E-L Financial Corporation Limited

ANNUAL REPORT 2019

Financial Highlights

(Millions of dollars, except per share amounts)

Years ended December 31		2019		2018
Net Equity Value per Common Share [1]	**$**	**1,486.19**	$	1,295.65
Net Income per Common Share	**$**	**185.67**	$	3.96
Comprehensive Income (Loss) per Common Share	**$**	**196.32**	$	(2.72)

Contribution to Shareholders' Net Income (Loss):				
E-L Corporate	**$**	**572**	$	(105)
Empire Life		**173**		136
Shareholders' Net Income		**745**		31
Preferred Shareholder Dividends		**15**		15
Net Income attributable to Common Shareholders'	**$**	**730**	$	16

E-L Corporate				
Shareholders' Net Income (Loss)	**$**	**572**	$	(105)
Investments - Corporate	**$**	**5,270**	$	4,596
Investments in Associates	**$**	**332**	$	335
Empire Life				
Common Shareholders' Net Income	**$**	**173**	$	136
Net Premiums and Fee Income	**$**	**1,172**	$	1,138
Assets Under Management [1]	**$**	**18,100**	$	16,415
Life Insurance Capital Adequacy Test Total Ratio (“LICAT”) (%)		**155**		149

[1] See Non-GAAP measures within the Management’s Discussion and Analysis

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:30 a.m. on Thursday May 7, 2020 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.

Honorary Director

The Right Honourable John N. Turner

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

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, 2019 and 2018 for E-L Financial Corporation Limited ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2019 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2019 Annual Report dated March 3, 2020. 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 this MD&A may differ or not sum 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 risk including equity risk, hedging risk, interest rate risk, foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; insurance risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory risk, model risk, human resources risk, third party risk, technology, information security and business continuity risk; and business risk and strategic, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk 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 7. 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 9.

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. Quarterly and year to date returns are calculated on an annualized basis.

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 19 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)		**2019**		2018
General fund assets	**$**	**9,462**	$	8,447
Segregated fund assets		**8,499**		7,823
Total Empire Life assets		**17,961**		16,270
Mutual fund assets		**139**		145
Total assets under management	**$**	**18,100**	$	16,415

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 include 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 has a 37.0% 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 (99.4% 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	**Fourth quarter**		**Year**	
(millions of dollars)	**2019**	2018	**2019**	2018
Contribution to net income (loss)				
E-L Corporate[1]	**$ 217**	$ (244)	**$ 572**	$ (105)
Empire Life[2]	**76**	6	**173**	136
Net income (loss)	**293**	(238)	**745**	31
Other comprehensive (loss) income[2]	**(14)**	(8)	**41**	(26)
Comprehensive income (loss)	**$ 279**	$ (246)	**$ 786**	$ 5

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

E-L Corporate	**Fourth quarter**		**Year**	
(millions of dollars)	**2019**	2018	**2019**	2018
Revenue				
Net gain (loss) on investments[3]	**$ 271**	$ (324)	**$ 646**	$ (206)
Investment and other income	**27**	27	**145**	134
Share of associates income (loss)	**10**	(5)	**24**	10
	308	(302)	**815**	(62)
Operating expenses	**10**	9	**37**	34
Income taxes	**40**	(41)	**107**	(6)
Non-controlling interests	**41**	(26)	**99**	15
	91	(58)	**243**	43
Net income (loss)	**217**	(244)	**572**	(105)
Other comprehensive income (loss), net of taxes[1]	**2**	(1)	**(6)**	2
Comprehensive income (loss)	**$ 219**	$ (245)	**$ 566**	$ (103)

Empire Life	**Fourth quarter**		**Year**	
(millions of dollars)	**2019**	2018	**2019**	2018
Revenue				
Net premiums	**$ 229**	$ 237	**$ 910**	$ 874
Net (loss) gain on investments[3]	**(131)**	(95)	**618**	(308)
Investment income	**85**	82	**325**	308
Fee income	**66**	65	**262**	264
	249	289	**2,115**	1,138
Benefits and expenses	**122**	274	**1,847**	935
Income and other taxes	**39**	4	**77**	56
Non-controlling and participating policyholders' interests	**12**	5	**18**	11
	173	283	**1,942**	1,002
Net income	**76**	6	**173**	136
Other comprehensive (loss) income, net of taxes[2]	**(16)**	(7)	**47**	(28)
Comprehensive income (loss)	**$ 60**	$ (1)	**$ 220**	$ 108

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

E-L Financial reported consolidated 2019 net income of $745 million or $185.67 per common share compared with $31 million or $3.96 per common share in 2018. The increase in net income is primarily due to higher net gains on investments within the E-L Corporate segment in 2019. E-L Corporate reported a net gain on investments of $646 million in 2019 compared to a loss of $206 million in 2018. E-L Corporate's global investment portfolio had a pre-tax total return of 17% in 2019 compared to a pre-tax total return of negative 2% in the prior year.

The Empire Life segment reported net income of $173 million in 2019 compared to $136 million in 2018. In the fourth quarter of 2019, Empire Life enacted significant changes to its reinsurance program, which included a significant increase in Empire Life's individual life insurance retention level, along with a recapture of a significant amount of reinsured business. The net income impact of this reinsurance recapture initiative was $78 million.The increase in earnings for the year was primarily a result of the recapture initiative, partly offset by unfavourable assumption updates in the Wealth Management and Individual Insurance lines and a deterioration of long term disability experience in the Employee Benefits line.

Consolidated comprehensive income for 2019 was $786 million or $196.32 per common share compared to $5 million or a net loss of $2.72 per common share in 2018. Other comprehensive income ("OCI") was $41 million in 2019 compared to a loss of $26 million in 2018. The increase in OCI was primarily due to the net unrealized fair value gains on Empire Life's available for sale ("AFS") assets in 2019 relative to an unrealized fair value loss on AFS assets in 2018. In addition, there was a lower loss on the net remeasurement of the liability component of post-employment defined benefit plans relative to 2018.

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)	**2019**	2018
E-L Financial shareholders' equity	**$ 6,275**	$ 5,523
Less: First preference shares	**(300)**	(300)
	5,975	5,223
Adjustments for investments in associates not carried at fair value:		
Carrying value	**(332)**	(335)
Fair value[1]	**331**	315
	(1)	(20)
Non-controlling interest and deferred tax	**—**	5
	(1)	(15)
Net equity value	**$ 5,974**	$ 5,208
Common Shares[2] outstanding at year end	**4,019,667**	4,019,667
Net equity value per common share[2] [3]	**$ 1,486.19**	$ 1,295.65

[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*
	$	%
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)
2019	1,486.19	15.1

Compounded annual growth in net equity value*	
2010 - 2019 - 10 years	8.8
1969 - 2019 - Since inception	12.5

* 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)	**2019**				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Net gain (loss) on investments(1)	**$ 139**	$ 163	$ 209	$ 753	$ (419)	$ (112)	$ 75	$ (58)
Net premium income	**229**	218	225	238	237	221	205	211
Investment and other income	**178**	186	200	168	175	175	199	158
Associates(2)	**10**	4	7	3	(5)	10	7	(3)
Total	**$ 556**	$ 571	$ 641	$ 1,162	$ (12)	$ 294	$ 486	$ 308
Net income (loss)(3)	**$ 293**	$ 101	$ 42	$ 309	$ (238)	$ 96	$ 108	$ 66
Earnings (loss) per common share								
- basic	**$ 73.68**	$ 24.61	$ 9.70	$ 77.68	$ (61.62)	$ 23.33	$ 26.56	$ 15.69
- diluted	**$ 67.58**	$ 23.26	$ 9.70	$ 71.45	$ (61.62)	$ 22.08	$ 24.12	$ 15.15

(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 2019 decreased compared to the third quarter of 2019 mainly due to the impact of a net investment loss in Empire Life resulting from increases in market interest rates during the fourth quarter of 2019. The revenue for the fourth quarter of 2019 increased over the fourth quarter of 2018 primarily due to an increase in E-L Financial's net investment gains compared to an investment loss in the prior year.

Net premiums for the fourth quarter of 2019 increased compared to the third quarter of 2019 reflecting growth in all product lines. Net premiums for the fourth quarter of 2019 decreased compared to the fourth quarter of 2018 primarily due to lower sales of fixed annuity products in the Wealth Management line.

Fourth quarter results

E-L Financial reported consolidated net income of $293 million or $73.68 per common share for the fourth quarter of 2019 compared to a loss of $238 million or $61.62 per common share in 2018.

E-L Corporate reported net income of $217 million in the fourth quarter of 2019 compared to a net loss of $244 million in 2018. For the fourth quarter of 2019, E-L Corporate reported a net gain on investments of $271 million compared to a net loss of $324 million in 2018. The pre-tax total return on investments was 7% for the fourth quarter of 2019 compared to a pre-tax total return of negative 6% in 2018.

Empire Life reported net income of $76 million for the fourth quarter of 2019 compared to $6 million for the comparable period in 2018. The increase in earnings for the quarter was primarily a result of the reinsurance recapture initiative in the fourth quarter of 2019 which resulted in a $78 million increase to net income.

Consolidated comprehensive income for the fourth quarter of 2019 was $279 million or $70.01 per common share compared to a comprehensive loss of $246 million or $63.51 per common share in 2018. Other comprehensive loss ("OCL") for the fourth quarter of 2019 was $14 million compared to a loss of $8 million in 2018. The higher OCL is primarily due to the impact of net unrealized fair value losses on Empire Life's AFS investments compared to a small gain in the fourth quarter of 2018. This was partly offset by a gain on the remeasurement of post-employment defined benefit plan liabilities.

Liquidity and cash flows

Consolidated cash flows

The condensed cash flows 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 Consolidated**	
					2019	2018
Cash flows from:						
Operating activities	$ 150	$ (10)	$ 368	$ (91)	**$ 417**	$ 388
Financing activities	(64)	(28)	(96)	87	**(101)**	(385)
Investing activities	(36)	23	(337)	4	**(346)**	(9)
Increase (decrease) in cash and cash equivalents	50	(15)	(65)	—	**(30)**	(6)
Cash and cash equivalents, beginning of the year	75	53	205	—	**333**	339
Cash and cash equivalents, end of the year	$ 125	$ 38	$ 140	$ —	**$ 303**	$ 333

The increase in cash provided from operating activities in 2019 relative to 2018, reflects the increase in cash earnings during 2019 compared to the prior year, along with changes in working capital levels.

The decrease in cash used for financing activities in 2019 relative to 2018 was due to the redemption of $300 million subordinated debt on May 31, 2018.

The increase in cash used for investing activities in 2019 relative to 2018 was primarily due to management actions to deploy excess cash into higher yield investments in order to enhance investment income.

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)	**2019**	2018
Cash flows from:		
Operating activities		
Dividends from subsidiaries	**$ 83**	$ 52
Dividends and interest	**93**	85
Expenses and taxes, net of other income	**(26)**	(51)
	150	86
Financing activities		
Cash dividends	**(36)**	(36)
Repayment of margin loan	**(25)**	(10)
Interest paid on borrowings	**(2)**	(1)
Purchases of subsidiary shares	**(1)**	(3)
	(64)	(50)
Investing activities		
Purchases of investments	**(812)**	(554)
Proceeds from sales of investments	**774**	540
Net sales of short-term investments	**(13)**	21
Dividends from associates	**15**	7
	(36)	14
Increase in cash and cash equivalents	**50**	50
Cash and cash equivalents, beginning of the year	**75**	25
Cash and cash equivalents, end of the year	**$ 125**	$ 75

During 2019, the non-consolidated cash and cash equivalents of E-L Financial increased by $50 million.

Operating cash flows for 2019 increased $64 million over the prior year partly due to increases in dividends received from Empire Life and United and a reduction in income taxes paid in 2019. During the first quarter of 2017, for diversification reasons, E-L Financial re-allocated the assets managed from one of the global investment managers. This caused a higher investment portfolio turnover in 2017 compared to the 2019 and 2018 period, resulting in higher income taxes paid during 2018 compared to 2019.

During the third quarter of 2019, E-L Financial repositioned the assets managed by one of the global investment managers resulting in higher investment portfolio turnover during the period. Dividends received from associates increased over the prior period mostly due to a special dividend paid by Algoma.

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, 2019, consisted of the Company's shareholders' equity of $6,275 million, non-controlling interests in subsidiaries of $1,068 million and participating policyholders' interests of $40 million.

In the normal course of business, the Company is obligated to fund investment commitments which are not recognized in the consolidated financial statements. As of December 31, 2019, E-L Corporate has $86,401 (2018 - $51,840) in unfunded commitments for units in Canadian limited partnerships.

Selected annual information

(millions of dollars, except per share amounts)		**2019**		2018		2017
Revenue	**$**	**2,930**	$	1,077	$	2,373
Shareholder net income (loss)						
E-L Corporate	**$**	**572**	$	(105)	$	498
Empire Life		**173**		136		170
Total	**$**	**745**	$	31	$	668
Earnings per share						
- basic	**$**	**185.67**	$	3.96	$	166.17
- diluted	**$**	**171.64**	$	3.96	$	152.83
Assets						
E-L Corporate	**$**	**5,788**	$	5,078	$	5,245
Empire Life		**17,961**		16,270		17,395
Total assets	**$**	**23,749**	$	21,347	$	22,640
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.

In 2019 E-L Corporate reported a net gain on investments of $646 million compared to a loss of $206 million in 2018. E-L Corporate's global investment portfolio had a pre-tax total return of 17% in 2019 compared to a negative pre-tax total return of 2% in the prior year. In 2017 E-L Corporate reported a net gain on investments of $544 million with pre-tax total return of 14%.

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 2019 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, 2019. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2019.

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, 2019. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2019. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2019, 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 2019

IFRS 16 Leases

The Company adopted IFRS 16 effective January 1, 2019. The standard requires the capitalization of 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 adoption of IFRS 16 on January 1, 2019 did not have a significant impact on 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 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, 2019 and December 31, 2018 include mortgages with fair values of $10.4 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 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which provides a comprehensive principle-based framework for the recognition, measurement, presentation and disclosures of all insurance contracts. The new standard will replace IFRS 4 Insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment cash flows and for revenue to be recognized as the service is provided over the coverage period.

This new standard is expected to be effective for Empire Life on January 1, 2022 and is required to be adopted retrospectively, if this is impracticable, the modified retrospective or fair value method may be used.

In June 2019, the IASB issued an exposure draft to amend IFRS 17, including deferral of the effective date by one year (to January 1, 2022). The exposure draft comment period ended on September 24, 2019 and the IASB plans to publish a final standard by mid-2020. The Company will continue to monitor the IASB's developments. The Company is currently assessing the impact of adopting this standard and the proposed amendments on its consolidated financial statements.

Subsequent event

On March 3, 2020, the Company's Board:

- declared a $26.25 Common Share dividend which includes a quarterly dividend of $1.25 and an additional special cash dividend of $25.00. This dividend is payable April 17, 2020 to shareholders of record on March 31, 2020; and
- approved the repurchase of up to 200,970 of the Company's Common Shares under a normal course issuer bid.

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, 2019, investments - corporate had aggregate investments of $5.3 billion, comprised primarily of common shares and units of investment funds, compared to aggregate investments at December 31, 2018 of $4.6 billion. The fair value of investments - corporate is summarized in the table below:

(millions of dollars)		**2019**		2018
Short-term investments	**$**	**13**	$	—
Preferred shares		**1**		3
Common shares and units				
Canada and U.S.		**3,107**		2,464
Europe and United Kingdom		**1,158**		1,078
Emerging Markets		**454**		469
Japan		**468**		463
Other		**69**		119
Total		**5,256**		4,593
Total invested assets	**$**	**5,270**	$	4,596

During the third quarter of 2019, E-L Financial repositioned the assets managed by one of the global investment managers, resulting in a reduced exposure to Emerging Markets and a higher allocation to the U.S.

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

		Fourth quarter				Year		
(millions of dollars)		**2019**		2018		**2019**		2018
Revenue								
Net gain (loss) on investments	**$**	**271**	$	(324)	**$**	**646**	$	(206)
Investment and other income		**27**		27		**145**		134
Share of associates income (loss)		**10**		(5)		**24**		10
		308		(302)		**815**		(62)
Operating expenses		**10**		9		**37**		34
Income taxes		**40**		(41)		**107**		(6)
Non-controlling interests		**41**		(26)		**99**		15
		91		(58)		**243**		43
Net income (loss)		**217**		(244)		**572**		(105)
Other comprehensive income (loss), net of taxes		**2**		(1)		**(6)**		2
Comprehensive income (loss)	**$**	**219**	$	(245)	**$**	**566**	$	(103)

E-L Corporate reported net income of $217 million in the fourth quarter of 2019 compared to a loss of $244 million in 2018. The increase in E-L Corporate's net income for the fourth quarter of 2019 compared to the prior year is mainly due to an increase in net gain on investments. The pre-tax total return on investments was 7% for the fourth quarter of 2019 compared to a pre-tax total return of negative 6% in 2018.

For the year ended December 31, 2019, E-L Corporate had a net gain on investments of $646 million compared to a loss of $206 million for the comparable period in 2018 resulting in a positive pre-tax total return on investments of 17% in 2019 compared to a pre-tax total return of negative 2% in the prior year. For the year ended December 31, 2019 the portfolio earned investment returns of 20% in Canada and the U.S., 15% in Europe and 11% in other geographic regions, which includes investments in Japan and emerging markets.

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)	**2019**	2018	**2019**	2018
Algoma	**$ 2**	$ 9	**$ 9**	$ 20
Economic *	**8**	(14)	**15**	(10)
	$ 10	$ (5)	**$ 24**	$ 10

* Year includes a $5.8 million impairment loss (2018 - $6.4 million).

Algoma's net income for fourth quarter and year ended December 31, 2019 decreased compared to the prior year. Algoma's revenue increased primarily as a result of having additional vessels in operation and improved rates and strong customer demand in both the Product Tanker and Ocean Self-Unloader segments. The decrease in net income for 2019 was primarily a result of higher interest expense, a foreign currency loss and lower earnings from joint ventures compared to 2018.

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 5% in the fourth quarter of 2019 compared to a negative pre-tax total return of 6% in the fourth quarter of 2018. At December 31, 2019 Economic's global investment portfolio had a pre-tax total return, gross of investment management fees, of 18% during 2019 compared to a 1% return in 2018.

(millions of dollars)		**2019**			2018	
	Ownership	**Carrying value**	**Fair value**	Ownership	Carrying value	Fair value
Algoma	**37.0%**	**$ 185**	**$ 184**	36.8%	$ 199	$ 179
Economic	**24.0%**	**147**	**147**	24.0%	136	136
Total		**$ 332**	**$ 331**		$ 335	$ 315

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, 2019, 49% (December 31, 2018 - 42%) of the investment - corporate including cash and cash equivalents was denominated in U.S. dollars, 10% (December 31, 2018 - 11%) in Euros and 9% (December 31, 2018 - 10%) 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 3, 5 and 9 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 $76 million for 2019, compared to $6 million for 2018. In the fourth quarter of 2019, Empire Life enacted significant changes to its reinsurance program, which included an increase in Empire Life's individual life insurance retention level, along with a recapture of a significant amount of reinsured business. The net income impact of this reinsurance recapture initiative was $78 million. Full year common shareholders' net income was $174 million compared to $137 million in 2018. The increase in earnings was primarily a result of the recapture initiative, partly offset by unfavourable assumption updates in the Wealth Management and Individual Insurance lines and a deterioration of long term disability ("LTD") experience in the Employee Benefits line.

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)	**2019**	2018	**2019**	2018
Empire Life common shareholders' net income	**$ 76**	$ 6	**$ 174**	$ 137
Non-controlling interests	**—**	—	**1**	1
Net income, contribution to E-L Financial	**$ 76**	$ 6	**$ 173**	$ 136
Empire Life return on common shareholders' equity (quarterly annualized)	**18.7%**	1.7%	**11.1%**	9.4%

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)	**2019**	2018	**2019**	2018
Expected profit on in-force business	**$ 47**	$ 51	**$ 190**	$ 194
Impact of new business	**(7)**	(12)	**(28)**	(16)
Experience gains (losses)	**5**	(26)	**(6)**	(3)
Management actions and changes in assumptions	**48**	(22)	**37**	(20)
Earnings (loss) on operations before income taxes	**94**	(9)	**194**	154
Earnings on surplus	**16**	15	**54**	37
Income before income tax	**110**	7	**247**	191
Income taxes	**30**	(3)	**60**	40
Empire Life's shareholders' net income	**79**	10	**187**	151
Dividends on preferred shares (1)	**(3)**	(3)	**(13)**	13
Empire Life common shareholders' net income	**$ 76**	$ 6	**$ 174**	$ 137

(1) 2019 includes $5 million (2018 - $5 million) preference share dividends to E-L Financial

The expected profit on in-force business for the fourth quarter and for the year decreased by 8% and 2% respectively, due to lower than expected average assets under management in the Wealth Management line.

The impact of new business for the fourth quarter was primarily driven by lower new business strain in the Wealth Management and Employee Benefits lines partially offset by higher strain in the Individual Insurance line. Lower sales of fixed annuities in the fourth quarter of 2019 relative to the fourth quarter of 2018 were the primary contributor to lower strain in the Wealth Management line. For the year, the impact of new business was higher than 2018 primarily due to higher strain in the Employee Benefits line as block transfers from new specialty partners were added in the first and second quarters of 2019.

The experience gains for the fourth quarter of 2019 compared to losses in the fourth quarter of 2018 were mainly driven by lower investment losses in the Individual Insurance and Wealth Management lines. For the year, higher experience gains from strong growth in segregated fund assets were offset by higher experience losses in the Individual Insurance line from fixed income investments which contributed to higher overall experience losses in 2019 relative to 2018.

Management actions and changes in assumptions in the fourth quarter of 2019 were higher than 2018 due to the favourable impact of the reinsurance recapture initiative. For the year, this favourable impact was partly offset by updates to methodology and assumptions on policy liabilities and by deterioration in LTD claims experience in 2019 relative to 2018.

Earnings on surplus were higher for the year primarily due to realized gains on AFS assets and lower interest expense as a result of a lower level of subordinated debt, partially offset by higher hedge costs.

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 2019 and 2018. 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)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue										
Net premium	**$ 35**	$ 53	**$ 93**	$ 86	**$ 101**	$ 99	**$ —**	$ —	**$ 229**	$ 237
Fee income	**63**	62	**3**	3	**—**	—	**—**	—	**66**	65
Investment income	**9**	10	**1**	1	**57**	53	**17**	18	**84**	82
Net (losses) gains on investments [1]	**(5)**	(18)	**—**	1	**(134)**	(76)	**8**	(1)	**(131)**	(94)
	102	106	**97**	91	**24**	76	**25**	17	**249**	289
Expenses										
Benefits and expenses	**92**	93	**94**	85	**(69)**	95	**4**	1	**121**	274
Income and other taxes	**2**	3	**3**	3	**27**	(4)	**8**	3	**40**	5
	94	96	**97**	88	**(42)**	91	**12**	4	**162**	278
Net income (loss) after tax	**$ 8**	$ 11	**$ —**	$ 3	**$ 66**	$ (15)	**$ 13**	$ 13	**$ 87**	$ 11
Participating policyholders' portion									**8**	1
Dividends on preferred shares									**3**	3
Empire Life's common shareholders' net income									**76**	6
Non-controlling interests in net income									**—**	—
Net income attributable to owners of E-L Financial									**$ 76**	$ 6

Years ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue										
Net premium	**$ 159**	$ 155	**$ 360**	$ 340	**$ 390**	$ 379	**$ —**	$ —	**$ 910**	$ 874
Fee income	**249**	253	**13**	11	**—**	—	**—**	—	**262**	264
Investment income	**40**	39	**5**	4	**215**	199	**66**	66	**326**	308
Net gains (losses) on investments (1)	**19**	(34)	**4**	(1)	**584**	(264)	**9**	(9)	**617**	(308)
	467	412	**382**	354	**1,190**	314	**76**	58	**2,115**	1,138
Expenses										
Benefits and expenses	**369**	315	**364**	313	**1,094**	282	**16**	20	**1,843**	931
Income and other taxes	**24**	24	**11**	17	**31**	12	**16**	7	**81**	60
	393	339	**375**	330	**1,125**	295	**32**	27	**1,924**	991
Net income after tax	**$ 74**	$ 73	**$ 7**	$ 24	**$ 65**	$ 19	**$ 44**	$ 31	**$ 191**	$ 148
Participating policyholders' portion									**3**	(3)
Dividends on preferred shares									**13**	13
Empire Life's common shareholders' net income									**174**	137
Non-controlling interests in net income									**1**	1
Net income attributable to owners of E-L Financial									**$ 173**	$ 136

(1) Includes fair value change on FVTPL investments and realized gains on AFS investments

Product Line Results - Wealth Management

Key Operating Results	Fourth quarter		Year	
(millions of dollars)	**2019**	2018	**2019**	2018
Fixed Annuities				
Assets under management	**$ 958**	$ 944	**$ 958**	$ 944
Gross sales	**35**	53	**159**	155
Net sales	**—**	23	**13**	32
Segregated Funds				
Assets under management	**8,480**	7,806	**8,480**	7,806
Gross sales	**243**	244	**856**	908
Net sales	**(83)**	(18)	**(329)**	(118)
Fee income	**62**	61	**246**	249
Mutual Funds				
Assets under management	**139**	145	**139**	145
Gross sales	**2**	2	**8**	16
Net sales	**(7)**	(8)	**(28)**	(27)
Fee income	**—**	1	**2**	3
Net income after tax	**$ 8**	$ 11	**$ 74**	$ 73

Fixed annuities assets under management increased by 1% during the last 12 months. Gross sales in the fourth quarter were 34% lower as customers shifted away from fixed income products. For the year, gross sales were 3% higher compared to 2018, reflecting strong sales in this segment during the first three quarters of the year.

Segregated fund assets under management increased by 9% during the last 12 months primarily due an increase in stock markets during the first quarter after a significant decline in the fourth quarter of 2018. Gross sales in the fourth quarter were consistent with the fourth quarter of 2018 and lower for the full year primarily due to lower sales of traditional segregated fund products, partially offset by an increase in sales of the Guaranteed Minimum Withdrawal Benefit ("GMWB") product. On October 23, 2019, Empire Life launched six new Multi-Strategy GIF segregated funds, to offer customers a mix of investment management styles and greater diversification. Empire Life also launched a new Short Term High Income GIF and reopened the Global Dividend Growth GIF. 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.

Segregated fund fee income increased by 2% for the fourth quarter of 2019 and decreased by 1% for the full year primarily due to lower average assets under management relative to the same periods in 2018.

Mutual fund assets under management decreased during the last 12 months due to lower mutual fund sales. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

Product Line Results - Employee Benefits

Key Operating Results	Fourth quarter		Year	
(millions of dollars)	**2019**	2018	**2019**	2018
Annualized premium sales	**$ 21**	$ 12	**$ 104**	$ 59
Net premiums	**93**	86	**360**	340
Net income after tax	**$ —**	$ 3	**$ 7**	$ 24

For the fourth quarter and year, annualized premium sales for Employee Benefits increased by 75% and 76% respectively, relative to 2018. This is primarily due to large block transfers from new strategic distribution partners in the first quarter of 2019, 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 8% and 6% respectively compared to the same period in 2018. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income declined in the fourth quarter of 2019 and full year relative to 2018 primarily due to a deterioration of long-term disability experience as the experience gains observed in 2018 did not recur.

Product Line Results - Individual Insurance

Key Operating Results *(millions of dollars)*	**Fourth quarter** **2019**	2018	**Year** **2019**	2018
Shareholders'				
Annualized premium sales	**$ 5**	$ 6	**$ 21**	$ 23
Net premiums	**69**	69	**274**	278
Benefits and expenses	**(87)**	59	**916**	173
Net income (loss) after tax	**62**	(16)	**67**	24
Policyholders'				
Annualized premium sales	**5**	5	**18**	16
Net premiums	**32**	29	**116**	101
Benefits and expenses	**19**	36	**178**	109
Net income (loss) after tax	**4**	1	**(1)**	(4)
Net income (loss) after tax	**$ 66**	$ (15)	**$ 65**	$ 19

Shareholders' annualized premium sales declined for the fourth quarter and the year compared to 2018 primarily due to lower sales of term life products. Policyholders' annualized premium sales were consistent with the fourth quarter of the prior year and 13% higher for the full year from increased sales of Empire Life's participating life products. Shareholders' total net premiums in the fourth quarter was consistent with the same quarter in 2018 and 1% lower for the full year. Policyholders' net premiums were 10% and 15% higher for the fourth quarter and full year, respectively compared to 2018 primarily due to the stronger sales of Empire Life's participating life products in 2019.

Shareholders' net income was higher for the fourth quarter and full year compared to 2018 primarily due to the impact of the reinsurance recapture initiative and mortality table update, partially offset by changes in net the net investment assumptions, as explained in more detail in the following table.

(millions of dollars)	**2019**	2018
Components of pre-tax income increase from update of policy liability assumptions		
Lapse/premium assumptions	**$ (27)**	$ (59)
Net investment assumptions	**(120)**	(3)
Mortality experience	**12**	28
Mortality table update	**155**	—
Reinsurance recapture	**107**	—
Other	**(69)**	(3)
Total gain from update of policy liability assumptions (excluding policyholders' portion)	**$ 57**	$ 38

In 2019 the lapse/premium assumption change primarily related to updates of assumed lapse rates on renewable term policies. The refinement to lapse/premium assumptions for 2018 were primarily related to the adjustment of the lapse assumption on 10-year renewable term products and the enhancement of universal life lapse assumptions.

The primary drivers of the net investment assumptions change for 2019 were decreases to the initial reinvestment rate ("IRR") and ultimate reinvestment rate ("URR") used in the valuation of liabilities. Updates were also made to the equity investment return assumption, the planned level of equities matching policy liabilities, and to the maturity assumptions for preferred shares. However, these items had a less significant impact when compared with the IRR and URR updates. In 2018 the change due to net investment assumptions was minimal.

Updates to the mortality experience in 2019 were primarily related to revised projected assumptions for the individual life business. In 2018, mortality assumption changes included updates for mortality experience and a revised mortality improvement scale which is in line with the Canadian Institute of Actuaries promulgated mortality improvement scale.

In 2019 the individual insurance mortality tables were replaced by more recent industry tables. The updated tables provide a more appropriate mortality projection, specifically at older ages. Actual/expected ratios were updated based on a combination of Empire Life and industry experience.

In 2019, Empire Life enacted significant changes to its reinsurance programs. Specifically, the reinsurers of Empire Life's individual life policies were notified that in 2020 Empire Life will increase its individual life retention from $500,000 to $1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. The recapture resulted in a substantial net liability decrease on both the universal life and non-participating blocks of business as the present value of future reinsurance premiums was greater than the estimated future claims.

Several model enhancements were implemented in 2019. These enhancements include updates to return of premium assumptions on universal life policies, reinsurance model refinements, and refinements to the mortality projection. Other policy liability updates for 2018 were primarily related to refinements to the modeling of reinsurance treaties.

Results - Capital and Surplus

Key Operating Results		Fourth quarter			Year	
(millions of dollars)		**2019**	2018		**2019**	2018
Net income after tax shareholders' portion	**$**	**10**	$ 12	**$**	**39**	$ 30
Net income after tax policyholders' portion		**4**	—		**5**	1
Net income after tax	**$**	**13**	$ 13	**$**	**44**	$ 31

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.

Net income from the shareholders' portion of capital & surplus was lower than the fourth quarter of 2018 primarily due to a loss on hedging instruments in this portfolio relative to gains recorded in December 2018 from equity market volatility, partially offset by higher realized gains on AFS assets. For the year, shareholders' net income was higher than 2018 primarily due to higher realized gains on AFS assets, positive fair value changes in FVTPL assets and lower interest expenses relative to 2018, partially offset by higher losses on hedging instruments. The interest expense for 2018 was higher prior to the redemption of $300 million subordinated debentures in May 2018.

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 subordinated debt and preferred shares are as follows:

Subordinated debentures				Face amounts as at	
(millions of dollars)	Date Issued	Earliest redemption date	Interest rate	**December 31 2019**	December 31 2018
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.

Preferred Shares (millions of dollars)	Date Issued	Earliest redemption date	Yield	Principal amounts as at **December 31 2019**	December 31 2018
Preferred shares	January 2016	April 17, 2021	5.75%	**$ 150**	$ 150
Preferred shares	November 2017	January 17, 2023	4.90%	**$ 100**	$ 100

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", its subordinated debt rating is "A (low)", its financial strength rating is "A" and its Preferred Share rating is Pfd-2. All ratings have a stable trend.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating, "a" long-term issuer credit rating, "bbb+" Subordinated Debt rating, and "bbb" Preferred Share rating. All ratings have a stable trend.

Regulatory Capital

The Life Insurance Capital Adequacy Test ("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 2019**	September 30 2019	June 30 2019	March 31 2019	December 31 2018
Available capital					
Tier 1	**$ 1,616**	$ 1,562	$ 1,549	$ 1,507	$ 1,476
Tier 2	**669**	681	674	692	653
Total	**$ 2,285**	$ 2,243	$ 2,223	$ 2,200	$ 2,129
Surplus allowance and eligible deposits	**$ 1,109**	$ 944	$ 937	$ 921	$ 887
Base solvency buffer	**$ 2,191**	$ 2,133	$ 2,115	$ 2,083	$ 2,029
LICAT Total Ratio	**155%**	149%	149%	150%	149%
LICAT Core Ratio	**109%**	104%	104%	103%	103%

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 2% 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. In 2019, Empire Life acquired a minority interest in The Gryphin Advantage Inc. as part of its continuing commitment to ensuring consumers have the availability of independent advice in the marketplace.

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.

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 (or improve) 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 Empire Life'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, with specific focus on market, credit and liquidity risk including asset/liability management as well as capital management. The Product Management Review Committee is responsible for overseeing management of corporate policy established by the Risk and Capital Committee of the Board, with specific focus on insurance. Activities not delegated to one of these two committees remain under the oversight of senior management. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life’s 2019 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 Product Management Review 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 derivative 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 but does not have 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 loss of $2 million and $11 million after tax respectively on its hedging program primarily due to rising Canadian stock indices. This compares to a hedging program gain of $6 million and $2 million respectively for the comparable periods in 2018 primarily due to a decline in Canadian stock prices in December 2018.

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, 2019, Empire Life had $8.5 billion of segregated fund assets and liabilities. Of this amount, approximately $8.2 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	December 31 2019	December 31 2018
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**4%**	3%
75% maturity guarantee and a 100% death benefit guarantee	**46%**	47%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	**7%**	7%
Guaranteed minimum withdrawal benefit ("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.

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, 2019 and December 31, 2018, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk	**Increase**		**Decrease**		
Impact on net income *(millions of dollars after tax)*	**20%**	**10%**	**10%**	**20%**	**30%**
As at December 31, 2019					
Segregated Fund Guarantees	**$ —**	**$ —**	**$ (10)**	**$ (76)**	**$ (229)**
Other Equity Risk	**33**	**15**	**(12)**	**(20)**	**(65)**
Equity Hedge	**(2)**	**(1)**	**4**	**16**	**38**
Total	**$ 31**	**$ 14**	**$ (18)**	**$ (80)**	**$ (256)**
As at December 31, 2018					
Segregated Fund Guarantees	$ 3	$ 3	$ (11)	$ (129)	$ (269)
Other Equity Risk	38	18	(15)	(46)	(118)
Equity Hedge	(6)	(4)	9	26	50
Total	$ 35	$ 16	$ (16)	$ (150)	$ (337)

Sensitivity to equity risk	**Increase**		**Decrease**		
Impact on LICAT	**20%**	**10%**	**10%**	**20%**	**30%**
As at December 31, 2019					
Segregated Fund Guarantees	**3%**	**—%**	**(6)%**	**(16)%**	**(22)%**
Other Equity Risk	**(1)%**	**(1)%**	**—%**	**1%**	**1%**
Equity Hedge	**(3)%**	**(2)%**	**1%**	**3%**	**3%**
Total	**(1)%**	**(2)%**	**(4)%**	**(12)%**	**(18)%**
As at December 31, 2018					
Segregated Fund Guarantees	3%	—%	(10)%	(16)%	(22)%
Other Equity Risk	—%	(1)%	—%	—%	(2)%
Equity Hedge	(2)%	(1)%	1%	2%	3%
Total	1%	(1)%	(9)%	(14)%	(21)%

Empire Life's equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline decreased primarily as a result of improved equity markets during the 2019. The segregated fund guarantee liability became positive at December 31, 2018 after an equity market decline in the fourth quarter.

This increased net income sensitivity as any changes to the liability when it is above the zero floor will flow through net income.

In 2019, Empire Life updated the methodology for calculating equity risk sensitivities. The new method refines the assumptions used in calculating the baseline LICAT equity requirements as at the reporting date. In the table above, figures presented for the impact of equity risk on LICAT as at December 31, 2018 are restated to conform with the updated methodology.

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 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, 2019	**$ 2,701**	**$ 882**	**$ 51**	**$ 2**	**$ 650**	**$ 6**	**$ $—**	**$ 465**
December 31, 2018	$ 2,689	$ 1,057	$ 301	$ 24	$ 3,789	$ 165	$ 4	$ 433

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, 2019, the aggregate amount at risk for all three categories of risk was $890 million. At December 31, 2018, the aggregate amount at risk for these three categories of risk was $1,246 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, 2019 and December 31, 2018, is shown in the table below. This assumes no change in the ultimate reinvestment rate ("URR"). The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities.

Sensitivity to market interest rates LICAT:	**Impact of 50 bps decrease**
December 31, 2019 LICAT total ratio	**1%**
December 31, 2018 LICAT total ratio	(5)%

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, modelling errors, theft and fraud, and damage to physical assets. If not managed effective, operational risk can impact Empire Life's ability to manage other risks. The following is a further description of some operational risks and their associated risk management strategies.

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.

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. The Chief Risk Officer reports regularly to the Risk and Capital Committee of the Board on model use and related oversight activities.

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.

Third-Party Risk

Empire Life obtains many different types of services from a number of third-party service 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 contracting guidelines as well as 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.

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 VP Enterprise Services and Security, who reports at least annually to the Risk and Capital Committee of the Board. This program consists of a number of standards, procedures and guidelines focused on management of cybersecurity risk and maintenance of the security and integrity of the data entrusted to Empire Life. 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 23 to the 2019 consolidated financial statements.

Outlook

The Canadian economy performed largely as expected in 2019 with GDP growth estimated at 1.6% for the full year, the Canadian dollar weakened slightly to 1.32 (annual average) per U.S. dollar and annual unemployment was stable at 5.6%, 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 2020 which may negatively impact the Canadian economy including slower global demand, on-going trade tensions, geopolitical concerns (e.g. North Korea, Iran, Brexit, Italy), and central bank monetary policy.

The Bank of Canada left the overnight rate unchanged in 2019, sitting at 1.75%. The Canadian Federal Bond yield curve shifted down with the 5-year rate decreasing from 1.88% to 1.68% in 2019 and the 30-year rate decreasing from 2.18% to 1.76% in 2019. Corporate and provincial bond spreads tightened during 2019. Interest rates have generally been lower than typical levels for several years.

Global equity markets performed well in 2019 with the MSCI up over 27% for the year. The S&P 500 stock index was up 28.9% and the S&P/TSX composite index was up 19.1% 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 2020, the global economy is expected to have moderate growth. The Canadian economy is expected to continue to grow at a slower pace than in 2019 with forecast GDP of 1.6% slightly below the estimated 2% in 2019. The western provinces are expected to continue to grow, with British Columbia benefiting from the natural gas projects. 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. Short-term interest rates are expected to continue to rise in the U.S. as well as in Canada but at a 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 continues to grow modestly 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. The segregated fund product line saw a decline in net sales while experience positive market returns in 2019; 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.

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 Managing General Agents ("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.

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, 2019. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2019.

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 3, 2020

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, 2019 and 2018, 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, 2019 and 2018;
- 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 Owen Thomas.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 3, 2020

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

		December 31 2019		December 31 2018
Assets				
Cash and cash equivalents (Note 8)	**$**	**303,085**	$	332,558
Investments - corporate (Note 4)		**5,270,128**		4,596,188
Investments - insurance (Note 5)		**9,152,734**		8,073,649
Investments in associates (Note 6)		**349,899**		334,913
Insurance receivable		**48,728**		46,701
Other assets (Note 9)		**125,810**		140,636
Segregated fund assets (Note 12)		**8,498,583**		7,822,790
Total assets	**$**	**23,748,967**	$	21,347,435
Liabilities				
Reinsurance liabilities (Note 14)	**$**	**698,372**	$	788,801
Insurance contract liabilities (Note 14)		**6,141,016**		5,242,462
Investment contract liabilities		**28,866**		25,154
Deferred tax liabilities (Note 18)		**268,468**		198,356
Other liabilities (Note 10)		**266,719**		242,503
Borrowings (Note 16)		**464,098**		488,767
Segregated fund liabilities (Note 12)		**8,498,583**		7,822,790
Total liabilities	**$**	**16,366,122**	$	14,808,833
Equity				
Capital stock (Note 15)	**$**	**372,388**	$	372,388
Retained earnings		**5,878,228**		5,168,573
Accumulated other comprehensive income (“AOCI”) (loss) (“AOCL”)		**24,156**		(17,664)
Total E-L Financial shareholders' equity		**6,274,772**		5,523,297
Non-controlling interests in subsidiaries (“NCI”)		**1,067,961**		979,142
Participating policyholders' interests (“PAR”)		**40,112**		36,163
Total equity		**7,382,845**		6,538,602
Total liabilities and equity	**$**	**23,748,967**	$	21,347,435

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)

	2019	2018
Revenue		
Gross premiums	**$ 1,091,828**	$ 1,020,640
Premiums ceded to reinsurers	**(181,987)**	(147,035)
Net premiums	**909,841**	873,605
Investment and other income (Note 7)	**732,616**	706,816
Share of income of associates (Note 6)	**23,552**	9,817
Fair value change in fair value through profit or loss investments	**1,242,198**	(512,135)
Realized gain (loss) on available for sale investments (Note 5)	**21,886**	(1,411)
	2,930,093	1,076,692
Expenses		
Gross claims and benefits	**1,649,199**	511,938
Claims and benefits ceded to reinsurers	**(192,484)**	37,505
Net claims and benefits	**1,456,715**	549,443
Change in investment contracts provision	**937**	85
Commissions	**198,754**	198,197
Operating (Note 17)	**211,243**	200,097
Interest expense	**16,608**	20,600
Premium taxes	**18,675**	19,037
	1,902,932	987,459
Income before income taxes	**1,027,161**	89,233
Income tax expense (Note 18)	**165,479**	32,232
Net income	**861,682**	57,001
Less: Participating policyholders' income (loss)	**3,219**	(3,052)
Non-controlling interests in net income	**113,818**	28,952
	117,037	25,900
E-L Financial shareholders' net income	**$ 744,645**	$ 31,101
Earnings per share attributable to E-L Financial shareholders (Note 19)		
Basic	**$ 185.67**	$ 3.96
Diluted	**$ 171.64**	$ 3.96

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)

	2019	2018
Net income	**$ 861,682**	$ 57,001
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")	**49,610**	(27,663)
Share of (OCL) OCI of associates	**(6,069)**	5,212
	43,541	(22,451)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	**(1,644)**	(5,264)
Share of OCI (OCL) of associates	**247**	(2,386)
	(1,397)	(7,650)
Total OCI (OCL)	**42,144**	(30,101)
Comprehensive income	**903,826**	26,900
Less: Participating policyholders' comprehensive income (loss)	**3,949**	(7,058)
Non-controlling interests in comprehensive income	**113,412**	29,085
	117,361	22,027
E-L Financial shareholders' comprehensive income	**$ 786,465**	$ 4,873

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**	**(AOCL) AOCI**	**Total**	**NCI**	**PAR**	**Total equity**
At January 1, 2019	**$ 372,388**	**$ 5,168,573**	**$ (17,664)**	**$ 5,523,297**	**$ 979,142**	**$ 36,163**	**$ 6,538,602**
Net income	**—**	**744,645**	**—**	**744,645**	**113,818**	**3,219**	**861,682**
OCI (OCL)	**—**	**—**	**41,820**	**41,820**	**(406)**	**730**	**42,144**
Comprehensive income	**—**	**744,645**	**41,820**	**786,465**	**113,412**	**3,949**	**903,826**
Dividends (Note 15)	**—**	**(35,647)**	**—**	**(35,647)**	**(22,530)**	**—**	**(58,177)**
Acquisition of subsidiary shares	**—**	**657**	**—**	**657**	**(2,063)**	**—**	**(1,406)**
At December 31, 2019	**$ 372,388**	**$ 5,878,228**	**$ 24,156**	**$ 6,274,772**	**$ 1,067,961**	**$ 40,112**	**$ 7,382,845**

	E-L Financial shareholders' equity						
	Capital stock	Retained earnings	AOCI (AOCL)	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

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)

	2019	2018
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 861,682**	$ 57,001
Items not affecting cash resources:		
Change in insurance and investment contract liabilities	**807,953**	(50,356)
Realized (gain) loss on available for sale of investments	**(21,886)**	1,411
Fair value change in fair value through profit or loss investments	**(1,242,198)**	512,135
Deferred taxes	**71,597**	(73,406)
Share of income of associates (Note 6)	**(23,552)**	(9,817)
Amortization related to bond investments	**(88,161)**	(85,178)
Other items	**79,628**	30,996
	445,063	382,786
Net change in other assets and liabilities	**(28,536)**	4,806
	416,527	387,592
Financing		
Cash dividends to shareholders	**(35,647)**	(35,647)
Cash dividends by subsidiaries to non-controlling interests	**(22,530)**	(20,830)
Purchases of subsidiary shares (Note 26)	**(1,406)**	(2,898)
Repayment of margin loan (Note 16)	**(25,000)**	(10,000)
Redemption of subordinated debt (Note 16)	**—**	(300,000)
Interest paid on borrowings (Note 16)	**(15,963)**	(16,046)
	(100,546)	(385,421)
Investing		
Purchases of investments	**(3,520,579)**	(3,124,413)
Proceeds from sale or maturity of investments	**3,186,025**	2,988,401
Net (purchases) sales of short-term investments	**(17,614)**	120,949
Net purchases of other assets	**(12,682)**	(1,751)
Dividends from associates (Note 6)	**19,396**	8,212
	(345,454)	(8,602)
Decrease in cash and cash equivalents	**(29,473)**	(6,431)
Cash and cash equivalents, beginning of the year	**332,558**	338,989
Cash and cash equivalents, end of the year	**$ 303,085**	$ 332,558

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 3, 2020.

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 consolidated statements of comprehensive income.

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 with a short duration, carrying value 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") designates 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

Empire Life 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 investments, 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 Empire Life Insurance Company Staff Pension Plan (“the Plan”) 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 Office of the Superintendent of Financial Institutions Canada ("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 attributable to participating policyholders is shown on the consolidated statements of income. Comprehensive income attributable to participating policyholders is shown on the consolidated statements of comprehensive income. The 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.

Other income, 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 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 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. When the Company enters into a lease as a lessee, a right-of-use asset and a lease liability is recognized in the consolidated statements of financial position. The initial lease liability is computed based on the present value of the lease payments, discounted at the Company's incremental borrowing rate. Subsequent to the initial recognition the lease liability is measured at the amortized cost using the effective interest rate method and is included in other liabilities. Interest expense is included in operating expenses. The depreciation on the corresponding right-of-use asset is included in operating expenses.

(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 2019

IFRS 16 Leases

The Company adopted IFRS 16 effective January 1, 2019. The standard requires the capitalization of 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 comparative information remains as previously reported under IAS 17. The adoption of IFRS 16 on January 1, 2019 did not have a significant impact on 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 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, 2019 and December 31, 2018 include mortgages with fair values of $10.4 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 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, which provides a comprehensive principle-based framework for the recognition, measurement, presentation and disclosures of all insurance contracts. The new standard will replace IFRS 4 Insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment cash flows and for revenue to be recognized as the service is provided over the coverage period.

This new standard is expected to be effective for Empire Life on January 1, 2022 and is required to be adopted retrospectively, if this is impracticable, the modified retrospective or fair value method may be used.

In June 2019, the IASB issued an exposure draft to amend IFRS 17, including deferral of the effective date by one year (to January 1, 2022). The exposure draft comment period ended on September 24, 2019 and the IASB plans to publish a final standard by mid-2020. The Company will continue to monitor the IASB's developments. The Company is currently assessing the impact of adopting this standard and the proposed amendments 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, 2019	E-L Corporate	Empire Life	Total
Revenues			
Net premiums	$ —	$ 909,841	$ 909,841
Investment and other income	145,154	587,462	732,616
Share of income of associates	23,552	—	23,552
Fair value change in FVTPL investments	646,486	595,712	1,242,198
Realized gain on AFS	—	21,886	21,886
	815,192	2,114,901	2,930,093
Expenses			
Net claims and benefits	—	1,456,715	1,456,715
Change in investment contracts provision	—	937	937
Commissions	—	198,754	198,754
Operating expenses	35,003	176,240	211,243
Interest expense	2,183	14,425	16,608
Premium taxes	—	18,675	18,675
	37,186	1,865,746	1,902,932
Income before income taxes	778,006	249,155	1,027,161
Income tax expense	106,982	58,497	165,479
Non-controlling interests in subsidiaries and participating policyholders' interest	99,226	17,811	117,037
Segment shareholders' net income	$ 571,798	$ 172,847	$ 744,645

As at December 31, 2019	E-L Corporate	Empire Life	Total
Segment assets [1]	$ 5,788,178	$ 17,960,789	$ 23,748,967
Segment liabilities	$ 345,175	$ 16,020,947	$ 16,366,122

[1] Segment assets include investments in associate assets of $349,899.

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

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 investments	—	(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 include investments in associate assets of $334,913.

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 2019	December 31 2018
Short-term investments - Canadian corporate	$ 13,189	$ —
Preferred shares	1,058	2,631
Derivative asset	—	205
Common shares and units		
Canadian	731,691	673,593
U.S.	2,375,662	1,790,533
Europe and United Kingdom	1,157,509	1,077,867
Other	991,019	1,051,359
Total common shares and units	5,255,881	4,593,352
Total	$ 5,270,128	$ 4,596,188

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, 2019 and December 31, 2018 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				As at December 31, 2019
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Short-term investments - Canadian corporate	$ —	$ 13,189	$ —	$ 13,189
Preferred shares	—	—	1,058	1,058
Common shares and units				
Canadian	12,430	90,255	629,006	731,691
U.S.	2,146,843	138,154	90,665	2,375,662
Europe and United Kingdom	994,946	72,950	89,613	1,157,509
Other	536,826	395,675	58,518	991,019
Total common shares and units	3,691,045	697,034	867,802	5,255,881
Total	$ 3,691,045	$ 710,223	$ 868,860	$ 5,270,128

Fair value				As at December 31, 2018
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	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

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, 2019 or December 31, 2018.

Included in Level 2 are the Company's investments in pooled funds and limited partnerships which at December 31, 2019 had a carrying value of $697,034 (2018 - $622,059). 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 rather than from deploying those assets as part of a broader business. 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 if the premium was 10%, with all other variables remaining constant, net assets would have decreased or increased by approximately $75,374 (2018 - $68,300).

(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 period:

	2019	2018
Balance - January 1	$ 787,322	$ 891,547
Net fair value change	65,216	(68,205)
Sales	—	(38,098)
Purchases	16,322	2,078
Balance - December 31	$ 868,860	$ 787,322

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, 2019 the fair value of the interest rate swap was a liability of $543 (2018 - asset of $205).

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, 2019			As at December 31, 2018		
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	$ 13,988	$ —	$ 13,988	$ 9,990	$ —	$ 9,990
Canadian provincial governments	6,463	—	6,463	5,983	3,989	9,972
Canadian municipal governments	897	—	897	—	—	—
Corporate	11,036	—	11,036	7,997	—	7,997
Total short-term investments	32,384	—	32,384	23,970	3,989	27,959
Bonds						
Federal government	106,106	226,594	332,700	89,389	184,088	273,477
Provincial governments	3,706,755	475,970	4,182,725	3,109,456	490,369	3,599,825
Municipal governments	106,418	102,340	208,758	97,472	77,965	175,437
Total Canadian government bonds	3,919,279	804,904	4,724,183	3,296,317	752,422	4,048,739
Energy	107,996	60,018	168,014	70,013	69,565	139,578
Materials	15,799	6,822	22,621	10,321	—	10,321
Industrials	61,155	66,411	127,566	81,682	69,933	151,615
Consumer discretionary	15,263	991	16,254	21,223	19,024	40,247
Consumer staples	130,116	65,905	196,021	113,693	79,978	193,671
Health care	87,721	22,081	109,802	78,384	21,183	99,567
Financial services	615,089	296,760	911,849	571,147	323,960	895,107
Communication services	181,108	75,261	256,369	108,548	76,251	184,799
Utilities	479,903	99,925	579,828	362,577	67,710	430,287
Real estate	18,145	18,591	36,736	6,549	31,956	38,505
Infrastructure	319,442	30,810	350,252	265,320	23,378	288,698
Total Canadian corporate bonds	2,031,737	743,575	2,775,312	1,689,457	782,938	2,472,395
Total foreign bonds	10,157	—	10,157	8,946	—	8,946
Total bonds	5,961,173	1,548,479	7,509,652	4,994,720	1,535,360	6,530,080
Preferred shares - Canadian	463,826	10,203	474,029	384,760	11,100	395,860
Common shares						
Canadian common shares	111,461	44,247	155,708	553,337	51,813	605,150
Exchange-traded funds	494,131	—	494,131	—	—	—
Canadian real estate limited partnership units	120,884	—	120,884	110,324	—	110,324
U.S.	42,306	—	42,306	37,439	55	37,494
Other	29,000	—	29,000	41,503	652	42,155
Total common shares	797,782	44,247	842,029	742,603	52,520	795,123
Derivative assets	2,930	—	2,930	10,424	—	10,424
Loans and receivables:						
Mortgages	—	—	169,827	—	—	193,074
Loans on policies	—	—	55,363	—	—	51,949
Policy contract loans	—	—	66,520	—	—	69,180
Total	$ 7,258,095	$ 1,602,929	$ 9,152,734	$ 6,156,477	$ 1,602,969	$ 8,073,649

(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, 2019			As at December 31, 2018		
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	$ —	$ 32,384	$ 32,384	$ —	$ 27,959	$ 27,959
Bonds	—	7,509,652	7,509,652	—	6,530,080	6,530,080
Preferred shares	474,029	—	474,029	395,860	—	395,860
Common shares	721,105	120,924	842,029	684,481	110,642	795,123
Derivative assets	2,928	2	2,930	9,760	664	10,424
Loans and receivables:						
Mortgages	—	175,229	175,229	—	193,391	193,391
Loans on policies	—	55,363	55,363	—	51,949	51,949
Policy contract loans	—	66,520	66,520	—	69,180	69,180
Total	$ 1,198,062	$ 7,960,074	$ 9,158,136	$ 1,090,101	$ 6,983,865	$ 8,073,966

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 during the year ended December 31, 2019 or during the year ended December 31, 2018.

Impairment

AFS investments

Based on an impairment review of the AFS investments at December 31, 2019, Empire Life reclassified a pre-tax loss of $1,811 from OCI to net income due to write downs of impaired AFS common and preferred shares (2018 - $1,658). 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 $5,531 (2018 - $6,424) have been reduced by an allowance for impairment of $2,678 (2018 - $2,896) and policy contract loans with a recorded value of $813 (2018 - $813) have been reduced by an allowance for impairment of $460 (2018 - $478).

(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, 2019			December 31, 2018		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
Exchange-traded						
Equity index futures	$ 49,964	$ 585	$ 28	$ 42,968	$ 458	$ 53
Equity options	537,772	2,342	—	431,459	9,302	—
Over-the-counter						
Foreign currency forwards	37,103	3	402	32,896	664	—
Cross currency swaps	20,980	—	1,610	16,839	—	707
Total	$ 645,819	$ 2,930	$ 2,040	$ 524,162	$ 10,424	$ 760

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

Investments in associates by operating segment are as follows:

	2019	2018
E-L Corporate	$ 332,359	$ 334,913
Empire Life	17,540	—
Total	$ 349,899	$ 334,913

The E-L Corporate segment has two investments in associates, Algoma Central Corporation (“Algoma”) and Economic Investment Trust Limited (“Economic”).

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 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)

	2019			2018		
	Ownership	Carrying value	Fair value	Ownership	Carrying value	Fair value
Algoma	37.0%	$ 185,409	$ 184,397	36.8%	$ 199,288	$ 179,307
Economic	24.0%	146,950	146,950	24.0%	135,625	135,625
Total		$ 332,359	$ 331,347		$ 334,913	$ 314,932

The following table details the movement during the year:

	2019	2018
Balance, beginning of the year	$ 334,913	$ 330,050
Income recorded in the statements of income:		
Share of income	29,331	16,169
Net impairment loss	(5,779)	(6,352)
	23,552	9,817
Share of other comprehensive (loss) income	(6,710)	3,258
	16,842	13,075
Dividends received during the year	(19,396)	(8,212)
Balance, end of the year	$ 332,359	$ 334,913

The E-L Corporate's associates are measured using the equity method. As at December 31, 2019, the fair value of the investments in associates was $331,347 (2018 - $314,932). 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, 2019, a year to date impairment loss of $5,779 (2018 - $6,352) 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 E-L Corporate's associates.

	Algoma		Economic	
	December 31 2019	December 31 2018	December 31 2019	December 31 2018
Cash and cash equivalents	$ 18,865	$ 25,539	$ 36,106	$ 17,359
Other current assets	95,564	174,448	948,089	854,657
Non-current assets	1,032,948	911,906	—	—
	1,147,377	1,111,893	984,195	872,016
Current liabilities	156,845	73,612	3,093	2,860
Non-current liabilities	330,111	335,726	77,486	66,584
	486,956	409,338	80,579	69,444
Net assets	$ 660,421	$ 702,555	$ 903,616	$ 802,572

	Algoma		Economic	
Twelve months ended December 31	2019	2018	2019	2018
Revenue	$ 567,908	$ 508,201	$ 134,354	$ (42,001)
Net income (loss)	$ 24,159	$ 50,943	$ 113,510	$ (39,671)
Other comprehensive (loss) income	(14,342)	5,187	—	—
Total comprehensive income (loss)	$ 9,817	$ 56,130	$ 113,510	$ (39,671)

At December 31, 2019, Algoma has capital asset commitments of $105,404 (2018 - $47,747).

E-L Corporate received the following dividends during the year from the associates:

	Algoma		Economic		Total	
	2019	2018	2019	2018	2019	2018
Dividends received	$ 16,403	$ 5,516	$ 2,993	$ 2,696	$ 19,396	$ 8,212

7. Investment and other income

Investment and other income is comprised of the following:

	2019	2018
Interest income	$ 278,842	$ 262,272
Fee income	261,745	263,941
Dividend income	187,389	175,488
Other	4,640	5,115
Total	$ 732,616	$ 706,816

	2019	2018
Interest income received	$ 193,286	$ 190,933
Dividend income received	182,930	212,559
Total	$ 376,216	$ 403,492

(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:

	2019	2018
Cash	$ 91,509	$ 53,348
Cash equivalents	211,576	279,210
Total	$ 303,085	$ 332,558

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, 2019	$ 91,509	$ 211,576	$ 303,085
December 31, 2018	$ 53,348	$ 279,210	$ 332,558

9. Other assets

Other assets are comprised of the following:

	2019	2018
Accrued investment income	$ 38,187	$ 38,302
Income taxes receivable	6,771	26,386
Property and equipment	25,237	27,423
Intangible assets	22,357	17,804
Other	33,258	30,721
Total	$ 125,810	$ 140,636

The amount of other assets that the Company expects to receive within the next 12 months is $78,216 (2018 - $95,409).

10. Other liabilities

Other liabilities are comprised of the following:

	2019	2018
Accounts payable	$ 74,445	$ 74,363
Employee benefit liabilities (Note 13)	43,179	37,982
Income and other taxes payable	44,592	22,038
Dividends payable	8,912	8,912
Insurance payables	95,578	93,548
Other	13	5,660
Total	$ 266,719	$ 242,503

Of the above total, 43,179 (2018 - $37,982) 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

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

	2019	2018
Cash and cash equivalents	$ 8,482	$ 22,220
Short-term investments	595,621	496,849
Bonds	1,857,955	1,512,174
Common and preferred shares	6,100,714	5,832,553
Other assets	13,577	19,418
	8,576,349	7,883,214
Less segregated funds held within general fund investments	(77,766)	(60,424)
Total	$ 8,498,583	$ 7,822,790

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

			2019			2018
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	$ 8,482	$ —	$ 8,482	$ 22,220	$ —	$ 22,220
Short-term investments	—	595,621	595,621	—	496,849	496,849
Bonds	—	1,857,955	1,857,955	—	1,512,174	1,512,174
Common and preferred shares	6,100,714	—	6,100,714	5,829,250	3,303	5,832,553
Total	$ 6,109,196	$ 2,453,576	$ 8,562,772	$ 5,851,470	$ 2,012,326	$ 7,863,796

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2019 and December 31, 2018. There were no level 3 investments as at December 31, 2019 and December 31, 2018.

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

The following table presents the change in segregated funds:

	2019	2018
Segregated funds - beginning of the year	$ 7,822,790	$ 8,681,892
Additions to segregated funds:		
Amount received from policyholders	1,245,819	1,267,114
Interest	64,909	59,600
Dividends	165,247	176,659
Other income	23,061	29,832
Net realized gains on sale of investments	251,403	179,498
Net unrealized increase in fair value of investments	756,655	—
	2,507,094	1,712,703
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,571,091	1,387,872
Net unrealized decrease in fair value of investments	—	913,433
Management fees and other operating costs	242,868	249,859
	1,813,959	2,551,164
Net change in segregated funds held within general fund investments	(17,342)	(20,641)
Segregated funds - end of the year	$ 8,498,583	$ 7,822,790

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	
	2019	2018	2019	2018
Present value of obligations	$ (265,578)	$ (233,611)	$ (8,777)	$ (8,418)
Fair value of plan assets	231,176	204,047	—	—
Post-employment benefit liability	$ (34,402)	$ (29,564)	$ (8,777)	$ (8,418)

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	2019	2018	2019	2018
Opening defined benefit obligation	$ 233,611	$ 239,832	$ 8,418	$ 9,779
Current service cost	6,447	7,042	—	—
Past service cost	4,282	—	—	—
Interest expense	8,847	8,496	303	332
Decrease in net income before tax	19,576	15,538	303	332
Remeasurements				
Loss from changes in demographic assumptions	—	—	—	66
Loss (gain) from changes in financial assumptions	24,347	(9,517)	578	(644)
Actuarial gain from member experience	(119)	(110)	(239)	(626)
Decrease (increase) in OCI before tax	24,228	(9,627)	339	(1,204)
Employee contributions	1,470	1,558	—	—
Benefits paid	(13,307)	(13,690)	(283)	(489)
Closing defined benefit obligation	$ 265,578	$ 233,611	$ 8,777	$ 8,418

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	2019	2018
Fair value at beginning of year	$ 204,047	$ 222,281
Interest income	7,805	7,951
Administrative expense	(250)	(200)
Increase in net income before tax	7,555	7,751
Remeasurements		
Return on plan assets, excluding amounts included in interest income	22,828	(18,068)
Employer contributions	8,583	4,215
Employee contributions	1,470	1,558
Benefits paid	(13,307)	(13,690)
Fair value of Plan assets at end of year	$ 231,176	$ 204,047

Operating expenses include $2,181 (2018 - $1,726) 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, 2020 are approximately $10,053.

(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			
	2019		2018	
Equity				
Canadian	$ 77,564	34%	$ 68,554	33%
Foreign	52,484	23%	42,522	21%
Total Equity	130,048	57%	111,076	54%
Debt				
Canadian	67,121	29%	62,879	30%
Cash, cash equivalent, accruals	7,687	3%	7,796	4%
Mutual Funds	12,633	5%	10,754	5%
Other	13,687	6%	11,542	7%
Total fair value of assets	$ 231,176	100%	$ 204,047	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	
	2019	2018	2019	2018
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	3.2%	3.8%	3.1%	3.7%
Discount rate - net interest	3.9%	3.6%	3.7%	3.5%
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%	5.5%
Cost trend rate declines to	n/a	n/a	4.0%	4.0%
Year ultimate health care cost trend rate is reached	n/a	n/a	2040	2040

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:

	2019	2018
Males aged 65 at measurement date	21.97	21.89
Females aged 65 at measurement date	24.66	24.59
Males aged 40 at measurement date	23.83	23.76
Females aged 40 at measurement date	26.34	26.28

The last triennial valuation on the Staff Pension Plan was completed in November 2018, as at December 31, 2017. The next triennial valuation will be completed in 2021, as at December 31, 2020.

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 2019, 450 RSUs and 202 DSUs were granted, no amounts were distributed or forfeited. At December 31, 2019 $425 (2018 - $120) was recognized as other liabilities and $305 (2018 - $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:

	2019	2018
Insurance contract liabilities	$6,073,868	$5,176,423
Policyholder funds on deposit	34,224	34,031
Provision for profits to policyholders	32,924	32,008
	$6,141,016	$5,242,462

(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:

	2019			2018		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance, beginning of year	$ 5,176,423	$ 788,801	$ 5,965,224	$ 5,364,865	$ 650,801	$ 6,015,666
Changes in methods and assumptions						
Non-participating policies						
- changes for expected mortality/morbidity	(60,206)	47,618	(12,588)	(152,206)	127,213	(24,993)
- update of mortality table	137,622	(292,750)	(155,128)	—	—	—
- lapse/premium assumptions	31,968	(5,393)	26,575	36,584	22,823	59,407
- investment return assumptions	119,718	16,964	136,682	(3,900)	7,386	3,486
- model enhancements and other	59,077	10,783	69,860	(6,797)	6,753	(44)
- reinsurance recapture	(3,084)	(103,486)	(106,570)	—	—	—
Participating policies						
- model enhancements and other changes	(9,634)	3,967	(5,667)	(12,896)	3,436	(9,460)
Normal changes						
- new business	31,649	2,292	33,941	41,738	4,357	46,095
- in-force business	590,335	229,576	819,911	(90,965)	(33,968)	(124,933)
Balance, end of year	$ 6,073,868	$ 698,372	$ 6,772,240	$ 5,176,423	$ 788,801	$ 5,965,224

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

Changes for expected mortality in 2019 are primarily related to revisions of the projected assumptions for individual life business, along with a smaller benefit from group long-term disability business. Changes in 2018 were due to similar updates, but were slightly offset by a small deterioration in mortality for immediate annuities.

In 2019 the individual insurance mortality tables were replaced by more recent industry tables. The multipliers which are applied to the industry table were also updated based on a combination of Empire Life and industry experience. This update results in a significant decrease to net liabilities.

In 2019 the lapse/premium assumption change is primarily related to updates of assumed lapse rates on renewable term policies. In 2018 the lapse/premium assumption change was primarily related to refinements in expected policyholder persistency for universal life policies and updates in expected lapse rates on renewable term policies.

The primary drivers of the update of investment return assumptions for 2019 were promulgated updates to the initial reinvestment rate ("IRR") and ultimate reinvestment rate ("URR") used in the valuation of policy liabilities. Updates were also made to the equity investment return assumption, the planned level of equities matching policy liabilities and to the maturity assumptions for preferred shares.

The primary changes in the net investment return assumptions for 2018 were 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 on related to reinvestment assumptions on projected future investable cash flows.

Several model enhancements were implemented in 2019. These enhancements include updates to return of premium assumptions on Trilogy and Concordia policies, reinsurance model refinements, and refinements to the mortality projection.

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

Model enhancements and other changes for 2018 are primarily related to enhancements to the modeling of reinsurance for individual life insurance as well as an update in the unit maintenance expense assumptions used in our projections.

In 2019 Empire Life notified the reinsurers of our individual life policies that in 2020 the Empire Life will increase its individual life retention from $500,000 to $1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. Updates to the production valuation model to reflect the recapture resulted in a net liability decrease on both the universal life and non-participating blocks of business.

Empire Life expects to pay $5,996,977 (2018 - $5,085,826) of insurance contract liabilities and $704,339 (2018 - $784,507) 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 Empire Life's insurance risk please see Note 23 - Insurance risk management.

15. Capital stock

	Authorized	Issued and outstanding	2019	2018
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, 2019 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.

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

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: $25.50 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:

		2019		2018
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 (2018 - $19,635).

The following dividends were declared by the Board of Directors at their meeting on March 3, 2020, with a record and payable date of March 31, 2020 and April 17, 2020, 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, $26.25 per share.

The $26.25 Common Share dividend includes a quarterly dividend of $1.25 and an additional special cash dividend of $25.00.

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

16. Borrowings

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

As at December 31	Interest rate	Earliest par call or redemption date	Maturity	2019 Carrying value	2018 Carrying value
Series 2016-1[1]	3.383%	December 16, 2021	2026	199,639	199,463
Series 2017-1[2]	3.664%	March 15, 2023	2028	199,459	199,304
Total subordinated debt				$ 399,098	$ 398,767
Fair value				$ 410,142	$ 400,820

[1] 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).
[2] 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 $65,000 at December 31, 2019 (2018 - $90,000).

As at December 31, 2019, the margin loan is pledged with $179,599 (2018 - $146,558) 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.

17. Operating expenses

Operating expenses include the following:

	2019	2018
Salary and benefits expense	$ 107,849	$ 103,158
Rent, maintenance and amortization of right-of-use assets	15,281	12,624
Professional services	17,397	17,670
Amortization of assets	11,030	10,518
Other	59,686	56,127
Total	$ 211,243	$ 200,097

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:

	2019	2018
Income taxes at statutory rate	$ 272,621	$ 24,109
Variance as a result of:		
Tax-paid dividends	(18,555)	(16,321)
Non-taxable portion of investment gains	(88,879)	25,872
Other	292	(1,428)
Income tax expense	$ 165,479	$ 32,232

The current enacted corporate tax rates as they impact the Company in 2019 stand at 26.5% (2018 - 26.5%).

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

	2019	2018
Current	$ 93,882	$ 105,637
Deferred	71,597	(73,405)
Income tax expense	$ 165,479	$ 32,232

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

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:

	2019	2018
Deferred tax liabilities		
Investments	$ (265,866)	$ (193,940)
Insurance contract liabilities	(10,882)	(9,867)
Post-employment benefit plans	11,169	9,957
Other	(2,889)	(4,506)
Total	$ (268,468)	$ (198,356)

Of the above total, $271,206 (2018 - $220,242) is expected to be paid more than one year after the reporting date.

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

	2019	2018
Investments	$ 71,926	$ (72,858)
Insurance contract liabilities	1,015	(429)
Post-employment benefit plans	(1,212)	(2,699)
Other	(1,617)	1,099
Net change	$ 70,112	$ (74,887)

Net change is reported in:

	2019	2018
Consolidated statements of income (loss)	$ 71,597	$ (73,405)
Other comprehensive loss	(1,485)	(1,482)
Net change	$ 70,112	$ (74,887)

During 2019, the Company and its subsidiaries paid income tax installments and assessments totaling $78,854 (2018 - $90,553) and recovered income taxes totaling $3,048 (2018 - paid $994).

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

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:

	2019	2018
Basic earnings per common share:		
Net income available to shareholders	$ 744,645	$ 31,101
Less: Dividends on First Preference shares	(15,550)	(15,550)
Net income after dividends on First Preference shares	$ 729,095	$ 15,551
Weighted average number of Common Shares outstanding [1]	3,926,913	3,926,913
Basic earnings per common share from net income	$ 185.67	$ 3.96
Diluted earnings per common share:		
Net income available to shareholders	$ 744,645	$ 31,101
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	411,454	397,024
Weighted average number of diluted Common Shares outstanding [1]	4,338,367	4,323,937
Diluted earnings per common share from net income	$ 171.64	$ 3.96

[1] Net of reciprocal holdings

20. Other comprehensive income (loss)

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

	2019	2018
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on AFS investments		
Unrealized fair value change on AFS investments	$ 65,612	$ (28,312)
Less: Realized (loss) gain on AFS investments reclassified to net income	(16,002)	649
	49,610	(27,663)
Share of (OCL) OCI of associates	(6,069)	5,212
	43,541	(22,451)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	(1,644)	(5,264)
Share of OCI (OCL) of associates	247	(2,386)
	(1,397)	(7,650)
OCI (OCL), net of tax	$ 42,144	$ (30,101)

OCI (OCL) is presented net of income taxes.

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

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

	2019	2018
Items that may be reclassified subsequently to net income:		
Net unrealized fair value change on AFS investments		
Unrealized fair value change on AFS investments	$ 23,862	$ (10,339)
Less: Realized (loss) gain on AFS investments reclassified to net income	(5,884)	762
	17,978	(9,577)
Share of (OCL) OCI of associates	(927)	796
	17,051	(8,781)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	(597)	(1,913)
Share of employee future benefits of associates	38	(364)
	(559)	(2,277)
Total income taxes recognized in OCI (OCL)	$ 16,492	$ (11,058)

21. Commitments

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

As of December 31, 2019, E-L Corporate has $86,401 (2018 - $51,840) in unfunded commitments in limited partnerships.

Empire Life has $22,867 as of December 31, 2019 (2018 - $13,000) in unfunded commitments as at December 31, 2019. These unfunded commitments are 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.

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

E-L Corporate

E-L Corporate owns investments in global equities and fixed income securities directly and indirectly through pooled funds, limited partnerships and other investment companies. In addition, the E-L Corporate segment includes the invested assets of United, the Company's closed-end investment subsidiary. E-L Corporate has two significant investments in associates: Economic, a closed-end investment company and Algoma, a shipping company.

The Company maintains a strategy of long-term growth through capital appreciation and dividend and interest income from its investments. The externally managed investment portfolios 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.

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:

	2019	2018
Cash and cash equivalents	$ 303,085	$ 332,558
Short-term investments	45,573	27,959
Bonds	7,509,652	6,530,080
Preferred shares	475,087	398,491
Derivative assets	2,930	10,629
Mortgages	169,827	193,074
Reinsurance	113,107	95,975
Loans on policies	55,363	51,949
Policy contract loans	66,520	69,180
Accrued investment income	38,187	38,302
Insurance receivables	48,728	46,701
Total	$ 8,828,059	$ 7,794,898

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.

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

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.The custodian receives collateral which exceeds the market value of the loaned securities. 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 these securities lending agreements.

At December 31, 2019 the Company had loaned securities with a fair value of $3,581,738 (2018 - $2,999,001) and received approximately $3,680,099 (2018 - $3,081,416) 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:

	Empire Life	
	2019	2018
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the operating segments had the greatest exposure	$ 4,744,433	$ 4,248,837
Percentage of the segment's total cash and investments	51%	51%
Exposure to the largest single issuer of corporate bonds	$ 199,877	$ 181,684
Percentage of the segment's total cash and investments	2%	2%

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

a) Investments in bonds and debentures

	2019		2018	
Empire Life	Fair value	%	Fair value	%
AAA	$ 348,815	5%	$ 281,470	4%
AA	1,167,357	16%	628,471	10%
A	4,831,528	64%	4,561,261	70%
BBB (and lower ratings)	1,161,952	15%	1,058,878	16%
Total	$ 7,509,652	100%	$ 6,530,080	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% (2018 – 1%) of these investments rated as P1 as at December 31, 2019, 97% (2018 – 99%) rated as P2 and the remaining 2% (2018 - nil%) rated as P3.

c) Mortgages

Empire Life's mortgages in the province of Ontario represent the largest concentration with $169,058 or 99% (2018 – $193,074 or 100%) of the total mortgage portfolio.

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 (2018 - $35,647), outstanding investment commitments, 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.

E-L Corporate's liquidity is comprised of $162,752 in cash and cash equivalents at December 31, 2019 (2018 - $127,637) and short-term investments of $13,189 (2018 - $nil).

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.

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

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:

2019	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 71,689	$ 162,523	$ 513,593	$ 23,596,531	$ 24,344,336
Investment contract liabilities	3,823	12,418	11,665	9,882	37,788
Subordinated debt	14,094	51,294	439,960	—	505,348
Preferred shares	13,496	232,280	—	—	245,776
Accounts payable and other liabilities	227,908	7,044	42,616	—	277,568
Total liabilities	331,010	465,559	1,007,834	23,606,413	25,410,816
Operating lease commitments	115	—	—	—	115
Total	$ 331,125	$ 465,559	$ 1,007,834	$ 23,606,413	$ 25,410,931

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

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, 2019, 2% (2018 - 3%) 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):

	2019		2018	
	Fair value	%	Fair value	%
1 year or less	$ 75,119	1%	$ 87,560	1%
1 - 5 years	769,237	10%	810,260	12%
5 - 10 years	700,976	9%	743,107	11%
Over 10 years	5,964,320	80%	4,889,153	76%
Total	$ 7,509,652	100%	$ 6,530,080	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 $7.5 billion at December 31, 2019 (2018 - $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.

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

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:

2019	50 bps increase	50 bps decrease	100 bps increase	100 bps decrease
Shareholders' net income	$ 20,620	$ (22,827)	$ 39,275	$ (48,139)
Shareholders' OCI	$ (45,488)	$ 54,077	$ (82,385)	$ 116,744

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

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.

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

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.

	2019		2018	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 379,359	$ nil	$ 330,111	$ nil
20% fluctuation	$ 758,718	$ nil	$ 660,222	$ nil
Investments in associates				
10% fluctuation	$ 15,701	$ nil	$ 14,217	$ nil
20% fluctuation	$ 31,402	$ nil	$ 28,434	$ 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 Empire Life. Additionally, certain of Empire Life's segregated fund products contain guarantees upon death, maturity or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on Empire Life's financial position, LICAT position and results of operations. Empire Life has reinsured a portion of its segregated fund death benefit guarantee. Empire Life also has a semi-static, economic hedging program. The objective of the economic hedging program is to partially protect 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. 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.

	2019		2018	
	Effect on shareholders' net income[1]	Effect on shareholders' OCI	Effect on shareholders' net income[1]	Effect on shareholders' OCI
Empire Life				
10% increase	$ 13,713	$ 3,225	$ 16,263	$ 2,573
10% decrease	$ (17,411)	$ (3,225)	$ (15,797)	$ (2,573)
20% increase	$ 31,152	$ 6,449	$ 34,520	$ 5,146
20% decrease	$ (79,638)	$ (6,449)	$ (148,585)	$ (5,146)

(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 $332,358 (2018 – $334,913) which represents 6% (2018 – 6%) of E-L Corporate's total assets.

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

Empire Life	2019	2018
Exposure to the ten largest common share holdings	$ 648,049	$ 352,369
As a percentage of the segment's total cash and investments	7%	4%
Exposure to the largest single issuer of common shares	$ 444,366	$ 110,324
As a percentage of the segment's total cash and investments	5%	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 $183,197 (2018 – $135,618) on shareholders' net income and $11,757 (2018 – $9,986) on other comprehensive income.

Empire Life: Approximately $nil (2018 – $nil) on shareholders' net income and $nil (2018 – $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.

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

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net premium income	$ 159.1	$ 154.9	$ 360.4	$ 339.8	$ 390.3	$ 378.9	$ —	$ —	$ 909.8	$ 873.6
Fee and other income	249.0	252.9	12.5	10.6	0.2	0.4	—	—	261.7	263.9
Total	$ 408.1	$ 407.8	$ 372.9	$ 350.4	$ 390.5	$ 379.3	$ —	$ —	$1,171.5	$1,137.5

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, 2019. 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 $15,700 (2018 - $12,200).

For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $3,300 (2018 - $4,100).

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 $151,400 (2018 - $131,900). 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 $6,300 (2018 - $6,900).

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 $7,900 (2018 - $6,700).

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, 2019, consisted of the Company's shareholders' equity of $6,274,772 (2018 - $5,523,297), non-controlling interests in subsidiaries of $1,067,961 (2018 - $979,142) and participating policyholders' interests of $40,112 (2018 - $36,163).

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 regulator has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at December 31, 2019 and December 31, 2018 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 332,359 (2018 - $334,913) and investments in other related parties within investments - corporate of $853,383 (2018 - $785,176). 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.

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

The Company received administrative service fees of $512 (2018 - $493) from related parties during the year.

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

	2019	2018
Salaries and other benefits	$ 3,431	$ 3,082
Post-employment benefits	543	323
Total	$ 3,974	$ 3,405

26. Subsidiaries

The principal subsidiaries are:

i) E-L Financial Services Limited (100.0% owned), whose operating subsidiary is Empire Life (99.4% 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	
	2019	2018	2019	2018
NCI percentage	0.6%	0.7%	47.8%	47.8%
Cash and cash equivalents	$ 140,333	$ 204,921	$ 37,712	$ 53,073
Investments	9,152,734	8,073,649	1,898,438	1,698,683
Segregated funds	8,498,583	7,822,790	—	—
Other	169,139	168,337	11,666	5,798
Total assets	17,960,789	16,269,697	1,947,816	1,757,554
Insurance and investment contract liabilities	(6,141,016)	(5,242,462)	—	—
Reinsurance liabilities	(698,372)	(788,801)	—	—
Deferred tax	(8,805)	(10,288)	(52,315)	(32,369)
Subordinated debt	(399,098)	(398,767)	—	—
Segregated funds	(8,498,583)	(7,822,790)	—	—
Other	(275,073)	(223,873)	(6,939)	(29,759)
Total liabilities	(16,020,947)	(14,486,981)	(59,254)	(62,128)
Net assets	1,939,842	1,782,716	1,888,562	1,695,426
Participating policyholders' interests	(40,112)	(36,163)	—	—
Preferred shareholders' interest	(149,500)	(149,500)	(7,747)	(7,747)
Net assets available to common shareholders	$ 1,750,230	$ 1,597,053	$ 1,880,815	$ 1,687,679
NCI - common shareholders	$ 10,356	$ 9,853	$ 900,358	$ 812,042
NCI - preferred shareholders	149,500	149,500	7,747	7,747
Total NCI	$ 159,856	$ 159,353	$ 908,105	$ 819,789

(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	2019	2018	2019	2018
Revenue	$ 2,114,901	$ 1,138,424	$ 272,421	$ 45,807
Net income	190,658	147,889	220,951	26,555
Other comprehensive income (loss)	48,686	(32,258)	—	—
Total comprehensive income	$ 239,344	$ 115,631	$ 220,951	$ 26,555
Total comprehensive income allocated to NCI	$ 14,899	$ 14,190	$ 105,702	$ 12,901
Dividends declared to NCI	$ 9,037	$ 8,866	$ 13,493	$ 11,964

The following table summarizes the cash flows:

	Empire Life		United	
Summarized cash flows	2019	2018	2019	2018
Cash flows from operating activities	$ 368,409	$ 346,369	$ (10,791)	$ 13,672
Cash flows from investing activities	$ (336,685)	$ (68,286)	$ 23,245	$ 44,373
Cash flows from financing activities	$ (96,312)	$ (367,400)	$ (27,815)	$ (24,523)

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 $3,369 (2018 - $3,137) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

27. Subsequent events

On March 3, 2020, the Board of Directors approved the repurchase of up to 200,970 of the Company's Common Shares under a normal course issuer bid.

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

Summary of Consolidated Results (unaudited)

	2019	2018	2017	2016	2015
Premium income	$ 909,841	$ 873,605	$ 834,214	$ 881,500	$ 835,216
Share of income (loss) from investments in associates	23,552	9,817	35,840	(12,084)	24,829
Fair value change in fair value through profit or loss investments	1,242,198	(512,135)	799,351	170,931	486,047
Realized gain (loss) on available for sale investments	21,886	(1,411)	47,545	28,588	58,554
Investment and other income	732,616	706,816	655,628	590,866	585,118
Total revenues	2,930,093	1,076,692	2,372,578	1,659,801	1,989,764
Policy benefits	1,456,715	549,443	1,070,044	828,612	793,794
Operating expenditures including commissions and premium taxes	446,217	438,016	406,486	398,327	387,340
Income taxes	165,479	32,232	142,974	80,916	123,543
	861,682	57,001	753,074	351,946	685,087
Policyholders' and non-controlling interest portion of income	117,037	25,900	84,972	18,803	150,478
E-L Financial shareholders' net income	$ 744,645	$ 31,101	$ 668,102	$ 333,143	$ 534,609
Net income per share - basic	$ 185.67	$ 3.96	$ 166.17	$ 80.88	$ 132.18
Assets					
Cash and cash equivalents	$ 303,085	$ 332,558	$ 338,989	$ 419,906	$ 306,546
Investments in associates	349,899	334,913	330,050	309,644	328,389
Investments - corporate	5,270,128	4,596,188	4,853,200	4,341,596	4,145,707
Investments - insurance operations	9,152,734	8,073,649	8,265,212	7,235,918	6,659,265
Insurance receivable	48,728	46,701	46,294	53,097	25,099
Other assets	125,810	140,636	124,005	141,322	134,364
	15,250,384	13,524,645	13,957,750	12,501,483	11,599,370
Segregated funds	8,498,583	7,822,790	8,681,892	8,082,033	7,367,823
	$23,748,967	$21,347,435	$22,639,642	$20,583,516	$18,967,193
Liabilities					
Insurance contract liabilities	$ 6,141,016	$ 5,242,462	$ 5,430,098	$ 5,065,962	$ 4,858,233
Other liabilities	1,726,523	1,743,581	1,956,575	1,518,064	1,245,409
Policyholders' and non-controlling interest	1,108,073	1,015,305	1,018,128	963,258	819,204
	8,975,612	8,001,348	8,404,801	7,547,284	6,922,846
Capital stock	372,388	372,388	372,388	372,388	372,388
Retained earnings	5,878,228	5,168,573	5,171,997	4,538,540	4,243,683
Accumulated other comprehensive income (loss)	24,156	(17,664)	8,564	43,271	60,453
	6,274,772	5,523,297	5,552,949	4,954,199	4,676,524
	15,250,384	13,524,645	13,957,750	12,501,483	11,599,370
Segregated funds	8,498,583	7,822,790	8,681,892	8,082,033	7,367,823
	$23,748,967	$21,347,435	$22,639,642	$20,583,516	$18,967,193

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

Summary of Empire Life (unaudited)

	2019	2018	2017	2016	2015
Premium income	$ 909,841	$ 873,605	$ 834,214	$ 881,500	$ 835,216
Fair value change in fair value through profit or loss investments	490,381	(318,039)	239,407	11,873	(85,677)
Realized gain on fair value through profit or loss investments	105,331	11,900	57,188	20,114	42,233
Realized gain (loss) on available for sale investments	21,886	(1,411)	5,816	11,739	19,128
Investment and other income	587,462	572,369	537,980	483,282	476,028
Total revenues	2,114,901	1,138,424	1,674,605	1,408,508	1,286,928
Policy benefits	1,649,199	511,938	1,027,222	898,751	794,220
Operating expenditures including commissions and premium taxes	234,058	437,611	416,961	298,890	358,758
Income and capital taxes	40,986	40,986	54,522	53,701	31,492
	190,658	147,889	175,900	157,166	102,458
Profits allocated to policyholders	3,219	(3,052)	(4,666)	(3,439)	(6,119)
Profits allocated to non-policyholders	14,592	14,403	10,809	9,106	21,173
Net contribution to E-L	$ 172,847	$ 136,538	$ 169,757	$ 151,499	$ 87,404
Premium income by line of business					
Wealth Management	$ 159,115	$ 154,860	$ 135,542	$ 175,832	$ 143,991
Employee Benefits	360,383	339,852	330,563	338,908	325,223
Individual Insurance	390,343	378,893	368,109	366,760	366,002
Total premiums	$ 909,841	$ 873,605	$ 834,214	$ 881,500	$ 835,216
Assets including segregated funds	$17,960,789	$16,269,697	$17,394,547	$15,862,176	$14,363,544

(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)
2019	23,748,967	909,841	2,930,093	6,274,772	786,465	196.32

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

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.

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. Quarterly and year to date returns are calculated on an annualized basis.

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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
www.computershare.com/service

STOCK EXCHANGE LISTINGS:

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

WEBSITE:

www.e-lfinancial.ca

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
M5H 3B8
Email: jfbillett@rogers.com
Phone: 416-284-6440

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting or auditing matters.