad range of risks, including legal disputes, regulatory compliance failures, technology failures, business interruption, information security and privacy breaches, human resources management failures, processing errors, modeling errors, theft and fraud, and damage to physical assets. The following is a further description of key operational risks and their associated risk management strategies.

(1) *Legal and Regulatory Compliance Risk*

Empire Life is governed by the Insurance Companies Act and supervised by OSFI and is also subject to various requirements imposed by legislation and regulation in each of the provinces and territories of Canada applicable to insurance companies and companies providing other financial services. Material changes in the regulatory framework could have an adverse effect on Empire Life. Failure to comply with regulatory requirements or public expectations could adversely impact Empire Life's reputation and ability to conduct business. Empire Life is subject to litigation from time to time, in the normal course of business, and currently has a number of outstanding lawsuits. There can be no assurance that the present or any future litigation will not have a material adverse effect on Empire Life.

Empire Life's corporate compliance department, headed by the Chief Compliance Officer, oversees the regulatory compliance framework. This framework promotes risk-based management of regulatory compliance risk and includes company-wide policies, operating guidelines, programs to promote awareness of laws and regulations impacting Empire Life, ongoing monitoring of emerging legal issues and regulatory changes and employee education programs that include anti-money laundering and anti-terrorist financing, privacy and information security risk management as well as reporting breaches and Empire Life's code of business conduct. The framework is supported by a network of business unit compliance officers as well as the corporate legal services department. The Chief Compliance Officer reports regularly to the Conduct Review Committee of the Board on the state of compliance, key compliance risks and emerging regulatory trends. The General Counsel reports regularly to the Audit Committee of the Board on litigation activity.

(2) *Model Risk*

Empire Life uses models to support many business functions including investment analysis, product development and pricing, valuation of policy liabilities, financial planning, asset/liability management, capital management, project management and risk management. The risk of inappropriate use or interpretation of Empire Life's models or their output, or the use of deficient models, data or assumptions could result in financial losses or inappropriate business decisions. Empire Life has developed management and mitigation processes related to model use and oversight of models to limit financial, operational and strategic impacts from an error or misinterpretation of model results. Senior management has overall responsibility and accountability for models in use to support activities within their business area. Management reports regularly to the Risk and Capital Committee of the Board on model use and related oversight activities.

(3) *Human Resources Risk*

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Empire Life is unable to retain and attract qualified employees and executives, the results of its operations and financial condition, including its competitive position, could be adversely affected. To mitigate this risk, Empire Life has a number of human resources policies, processes and practices in place. Management reports regularly to the Human Resources Committee of the Board on succession planning and employee development programs as well as compensation practices and programs, all of which are designed to attract, motivate and retain high-performing and high-potential employees.

(4) *Third-Party Risk*

Empire Life obtains many different types of services from a number of third-party services providers and has outsourced certain business functions or processes to third parties. Should these third parties fail to deliver services in compliance with contractual or other service arrangements, Empire Life's business may be adversely impacted. To mitigate this risk, Empire Life has established a company-wide outsourcing risk management policy that provides guidance when considering, entering into or managing existing outsourcing arrangements commensurate with the risks associated with the service provider and the nature of the arrangement. Annually, management reports to the Conduct Review Committee of the Board on outsourcing activities including details on those arrangements deemed to be most material to Empire Life.

(5) *Technology, Information Security and Business Continuity Risk*

Empire Life relies on technology in virtually all aspects of its business and operations including the creation and support of new products and services, and the nature of life insurance business necessitates a substantial investment in technology. Operational integrity, data integrity and security of information and systems infrastructure are all relied upon for normal business operations. Disruptions due to system failure, information security breaches, privacy breaches, cyber-attacks, human errors, natural disasters, criminal activity, fraud or the loss of certain software licensing agreements could have a material adverse impact on Empire Life.

Empire Life has an enterprise-wide business continuity and disaster recovery program overseen by the Business Continuity Planning Team and Senior Management. The program includes policies, plans and procedures designed so that, to the extent practically possible, key business functions can continue and normal operations can resume effectively and efficiently should a major disruption occur. Each business unit is accountable for preparing and maintaining detailed business continuity plans and processes. Empire Life establishes and regularly tests business continuity and disaster recovery plans and maintains off-site system facilities and other related services and failover capability designed to minimize downtime and accelerate system recovery.

Information security breaches, including various forms of cyber-attack, could occur and may result in inappropriate disclosure or use of personal or confidential information. To mitigate this risk, Empire Life has an information security program overseen by the Chief Technology Officer. This program consists of a number of standards, procedures and guidelines focused on protecting information and computer systems. An incident management process is in place for monitoring and managing security events.

Privacy breaches could occur and may result in unauthorized disclosure or use of private and confidential information. To manage this risk, Empire Life has a privacy program overseen by the Chief Privacy Officer. The program includes policies and standards, ongoing monitoring of emerging privacy legislation and a network of business unit privacy officers. Processes have been established to provide guidance to employees on the handling of personal information and the reporting of privacy incidents and issues to appropriate management for response and resolution. The Chief Privacy Officer reports regularly to the Conduct Review Committee of the Board on privacy and data security risks and emerging trends.

Business and Strategic Risk

Business and strategic risk relates to the uncertainty in future earnings and capital related to the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, manage distribution or adapt to changes in business environment, such as the competitive landscape, regulatory and tax changes or changes in accounting and actuarial standards. Empire Life regularly reviews and adapts its business strategies and plans in consideration of changes in the external business environment, economic, political and regulatory environment. Empire Life's financial performance is dependent upon its ability to implement and execute business strategies and plans for growth.

Empire Life's business strategies and plans are designed to align with risk appetite, capital position and financial performance objectives. Empire Life periodically reassesses risk appetite taking into consideration the economic, regulatory and competitive environments in which it operates. The current environment requires Empire Life to adapt rapidly to new opportunities and challenges and to refine its strategies accordingly. If Empire Life fails to revise its strategies on a timely basis or adapt to the changing environment, it may not be able to achieve its growth objectives.

Empire Life's business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of its business. The ability to effectively manage these changes and prioritize initiatives directly affects Empire Life's ability to execute these strategies. Identifying and implementing the right set of initiatives is critical to achieving Empire Life's business plan targets. Failure to implement these initiatives could also lead to cost structure challenges.

Successful execution of Empire Life's business strategies and plans depends on a number of factors including its ability to (i) generate sufficient earnings to maintain an adequate level of capital; (ii) generate sustained investment performance; (iii) meet regulatory requirements; (iv) manage risk exposures effectively; (v) attract and retain customers and distributors;(vi) have the right set of products; and (vii) reduce operating expenses while maintaining the ability to hire, retain and motivate key personnel. Empire Life's business and strategic plans are reviewed and discussed by its senior management team and are subject to approval by the Board of Directors, which also receives regular updates on implementation progress against key business plan objectives. The Board and its subcommittees receive regular updates on key risks.

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 Empire Life's Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in note 28 to the 2018 consolidated financial statements.

Outlook

The Canadian economy performed largely as expected in 2018 with GDP growth estimated at 2% for the full year, the Canadian dollar remained relatively unchanged at 1.30 (annual average) per U.S. dollar and annual unemployment fell from 6.3% to 5.8%, the lowest it has been since the 1970's. Consumer spending has slowed down gradually throughout the year and business investment in machinery and equipment has slowed significantly after a strong first quarter in 2018. A number of uncertainties will continue in 2019 which may negatively impact the Canadian economy including Alberta's oil production cuts, slower global demand and GM's Oshawa plant closure, trade tensions, geopolitical concerns (e.g. North Korea, Iran, Brexit, Italy), Fed tightening.

The Bank of Canada raised rates three times during the year with the overnight rate up from 1.00% to 1.75%. The Canadian Federal Bond yield curve flattened with the 5-year increasing slightly from 1.86% to 1.88% in 2018 and the 30-year decreasing from 2.26% to 2.18% in 2018. Corporate and provincial bond spreads increased during 2018. Interest rates have generally been lower than typical levels for several years.

Global equity markets were weak in 2018 with the MSCI down over 10%, for the year. The S&P 500 stock index was down 6.2% and the S&P/TSX composite index was down 11.6% for the year. Stock market conditions impact the in-force profit margins and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line.

Looking forward to 2019, the global economy is expected to have a moderate growth. The Canadian economy is expected to continue to grow at a slower pace than in 2018 with forecast GDP of 1.8% slightly below the estimated 2% in 2018. The western provinces are expected to continue to grow at about 2.5% with British Columbia benefiting from the LNG project. Provinces in central Canada are expected to experience slower growth with oil production cuts and pull back on capital spending plans. The Atlantic Provinces are expected to grow at a more moderate pace of about 1%. Short-term interest rates are expected to continue to rise in the U.S. as well as in Canada but much slower pace and likely in the second half of the year. Overall the Canadian economy is well positioned to support continued growth of all Empire Life's product lines.

The individual insurance market grew modestly in 2018 even with the challenge of the persistent low long-term interest rate environment that followed the financial crisis. Empire Life has decreased its emphasis on long-term life insurance products in favor of shorter term products, such as 10 year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be challenges for Empire Life's Individual Insurance product line in 2019. The segregated fund product line saw a decline after experiencing a strong growth in 2017; fees will likely be impacted by competition going forward. Empire Life will continue to develop low cost efficient products delivered digitally to satisfy consumer needs. Within the employee benefits product line, although highly concentrated Empire Life will continue to penetrate its niche market to grow the business.

As noted under the Regulatory Capital section, OSFI implemented its LICAT Guidelines on January 1, 2018. This new Guideline established a new risk based regulatory capital framework for life insurance companies and replaced the previous MCCSR Guideline. LICAT is intended to improve the quality of capital available and provide a better alignment of risk measures with the long-term economics of the insurance business. This new Guideline was developed in consultation with the Life Insurance Industry and OSFI. OSFI is also reviewing the overall approach for determining capital requirements for segregated fund guarantee risks. Changes to the capital required for products with guaranteed income may ultimately impact the industry's ability to offer these products at reasonable prices to the consumer. OSFI has indicated that the effective date for the Guideline for segregated fund guarantee will be implemented at the same time as IFRS 17. OSFI is continuing to review the application of Non-Viable Contingent Capital ("NVCC") for life insurance companies. If NVCC applied, new preferred shares and subordinated debentures issued after the transition date would have to be compliant with the new regime to qualify as capital.

The IASB issued IFRS 17, Accounting Standards for Insurance Contracts, in May 2017. IFRS 17 will include fundamental changes from the CALM method (equivalent to IFRS 4 Insurance Contracts) that Empire Life currently applies for the valuation of insurance contracts and revenue recognition. The IASB has also granted a temporary exemption from the application of IFRS 9 Financial Instruments to allow insurance companies the ability to implement both IFRS 17 and IFRS 9 concurrently. IFRS 9 applies to the measurement of financial assets, the expected credit loss model and hedge accounting. For insurance contracts and financial instruments accounting, the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. Preparing for the adoption of IFRS 17 and IFRS 9 is a significant initiative for Empire Life and for the industry. Empire Life is currently assessing the impact that IFRS 17 and IFRS 9 will have on Empire Life's consolidated financial statements as well as developing a plan to implement the changes required to be ready to report under the new standards when they take effect.

The Canadian Securities Administrators ("CSA") has increased disclosure requirements for mutual fund companies, including point of sale requirements and customer relationship model initiatives. Mutual fund fees continue to be an area of interest for Canadian securities regulators. The CSA commissioned independent third-party research that will assess the impact of commissions and embedded (trailer) fees on mutual fund flows. This research will support CSA policy decisions concerning Canada's current mutual fund fee structure. Empire Life continues to monitor these developments and assess the possible impact to the insurance industry at some future date.

The industry is also improving the oversight of MGAs and their advisors. Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013, the Canadian Life and Health Insurance Association ("CLHIA") developed a new Insurer-MGA Relationship guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, including, perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility. The industry is also considering establishing a licensing regime for all distribution firms. The licensing of distribution firms would clarify the accountability for the distribution partners to adhere to the insurer's code of conduct and provide on-going monitoring of the advisors activities.

Government pension reform including the Federal Pooled Registration Pension Plan program and the proposed Ontario Registered Pension Plan are expected to reduce future demand for private sector retirement savings products, having an adverse impact on banks, mutual fund companies, life insurance companies and advisors.

In 2016 changes were made to the tax rules that deal with the exemption status of certain life insurance policies effective on January 1, 2017. The exemption test is aimed at distinguishing between (and tax differently) policies that are designed as protection versus those that are designed primarily as investments. The new exempt test represents a significant change to the tax regime that existed over the past 30 years. These changes required all life insurance companies to review the design and the pricing of their life insurance product offerings. Empire Life either modified or withdrew certain product offerings to comply with the new tax rules.

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, 2018. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2018.

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 Committee of the insurance subsidiary also meets periodically with the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors of the insurance subsidiary 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 subsidiary's financial statements. The Appointed Actuary uses the work of the external auditors in verifying data used for valuation purposes.

PricewaterhouseCoopers LLP has been appointed independent 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 independent auditors also consider the work of the actuaries and their report on policy liabilities. The independent auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Independent Auditor's Report outlines the scope of their examination and their opinion.

Duncan N.R. Jackman	Scott Ewert
Chairman, President and Chief Executive Officer	Vice-President and Chief Financial Officer

March 5, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of E-L Financial Corporation Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of E-L Financial Corporation Limited and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Christabelle Couture.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 5, 2019

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

		December 31 2018		December 31 2017
Assets				
Cash and cash equivalents (Note 8)	**$**	**332,558**	$	338,989
Investments - corporate (Note 4)		**4,596,188**		4,853,200
Investments - insurance (Note 5)		**8,073,649**		8,265,212
Investments in associates (Note 6)		**334,913**		330,050
Insurance receivable		**46,701**		46,294
Other assets (Note 9)		**140,636**		124,005
Segregated fund assets (Note 12)		**7,822,790**		8,681,892
Total assets	**$**	**21,347,435**	$	22,639,642
Liabilities				
Reinsurance liabilities (Note 14)		**788,801**		650,801
Insurance contract liabilities (Note 14)		**5,242,462**		5,430,098
Investment contract liabilities		**25,154**		16,643
Deferred tax liabilities (Note 18)		**198,356**		273,243
Other liabilities (Note 10)		**242,503**		217,597
Borrowings (Note 16)		**488,767**		798,291
Segregated fund liabilities (Note 12)		**7,822,790**		8,681,892
Total liabilities	**$**	**14,808,833**	$	16,068,565
Equity				
Capital stock (Note 15)	**$**	**372,388**	$	372,388
Retained earnings		**5,168,573**		5,171,997
Accumulated other comprehensive (loss) (“AOCL”) income (“AOCI”)		**(17,664)**		8,564
Total E-L Financial shareholders' equity		**5,523,297**		5,552,949
Non-controlling interests in subsidiaries		**979,142**		974,907
Participating policyholders' interests (“PAR”)		**36,163**		43,221
Total equity		**6,538,602**		6,571,077
Total liabilities and equity	**$**	**21,347,435**	$	22,639,642

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
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of Canadian dollars, except per share amounts)

	2018	2017
Revenue		
Gross premiums	**$ 1,020,640**	$ 964,589
Premiums ceded to reinsurers	**(147,035)**	(130,375)
Net premiums	**873,605**	834,214
Investment and other income (Note 7)	**706,816**	655,628
Share of income of associates (Note 6)	**9,817**	35,840
Fair value change in fair value through profit or loss investments	**(512,135)**	799,351
Realized (loss) gain on available for sale investments (Note 5)	**(1,411)**	47,545
	1,076,692	2,372,578
Expenses		
Gross claims and benefits	**511,938**	1,027,222
Claims and benefits ceded to reinsurers	**37,505**	42,822
Net claims and benefits	**549,443**	1,070,044
Change in investment contracts provision	**85**	243
Commissions	**198,197**	180,750
Operating (Note 17)	**200,097**	187,302
Interest expense	**20,600**	18,608
Premium taxes	**19,037**	19,583
	987,459	1,476,530
Income before income taxes	**89,233**	896,048
Income tax expense (Note 18)	**32,232**	142,974
Net income	**57,001**	753,074
Less: Participating policyholders' loss	**(3,052)**	(4,666)
Non-controlling interests in net income	**28,952**	89,638
	25,900	84,972
E-L Financial shareholders' net income	**$ 31,101**	$ 668,102
Earnings per share attributable to E-L Financial shareholders (Note 19)		
Basic	**$ 3.96**	$ 166.17
Diluted	**$ 3.96**	$ 152.83

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

	2018	2017
Net income	**$ 57,001**	$ 753,074
Other comprehensive income (“OCI”) (loss) (“OCL”), net of taxes (Note 20)		
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on available for sale investments (“AFS”)	**(27,663)**	(29,948)
Share of OCI (OCL) of associates	**5,212**	(5,913)
	(22,451)	(35,861)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	**(5,264)**	(2,278)
Share of OCL of associates	**(2,386)**	(579)
	(7,650)	(2,857)
Total OCL	**(30,101)**	(38,718)
Comprehensive income	**26,900**	714,356
Less: Participating policyholders' comprehensive loss	**(7,058)**	(7,906)
Non-controlling interests in comprehensive income	**29,085**	88,867
	22,027	80,961
E-L Financial shareholders' comprehensive income	**$ 4,873**	$ 633,395

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

	E-L Financial shareholders' equity						
	Capital stock	**Retained earnings**	**AOCI**	**Total**	**NCI**	**PAR**	**Total equity**
At January 1, 2018	**$ 372,388**	**$ 5,171,997**	**$ 8,564**	**$ 5,552,949**	**$ 974,907**	**$ 43,221**	**$ 6,571,077**
Net income (loss)	**—**	**31,101**	**—**	**31,101**	**28,952**	**(3,052)**	**57,001**
(OCL) OCI	**—**	**—**	**(26,228)**	**(26,228)**	**133**	**(4,006)**	**(30,101)**
Comprehensive income (loss)	**—**	**31,101**	**(26,228)**	**4,873**	**29,085**	**(7,058)**	**26,900**
Dividends (Note 15)	**—**	**(35,647)**	**—**	**(35,647)**	**(20,830)**	**—**	**(56,477)**
Acquisition of subsidiary shares	**—**	**1,122**	**—**	**1,122**	**(4,020)**	**—**	**(2,898)**
At December 31, 2018	**$ 372,388**	**$ 5,168,573**	**$ (17,664)**	**$ 5,523,297**	**$ 979,142**	**$ 36,163**	**$ 6,538,602**

	E-L Financial shareholders' equity						
	Capital stock	Retained earnings	AOCI	Total	NCI	PAR	Total equity
At January 1, 2017	$ 372,388	$ 4,538,540	$ 43,271	$ 4,954,199	$ 912,131	$ 51,127	$ 5,917,457
Net income (loss)	—	668,102	—	668,102	89,638	(4,666)	753,074
OCL	—	—	(34,707)	(34,707)	(771)	(3,240)	(38,718)
Comprehensive income (loss)	—	668,102	(34,707)	633,395	88,867	(7,906)	714,356
Dividends (Note 15)	—	(35,647)	—	(35,647)	(22,009)	—	(57,656)
Acquisition of subsidiary shares	—	1,002	—	1,002	(4,082)	—	(3,080)
At December 31, 2017	$ 372,388	$ 5,171,997	$ 8,564	$ 5,552,949	$ 974,907	$ 43,221	$ 6,571,077

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

E-L Financial Corporation Limited
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	2018	2017
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 57,001**	$ 753,074
Items not affecting cash resources:		
Change in insurance and investment contract liabilities	**(50,356)**	479,102
Realized loss (gain) on available for sale of investments	**1,411**	(47,545)
Fair value change in fair value through profit or loss investments	**512,135**	(799,351)
Deferred taxes	**(73,406)**	36,373
Share of income of associates (Note 6)	**(9,817)**	(35,840)
Amortization related to investments	**(85,178)**	(76,494)
Other items	**30,996**	18,219
	382,786	327,538
Net change in other assets and liabilities	**4,806**	19,264
	387,592	346,802
Financing		
Cash dividends to shareholders	**(35,647)**	(35,647)
Cash dividends by subsidiaries to non-controlling interests	**(20,830)**	(22,009)
Purchases of subsidiary shares (Note 26)	**(2,898)**	(3,079)
Margin loan (Note 16)	**(10,000)**	100,000
Redemption of subordinated debt (Note 16)	**(300,000)**	—
Subordinated debt issue (Note 16)	**—**	199,300
Interest paid on borrowings (Note 16)	**(16,046)**	(11,219)
	(385,421)	227,346
Investing		
Purchases of investments	**(3,124,413)**	(4,128,685)
Proceeds from sale or maturity of investments	**2,988,401**	3,454,335
Net sales of short-term investments	**120,949**	19,523
Net purchases of other assets	**(1,751)**	(8,188)
Dividends from associates (Note 6)	**8,212**	7,950
	(8,602)	(655,065)
Decrease in cash and cash equivalents	**(6,431)**	(80,917)
Cash and cash equivalents, beginning of the year	**338,989**	419,906
Cash and cash equivalents, end of the year	**$ 332,558**	$ 338,989

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, 2019.

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 Chartered Professional Accountants of Canada which represent International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

These consolidated financial statements have been prepared on a fair value measurement basis, with the exception of certain assets and liabilities. Insurance contract liabilities and reinsurance assets/liabilities are measured on a discounted basis in accordance with accepted actuarial practice. Investment contract liabilities, mortgages, policy contract loans and loans on policies are carried at amortized cost. Certain other assets and liabilities are measured on a historical cost basis, as explained throughout this note.

All figures included in the consolidated financial statements are presented in thousands of Canadian dollars, 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 judgments, 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-related liabilities

Liabilities for insurance contracts are determined using the Canadian Asset Liability Method ("CALM"), which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities.

Additional information is included in Notes 2(k), 14, 22 and 23.

Fair value estimates

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particular those items categorized within Level 3 of the hierarchy.

Additional information regarding the fair value of financial instruments is included in Notes 2(e)i, 4 and 5.

Impairment

Available for sale ("AFS") securities, investments in associate and loans and receivables are reviewed at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. Judgment is required in determining if there is objective evidence of impairment.

For AFS securities and loans and receivables, 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. Objective evidence of impairment includes, but is not limited to, bankruptcy or default, delinquency by a debtor, and specific adverse conditions affecting an industry or a region. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. Impairment write-downs on debt securities are not recorded when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

Investments in associates recognize an impairment loss if the investment in associates' 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 of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. 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.

Additional information regarding impairment of financial instruments is included in Notes 2(e)iv, 4, 5, 6 and 22.

Consolidation

There could be judgment involved in assessing control or significant influence of certain of the Company's interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Additional information regarding the principles of consolidation is included in Note 2(c).

(c) Principles of consolidation

i) Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Inter-company transactions, balances and unrealized gains or losses on transactions between group companies are eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Company's accounting policies.

ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the income or loss of the investee after the date of acquisition.

The Company's share of post-acquisition income or loss is recognized in the consolidated statements of income, and its share of OCI is recognized in OCI.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as share of income (loss) of associates in the consolidated statements of income.

Income and losses resulting from transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

(d) 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.

(e) Financial instruments

i) 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 or liability quoted in an active market is generally the closing price. The investments in private companies that are not listed on a stock exchange are measured using the adjusted net asset method. This method estimates the fair values of the underlying assets and liabilities of the private companies and considers adjustments for characteristics such as a minority marketability discount and control block premiums. 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 and derivatives.

Level 2 - Fair value is based on quoted prices for similar assets or liabilities in an 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, certain common shares (real estate limited partnership units and pooled funds) and over the counter derivatives.

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.

ii) Cash and cash equivalents and investments

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.

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"), 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 in the period in which they occur.

AFS common and preferred share instruments, 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 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.

Loans and receivables may include mortgage loans, loans on policies and policy contract loans. Loans and receivables are recorded at amortized cost, using the effective interest method, net of provisions for impairment losses, if any. Mortgage loans are secured by real estate. Loans on policies and policy contract loans are secured by policy values. Loans and receivables are defined as non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

The Company designates all of its Investments - corporate as FVTPL. Empire Life Insurance Company ("Empire Life") classifies most financial assets supporting insurance contract liabilities and investment contract liabilities as FVTPL. Most financial assets supporting capital and surplus are classified as AFS.

iii) Derivative financial instruments

The Company uses derivative financial instruments to partly manage exposure to foreign currency, interest rate, equity and other market risks associated with certain assets and liabilities. Derivative financial assets are classified as FVTPL which are recorded at fair value on the acquisition date and subsequently revalued at their fair value at each reporting date. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in fair value change in FVTPL assets, in the consolidated statements of income.

iv) Impairment

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

An AFS debt instrument 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. Impairment losses previously recorded through the consolidated statements of income are to be reversed through net income if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

For AFS equity investments objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties. The accounting for an impairment that is recognized in the consolidated statements of income is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in the consolidated statements of income cannot be subsequently reversed through net income (loss). Any subsequent increase in value is recorded in OCI in the consolidated statements of comprehensive income.

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 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. 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 by adjusting the allowance account and the reversal is recognized in the consolidated statements of income.

v) 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.

vi) Other

Premium receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as other assets. Accounts payable and other liabilities (excluding derivative liabilities) and insurance payables are carried at amortized cost. For these financial instruments, carrying value approximates fair value due to their short-term nature.

vii) Securities lending

The Company engages in securities lending through its custodian as lending agent. Loaned securities are not derecognized and continue to be reported within Investments in the consolidated statements of financial position, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities. For further details, refer to Note 22.

(f) Reinsurance

Empire Life enters into reinsurance agreements with reinsurers in order to limit its exposure to significant losses. Empire Life has a Reinsurance Risk Management policy which requires that such arrangements be placed with well-established, highly rated reinsurers. Reinsurance is measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance treaty. Amounts due to or from reinsurers with respect to premiums received or claims paid are included in reinsurance recoverable and reinsurance liabilities in the consolidated statements of financial position. Premiums for reinsurance ceded are presented as premiums ceded to reinsurers in the consolidated statements of income. Reinsurance recoveries on claims incurred are recorded as claims and benefits ceded to reinsurers in the consolidated statements of income. The reinsurers' share of insurance contract liabilities is recorded as other assets or other liabilities in the consolidated statement of financial position at the same time as the underlying insurance contract liability to which it relates.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that not all amounts due under the terms of the contract will be received. If a reinsurance asset is determined to be impaired, it would be written down to its recoverable amount and the impairment loss would be recorded in the consolidated statements of income.

Gains or losses on buying reinsurance are recognized in the consolidated statements of income immediately at the date of purchase and are not amortized.

(g) Property and equipment

Property and equipment is comprised of office properties (including land, building and leasehold improvements) and furniture and equipment. 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 an 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.

Property and equipment is included in other assets in the consolidated statements of financial position.

(h) Intangible assets

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

Intangible assets is included in other assets in the consolidated statements of financial position.

(i) Income taxes

Income tax comprises both current and deferred tax. Income tax is recognized in the consolidated statements of income except to the extent that it relates to items recognized directly in OCI or directly in equity. In these cases, the tax is recognized directly in OCI or directly in 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.

(j) Employee benefits

The Company provides employee pension benefits through either a defined benefit or a defined contribution pension plan. The Company discontinued new enrollments in the defined benefit component effective October 1, 2011 and introduced a defined contribution component effective January 1, 2012 for new enrollments and for any existing employees who chose to transfer from the defined benefit component. The Company also provides other post-employment benefits.

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using current interest rates of high-quality corporate bonds.

Defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds as of prior-year end. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise, and remain in AOCI. Past-service costs are recognized immediately in net income.

The defined contribution component of the Plan is a component under which the Company pays fixed contributions. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

The Company also provides other post-employment benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise and remain in accumulated OCI. These obligations are valued annually by independent actuaries and are not funded.

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

The Company has granted Restricted Share Units and Deferred Share Units awards to certain officers of the Company. These awards are to be settled in cash. The liabilities and benefit expenses associated with these awards are recognized across the vesting periods. The liability is determined based on the fair value of the award at grant date and subsequently revalued at each period end.

(k) Insurance and investment contracts

i) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when Empire Life 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 Empire Life that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by Empire Life are classified as either investment contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or service contracts in accordance with IFRS 15 *Revenue from Contracts with Customers*. Empire Life defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, Empire Life uses the terminology policy liabilities.

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 and investment contracts are classified into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

Insurance contract liabilities are determined using accepted actuarial practices according to standards established by the Canadian Institute of Actuaries (“CIA”) and the requirements of OSFI. Empire Life uses the CALM for valuation of insurance contracts, which satisfies the IFRS 4 *Insurance Contracts* requirements for eligibility for use under IFRS.

Short-term insurance contracts include both annuity products and group benefits.

The annuity products classified as short-term insurance contracts are guaranteed investment options that provide for a fixed rate of return over a fixed period. Contracts include certain guarantees that are initiated upon death of the annuitant. The liabilities are determined using CALM.

The group benefits classified as short-term insurance contracts include short-term disability, health and dental benefits. Benefits are typically paid within one year of being incurred. Liabilities for unpaid claims are estimated using statistical analysis and Empire Life’s experience for claims incurred but not reported.

Long-term insurance contracts include insurance products, annuity products and group benefits. In all cases, 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.

The insurance products so classified are life insurance and critical illness that provide for benefit payments related to death, survival or the occurrence of a critical illness. Terms extend over a long duration. The annuity products classified as long-term insurance contracts include both annuities that provide for income payments for the life of the annuitant and guarantees associated with Empire Life’s segregated fund products. The group benefits classified as long-term insurance contracts are life benefits which are payable upon death of the insured and disability benefits that provide for income replacement in case of disability.

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies. 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. The resulting provisions for adverse deviation have the effect of increasing insurance contract liabilities and decreasing the income that otherwise would have been recognized at policy inception. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in gross claims and benefits in the consolidated statement of income in the year of the change.

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) are sufficient to cover the obligations and deferred acquisition costs that relate to policies in force as at the date of the consolidated statement of financial position. A number of valuation methods are applied, including CALM, 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 a gross change in insurance contract liabilities and/or a change in insurance contract liabilities ceded in the consolidated statements of income.

Investment contracts include annuity products that do not involve the transfer of significant risk, either at inception or during the life of the contract. For Empire Life, products so classified are limited to term certain annuities that provide for income payments for a specified period of time.

Investment contract liabilities are recognized when contracts are entered into and deposits are received. These liabilities are initially recognized at fair value, and subsequently they are carried at amortized cost based on expected future cash flows using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the consolidated statements of income. Deposits and withdrawals are recorded in gross claims and benefits on the consolidated statements of financial position.

ii) Premiums

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.

iii) Benefits and claims paid

Benefits are recorded as an expense when they are incurred. Annuity payments are expensed when due for payment. Health insurance claims are accounted for when there is sufficient evidence of their existence and a reasonable assessment can be made of the monetary amount involved. Benefits and claims paid include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

iv) Deferred acquisition costs

Distribution costs of segregated funds having a deferred sales charge are deferred and amortized over the term of the related deposits or the applicable period of such sales charge, as appropriate. These deferred costs form part of insurance contract liabilities on the consolidated statement of financial position. The costs deferred in the period and amortization of deferred costs form part of the change in insurance contract liabilities on the consolidated statements of income.

(l) Segregated funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by Empire Life for the benefit of these policyholders. Although the underlying assets are registered in Empire Life's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. Segregated fund assets are not available to pay liabilities of the general fund. The assets of these funds are carried at their period-end fair values. Empire Life records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. Empire Life's consolidated statements of income includes fee income earned for management of the segregated funds under investment and other income, as well as expenses related to the acquisition, investment management, administration and death benefit, maturity benefit and withdrawal guarantees of these funds. See Note 12 for details on segregated fund assets and changes in segregated fund assets.

Empire Life 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 Empire Life's liability for segregated fund guarantees to market fluctuations is disclosed in Note 22.

(m) 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. Empire Life has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are recognized as policy dividends expense in the consolidated statements of income.

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 income. 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.

(n) Investment and other income

Other income includes fund management fees, policy administration and guarantee fees that are recognized on an accrual basis, and surrender charges that are recognized as incurred. Fee income earned for investment management, administration and guarantees of the investment funds is 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 for all financial assets.

(o) 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.

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. 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.

(p) 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 common shares outstanding for the period. Common Shares are 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 common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of converting the First Preference shares into common shares.

(q) Comprehensive income

Comprehensive income consists of net income and OCI. OCI includes items that may be reclassified subsequently to net income: unrealized gains or losses on AFS financial assets, net of amounts reclassified to net income (loss) and the Company's share of OCI of its associates. OCI also includes items that will not be reclassified to net income: remeasurements of post-employment benefit liabilities. All OCI amounts are net of taxes.

(r) 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. Provisions are not recognized for future operating losses. Provisions are measured as 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.

(s) 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.

(t) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as interest expense in the consolidated statements of income.

(u) Accounting changes

i) New accounting pronouncements adopted in 2018

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue which was effective on January 1, 2018. The new standard replaces IAS 18 *Revenue* which covers contracts for goods and services and IAS 11 *Construction Contracts* which covers construction contracts and is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The Company adopted IFRS 15 using the modified retrospective approach with no restatement of comparative information. The adoption of IFRS 15 on January 1, 2018 did not result in any changes to the Company's accounting policies for revenue recognition and therefore, did not result in any transitional adjustments to the Company's consolidated financial statements.

ii) New accounting pronouncements issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having only three measurement categories of amortized cost, fair value through other comprehensive income (“FVTOCI”) and fair value through profit or loss (“FVTPL”) for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost, FVTOCI or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTOCI or FVTPL. A debt instrument will be measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability’s credit risk will be recognized in OCI.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (which will be subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two different solutions for insurance companies relating to IFRS 9, both of which are optional:

- a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and
- the ‘overlay approach’.

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2022, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company’s activities are ‘predominantly connected with insurance’. To assess whether activities are ‘predominantly connected with insurance’ two criteria were satisfied:

- Carrying amount of liabilities arising from contracts within IFRS 17’s scope is significant, compared to the total carrying amount of liabilities; and
- Comparison of total carrying amount of liabilities connected with insurance with the total carrying amount of all of its liabilities. Liabilities connected with insurance include segregated fund liabilities measured at FVTPL applying IAS 39, and liabilities that arise because the insurer issues or fulfills obligations arising from those insurance and segregated fund contracts. The second test is passed if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80% and the insurer is not engaged in a significant activity unconnected with insurance.

Per the amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, companies applying the temporary exemption are required to disclose fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company’s fixed income invested assets presented in Notes 5 and 8 include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2018 include bonds and mortgages with fair values of $20.2 million and $11.5 million, respectively.

The Company has considered the total insurance liabilities, which include segregated fund liabilities, against total liabilities and have concluded that the Company meets both criteria noted above.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB published IFRS 16 which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company has evaluated the impact of IFRS 16 on its consolidated financial statements as not significant.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. The IFRS 17 standard has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flow statement. The standard establishes the principles for recognition, measurement, presentation and disclosure. It defines a general measurement model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities, and it defines a specific model for contracts of one year or less.

The provisions of this new standard will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements.

IFRS 17 is tentatively effective (subject to IASB due process for the approval of a 1 year deferral) for reporting periods beginning on or after January 1, 2022, with comparative figures required to be restated. The Company is currently evaluating the impact on presentation, disclosure and measurement of the insurance contracts that this standard will have on its consolidated financial statements.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

3. Operating segments

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

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.

Year ended December 31, 2018	E-L Corporate	Empire Life	Total
Revenues			
Net premiums	$ —	$ 873,605	$ 873,605
Investment and other income	134,447	572,369	706,816
Share of income of associates	9,817	—	9,817
Fair value change in FVTPL investments	(205,996)	(306,139)	(512,135)
Realized loss on AFS	—	(1,411)	(1,411)
	(61,732)	1,138,424	1,076,692
Expenses			
Net claims and benefits	—	549,443	549,443
Change in investment contracts provision	—	85	85
Commissions	—	198,197	198,197
Operating expenses	31,520	168,577	200,097
Interest expense	2,468	18,132	20,600
Premium taxes	—	19,037	19,037
	33,988	953,471	987,459
(Loss) income before income taxes	(95,720)	184,953	89,233
Income tax (recovery) expense	(4,832)	37,064	32,232
Non-controlling interests in subsidiaries and participating policyholders' interest	14,549	11,351	25,900
Segment shareholders' net (loss) income	$ (105,437)	$ 136,538	$ 31,101

As at December 31, 2018	E-L Corporate	Empire Life	Total
Segment assets [1]	$ 5,077,738	$ 16,269,697	$ 21,347,435
Segment liabilities	$ 321,852	$ 14,486,981	$ 14,808,833

[1] Segment assets for E-L Corporate include investments in associate assets of $334,913.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Year ended December 31, 2017	E-L Corporate	Empire Life	Total
Revenues			
Net premiums	$ —	$ 834,214	$ 834,214
Investment and other income	117,648	537,980	655,628
Share of income of associates	35,840	—	35,840
Fair value change in FVTPL investments	502,756	296,595	799,351
Realized gain on AFS investments	41,729	5,816	47,545
	697,973	1,674,605	2,372,578
Expenses			
Net claims and benefits	—	1,070,044	1,070,044
Change in investment contracts provision	—	243	243
Commissions	—	180,750	180,750
Operating expenses	28,061	159,241	187,302
Interest expense	444	18,164	18,608
Premium taxes	—	19,583	19,583
	28,505	1,448,025	1,476,530
Income before income taxes	669,468	226,580	896,048
Income tax expense	92,294	50,680	142,974
Non-controlling interests in subsidiaries and participating policyholders' interest	78,829	6,143	84,972
Segment shareholders' net income	$ 498,345	$ 169,757	$ 668,102

As at December 31, 2017	E-L Corporate	Empire Life	Total
Segment assets [1]	$ 5,245,095	$ 17,394,547	$ 22,639,642
Segment liabilities	$ 394,599	$ 15,673,966	$ 16,068,565

[1] Segment assets for E-L Corporate include investments in associate assets of $330,050.

4. Investments – corporate

Invested assets

Investments – corporate includes the investments held at the corporate level of E-L Financial and the investment holdings of it's subsidiary, United Corporations Limited ("United").

The following table provides a comparison of carrying values by class of asset:

Carrying value	December 31 2018	December 31 2017
Short-term investments - Canadian corporate	$ —	$ 21,166
Preferred shares	2,631	1,058
Derivative asset	205	236
Common shares and units		
Canadian	673,593	760,978
U.S.	1,790,533	2,023,074
Europe and United Kingdom	1,077,867	1,054,623
Other	1,051,359	992,065
Total common shares and units	4,593,352	4,830,740
Total	$ 4,596,188	$ 4,853,200

The Company's investment in common shares and units includes shares of public and private companies and units in pooled funds. As at December 31, 2018 and December 31, 2017 all of the invested assets have been designated FVTPL.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Investments – measured at fair value

The table below provides a comparison of the fair values by class of asset:

Fair value Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	As at December 31, 2018 Total fair value
Preferred shares	$ —	$ 1,573	$ 1,058	$ 2,631
Derivative asset	—	205	—	205
Common shares and units				
Canadian	34,979	63,917	574,697	673,593
U.S.	1,591,987	122,041	76,505	1,790,533
Europe and United Kingdom	938,276	57,278	82,313	1,077,867
Other	619,787	378,823	52,749	1,051,359
Total common shares and units	3,185,029	622,059	786,264	4,593,352
Total	$ 3,185,029	$ 623,837	$ 787,322	$ 4,596,188

Fair value Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	As at December 31, 2017 Total fair value
Short-term investments - Canadian corporate	$ —	$ 21,166	$ —	$ 21,166
Preferred shares	—	—	1,058	1,058
Derivative asset	—	236	—	236
Common shares and units				
Canadian	24,149	92,809	644,020	760,978
U.S.	1,785,071	109,370	128,633	2,023,074
Europe and United Kingdom	924,415	53,134	77,074	1,054,623
Other	552,962	398,341	40,762	992,065
Total common shares and units	3,286,597	653,654	890,489	4,830,740
Total	$ 3,286,597	$ 675,056	$ 891,547	$ 4,853,200

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. Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. There were no transfers of financial instruments between Level 1, Level 2 or Level 3 for the years ended December 31, 2018 or December 31, 2017.

Included in Level 2 are the Company's investments in pooled funds and a limited partnership which at December 31, 2018 had a carrying value of $622,059 (2017 - $653,654). The Company invests in pooled funds and limited partnerships whose objectives range from achieving medium to long-term capital growth and whose investment strategies do not include the use of leverage. These investments are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Company's investments are susceptible to market price risk arising from the underlying investments. The Company holds redeemable units that entitle the holder to a proportional share in the respective assets. The Company has the right to redeem its investments within a 30 to 90 day period depending on the fund or partnership.

Included in Level 3 are investments in common and preferred shares in private companies. The Company utilizes the adjusted net asset method to derive the fair value of investments in private companies by reference to the fair value of its assets and liabilities, along with assessing a minority marketability discount and control block premium, if any. The adjustments are unobservable inputs for fair value measurement. The adjusted net asset method has been determined most appropriate for an investment whose value is mainly derived from the holding of assets. The assets and liabilities of the private companies primarily include listed investments and deferred tax liabilities. The Company identified a range of possible values which market participants could apply to the private companies. This analysis resulted in a range of plus or minus 10% of the fair value of the underlying net assets with a best estimate adjustment of zero. Taking this into account, the Company applied no minority marketability discount or premium to the fair value estimate of the private companies. If the minority marketability discount was 10% or a premium of 10%, with all other variables remaining constant, net assets would have decreased or increased by approximately $68,300 (2017 - $77,342).

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

A summary of changes in the fair values of Level 3 financial instruments measured at FVTPL for the year:

	2018	2017
Balance - January 1	$ 891,547	$ 804,583
Net fair value change	(68,205)	86,964
Sales	(38,098)	—
Purchases	2,078	—
Balance - December 31	$ 787,322	$ 891,547

Derivative financial instrument

On November 1, 2017, the Company entered into an interest rate swap with a $100,000 notional principal. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments but is not the actual amount that is exchanged. At December 31, 2018 the interest rate swap had a fair value of $205 (2017 - $236).

The contract matures on November 1, 2022. The interest rate swap is valued based on the contract notional amount, calculating the difference between the fixed and floating interest rates at the end of a given period. The interest rate swap is classified as Level 2 as the interest rates between the two parties are observable and reliable.

For analysis of the Company's risks arising from financial instruments, refer to Note 22 – Investment risk management.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

5. Investments – insurance

The Empire Life Insurance Company ("Empire Life") invested assets

The following table provides a comparison of carrying values by class of asset:

Carrying Value	As at December 31, 2018			As at December 31, 2017		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Short-term investments						
Canadian federal government	$ 9,990	$ —	$ 9,990	$ 13,960	$ 44,937	$ 58,897
Canadian provincial governments	5,983	3,989	9,972	—	33,883	33,883
Corporate	7,997	—	7,997	34,962	—	34,962
Total short-term investments	23,970	3,989	27,959	48,922	78,820	127,742
Bonds						
Federal government	89,389	184,088	273,477	120,161	392,076	512,237
Provincial governments	3,109,456	490,369	3,599,825	2,983,416	415,016	3,398,432
Municipal governments	97,472	77,965	175,437	98,191	83,547	181,738
Total Canadian government bonds	3,296,317	752,422	4,048,739	3,201,768	890,639	4,092,407
Energy	70,013	69,565	139,578	64,591	66,800	131,391
Materials	10,321	—	10,321	10,287	—	10,287
Industrials	81,682	69,933	151,615	57,934	60,443	118,377
Consumer discretionary	21,223	19,024	40,247	21,882	28,859	50,741
Consumer staples	113,693	79,978	193,671	87,811	77,108	164,919
Health care	78,384	21,183	99,567	82,202	22,352	104,554
Financial services	571,147	323,960	895,107	557,368	384,757	942,125
Communications	108,548	76,251	184,799	79,167	47,987	127,154
Utilities	362,577	67,710	430,287	349,863	67,884	417,747
Real estate	6,549	31,956	38,505	916	—	916
Infrastructure	265,320	23,378	288,698	281,085	31,905	312,990
Total Canadian corporate bonds	1,689,457	782,938	2,472,395	1,593,106	788,095	2,381,201
Total foreign bonds	8,946	—	8,946	—	—	—
Total bonds	4,994,720	1,535,360	6,530,080	4,794,874	1,678,734	6,473,608
Preferred shares - Canadian	384,760	11,100	395,860	396,257	12,004	408,261
Common shares						
Canadian						
Common	553,337	51,813	605,150	687,095	56,414	743,509
Real estate limited partnership units	110,324	—	110,324	91,894	—	91,894
U.S.	37,439	55	37,494	39,655	—	39,655
Other	41,503	652	42,155	30,346	530	30,876
Total common shares	742,603	52,520	795,123	848,990	56,944	905,934
Derivative assets	10,424	—	10,424	1,399	—	1,399
Loans and receivables:						
Mortgages	—	—	193,074	—	—	221,973
Loans on policies	—	—	51,949	—	—	51,692
Policy contract loans	—	—	69,180	—	—	74,603
Total	$ 6,156,477	$ 1,602,969	$ 8,073,649	$ 6,090,442	$ 1,826,502	$ 8,265,212

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Empire Life investments – measured at fair value

The table below provides a comparison of the fair values by class of asset:

Fair value	As at December 31, 2018			As at December 31, 2017		
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value
Short-term investments	$ —	$ 27,959	$ 27,959	$ —	$ 127,742	$ 127,742
Bonds	—	6,530,080	6,530,080	—	6,473,608	6,473,608
Preferred shares	395,860	—	395,860	408,261	—	408,261
Common shares	684,481	110,642	795,123	814,040	91,894	905,934
Derivative assets	9,760	664	10,424	1,398	1	1,399
Loans and receivables:						
Mortgages	—	193,391	193,391	—	224,982	224,982
Loans on policies	—	51,949	51,949	—	51,692	51,692
Policy contract loans	—	69,180	69,180	—	74,603	74,603
Total	$ 1,090,101	$ 6,983,865	$ 8,073,966	$ 1,223,699	$ 7,044,522	$ 8,268,221

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys.

The fair values of loans on policies and policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

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 of financial instruments between Level 1, Level 2 or Level 3 for the year ended December 31, 2018 or during the year ended December 31, 2017.

Impairment

AFS investments

Based on an impairment review at December 31, 2018, a year to date impairment loss on AFS investments of $1,658 before tax (2017 - $825) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

Loans and receivables

Assets classified as mortgages and policy contract loans have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $6,424 (2017 - $6,935) have been reduced by an allowance for impairment of $2,896 (2017 - $2,984) and policy contract loans with a recorded value of $813 (2017 - $813) have been reduced by an allowance for impairment of $478 (2017 - $490).

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Empire Life derivative financial instruments

The values of derivative instruments are set out in the following table. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments and are generally not actual amounts that are exchanged.

	December 31, 2018			December 31, 2017		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
Exchange-traded						
Equity index futures	$ 42,968	$ 458	$ 53	$ 43,970	$ 640	$ 168
Equity options	431,459	9,302	—	430,124	758	—
Over-the-counter						
Foreign currency forwards	32,896	664	—	32,757	1	723
Cross currency swaps	16,839	—	707	—	—	—
Total	$ 524,162	$ 10,424	$ 760	$ 506,851	$ 1,399	$ 891

All contracts mature in less than one year. Fair value of exchange traded derivatives is determined based on Level 1 inputs. Foreign currency forward contracts are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads.

Cross currency swaps are valued by discounting the future cash flows for both legs at the underlying market interest rate curves in each currency applicable at the valuation date. The sum of the cash flows denoted in the foreign currency is converted with the spot rate applicable at that time. The foreign currency leg, where Empire Life owes interest and principal, produces a negative fair value to Empire Life while the Canadian dollar leg produces a positive fair value to Empire Life. The net of these amounts represents the reported fair value of the cross currency swap. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

For analysis of the risks arising from financial instruments, refer to Note 22 – Investment risk management.

6. Investments in associates

The Company has two investments in associates, all of which are held within the E-L Corporate segment.

Algoma Central Corporation (“Algoma”) is incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol “ALC”. Algoma owns and operates the largest Canadian flag fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway.

Economic Investment Trust Limited (“Economic”) is a closed-end investment corporation incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol “EVT”. Economic is an investment vehicle for long-term growth through investments in common equities.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

	2018			2017		
	Ownership	Carrying value	Fair value	Ownership	Carrying value	Fair value
Algoma	36.8%	$ 199,288	$ 179,307	36.7%	$ 181,869	$ 226,820
Economic	24.0%	135,625	135,625	24.0%	148,181	154,297
Total		$ 334,913	$ 314,932		$ 330,050	$ 381,117

The following table details the movement during the year:

	2018	2017
Balance, beginning of the year	$ 330,050	$ 309,644
Income recorded in the statements of income and comprehensive income:		
Share of income	16,169	35,840
Net impairment	(6,352)	—
	9,817	35,840
Share of other comprehensive income (loss)	3,258	(7,484)
	13,075	28,356
Dividends received during the year	(8,212)	(7,950)
Balance, end of the year	$ 334,913	$ 330,050

The Company's associates are measured using the equity method. As at December 31, 2018, the fair value of the investments in associates was $314,932 (2017 - $381,117). Fair value is based on the close price for each investment multiplied by the corresponding number of common shares held.

Impairment

The Company is required to test the values of its associates for impairment by comparing their carrying values to their recoverable amount which is the higher of their fair value less costs of disposal and their values in use. Economic and Algoma have historically traded at discounts to their net asset values. In performing its impairment assessments, the Company regards the fair value less costs of disposal as the most objective evidence of the net recoverable amounts of Economic and Algoma, since the Company cannot unilaterally control the timing of realization of any benefit related to the difference between the traded price and their net asset values.

Based on an impairment review of the investments in associates at December 31, 2018, a year to date impairment loss of $6,352 (2017 - $nil) on Economic has been recorded in net income. 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 in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Financial information

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

	Algoma		Economic	
	December 31 2018	December 31 2017	December 31 2018	December 31 2017
Cash and cash equivalents	$ 25,539	$ 68,860	$ 17,359	$ 5,773
Other current assets	174,448	93,122	854,657	927,353
Non-current assets	911,906	938,308	—	—
	1,111,893	1,100,290	872,016	933,126
Current liabilities	75,301	126,604	2,860	1,150
Non-current liabilities	334,037	310,620	66,584	78,502
	409,338	437,224	69,444	79,652
Net assets	$ 702,555	$ 663,066	$ 802,572	$ 853,474

	Algoma		Economic	
Twelve months ended December 31	2018	2017	2018	2017
Revenue	$ 508,201	$ 452,947	$ (42,001)	$ 108,700
Net income	$ 50,943	$ 58,800	$ (39,671)	$ 91,337
Other comprehensive income (loss)	5,187	(21,485)	—	—
Total comprehensive income	$ 56,130	$ 37,315	$ (39,671)	$ 91,337

At December 31, 2018 Algoma has commitments of $47,747 (2017 - $209,995) mainly relating to the purchase of new vessels.

The Company received the following dividends during the year from the associates:

	Algoma		Economic		Total	
	2018	2017	2018	2017	2018	2017
Dividends received	$ 5,516	$ 4,526	$ 2,696	$ 3,424	$ 8,212	$ 7,950

7. Investment and other income

Investment and other income is comprised of the following:

	2018	2017
Interest income on:		
Available for sale	$ 59,894	$ 50,406
Fair value through profit or loss investments	185,913	170,467
Loans and receivables	16,465	18,940
Fee income	263,941	256,628
Dividend income	175,488	153,380
Other	5,115	5,807
Total	$ 706,816	$ 655,628

	2018	2017
Interest income received	$ 190,933	$ 163,826
Dividend income received	212,559	147,458
Total	$ 403,492	$ 311,284

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

8. 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:

	2018	2017
Cash	$ 53,348	$ 46,766
Cash equivalents	279,210	292,223
Total	$ 332,558	$ 338,989

The following table presents the cash and cash equivalents classified by the fair value hierarchy:

Cash and cash equivalents	Level 1	Level 2	Total fair value
December 31, 2018	$ 53,348	$ 279,210	$ 332,558
December 31, 2017	$ 46,766	$ 292,223	$ 338,989

9. Other assets

Other assets are comprised of the following:

	2018	2017
Accrued investment income	$ 38,302	$ 45,692
Income taxes receivable	26,386	—
Property and equipment	27,423	29,851
Intangible assets	17,804	18,310
Other	30,721	30,152
Total	$ 140,636	$ 124,005

The amount of other assets that the Company expects to receive within the next 12 months is $95,409 (2017 - $75,844).

10. Other liabilities

Other liabilities are comprised of the following:

	2018	2017
Accounts payable	$ 74,363	$ 56,963
Employee benefit liabilities (Note 13)	37,982	27,330
Income and other taxes payable	22,038	20,574
Dividends payable	8,912	8,912
Insurance payables	93,548	81,472
Other	5,660	22,346
Total	$ 242,503	$ 217,597

Of the above total, $37,982 (2017 - $27,330) is expected to be settled more than one year after the statement of financial position date.

11. 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.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

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 subsidiary, Empire Life, operates in the insurance industry and is 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 subsidiary. In certain cases, Empire Life would have recourse against third parties with respect to the foregoing items and Empire Life also maintains insurance policies that may provide coverage against certain of these items.

The Company has agreed to indemnify the purchaser of The Dominion of Canada General Insurance Company for losses arising out of breaches of representations, warranties and covenants following closing of the sale on November 1, 2013. The indemnities survive for periods ranging from 21 months to 8 years, and in some limited cases with no term limitations. The Company has not recorded any liabilities with respect to these indemnities and while it is not possible to estimate the outcome of any such matters, the Company does not believe it will incur any material loss. The nature of the indemnifications does not permit a reasonable estimate of the maximum potential amount of any liability.

12. Segregated funds

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

	2018	2017
Cash	$ 22,220	$ 14,820
Short-term investments	496,849	657,405
Bonds	1,512,174	1,535,675
Common and preferred shares	5,832,553	6,488,017
Other assets	19,418	25,758
	7,883,214	8,721,675
Less segregated funds held within general fund investments	(60,424)	(39,783)
Total	$ 7,822,790	$ 8,681,892

b) The following table presents the investments of the segregated funds measured on a recurring basis at fair value classified by the fair value hierarchy:

						2017
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash	$ 22,220	$ —	$ 22,220	$ 14,820	$ —	$ 14,820
Short-term investments	—	496,849	496,849	—	657,405	657,405
Bonds	—	1,512,174	1,512,174	—	1,535,675	1,535,675
Common and preferred shares	5,829,250	3,303	5,832,553	6,485,267	2,750	6,488,017
Total	$ 5,851,470	$ 2,012,326	$ 7,863,796	$ 6,500,087	$ 2,195,830	$ 8,695,917

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2018 and December 31, 2017. There were no level 3 investments as at December 31, 2018 and December 31, 2017.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

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

		2018		2017
Segregated funds - beginning of the year	$	8,681,892	$	8,082,033
Additions to segregated funds:				
Amount received from policyholders		1,267,114		1,415,827
Interest		59,600		54,684
Dividends		176,659		171,200
Other income		29,832		26,209
Net realized gains on sale of investments		179,498		445,782
Net unrealized increase in fair value of investments		—		14,698
		1,712,703		2,128,400
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders		1,387,872		1,277,474
Net unrealized decrease in fair value of investments		913,433		—
Management fees and other operating costs		249,859		247,486
		2,551,164		1,524,960
Net change in segregated funds held within general fund investments		(20,641)		(3,581)
Segregated funds - end of the year	$	7,822,790	$	8,681,892

d) Empire Life's exposure to segregated fund guarantee risk

Segregated fund products issued by Empire Life contain death, maturity and withdrawal benefit guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees.

13. Employee benefit plans

The following tables present financial information for Empire Life's defined benefit plans.

	Pension Benefit Plans				Other Post-Employment Benefits Plans			
		2018		2017		2018		2017
Present value of obligations	$	(233,611)	$	(239,832)	$	(8,418)	$	(9,779)
Fair value of plan assets		204,047		222,281		—		—
Post-employment benefit liability	$	(29,564)	$	(17,551)	$	(8,418)	$	(9,779)

The post-employment benefit liability, net of the cumulative impact of the asset ceiling, is included in the consolidated statement of financial position in other liabilities.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

The movement in the present value of the Plans' defined benefit obligations over the year is as follows:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
Present Value of Defined Benefit Obligation	2018	2017	2018	2017
Opening defined benefit obligation	$ 239,832	$ 229,194	$ 9,779	$ 9,805
Current service cost	7,042	6,306	—	—
Interest expense	8,496	8,984	332	362
Decrease in net income before tax	15,538	15,290	332	362
Remeasurements				
Loss from changes in demographic assumptions	—	2,583	66	—
(Gain) loss from changes in financial assumptions	(9,517)	7,829	(644)	309
Actuarial gain from member experience	(110)	(1,741)	(626)	(259)
(Increase) decrease in OCI before tax	(9,627)	8,671	(1,204)	50
Employee contributions	1,558	1,652	—	—
Benefits paid	(13,690)	(14,975)	(489)	(438)
Closing defined benefit obligation	$ 233,611	$ 239,832	$ 8,418	$ 9,779

The movement in the fair value of the Plan's assets over the year is as follows:

	Pension Benefit Plans	
Fair Value of Defined Benefit Assets	2018	2017
Fair value at beginning of year	$ 222,281	$ 217,995
Interest income	7,951	8,617
Administrative expense	(200)	(848)
Increase in net income before tax	7,751	7,769
Remeasurements		
Return on plan assets, excluding amounts included in interest income	(18,068)	5,085
Plan transfers/curtailments	—	(24)
Employer contributions	4,215	4,779
Employee contributions	1,558	1,652
Benefits paid	(13,690)	(14,975)
Fair value of Plan assets at end of year	$ 204,047	$ 222,281

Operating expenses include $1,726 (2017 - $1,283) of employer contribution related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to the defined benefit pension plans for the year ended December 31, 2018 are approximately $5,179 (2017 - $5,057).

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

The Plan invests primarily in Empire Life segregated and mutual funds. The fair value of the underlying assets of the funds and other investments are included in the following table:

	Pension Assets					
	2018			2017		
Equity						
Canadian	$	68,554	33%	$	88,405	39%
Foreign		42,522	21%		37,872	17%
Total Equity		111,076	54%		126,277	56%
Debt						
Canadian		62,879	30%		66,710	31%
Cash, cash equivalent, accruals		7,796	4%		5,736	3%
Mutual Funds		10,754	5%		12,368	6%
Other		11,542	7%		11,190	4%
Total fair value of assets	$	204,047	100%	$	222,281	100%

Fair value is determined based on Level 1 inputs for equities and Level 2 inputs for debt.

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2018	2017	2018	2017
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	3.8%	3.6%	3.7%	3.5%
Discount rate - net interest	3.6%	4.0%	3.5%	3.8%
Rate of compensation increase	3.0%	3.0%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	5.5%	6.1%
Cost trend rate declines to	n/a	n/a	4.0%	4.5%
Year ultimate health care cost trend rate is reached	n/a	n/a	2040	2026

Assumptions (in number of years) relating to future mortality to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

	2018	2017
Males aged 65 at measurement date	21.89	21.72
Females aged 65 at measurement date	24.59	24.45
Males aged 40 at measurement date	23.76	23.61
Females aged 40 at measurement date	26.28	26.15

Restricted Share Units and Deferred Share Units

During 2018 a long-term incentive plan was approved by the Board whereby the Company may grant two forms of awards: Restricted Share Units (“RSUs”) and Deferred Share Units (“DSUs”) to employees or officers of the Company. The RSUs and DSUs granted is equal to the dollar amount of the award, divided by the traded market price of one common share of the Company on the date of such grant. As dividends are paid on the common shares of the Company, grants of RSUs and DSUs are increased accordingly. Each RSU and DSU will represent the right to receive a distribution from the Company in an amount equal to the fair market value of one common share. RSUs and DSUs are settled in cash. Each RSU will vest and is payable on the third anniversary of the grant date. Each DSU will vest on the fifth anniversary of the grant date and is payable on the date the participant of the plan ceases to be an employee or officer of the Company due to retirement or other condition.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

During 2018, 457 RSUs and 205 DSUs were granted, no amounts were distributed or forfeited. At December 31, 2018 $120 was recognized as other liabilities and $120 as an operating expense for these awards.

14. Insurance contract liabilities and reinsurance liabilities

Nature and composition of Empire Life's insurance contract liabilities and related reinsurance insurance contract liabilities include life, health and annuity contracts on a participating and non-participating basis.

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

Insurance contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, expenses, and taxes on policies in force. Insurance contract liabilities are determined using accepted actuarial practice according to standards established by the CIA and the requirements of OSFI.

Empire Life reinsures excess risks with Canadian regulated reinsurance companies. The reinsurance assets (liabilities) are determined based on both the premiums expected to be paid under reinsurance agreements over the duration of the insurance contracts that they support and the insurance claims expected to be received by Empire Life when an insured event occurs under those insurance contracts. The liability position of some of the reinsurance is because of the excess of future premiums payable over the expected benefit of reinsurance. The change in reinsurance liability is primarily related to Empire Life's revised mortality assumptions, which reduce the present value of insurance claims expected to be recovered from the reinsurance companies. Empire Life enters into reinsurance agreements only with reinsurance companies that have an independent credit rating of “A-” or better from A.M. Best.

Reinsurance transactions do not relieve the original insurer of its primary obligation to policyholders.

Empire Life is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets.

Empire Life's insurance contract liabilities are comprised of:

	2018	2017
Insurance contract liabilities	$ 5,176,423	$ 5,364,865
Policyholder funds on deposit	34,031	33,886
Provision for profits to policyholders	32,008	31,347
	$ 5,242,462	$ 5,430,098

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

The change in insurance contract liabilities on a gross and net basis is as follows:

			2018			2017
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance, beginning of year	$ 5,364,865	$ 650,801	$ 6,015,666	$ 5,003,450	$ 533,357	$ 5,536,807
Changes in methods and assumptions						
- mortality/morbidity experience	(152,206)	127,213	(24,993)	(200,398)	186,008	(14,390)
- lapse/premium assumptions	36,584	22,823	59,407	12,889	5,985	18,874
- investment return assumptions	(3,900)	7,386	3,486	39,182	(3,043)	36,139
- model enhancements and other	(6,797)	6,753	(44)	(32,248)	(3,724)	(35,972)
Participating policies						
- model enhancements and other changes	(12,896)	3,436	(9,460)	(2,324)	169	(2,155)
Normal changes						
- new business	41,738	4,357	46,095	44,643	(107)	44,536
- in-force business	(90,965)	(33,968)	(124,933)	499,671	(67,844)	431,827
Balance, end of year	$ 5,176,423	$ 788,801	$ 5,965,224	$ 5,364,865	$ 650,801	$ 6,015,666

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

Improvements for mortality/morbidity experience for 2018 are primarily related to revised projected assumptions for the individual participating and non-participating life business, along with a smaller benefit from Group Long-Term Disability (Group LTD) business, offset by a small deterioration in mortality for immediate annuities.

Improvements for mortality experience for 2017 are primarily related to the individual life business, which was offset by a small deterioration in mortality for immediate annuities.

The 2018 lapse/premium assumption change is primarily related to:

i. refinements in expected policyholder persistency for universal life policies; and
ii. updates in expected lapse rates on participating policies and renewable term policies.

The lapse rate assumption update for 2017 was primarily related to a deterioration in lapse experience on renewable term 10 business. The remainder was related to regular experience updates for term to 100 universal life and 20-pay life policies.

The primary changes in the net investment return assumptions for 2018 are due to a refinement to the projection of equity assets backing the non-participating liability segment valuation at 2018 year-end, to reflect a reduced reliance on these assets in the future, with a corresponding increased reliance on fixed income instruments. This assumption change results in lower overall future yields and greater policy liabilities. This is offset by improved projected returns related to reinvestment assumptions on projected future investable cash flows.

The investment return assumption for 2017 was primarily due to regular updates to reinvestment rates and credit spreads for the CALM valuation as well as enhancements to the modeling of preferred shares cash flows for deferred and immediate annuity business assumptions as well as a similar change in equities as per 2018, above.

Model enhancements and other changes for 2018 are primarily related to enhancements to the modeling of participating business as well as policyholder fund projections for Universal Life policies.

Model enhancements and other changes for 2017 related to enhancements to the modeling of reinsurance for individual life insurance and updates to Group LTD termination rate experience study.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Empire Life expects to pay $5,085,826 (2017 - $5,284,855) of insurance contract liabilities and $784,507 (2017 - $645,503) of reinsurance liabilities more than one year after the consolidated statements of financial position date. The remaining balance is expected to be settled within one year.

For additional analysis of the Company's insurance risk please see Note 23 - Insurance risk management.

15. Capital stock

	Authorized	Issued and outstanding	2018	2017
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	100,000
Common Shares	unlimited	4,019,409	72,387	72,387
Total			$ 372,388	$ 372,388

1. The Series A Preference Shares are convertible, at the shareholder's option, 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, 2018 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, 2013, the Company may redeem for cash the First Preference Shares, Series 1 in whole or in part, at the Company's option at $25.00 per share, in each case together with all declared and unpaid dividends.

On and after October 17, 2009, the Company may convert all or any part of the outstanding First Preference Shares, Series 1 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion 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, 2015, the Company may redeem for cash the First Preference Shares, Series 2 in whole or in part, at the Company's option at $25.00 per share, 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. The Company could redeem for cash the First Preference Shares, Series 3 in whole or in part, at the Company's option for: $25.75

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

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 up to but excluding the date of redemption.

On and after April 17, 2018, 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 declared during the year were as follows:

	2018	2017
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, $1.375 per share	5,500	5,500
Common Shares, $5.00 per share	20,097	20,097
Total	$ 35,647	$ 35,647

When calculated on the basis of the Common Shares outstanding less the Company's proportionate interest in its own common shares held indirectly through its associate, the total common dividend is $19,635 (2017 - $19,635).

The following dividends were declared by the Board of Directors at their meeting on March 5, 2019, with a record and payable date of March 29, 2019 and April 17, 2019, 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, $1.25 per share.

16. Borrowings

The table below presents the subordinated debt obligations as at December 31:

As at December 31	Interest rate	Earliest par call or redemption date	Maturity	2018 Carrying value	2017 Carrying value
Series 2013-1[(1)]	2.870%	May 31, 2018	n/a	$ —	$ 299,843
Series 2016-1[(2)]	3.383%	December 16, 2021	2026	199,463	199,294
Series 2017-1[(3)]	3.664%	March 15, 2023	2028	199,304	199,154
Total subordinated debt				$ 398,767	$ 698,291

(1) Series 2013-1 Subordinated 2.870% Unsecured Debentures due 2023. On May 31, 2018, the Company redeemed all of the outstanding principal amount of these debentures at a redemption price equal to the principal amount together with accrued and unpaid interest.
(2) Series 2016-1 Subordinated 3.383% Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate (CDOR).
(3) Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

On November 1, 2017 the Company drew on a margin loan to purchase $100,000 Series 3 Preferred Shares from Empire Life. The margin loan had a balance of $90,000 at December 31, 2018 (2017 - $100,000).

As at December 31, 2018, the margin loan is pledged with $146,558 (2017 - $143,851) of investments from the Investment - corporate portfolio as collateral under this loan. Interest on the loan accrues at the three month CDOR plus 40 basis points.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

17. Operating expenses

Operating expenses include the following:

	2018	2017
Salary and benefits expense	$ 103,158	$ 94,363
Rent, leasing and maintenance	12,624	12,588
Professional services	17,670	16,929
Amortization of assets	10,518	9,118
Other	56,127	54,304
Total	$ 200,097	$ 187,302

18. Income taxes

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

	2018	2017
Income taxes at statutory rate	$ 24,109	$ 237,838
Variance as a result of:		
Tax-paid dividends	(16,321)	(14,985)
Non-taxable portion of investment gains	25,872	(76,861)
Other	(1,428)	(3,018)
Income tax expense	$ 32,232	$ 142,974

The current enacted corporate tax rates as they impact the Company in 2018 stand at 26.5% (2017 - 26.6%).

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

	2018	2017
Current	$ 105,637	$ 106,601
Deferred	(73,405)	36,373
Income tax expense	$ 32,232	$ 142,974

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:

	2018	2017
Deferred tax liabilities		
Investments	$ (193,940)	$ (266,798)
Insurance contract liabilities	(9,867)	(10,296)
Post-employment benefit plans	9,957	7,258
Other	(4,506)	(3,407)
Total	$ (198,356)	$ (273,243)

Of the above total, $200,242 (2017 - $276,785) is expected to be paid more than one year after the reporting date.

Change in deferred tax liabilities is comprised of the following items:

	2018	2017
Investments	$ (72,858)	$ 23,719
Insurance contract liabilities	(429)	3,255
Losses recoverable in future years	—	3,698
Post-employment benefit plans	(2,699)	(2,078)
Other	1,099	430
Net change	$ (74,887)	$ 29,024

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Net change is reported in:

	2018	2017
Consolidated statements of (loss) income	$ (73,405)	$ 36,373
Other comprehensive loss	(1,482)	(7,349)
Net change	$ (74,887)	$ 29,024

During 2018, the Company and its subsidiaries paid income tax installments and assessments totaling $90,553 (2017 - $103,555) and paid income tax totaling $994 (2017 - received an income tax refund of $1,544).

19. Earnings per share

Earnings per share has been calculated by dividing consolidated net income (loss) attributed to common equity shareholders of the Company for the year, less dividends on First Preference shares, by the amount equal to the total number of Common Shares outstanding of 4,019,667 less 92,754 in reciprocal holdings, which is the 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:

	2018	2017
Basic earnings per common share:		
Net income available to shareholders	$ 31,101	$ 668,102
Less: Dividends on First Preference shares	(15,550)	(15,550)
Net income after dividends on First Preference shares	$ 15,551	$ 652,552
Weighted average number of Common Shares outstanding [1]	3,926,913	3,926,913
Basic earnings per common share from net income	$ 3.96	$ 166.17
Diluted earnings per common share:		
Net income available to shareholders	$ 31,101	$ 668,102
Weighted average number of Common Shares outstanding [1]	3,926,913	3,926,913
Dilutive effect of the conversion of First Preference shares into common shares	397,024	444,640
Weighted average number of diluted Common Shares outstanding [1]	4,323,937	4,371,553
Diluted earnings per common share from net income	$ 3.96	$ 152.83

[1] Net of reciprocal holdings

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

20. Other comprehensive loss

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

	2018	2017
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on available for sale investments		
Unrealized fair value change on AFS investments	$ (28,312)	$ 10,174
Less: Realized loss (gain) on AFS investments reclassified to net income	649	(40,122)
	(27,663)	(29,948)
Share of OCI (OCL) of associates	5,212	(5,913)
	(22,451)	(35,861)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	(5,264)	(2,278)
Share of employee future benefits of associates	(2,386)	(579)
	(7,650)	(2,857)
OCL, net of tax	$ (30,101)	$ (38,718)

OCL is presented net of income taxes.

The following tax amounts are included in each component of OCL:

	2018	2017
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on available for sale investments		
Unrealized fair value change on AFS investments	$ (10,339)	$ 3,699
Less: Realized loss (gain) on AFS investments reclassified to net income	762	(7,425)
	(9,577)	(3,726)
Share of OCI (OCL) of associates	796	(903)
	(8,781)	(4,629)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	(1,913)	(828)
Share of employee future benefits of associates	(364)	(89)
	(2,277)	(917)
Total income taxes recognized in OCL	$ (11,058)	$ (5,546)

21. 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 an expense in 2018 were $2,561 (2017 - $2,772). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
2018	$ —	$ 2,222
2019	2,600	2,086
2020	1,666	1,105
2021	879	927
2022 (and thereafter in 2017)	1,154	4,841
2023 (and thereafter)	4,091	—
Total commitments	$ 10,390	$ 11,181

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements.

Investments - corporate

In the normal course of business, outstanding investment commitments are not reflected in the consolidated financial statements. In December 2017, the Company subscribed for units in a Canadian limited partnership. The aggregate capital commitment is U.S. $40,000 and as of December 31, 2018. As of December 31, 2018, the remaining unfunded commitment was U.S. $38,000 (2017 - $nil).

Investments - Empire Life

In the normal course of business, outstanding investment commitments are not reflected in the consolidated financial statements. There were $13,000 (2017- $2,285) of outstanding commitments as at December 31, 2018. The outstanding commitment is payable at any time up to and including April 30, 2021.

22. 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, equity risk and foreign currency risk.

The disclosures in Notes 4, 5 and 6 provide the breakdown of investments by type and by geographic region based on the underlying risk. The fair values of these investments are inherently volatile and frequently change in value as a result of factors beyond the Company's control, including general economic and capital market conditions.

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results may differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes: changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined and should not be viewed as predictors for the Company's future net income, OCI and capital sensitivities. Given the nature of these calculations, the Company cannot provide assurance that actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

E-L Corporate

E-L Corporate owns investments in equities and fixed income securities directly and indirectly through pooled funds, limited partnerships and other investment companies.

In addition to the investments in equities and fixed income securities, 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.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Empire Life

The investments held by Empire Life consist of equity and fixed income securities, mortgages and loans. Declines in investment values could significantly reduce Empire Life's net income, shareholder's equity and the adequacy of their regulatory capital. Empire Life has 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 Empire Life's Investment Committee of the Board of Directors. Empire Life's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes a financial loss to another party.

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

	2018	2017
Cash and cash equivalents	$ 332,558	$ 338,989
Short-term investments	27,959	148,908
Bonds	6,530,080	6,473,608
Preferred shares	396,918	409,319
Derivative assets	10,629	1,635
Mortgages	193,074	221,973
Reinsurance	95,975	85,638
Loans on policies	51,949	51,692
Policy contract loans	69,180	74,603
Accrued investment income	38,302	45,692
Insurance receivable	46,701	46,294
Total	$ 7,793,325	$ 7,898,351

This credit risk is derived primarily from Empire Life's investments in bonds, preferred shares, cash and cash equivalents. Empire Life manages this risk by applying its investment guidelines and product design and pricing risk management policy established by Empire Life's Investment Committee and Risk and Capital Committee. The investment guidelines establish minimum credit ratings for issuers of bonds and preferred share investments, and provide for concentration limits by issuer. Empire Life's management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time.

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.

The Company has securities lending agreements with its custodian. Under these agreements, the custodian may lend securities from the Company's portfolio to other institutions, as approved by the Company, for periods of time. In addition to a fee, the Company receives collateral which exceeds the market value of the loaned securities, which is retained by the Company until the underlying security has been returned to the

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Company. In the event that any of the loaned securities are not returned to the custodian, at its option the custodian may either restore to the Company securities identical to the loaned securities or it will pay to the Company the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned ("Valuation Date") to the custodian. If the collateral is not sufficient to allow the custodian to pay such market value to the Company, the custodian shall indemnify the Company only for the difference between the market value of the securities and the value of such collateral on the Valuation Date. As a result, there is no significant exposure to credit risk associated with this securities lending agreement.

At December 31, 2018 the Company had loaned securities with a fair value of $2,999,001 (2017 - $2,781,692) and received approximately $3,081,416 (2017 - $2,868,850) in collateral.

Concentration of credit risk

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		Empire Life	
	2018	2017	2018	2017
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the operating segments had the greatest exposure	$ —	$ 21,166	$ 4,248,837	$ 4,192,708
Percentage of the segment's total cash and investments	0.0%	0.4%	51.3%	49.0%
Exposure to the largest single issuer of corporate bonds	nil	nil	$ 181,684	$ 173,269
Percentage of the segment's total cash and investments	0.0%	0.0%	2.2%	2.0%

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

a) Investments in bonds and debentures

	2018		2017	
Empire Life	Fair value	%	Fair value	%
AAA	$ 281,470	4%	$ 529,856	8%
AA	628,471	10%	659,816	10%
A	4,561,261	70%	4,301,025	67%
BBB (and lower ratings)	1,058,878	16%	982,911	15%
Total	$ 6,530,080	100%	$ 6,473,608	100%

Credit ratings are normally obtained from Standard & Poor's ("S&P") and Dominion Bond Rating Service ("DBRS"). In the event of a split rating, the lower rating is used. Issues not rated by a recognized rating agency (i.e. S&P, DBRS, or Moody's) are rated internally by Empire Life's Investment Department. The internal rating assessment is documented referencing suitable comparable investments rated by recognized rating agencies and/or methodologies used by recognized rating agencies.

b) Preferred shares

Empire Life's preferred share investments are all issued by Canadian companies with 1% (2017 – 1%) of these investments rated as P1 as at December 31, 2018 and the remaining 99% (2017 – 99%) rated as P2.

c) Mortgages

Empire Life's mortgages in the province of Ontario represent the largest concentration with $193,074 or 100% (2017 – $221,973 or 100%) of the total mortgage portfolio.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

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 $35,647 (2017 - $35,647), margin loan interest (refer to Note 16 - Borrowings) and to meet ongoing operating expenses as they fall due. In most years, the Company is able to fund these obligations by its cash flow from net investment income earned on its investment portfolio. In addition to this, the Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cash flow deficiencies.The Company also uses a margin loan facility to fund certain investment opportunities or provide short term liquidity as required.

Composition of E-L Corporate's liquidity:

	2018	2017
Cash and cash equivalents	$ 127,637	$ 44,751
Short-term investments	—	21,166
Total	$ 127,637	$ 65,917

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 its subordinated debt (refer to Note 16 - Borrowings) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

The 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.

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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:

2018	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 96,260	$ 189,647	$ 492,727	$ 23,285,372	$ 24,064,006
Investment contract liabilities	4,084	10,685	9,704	8,714	33,187
Subordinated debt	14,094	51,708	453,240	—	519,042
Preferred shares	13,496	245,776	—	—	259,272
Accounts payable and other liabilities	230,291	8,230	36,525	—	275,046
Total liabilities	358,225	506,046	992,196	23,294,086	25,150,553
Operating lease commitments	3,106	5,884	3,129	—	12,119
Total	$ 361,331	$ 511,930	$ 995,325	$ 23,294,086	$ 25,162,672

2017	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 86,298	$ 250,921	$ 528,013	$ 18,998,295	$ 19,863,527
Investment contract liabilities	2,018	8,553	5,980	5,397	21,948
Subordinated debt	21,374	80,950	553,155	205,180	860,659
Preferred shares	13,496	175,389	91,857	—	280,742
Accounts payable and other liabilities	222,242	11,013	26,590	—	259,845
Total liabilities	345,428	526,826	1,205,595	19,208,872	21,286,721
Operating lease commitments	2,779	6,248	3,979	—	13,006
Total	$ 348,207	$ 533,074	$ 1,209,574	$ 19,208,872	$ 21,299,727

The 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 cash, cash equivalents and short term investments to meet its short term funding requirements. As of December 31, 2018, 2.8% (2017 - 4.9%) of cash and investments were held in these shorter duration investments.

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

	2018		2017	
	Fair value	%	Fair value	%
1 year or less	$ 87,560	1%	$ 340,940	5%
1 - 5 years	810,260	12%	596,228	9%
5 - 10 years	743,107	11%	731,086	11%
Over 10 years	4,889,153	76%	4,805,354	75%
Total	$ 6,530,080	100%	$ 6,473,608	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, equity risk 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 Empire Life's fixed income investments, which total $6.5

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billion at December 31, 2018 (2017 - $6.5 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.

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 to customers; thereby adversely affecting Empire Life's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls, and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased 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 estimated immediate financial impact on shareholder's net income and OCI of a result of an immediate change in interest rates:

2018	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	$ 8,306	$ (9,187)	$ 15,827	$ (19,365)
Shareholders' OCI	$ (38,817)	$ 45,751	$ (70,701)	$ 98,435

2017	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	$ 12,715	$ (14,167)	$ 24,144	$ (29,979)
Shareholders' OCI	$ (41,093)	$ 48,554	$ (74,726)	$ 104,567

b) Equity risk

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.

Empire Life manages market price risk exposure mainly through investment limits. The Investment Committee of Empire Life meets quarterly to review the composition and performance of managed assets.

E-L Corporate

The following table summarizes the potential impact on E-L Corporate of a change in global equity markets. E-L Corporate 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 used a 20% increase or decrease in its equity market sensitivity 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.

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

	2018		2017	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 330,111	$ nil	$ 349,011	$ nil
20% fluctuation	$ 660,222	$ nil	$ 698,022	$ nil
Investments in associates				
10% fluctuation	$ 14,217	$ nil	$ 14,755	$ nil
20% fluctuation	$ 28,434	$ nil	$ 29,510	$ nil

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 and unit holders, respectively. Market value variations of such assets will result in variations in the income of the 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 the Empire Life. Additionally, certain of the 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 the Empire Life's financial position, LICAT position and results of operations. The Empire Life has reinsured a portion of its segregated fund death benefit guarantee. During the fourth quarter of 2014, the Empire Life initiated a semistatic, economic hedging program. The objective of the economic hedging program is to partially protect the Empire Life from possible future LICAT ratio declines that might result from adverse stock market price changes. The program presently employs put options and futures on key equity indices. Improper use of these instruments could have an adverse impact on earnings. The Empire Life manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed.

The following table summarizes the estimated 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. The Company has also disclosed the impact of a 20% increase or decrease in Empire Life's equity market sensitivity. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program. For segregated fund guarantees 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.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

The amounts shown below represent the impact on shareholders' net income, including segregated fund guarantees.

	2018		2017	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Empire Life [(1)]				
10% increase	$ 16,263	$ 2,573	$ 23,713	$ 2,262
10% decrease	$ (15,797)	$ (2,573)	$ (22,197)	$ (2,262)
20% increase	$ 34,520	$ 5,146	$ 47,869	$ 4,525
20% decrease	$ (148,585)	$ (5,146)	$ (73,504)	$ (4,525)

[(1)] Includes the estimated impact on fee income net of trailer commissions after tax for a three month period.

Concentration of common equity holdings

E-L Corporate's largest exposure to common equities relates to its investment in associates of $334,913 (2017 – $330,050) which represents 6% (2017 – 6%) of E-L Corporate's total assets.

The following table identifies the concentration of common equity holdings within investments - insurance:

Empire Life	2018	2017
Exposure to the ten largest common share holdings	$ 352,369	$ 382,479
As a percentage of the segment's total cash and investments	4%	5%
Exposure to the largest single issuer of common shares	$ 110,324	$ 91,894
As a percentage of the segment's total cash and investments	1%	1%

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 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 $135,618 (2017 – $149,336) on shareholders' net income and $9,986 (2017 – $6,154) on other comprehensive income.

Empire Life: Approximately $nil (2017 – $nil) on shareholders' net income and $nil (2017 – $nil) on other comprehensive income.

23. Insurance risk management

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

The Company and Empire Life 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 Empire Life.

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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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net premium income	$ 154.9	$ 135.5	$ 339.8	$ 330.6	$ 378.9	$ 368.1	$ —	$ —	$ 873.6	$ 834.2
Fee and other income	252.9	246.0	10.6	10.2	0.4	0.3	—	0.3	263.9	256.8
Total	$ 407.8	$ 381.5	$ 350.4	$ 340.8	$ 379.3	$ 368.4	$ —	$ 0.3	$1,137.5	$1,091.0

Insurance risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with insurance risks, does not emerge as expected. Empire Life is exposed to various insurance risks as a result of the business it writes, including: mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing risk, underwriting and claims risk and reinsurance risk.

Empire Life regularly evaluates its exposure to foreseeable risks through stress testing techniques including Dynamic Capital Adequacy Testing (“DCAT”) analysis.

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 recoverable 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, longevity, 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 CIA. 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 by Empire Life’s Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of Empire Life’s estimated 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, 2018. 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.

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 $12,200 (2017 - $13,200).

For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $4,100 (2017 - $3,600).

Policyholder behaviour (termination or 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 extra 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 $131,900 (2017 - $133,300). 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.

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 $6,900 (2017 - $4,600).

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 $6,700 (2017 - $6,500).

Product design and pricing risk

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

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

Empire Life manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described as follows. 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 DCAT and reports annually to the 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 Risk Management Policy for each of its major product lines. This policy, which is established by management and approved by the Risk and Capital Committee of the Board, 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 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 Risk Management Policy for each of its major product lines. This policy is established by management and approved by the Risk and Capital Committee of the Board. Together, these policies define Empire Life's underwriting and claims 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 and the Board approves changes to these retention limits.

Reinsurance risk

Empire Life is subject to the risk of financial loss due to inadequate 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 reinsurance 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. Management reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of Empire Life's individual life reinsurance (with the exception of its renewable term 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 renewable term 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. A portion of Empire Life's segregated fund death benefit exposure is reinsured. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement.

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 assumed reinsurance business.

24. Capital management

The Company's capital management process is designed to protect capital and build shareholder value over the long-term. Effective capital management includes maintaining sufficient liquidity to be able to pay dividends to the Company's preferred shareholders, satisfy issuer credit ratings requirements, as well as providing flexibility to pursue strategic opportunities. Total capital on a consolidated basis at December 31, 2018, consisted of the Company's shareholders' equity of $5,523,297 (2017 - $5,552,949), non-controlling interests in subsidiaries of $979,142 (2017 - $974,907) and participating policyholders' interests of $36,163 (2017 - $43,221).

Empire Life manages its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act (Canada) as established and monitored by OSFI. Effective January 1, 2018, OSFI has implemented the new Life Insurance Capital Adequacy Test ("LICAT") framework. Under this framework, Empire Life's capital adequacy will be measured as a ratio of Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer. The components of the LICAT ratio are determined in accordance with the guidelines defined by OSFI. The capital ratios as determined under the LICAT framework are not comparable to the ratios as determined under the previous capital regime. The regulator has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at December 31, 2018 and December 31, 2017 Empire Life was in compliance with the applicable regulatory capital ratios.

25. Related party transactions

The Company has investments in related parties which includes investments in associates of $334,913 (2017 - $330,050) and investments in other related parties within investments - corporate of $785,176 (2017 - $853,707). The ultimate controlling party of the Company and these related parties, is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

In addition the Company has an investment in a private company of $nil (2017 - $37,840) where one of the key management personnel is also a director of the Company.

The Company received administrative service fees of $493 (2017 - $485) from related parties during the year.

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

Compensation of key management personnel of the Company is as follows:

	2018	2017
Salaries and other benefits	$ 3,082	$ 2,531
Post-employment benefits	323	241
Total	$ 3,405	$ 2,772

26. Subsidiaries

The principal subsidiaries are:

i) E-L Financial Services Limited (100.0% owned), whose operating subsidiary is Empire Life (99.3% owned). Empire underwrites life and health insurance policies and provides segregated funds, and annuity products. Empire Life's (wholly-owned) mutual fund subsidiary, Empire Life Investments Inc. is a registered Investment Funds Manager.

ii) United (52.2% owned) which is a closed-end investment company traded on the Toronto Stock Exchange under the symbol "UNC". United is an investment vehicle for long-term growth through investments in common equities. 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.

The following table summarizes the statements of financial position for the operating subsidiaries:

	Empire Life		United	
	2018	2017	2018	2017
NCI percentage	0.7%	0.7%	47.8%	48.1%
Cash and cash equivalents	$ 204,921	$ 294,238	$ 53,073	$ 19,551
Investments	8,073,649	8,265,212	1,698,683	1,741,035
Segregated funds	7,822,790	8,681,892	—	—
Other	168,337	153,205	5,798	8,466
Total assets	16,269,697	17,394,547	1,757,554	1,769,052
Insurance and investment contract liabilities	(5,242,462)	(5,430,098)	—	—
Reinsurance liabilities	(788,801)	(650,801)	—	—
Deferred tax	(10,288)	(13,766)	(32,369)	(68,619)
Subordinated debt	(398,767)	(698,291)	—	—
Segregated funds	(7,822,790)	(8,681,892)	—	—
Other	(223,873)	(199,118)	(29,759)	(7,038)
Total liabilities	(14,486,981)	(15,673,966)	(62,128)	(75,657)
Net assets	1,782,716	1,720,581	1,695,426	1,693,395
Participating policyholders' interests	(36,163)	(43,221)	—	—
Preferred shareholders' interest	(149,500)	(149,500)	(7,747)	(7,747)
Net assets available to common shareholders	$ 1,597,053	$ 1,527,860	$ 1,687,679	$ 1,685,648
NCI - common shareholders	$ 9,853	$ 9,809	$ 812,042	$ 807,851
NCI - preferred shareholders	149,500	149,500	7,747	7,747
Total NCI	$ 159,353	$ 159,309	$ 819,789	$ 815,598

(all dollar figures in thousands of Canadian dollars, except per share amounts and where otherwise stated)

The following table summarizes the statements of income and comprehensive income:

	Empire Life		United	
For the year ended	2018	2017	2018	2017
Revenue	$ 1,138,424	$ 1,674,605	$ 45,807	$ 212,045
Net income	147,889	175,900	26,555	172,153
Other comprehensive (loss) income	(32,258)	4,253	—	—
Total comprehensive income	$ 115,631	$ 180,153	$ 26,555	$ 172,153
Total comprehensive income allocated to NCI	$ 14,190	$ 10,838	$ 12,901	$ 82,965
Dividends declared to NCI	$ 8,596	$ 8,596	$ 11,964	$ 13,413

The following table summarizes the cash flows:

	Empire Life		United	
Summarized cash flows	2018	2017	2018	2017
Cash flows from operating activities	$ 346,368	$ 297,402	$ 13,672	$ 8,518
Cash flows from investing activities	$ (68,285)	$ (651,670)	$ 44,373	$ 19,327
Cash flows from financing activities	$ (367,400)	$ 279,633	$ (24,523)	$ (27,450)

In the first quarter of 2016, Empire Life issued to the public 5,980,000 Non-Cumulative Rate Reset Preferred Shares, Series 1 (Series 1 Preferred Shares) at $25 per share. Holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%. Holders of Series 1 Preferred Shares will have the right, at their option, to convert their shares into NonCumulative Floating Rate Preferred Shares, Series 2 (Series 2 Preferred Shares), subject to certain conditions, on April 17, 2021 and on April 17 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.99%.

The cost of issuance of the Series 1 Preferred Shares, $5,150 less $1,375 of income tax, was charged to retained earnings.

Empire Life is registered under the *Insurance Companies Act*, Canada and is regulated by the OSFI. Any dividends paid by Empire Life must comply with regulatory requirements.

Shareholders' entitlement to $3,137 (2017 - $3,736) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

Glossary of Terms

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 that 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 Life and Health Insurance Association ("CLHIA")
The CLHIA is an organization representing life insurance and health insurance providers in Canada. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

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

Earnings on Surplus
This source of earnings represents the pre-tax earnings on the shareholders' capital and surplus funds.

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.

Expected Profit from In-Force Business
This source of earnings represents the profit Empire Life expects to generate on in-force business if experience is in line with the Empire Life's best estimate assumptions for mortality, morbidity, persistency, investment returns, expenses and taxes.

Experience Gains and Losses

This source of earnings represents gains or losses due to the difference between actual experience and the best estimate assumptions.

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.

Impact of New Business

Writing new business typically adds economic value to a life insurance company. At the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

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.

Life Insurance Capital Adequacy Test ("LICAT")

The LICAT measures the capital adequacy of an insurer and is one of several indicators used by OSFI to assess an insurer's financial condition. The LICAT Ratio is the ratio of eligible capital to the base solvency buffer, each as calculated under OSFI's published guidelines.

Management Actions and Changes in Assumptions

This source of earnings component includes earnings generated by management actions during the year (e.g. acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

Minimum Continuing Capital and Surplus Requirements ("MCCSR")

The ratio of the available regulatory capital of a life insurance company to its required regulatory capital, each as calculated under the Office of the Superintendent of Financial Institutions' ("OSFI") published guidelines.

Other Comprehensive Income ("OCI") Loss ("OCL")

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as OCI or OCL. When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

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 ("PAR")

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.

Return on Common Shareholders' Equity ("ROE")

A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

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

Summary of Consolidated Results (unaudited)

	2018	2017	2016	2015	2014
Premium income	$ 873,605	$ 834,214	$ 881,500	$ 835,216	$ 867,493
Share of income (loss) from investments in associates	9,817	35,840	(12,084)	24,829	25,519
Fair value change in fair value through profit or loss investments	(512,135)	799,351	170,931	486,047	942,271
Realized (loss) gain on available for sale investments	(1,411)	47,545	28,588	58,554	28,204
Investment and other income	706,816	655,628	590,866	585,118	527,750
Total revenues	1,076,692	2,372,578	1,659,801	1,989,764	2,391,237
Policy benefits	549,443	1,070,044	828,612	793,794	1,413,408
Operating expenditures including commissions and premium taxes	438,016	406,486	398,327	387,340	395,911
Income taxes	32,232	142,974	80,916	123,543	91,066
	57,001	753,074	351,946	685,087	490,852
Policyholders' and non-controlling interest portion of income	25,900	84,972	18,803	150,478	96,322
E-L Financial shareholders' net income	$ 31,101	$ 668,102	$ 333,143	$ 534,609	$ 394,530
Net income per share - basic	$ 3.96	$ 166.17	$ 80.88	$ 132.18	$ 96.51
Assets					
Cash and cash equivalents	$ 332,558	$ 338,989	$ 419,906	$ 306,546	$ 316,811
Investments in associates	334,913	330,050	309,644	328,389	301,228
Investments - corporate	4,596,188	4,853,200	4,341,596	4,145,707	3,790,503
Investments - insurance operations	8,073,649	8,265,212	7,235,918	6,659,265	6,430,296
Insurance receivable	46,701	46,294	53,097	25,099	25,213
Other assets	140,636	124,005	141,322	134,364	100,059
	13,524,645	13,957,750	12,501,483	11,599,370	10,964,110
Segregated funds	7,822,790	8,681,892	8,082,033	7,367,823	6,948,475
	$21,347,435	$22,639,642	$20,583,516	$18,967,193	$17,912,585
Liabilities					
Insurance contract liabilities	$ 5,242,462	$ 5,430,098	$ 5,065,962	$ 4,858,233	$ 4,769,707
Other liabilities	1,743,581	1,956,575	1,518,064	1,245,409	1,139,421
Policyholders' and non-controlling interest	1,015,305	1,018,128	963,258	819,204	888,754
	8,001,348	8,404,801	7,547,284	6,922,846	6,797,882
Capital stock	372,388	372,388	372,388	372,388	372,388
Retained earnings	5,168,573	5,171,997	4,538,540	4,243,683	3,721,910
Accumulated other comprehensive (loss) income	(17,664)	8,564	43,271	60,453	71,930
	5,523,297	5,552,949	4,954,199	4,676,524	4,166,228
	13,524,645	13,957,750	12,501,483	11,599,370	10,964,110
Segregated funds	7,822,790	8,681,892	8,082,033	7,367,823	6,948,475
	$21,347,435	$22,639,642	$20,583,516	$18,967,193	$17,912,585

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

Summary of Empire Life (unaudited)

	2018	2017	2016	2015	2014
Premium income	$ 873,605	$ 834,214	$ 881,500	$ 835,216	$ 867,493
Fair value change in fair value through profit or loss investments	(318,039)	239,407	11,873	(85,677)	538,036
Realized gain on fair value through profit or loss investments	11,900	57,188	20,114	42,233	74,469
Realized (loss) gain on available for sale investments	(1,411)	5,816	11,739	19,128	12,621
Investment and other income	572,369	537,980	483,282	476,028	433,397
Total revenues	1,138,424	1,674,605	1,408,508	1,286,928	1,926,016
Policy benefits	511,938	1,027,222	898,751	794,220	1,415,690
Operating expenditures including commissions and premium taxes	437,611	416,961	298,890	358,758	368,549
Income and capital taxes	40,986	54,522	53,701	31,492	34,401
	147,889	175,900	157,166	102,458	107,376
Profits allocated to policyholders	(3,052)	(4,666)	(3,439)	(6,119)	8,670
Profits allocated to non-policyholders	14,403	10,809	9,106	21,173	19,248
Net contribution to E-L	$ 136,538	$ 169,757	$ 151,499	$ 87,404	$ 79,458
Premium income by line of business					
Wealth Management	$ 154,860	$ 135,542	$ 175,832	$ 143,991	$ 186,106
Employee Benefits	339,852	330,563	338,908	325,223	318,942
Individual Insurance	378,893	368,109	366,760	366,002	362,445
Total premiums	$ 873,605	$ 834,214	$ 881,500	$ 835,216	$ 867,493
Assets including segregated funds	$ 16,269,697	$17,394,547	$15,862,176	$14,363,544	$ 13,728,541

(all dollar figures 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	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

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

(all dollar figures 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	Shareholders' Equity	Shareholders' Comprehensive Income (Loss)	Comprehensive Income (Loss) Per Share
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
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
2013	15,885,492	821,544	1,644,896	3,752,880	871,577	217.99
2014	17,911,247	867,493	2,391,237	4,166,228	428,032	105.04
2015	18,967,193	835,216	1,989,764	4,676,524	523,132	129.26
2016	20,583,516	881,500	1,659,801	4,954,199	315,961	76.50
2017	22,639,642	834,214	2,372,578	5,552,949	633,395	157.33
2018	21,347,435	873,605	1,076,692	5,523,297	4,873	(2.72)

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

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

2007 - All investments are carried at fair value except for 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")

2012 - United Corporation Limited became a subsidiary of E-L Financial Corporation Limited

2013 - The Dominion of Canada General Insurance Company was sold

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TRANSFER AGENT AND REGISTRAR:

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100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1
Toll Free: 1-800-564-6253
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STOCK EXCHANGE LISTINGS:

Common Shares	ELF
First Preference Shares, Series 1	ELF.PR.F
First Preference Shares, Series 2	ELF.PR.G
First Preference Shares, Series 3	ELF.PR.H

REPORTING PROCEDURE FOR ACCOUNTING MATTERS

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

Mr. James Billett
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
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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.