Annual Report 2011

Empire Life™

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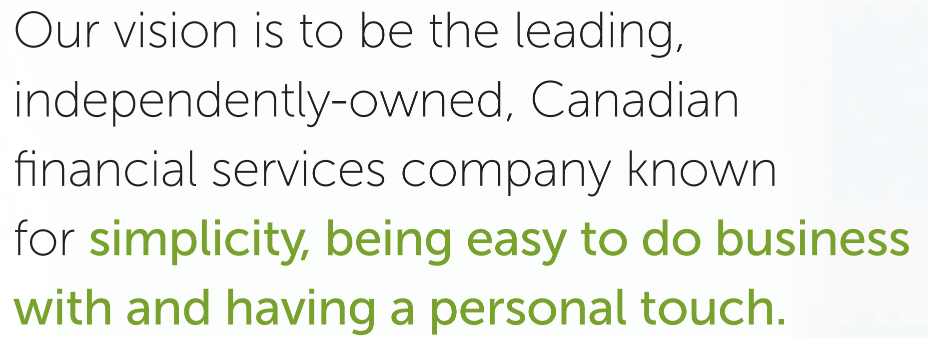
THE BUSINESS LANDSCAPE HAS CHANGED DRAMATICALLY IN A VERY SHORT TIME.

Despite a challenging economic and regulatory environment, Empire Life has set out to renew the way we do business so we can provide smart, simple solutions to our customers.



Our vision is to be the leading, independently-owned, Canadian financial services company known for **simplicity, being easy to do business with and having a personal touch.**

OUR MISSION

Our mission is to help Canadians build wealth and protect their financial security.

OUR CORE VALUES

INTEGRITY

We are honest, fair and respectful, honour our commitments, and take pride in being a good corporate citizen.

KNOW OUR CUSTOMER

We listen to our customers to provide products and services that meet their needs.

CAN-DO ATTITUDE

We are positive, creative and always search for better ways to do things.

HIGH-PERFORMANCE

We are focused on our priorities, have high expectations and standards, and celebrate effort and achievement.

FOCUS
THRIVE
EVOLVE

Duncan N.R. Jackman
Chairman of the Board

MESSAGE FROM THE CHAIRMAN OF THE BOARD

It has been an extraordinary period in the history of financial services in Canada. In the past decade, we have seen increased market volatility, global economic uncertainty and increasing regulation. Perhaps the most extraordinary development has been the trend of low long-term interest rates and its impact on the profitability and viability of long-term insurance products.

It has caused a re-evaluation of pricing and product mix across the industry. We are confident that changes made at Empire Life will ensure continued service to our valued customers.

I think extraordinary could also be used to describe the focus and commitment of Empire Life in managing through these challenges to renew itself in this changing landscape. The company has made significant progress on its strategic agenda this past year.

I am confident the management team of Empire Life is doing the right things to manage through the challenges presented by the current economic landscape to continue to grow and prosper. I am also impressed by the transparency of management with the Board and with the level of engagement and dialogue to ensure we are all doing the right things for our stakeholders.

The launch of our subsidiary, Empire Life Investments Inc., is an important milestone for our company and especially exciting given our history. My father, Henry (Hal) N.R. Jackman, was instrumental in introducing some of the first segregated funds in Canada through Empire Life. We have more than 45 years of expertise and experience in managing money for Canadians. It has been a great success story and we are excited to be able to expand our reach to offer mutual funds to Canadian investors.

I would like to pay tribute to Mr. James W. McCutcheon, QC, a former longtime Director and Chairman of our Board, whose contributions and service to The Empire Life Insurance Company were many. Mr. McCutcheon passed away in October 2011. He will be missed.

I feel privileged to lead this Board and this company during these extraordinary times and I thank everyone at Empire Life for their contributions and commitment to our ongoing success.

Duncan N.R. Jackman
Chairman of the Board
Toronto, Ontario
February 24, 2012

EXPERTISE **CHANGE** **GROWTH**

Leslie C. Herr
President and Chief
Executive Officer

MESSAGE FROM THE **PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Empire Life has been on a journey of renewal which started in late 2009 when we established a new strategic direction and began work on several key initiatives. In 2011, we completed many of these initiatives. We have accomplished much and I am very pleased with the progress we have made as a company to move us forward and position us for future growth.

Our achievements are especially notable given the economic conditions this past year. When we first established our business plans for 2011, we were anticipating a stable economy, less volatile markets and somewhat improved interest rates. As the year unfolded, we saw the opposite occur. Economic growth slowed, interest rates dropped significantly, and markets were extremely volatile. The European sovereign debt crisis and U.S. fiscal issues took a toll on long-term interest rates and on consumer confidence.

Despite these challenges, our company has made significant progress to renew itself in this changing business environment. We have a strong, diversified, solid company with good people and sound governance, led by a management team with a clear vision and focus. I am confident that our team is doing all the right things to be well-positioned to take advantage of opportunities as conditions improve.

Our results

Shareholders' net income of $32.3 million was higher than in 2010. Our Employee Benefits product line had a very strong year with $15.1 million in net income, significantly higher than 2010 results of $12.8 million. While new sales were slightly lower than last year, we saw strong premium growth and good retention of our inforce business which resulted in a positive contribution to our overall results.

We saw a similar trend in our Wealth business, with strong net income of $16.2 million, but lower sales than last year. The highly volatile markets and uncertain economic conditions continued to make consumers nervous about investing in the markets. While gross and net segregated fund sales were disappointing, we believe we are well-positioned for future growth in this line of business.

It was a challenging year for our non-participating Individual Insurance product line with an overall net loss of $33.8 million. The impact of continued low long-term interest rates on the profitability of this business line continues to be felt. We made three price increases in 2011 to improve our profitability and better reflect the current accounting, regulatory and economic environments. Even with these price increases, sales continued strong throughout the year. Clearly there is a market demand for long-term insurance solutions in Canada. We will continue to make prudent changes to our life insurance solutions so that we are able to achieve our Return on Equity targets.

Shareholders' Capital and Surplus earnings of $34.8 million were up from $20.3 million in 2010. We sold and re-invested assets during the year as part of managing our portfolio and managing our asset mix profile. This resulted in strong realized gains reflecting the expertise of our investment management team to achieve results even under turbulent market conditions.

Our Minimum Continuing Capital and Surplus Requirements Ratio was 207% as at December 31, 2011, well above minimum requirements.

I believe our income results are not indicative of our achievements this past year. I am pleased with our progress and our ability to remain focused on our goals and plans despite the distractions and uncertainty around us.

Strategic initiatives

In 2011, we introduced a new brand framework with a new visual identity and a renewed commitment to simplifying the world of financial services for our customers. We also refreshed our corporate website using technology that enables online transactional capabilities for our customers and advisors.

We restructured our sales teams in both the Retail and Group lines of business to capitalize on our strengths, build our expertise, and expand our distribution. The transition to these new sales teams has gone well and enables us to build new relationships and strengthen existing relationships with distribution partners across the country.

We reached a significant milestone in November, when we partnered with Citigroup (Citi) to administer our investment business and converted the first block of investment policies onto Citi's platform. This partnership will help us achieve operational efficiencies and enable us to offer a better overall experience to our customers and distribution partners. Two more conversions are planned that will bring the majority of our investment business onto the Citigroup platform.

We also made advancements last year towards the creation of a single customer data registry so we can better know and understand our customers, and what they are looking for from their financial services company. This knowledge will allow us to proactively offer key solutions to our customers to meet their evolving needs across all product lines.

In 2011, we successfully formed a new wholly-owned subsidiary, Empire Life Investments Inc., to offer mutual funds to Canadians for the first time. We launched our fund family at the beginning of 2012 with five stand-alone mutual funds and five portfolio mutual funds. Being able to bring a wider selection of investment products to Canadians is very exciting and we look forward to growing our distribution and assets through this new line of business.

Regulatory and accounting changes

In 2011, we successfully implemented International Financial Reporting Standards (IFRS) Phase I. Moving to IFRS was a major undertaking and this annual report reflects the new reporting approach. Further accounting and regulatory changes are on the horizon. We are concerned about the impact of these changes and increasing regulation on companies that have to adhere to international standards which are not based on the Canadian model. These changes are causing uncertainty and make it difficult to price products and plan for future liabilities, particularly in our life insurance business line.

Our industry and our community

Given these changes, it is important we work with governments and regulators as they make decisions that impact our company and industry. We have strengthened our focus on regulatory affairs with a number of our senior leaders participating in industry committees and advisory groups. We are working closely with the Canadian Life and Health Insurance Association (CLHIA) and other member companies on an industry advocacy campaign to raise awareness among members of parliament and government officials on the importance of our industry to Canadians and our economy.

Helping to build strong, sustainable communities has been important to Empire Life since its founding in 1923. Over the past year, we have continued our community investment in the areas of health and medical research, education, social services and the arts. This investment is not only in the form of charitable donations and sponsorships, but also through the thousands of volunteer hours our employees generously provided to make a difference in communities across Canada. We are very proud of them.

Renewal implies change, growth, and energy with a strong anchor to the past. In this changing landscape, we are continuing to renew our company by building on our past successes and striving to be the leading, independently-owned, Canadian financial services company known for simplicity, being easy to do business with and having a personal touch. Canadians want a financial services company they can trust to help them build and protect their wealth. We will always be a company that delivers on its promises and does the right thing for its customers and all its stakeholders.

I wish to thank all of the members of our Board of Directors for their support and commitment to Empire Life and its management. I also want to recognize and thank all of our employees for their dedication and focus over this extremely busy past year. Together I know we can achieve great things in the year ahead.

Leslie C. Herr
President and Chief Executive Officer
Kingston, Ontario
February 24, 2012

SOURCE OF EARNINGS

Source of earnings is a methodology for identifying and quantifying the various sources of Canadian Generally Accepted Accounting Principles ("GAAP") income of a life insurance company. It presents shareholders' net income in a different format from the traditional income statement form and provides a better understanding of the Company's sources of profit for each major product line.

Expected Profit from In-Force Business

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

Impact of New Business

Writing new business typically adds economic value to a life insurance company. However, as of 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.

Experience Gains and Losses

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

Management Actions and Changes in Assumptions

This 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

This item includes any source of earnings from operations not included above.

Earnings on Surplus

This component represents the pre-tax earnings on the shareholders' capital and surplus funds.

SOURCE OF EARNINGS BY LINE OF BUSINESS

For the year ended December 31

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(in millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Expected profit on in-force business	**$ 28.3**	$ 22.9	**$ 15.9**	$ 13.5	**$ 39.0**	$ 38.0			**$ 83.2**	$ 74.4
Impact of new business	**(17.1)**	(15.3)	**(11.1)**	(9.4)	**(33.8)**	(41.3)			**(62.0)**	(66.0)
Experience gains & losses	**2.0**	(3.7)	**14.0**	14.4	**(36.9)**	(2.1)			**(20.9)**	8.6
Management actions and changes in assumptions	**4.5**	2.8	**2.2**	(0.4)	**(19.4)**	(26.5)			**(12.7)**	(24.1)
Other	**-**	-	**-**	-	**-**	(0.8)			**-**	(0.8)
Earnings on operations before income taxes	**17.7**	6.7	**21.0**	18.1	**(51.1)**	(32.7)	**-**	-	**(12.4)**	(7.9)
Earnings on surplus	**-**	-	**-**	-	**-**	-	**47.1**	27.1	**47.1**	27.1
Income before income tax	**$ 17.7**	$ 6.7	**$ 21.0**	$ 18.1	**$ (51.1)**	$ (32.7)	**$ 47.1**	$ 27.1	**$ 34.7**	$ 19.2
Income taxes	**1.5**	(2.9)	**5.9**	5.3	**(17.3)**	(9.8)	**12.3**	6.8	**2.4**	(0.6)
Shareholders' Net Income	**$ 16.2**	$ 9.6	**$ 15.1**	$ 12.8	**$ (33.8)**	$ (22.9)	**$ 34.8**	$ 20.3	**$ 32.3**	$ 19.8

Wealth Management

Wealth Management's 2011 earnings on operations were higher than the level achieved in 2010. Most of the improvement related to an increase in income from experience results primarily related to lower segregated fund guarantee payouts.

In addition, there was an increase in expected profit on in-force business due primarily to the segregated fund business. Higher net income on in-force business in 2011 was due to the increase in average segregated funds under management relative to 2010 and growth of the guaranteed minimum withdrawal benefit ("GMWB") product which generates higher fees than other segregated fund products.

Management actions and changes in assumptions was also favourable in 2011 relative to 2010. The 2011 assumption updates related to general fund annuities and were due primarily to favourable updates to investment assumptions and favourable annuitant mortality experience. This was partly offset by a 2011 loss in this product line related to updating insurance liabilities to reflect new industry guidance from the Canadian Institute of Actuaries ("CIA") for annuitant mortality assumptions. This new guidance revised methods for reflecting mortality improvements up to and beyond the valuation date, generally resulting in higher levels of mortality improvement in the valuation assumption.

Employee Benefits

Employee Benefits' earnings on operations were higher than the level achieved in 2010. Most of the increase was due to a more favourable update of policy liability assumptions in 2011 relative to 2010. Net income was strong in both years in this product line as claims experience was favourable in both years.

Individual Insurance

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

This was partly offset by a lower loss from management actions and changes in assumptions in 2011 relative to 2010. Both years had significant losses from changes in assumptions due to a significant strengthening of policy liabilities from the annual assumption update during both 2011 and 2010. This strengthening was primarily related to reinvestment assumptions, driven by the persisting low interest rate environment. The strengthening was partly offset by releases related to ongoing mortality improvement in this product line. In addition, in 2011 a gain occurred in this product line related to updating insurance liabilities to reflect new industry guidance from the CIA, related to individual life insurance mortality assumptions. This new guidance revised methods for reflecting mortality improvements up to and beyond the valuation date, generally resulting in higher levels of mortality improvement in the valuation assumption.

Both years had significant losses from new business strain due to high strain rates arising from the low interest rate environment. However, new business strain improved in 2011 relative to 2010 due to price increases implemented in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the years ended December 31, 2011 and 2010. This MD&A should be read in conjunction with the Company's December 31, 2011 consolidated financial statements, which form part of The Empire Life Insurance Company 2011 Annual Report dated February 24, 2012. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in Part I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has reported on this basis in these consolidated financial statements. In the MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars.

The MD&A may contain 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.

Use of Non-GAAP Measures

The report contains references to annualized premium sales. This term does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. Annualized premium sales is used as a method of measuring sales volume. It is equal to the premium expected to be received in the first twelve months for all new Individual Insurance and Employee Benefit policies sold during the period. The Company believes that this measure provides information useful to its shareholders and policyholders in evaluating the Company's underlying financial results.

International Financial Reporting Standards ("IFRS")

Empire Life's results are now being reported in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and as incorporated into Part 1 of the Handbook of The Canadian Institute of Chartered Accountants. All comparative information has been restated to reflect the application of IFRS. Note 3 – First time adoption of International Financial Reporting Standards of the financial statements provides a detailed description of the impact of Empire Life's transition to IFRS. This note includes a line-by-line reconciliation of the financial statements reported under previous Canadian GAAP to those under IFRS as at December 31, 2010 and January 1, 2010 and for the year ended December 31, 2010 as well as explanations of the individual adjustments that resulted from the transition. The impact of the transition from previous Canadian GAAP to IFRS on Empire Life's financial results is described in the Overview section and the Other Comprehensive Income section of this report.

Financial Analysis

Overview

(in millions of dollars)	Quarterly results		Year	
	Q4 2011	Q4 2010	**2011**	2010
Shareholders' net income	**$ 8.2**	$ 4.0	**$ 32.3**	$ 19.8

Empire Life reported full year shareholders' net income of $32.3 million for 2011, compared to $19.8 million in 2010.

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

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

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

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

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

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

Empire Life has three major product lines (Wealth Management, Employee Benefits and Individual Insurance) and maintains distinct accounts for Capital and Surplus. A discussion of each product line's 2011 net income compared to 2010 is shown in the Product Line Results sections later in this report.

This report contains references to annualized premium sales. This term does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. Annualized premium sales is used as a method of measuring sales volume. It is equal to the premium expected to be received in the first twelve months for all new Individual Insurance and Employee Benefit policies sold during the period. Empire Life believes that this measure provides information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

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

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

The analysis and discussion which follows is focused on the full year 2011 and comparative 2010 line of business net income after tax.

The following tables provide a summary of Empire Life results by major product line:

For the year ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(in millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Revenue										
Net premium income	**$ 141**	$ 239	**$ 278**	$ 262	**$ 339**	$ 316	**$ -**	$ -	**$ 758**	$ 817
Fee and other income	**110**	104	**7**	6	**1**	1	**2**	2	**120**	113
Investment income	**56**	58	**6**	6	**118**	104	**37**	36	**217**	204
Realized gain on FVTPL investments	**6**	4	**2**	-	**33**	4	**-**	-	**41**	8
Realized gain (loss) on available for sale investments including impairment write-downs	**-**	-	**-**	-	**-**	(1)	**26**	8	**26**	7
Fair value change in FVTPL investments	**25**	10	**14**	8	**356**	196	**-**	-	**395**	214
	338	415	**307**	282	**847**	620	**65**	46	**1,557**	1,363
Expenses										
Benefits and expenses	**320**	408	**280**	258	**892**	657	**15**	15	**1,507**	1,338
Income and other taxes	**2**	(3)	**12**	11	**(10)**	(6)	**13**	8	**17**	10
	322	405	**292**	269	**882**	651	**28**	23	**1,524**	1,348
Net Income (Loss) After Tax	**$ 16**	$ 10	**$ 15**	$ 13	**$ (35)**	$ (31)	**$ 37**	$ 23	**$ 33**	$ 15
Policyholders' portion									**1**	(5)
Shareholders' Net Income									**$ 32**	$ 20
Assets under management										
General fund assets	**$ 1,137**	$ 1,141							**$ 5,600**	$ 4,910
Segregated fund assets	**$ 4,392**	$ 4,592			**$ 23**	$ 28			**$ 4,415**	$4,620
Annualized premium sales			**$ 41**	$ 43	**$ 73**	$ 68				

Total Revenue

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

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

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

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

Realized gain on available for sale investments including impairment write-downs was a larger gain for the year in 2011 relative to 2010 due primarily to the sale of certain AFS equity investments. These gains and losses impact net income and are considered in the net income investment experience comments for each of the impacted product lines (see Product Line Results sections later in this report). The assets sold and the impaired assets written down back primarily capital and surplus.

Total Benefits and Expenses

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

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

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

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the year, the main reason for the large change from 2010 for this item was the change in insurance contract liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the increase in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of operations.

Policy dividends increased year over year due to growth of business in-force.

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

Product Line Results – Wealth Management

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

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

Assets in Empire Life general fund annuities decreased by less than 1%, while segregated fund assets decreased by 4% during the last twelve months. The decrease over the last twelve months for segregated funds was attributable to negative investment returns, due to the stock market decline, and negative net sales (gross sales net of withdrawals) described below.

Premium income for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund products. For the year, fixed interest annuity premiums were down 41% compared to 2010 due primarily to decreased sales of fixed interest deferred annuities. However, 2010 was a strong year for fixed interest annuity sales. The 2011 fixed interest annuity premiums represent a return to more typical levels.

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

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

During the fourth quarter, earnings from this product line decreased relative to 2010. However, for the year 2011, earnings from this product line increased compared to 2010. The following table provides a breakdown of the components of this year-over-year change in net income.

(in millions of dollars)	Q4	Year
Wealth Management Net Income Analysis		
Net income after tax 2011	$ 5	$ 16
Net income after tax 2010	6	10
Increase (Decrease) Net Income After Tax	$ (1)	$ 6
Components of increase (decrease)		
2011 loss re: update of insurance liability to reflect new actuarial guidance related to mortality assumptions	$ (10)	$ (10)
Update of policy liability assumptions	13	13
Increase (decrease) in inforce profit margins	(1)	2
Improved (worsened) investment experience	(2)	-
Improved (worsened) segregated fund death benefit guarantee and mortality results	(1)	1
Total	$ (1)	$ 6

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

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

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

Product Line Results – Employee Benefits

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

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

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

(in millions of dollars)	Q4	Year
Employee Benefits Net Income Analysis		
Net income after tax 2011	$ 3	$ 15
Net income after tax 2010	1	13
Increase in Net Income After Tax	$ 2	$ 2
Components of increase		
Update of policy liability assumptions	$ 2	$ 2
Total	$ 2	$ 2

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

Product Line Results – Individual Insurance

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

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

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

(in millions of dollars)	Q4	Year
Individual Insurance Net Loss Analysis		
Net loss after tax 2011	$ (13)	$ (35)
Net loss after tax 2010	(10)	(31)
Increase in Net Loss After Tax	$ (3)	$ (4)
Components of loss increase		
2010 loss re: update of insurance liability method for setting investment return	$ -	$ 6
2011 gain re: update of insurance liability to reflect new actuarial guidance related to mortality assumptions	27	27
2011 gain re: update of insurance liability to reflect change in method related to participating insurance	9	9
Update of policy liability assumptions	(36)	(36)
Worsened investment experience	(6)	(18)
Improved mortality, surrender and other experience	-	5
Lower new business strain	3	3
Total	$ (3)	$ (4)

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

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

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

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

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

Results – Capital and Surplus

	Quarterly results		Year	
(in millions of dollars)	Q4 2011	Q4 2010	2011	2010
Net income (loss) after tax				
Net income after tax shareholders' portion	$ 18	$ 5	$ 35	$ 20
Net income after tax policyholders' portion	1	1	2	3
Net Income After Tax	$ 19	$ 6	$ 37	$ 23

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders' Capital and Surplus and to Policyholders' Surplus. During the fourth quarter and the full year, Capital and Surplus earnings increased relative to 2010. The following table provides a breakdown of the components of this year-over-year change in net income.

(in millions of dollars)	Q4	Year
Capital and Surplus Net Income Analysis		
Net income after tax 2011	$ 19	$ 37
Net income after tax 2010	6	23
Increase in Net Income After Tax	$ 13	$ 14
Components of increase		
Increased net income from sale of investments	$ 14	$ 16
Higher impairment write-downs	(1)	(4)
Increased investment income	-	2
Total	$ 13	$ 14

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

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

Total Cash Flow

(in millions of dollars)	Year 2011	2010
Cash Flow provided from (used for)		
Operating Activities	**$ 180**	$ 170
Investing Activities	**(160)**	(153)
Financing Activities	**(16)**	(15)
Net Change in Cash and Cash Equivalents	**$ 4**	$ 2

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

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

The cash used for financing activities during both 2011 and 2010 was due to the payment of dividends to common shareholders.

Capital Resources

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

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

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

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

Other Comprehensive Income

	Quarterly results		Year	
(in millions of dollars)	Q4 2011	Q4 2010	2011	2010
Other comprehensive income (OCI) (loss) (OCL)				
Shareholders' OCI (OCL)	**$ (6)**	$ 10	**$ (18)**	$ 20
Policyholders' OCI (OCL)	**$ 1**	$ 2	**$ (1)**	$ 2

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. A gain reclassified to net income causes a loss in OCI. A loss reclassified to net income causes a gain in OCI.

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

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

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

Industry Dynamics and Management's Strategy

Empire Life's operations are organized by product line with each line of business having responsibility for product development, marketing, distribution and customer service within their particular markets. This structure recognizes that there are distinct marketplace dynamics in each of the three major product lines. Management believes this structure enables each line of business to develop strategies to achieve the enterprise-wide objectives of business growth and expense management while recognizing the unique business environment in which each operates. The lines of business are supported by corporate units that provide product pricing, administrative and technology services to the lines of business, manage invested assets, and oversee enterprise risk management policies.

Based on general fund and segregated fund assets, Empire Life is among the ten largest life insurance companies in Canada. Empire Life has less than six per cent market share in all three of its product lines. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on achieving profitable growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products and guaranteed interest products. In January 2012, mutual funds were added to this product line. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management is expecting to grow market share through this long-term performance along with broadened distribution reach and the addition of new funds and fund products such as the recently launched mutual fund products.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group market comprised of employers with fewer than 200 employees. This niche strategy coupled with an ongoing focus on balancing growth and profit has enabled Empire Life to be cost competitive within this market segment and is expected to enable this product line to continue to grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to significant levels of new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create significant new business strain that has a negative impact on short-term earnings. Sales strain has been particularly high in 2010 and 2011 due to the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in significant price increases in 2011 for individual insurance products by Empire Life and many of our competitors. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to improve this product line's unit expenses and maintain a competitive market position while generating an acceptable long-term financial contribution.

Risk Management

Empire Life's MCCSR ratio, among other things, is sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2011 Empire had $4.4 billion of segregated fund assets and liabilities. Of this amount, approximately $4.2 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

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

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. For segregated fund guarantee insurance contract liabilities, the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end stock markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. Based on stock market levels at December 31 for 2011 and 2010, the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity to Segregated Fund Guarantees:				
2011 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2010 Shareholders' net income	$ nil	$ nil	$ nil	$ nil

Based on stock market levels on the dates indicated below, the sensitivity of Empire Life's MCCSR ratio to stock market increases and decreases for all Empire Life stock market exposures, including segregated fund guarantees, is as follows:

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity to Stock Markets:				
December 31, 2011 MCCSR Ratio	**0.9%**	**-2.4%**	**1.7%**	**-19.1%**
December 31, 2010 MCCSR Ratio	0.7%	-0.7%	1.3%	-2.2%

Empire Life has not historically hedged or reinsured its segregated fund guarantee risk. Given the current segregated fund product mix and level of sensitivity to stock markets, Empire Life has not hedged or reinsured its segregated fund guarantee risk as of December 31, 2010 or December 31, 2011. In addition, Empire Life does not reinsure any other insurer's segregated fund products.

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

Segregated Funds	Guarantee > Fund Value		Death Benefit > Fund Value			
(in millions of dollars)	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Actuarial Liabilities	MCCSR Required Capital
December 31, 2011	**$ 176**	**$ 19**	**$ 2,089**	**$ 212**	**$ nil**	**$ nil**
December 31, 2010	$ 113	$ 12	$ 1,422	$ 137	$ nil	$ nil

The above table shows all segregated fund policies where the future maturity guarantee or future death benefit guarantee is greater than the fund value. The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates. The level of actuarial liabilities and required capital is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist upon either future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The amounts at risk in December 2011 increased from the December 2010 levels, due primarily to the decline in many global stock markets including Canada's.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form of Empire Life's parent company, E-L Financial Corporation Limited, which is available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in Note 29 to the consolidated financial statements.

Critical Accounting Estimates

Empire Life's significant accounting policies are described in Note 2 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these accounting estimates for Empire Life are the valuation of policy liabilities and the determination of allowances for impaired investments.

Policy Liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the CIA. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in Note 29 to the consolidated financial statements.

Provision for Impaired Investments

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

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

Outlook

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

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

A key issue for the Individual Insurance product line in 2011 was the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases for individual insurance products by Empire Life and many of our competitors. Long-term interest rates and product pricing are expected to continue to be issues for Empire's Individual Insurance product line in 2012.

Regulatory change related to segregated fund guarantees continues to evolve. The Office of the Superintendent of Financial Institutions Canada ("OSFI") is currently reviewing the overall approach for determining capital requirements for segregated fund risks, and is implementing this change in two stages. In the first stage, the parameters within life company stochastic models were strengthened with respect to new business issued after January 1st, 2011. This did not have a significant impact on Empire's MCCSR ratio. In the second stage, a new approach will be implemented for all inforce segregated fund business (including new business issued in 2011 and later). With respect to the second stage, OSFI states that "we are considering a range of alternatives including a more market-consistent approach and potentially credit for hedging" and that the target date for this is 2016 or later.

Longer term accounting standard and regulatory changes are expected by 2015 or later regarding IFRS for Insurance Contracts and Solvency II. Both of these changes aim at consistent measurement. For Insurance Contracts accounting, the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. For Solvency II, the goal is consistent treatment of risk within insurance companies from a capital adequacy perspective regardless of the type of business. These two items could have a material impact on Empire Life's future net income and capital ratios, however, much remains unknown.

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

The potential for regulatory change also exists for Managing General Agents ("MGA"). Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. The nature and impact of potential regulation is unclear.

Quarterly Results

The following table summarizes various financial results on a quarterly basis for the most recent eight quarters:

(in millions of dollars)	Dec 31 2011	Sept 30 2011	June 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	June 30 2010	Mar 31 2010
Revenue	$ 476	$ 499	$ 345	$ 237	$ 253	$ 422	$ 331	$ 357
Shareholders' net income (loss)	$ 8	$ (7)	$ 17	$ 14	$ 4	$ 11	$ 3	$ 2

Revenue for the three months ended December 31, 2011 increased to $476 million (2010 $253 million). The increase was primarily due to net gains on FVTPL investments in 2011 resulting from an increase in bond prices. The increase in bond prices was due to a decrease in market interest rates in 2011 (see Total Revenue section earlier in this report).

For the fourth quarter, net income was higher relative to last year due primarily to higher Capital and Surplus net income. This improvement resulted from higher gains from primarily the sale of certain AFS equity investments compared to 2010. See Product Line Results sections earlier in this report for further information on quarterly results.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements in this annual report have been prepared by management, who is responsible for their integrity, objectivity and reliability. This responsibility includes selecting and applying appropriate accounting policies, making judgements and estimates, and ensuring information contained throughout the annual report is consistent with these statements. These consolidated financial statements are prepared in accordance with the *Insurance Companies Act* (Canada) which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), the consolidated financial statements are to be prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in Part I of the Handbook of The Canadian Institute of Chartered Accountants which represent International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Company maintains a system of internal control over financial reporting which is 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 the financial records are reliable for preparing the consolidated financial statements in accordance with Canadian GAAP. Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2011. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2011.

The Board of Directors, acting through the Audit Committee which is comprised of directors who are not officers or employees of the Company, oversees management's responsibility for financial reporting and for internal control systems. The Audit Committee is responsible for reviewing the consolidated financial statements and annual report and recommending them to the Board of Directors for approval. The Audit Committee meets with management, internal audit and the external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters, and financial reporting issues.

The Appointed Actuary is appointed by the Board of Directors and is responsible for ensuring that the assumptions and methods used in the valuation of the policy liabilities are in accordance with accepted actuarial practice and regulatory requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the consolidated statement of financial position date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company under adverse economic and business conditions for the current year and the next four years.

PricewaterhouseCoopers' responsibility as external auditors is to report to the policyholders, shareholders and OSFI regarding the fairness of presentation of the Company's annual consolidated financial statements. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit. The Independent Auditor's Report outlines the scope of their examination and their opinion.

Leslie C. Herr
President and Chief Executive Officer
Kingston, Ontario
February 24, 2012

Gary J. McCabe
Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 24, 2012

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

We have audited the accompanying consolidated financial statements of The Empire Life Insurance Company and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

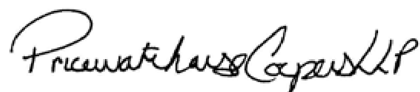
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Empire Life Insurance Company and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 24, 2012

APPOINTED ACTUARY'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

I have valued the policy liabilities and reinsurance liabilities of The Empire Life Insurance Company for its Consolidated statements of financial position at December 31, 2011 and their change in the Consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance liabilities, makes appropriate provision for all policy obligations and the Consolidated financial statements fairly present the results of the valuation.

Leonard Pressey, F.S.A., F.C.I.A.
Fellow, Canadian Institute of Actuaries
Kingston, Ontario
February 24, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Assets			
Cash and cash equivalents	$ 155,559	$ 151,332	$ 149,141
Investments			
Short-term investments *(Note 4)*	33,867	50,914	37,080
Bonds *(Note 4)*	4,063,897	3,221,908	2,795,896
Common and preferred shares *(Note 4)*	808,681	1,002,393	949,778
Mortgages *(Note 4)*	264,238	226,887	223,642
Loans on policies *(Note 4)*	41,981	40,242	38,728
Policy contract loans *(Note 4)*	113,118	119,896	137,764
Total investments	5,325,782	4,662,240	4,182,888
Accrued investment income	20,107	18,411	17,827
Insurance receivables *(Note 5)*	24,155	24,621	17,660
Current income taxes receivable	17,106	11,007	-
Reinsurance assets *(Note 11)*	-	-	32,693
Other assets *(Note 6)*	34,464	18,915	19,548
Property and equipment *(Note 7)*	21,241	21,257	19,973
Intangible assets *(Note 8)*	1,090	2,244	3,688
Segregated fund assets *(Note 9)*	4,415,318	4,620,899	4,186,585
Total Assets	$ 10,014,822	$ 9,530,926	$ 8,630,003
Liabilities			
Accounts payable and other liabilities *(Note 12)*	$ 70,097	$ 37,708	$ 45,143
Insurance payables *(Note 10)*	63,559	73,055	57,908
Current income taxes payable	-	-	30,065
Reinsurance liabilities *(Note 11)*	156,119	17,680	-
Insurance contract liabilities *(Note 11)*	4,199,501	3,673,318	3,226,145
Investment contract liabilities	15,076	16,978	17,566
Policyholders' funds on deposit	30,263	30,037	29,702
Provision for profits to policyholders	21,791	20,104	18,558
Deferred income taxes *(Note 19)*	6,586	3,481	2,811
Subordinated debt *(Note 24)*	199,405	199,185	198,980
Segregated fund policy liabilities	4,415,318	4,620,899	4,186,585
	9,177,715	8,692,445	7,813,463
Equity			
Capital stock *(Note 26)*	985	985	985
Contributed surplus	19,387	19,387	19,387
Retained earnings *(Note 25)*	786,203	768,858	768,911
Accumulated other comprehensive income	30,532	49,251	27,257
	837,107	838,481	816,540
Total Liabilities and Equity	$ 10,014,822	$ 9,530,926	$ 8,630,003

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

Duncan N.R. Jackman
Chairman of the Board

Leslie C. Herr
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the year ended December 31	
	2011	2010
Revenue		
Gross premiums	$ **838,422**	$ 890,514
Premiums ceded to reinsurers	**(79,968)**	(73,988)
Net premiums *(Note 14)*	**758,454**	816,526
Investment income *(Note 4)*	**216,782**	204,348
Fair value change in fair value through profit or loss assets	**394,512**	213,646
Realized gain (loss) on fair value through profit or loss assets sold	**41,324**	8,047
Realized gain (loss) on available for sale assets including impairment write-downs *(Note 4)*	**25,846**	7,496
Fee income *(Note 15)*	**120,243**	113,094
Total revenue	**1,557,161**	1,363,157
Benefits and Expenses		
Gross benefits and claims paid *(Note 16)*	**567,744**	596,607
Claims recovery from reinsurers *(Note 16)*	**(54,332)**	(62,845)
Gross change in insurance contract liabilities *(Note 16)*	**526,183**	447,173
Change in insurance contract liabilities ceded *(Note 16)*	**138,439**	50,373
Change in investment contract provision	**745**	910
Policy dividends	**20,962**	19,079
Operating expenses *(Note 18)*	**129,865**	116,411
Commissions	**166,392**	159,085
Commission recovery from reinsurers	**(2,186)**	(2,004)
Interest expense	**13,680**	13,665
Total benefits and expenses	**1,507,492**	1,338,454
Premium tax	**12,985**	12,198
Investment and capital tax	**3,400**	3,300
Net Income Before Income Taxes	**33,284**	9,205
Income taxes *(Note 19)*	**139**	(5,742)
Net Income	**33,145**	14,947
Net Income (Loss) Attributable to:		
Participating Policyholders	**838**	(4,890)
Shareholders	**32,307**	19,837
Total	$ **33,145**	$ 14,947
Earnings per share - basic and diluted (2,000,000 shares authorized; 985,076 shares outstanding)	$ **32.80**	$ 20.14

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

	For the year ended December 31	
	2011	2010
Net income	**$ 33,145**	$ 14,947
Other comprehensive income (loss), net of income taxes:		
Unrealized fair value change on available for sale investments *(Note 19)*	**(3,014)**	25,442
Less realized fair value change on available for sale investments including impairment write-downs reclassified to net income *(Note 19)*	**16,201**	3,910
Net unrealized fair value increase (decrease)	**(19,215)**	21,532
Gain (loss) on derivative investments designated as cash flow hedges *(Note 19)*	**-**	-
Less gain (loss) on derivative investments designated as cash flow hedges reclassified to net income *(Note 19)*	**(496)**	(462)
Net gain (loss) on derivatives designated as cash flow hedges	**496**	462
Total other comprehensive income (loss)	**(18,719)**	21,994
Comprehensive Income	**$ 14,426**	$ 36,941
Comprehensive income (loss) attributable to:		
Participating Policyholders	**$ (394)**	$ (3,207)
Shareholders	**14,820**	40,148
Total	**$ 14,426**	$ 36,941

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	For the year ended December 31, 2011			For the year ended December 31, 2010		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Capital stock *(Note 26)*	$ 985	$ -	$ 985	$ 985	$ -	$ 985
Contributed surplus	$ 19,387	$ -	$ 19,387	$ 19,387	$ -	$ 19,387
Retained earnings						
Retained earnings - beginning of year	$ 715,972	$ 52,886	$ 768,858	$ 711,135	$ 57,776	$ 768,911
Net income	32,307	838	33,145	19,837	(4,890)	14,947
Dividends to common shareholders	(15,800)	-	(15,800)	(15,000)	-	(15,000)
Retained earnings - end of year	$ 732,479	$ 53,724	$ 786,203	$ 715,972	$ 52,886	$ 768,858
Accumulated other comprehensive income (AOCI)						
Accumulated other comprehensive income - beginning of year	$ 44,532	$ 4,719	$ 49,251	$ 24,221	$ 3,036	$ 27,257
Other comprehensive income (loss)	(17,487)	(1,232)	(18,719)	20,311	1,683	21,994
Accumulated other comprehensive income - end of year	$ 27,045	$ 3,487	$ 30,532	$ 44,532	$ 4,719	$ 49,251
Total Equity *(Note 25)*	$ 779,896	$ 57,211	$ 837,107	$ 780,876	$ 57,605	$ 838,481
Composition of AOCI – end of year						
Unrealized gain on available for sale financial assets	$ 27,999	$ 3,874	$ 31,873	$ 45,845	$ 5,243	$ 51,088
Unamortized gain (loss) on cash flow hedges	(1,341)	-	(1,341)	(1,837)	-	(1,837)
Shareholder portion of policyholders' AOCI	387	(387)	-	524	(524)	-
Total accumulated other comprehensive income	$ 27,045	$ 3,487	$ 30,532	$ 44,532	$ 4,719	$ 49,251

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	For the year ended December 31	
	2011	2010
Operating Activities		
Net income	$ 33,145	$ 14,947
Non-cash items affecting net income		
Change in contract liabilities	526,928	448,083
Change in reinsurance liabilities	138,439	50,373
Fair value change in fair value through profit or loss assets	(394,512)	(213,646)
Realized (gain) loss on assets including impairment write-downs	(67,170)	(15,543)
Amortization related to invested assets	(73,094)	(68,419)
Amortization related to capital asssets	4,228	4,109
Deferred income taxes	3,105	670
Other items	8,946	(50,734)
Cash provided from operating activities	180,015	169,840
Investing Activities		
Portfolio investments		
Purchases and advances	(1,569,477)	(1,375,230)
Sales and maturities	1,389,722	1,223,373
Loans on policies		
Advances	(7,646)	(7,800)
Repayments	13,424	24,791
Decrease (increase) in short-term investments	17,047	(13,834)
Purchase of intangible assets and property and equipment	(324)	(133)
Other	(2,734)	(3,816)
Cash provided from (used for) investing activities	(159,988)	(152,649)
Financing Activities		
Dividends to common shareholders	(15,800)	(15,000)
Cash provided from (used for) financing activities	(15,800)	(15,000)
Net Change in Cash and Cash Equivalents	4,227	2,191
Cash and Cash Equivalents – Beginning of Year	151,332	149,141
Cash and Cash Equivalents – End of Year	$ 155,559	$ 151,332

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts and where otherwise stated)

1. DESCRIPTION OF COMPANY AND SUMMARY OF OPERATIONS

The Empire Life Insurance Company (the Company) was founded in 1923 when it was organized under a provincial charter in Toronto. Authorization to continue as a federal corporation was obtained in 1987. The Company underwrites life and health insurance policies and provides segregated funds and annuity products for individuals and groups across Canada. The Company is a subsidiary of E-L Financial Corporation Limited (the parent or E-L). The head office, principal address and registered office of the Company are located at 259 King Street East, Kingston, Ontario, K7L 3A8. The Company is a Federally Regulated Financial Institution, regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). The Company established a mutual fund subsidiary during the second quarter of 2011, Empire Life Investments Inc. (ELII). During the third quarter of 2011, the Company provided working capital to ELII. The Company expects ELII to become operational early in 2012. The head office of ELII is located at 165 University Avenue, 9th Floor, Toronto, Ontario, M5H 3B8.

These consolidated financial statements were approved by the Company's Board of Directors on February 24, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Consolidation

The Company's consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company and its wholly-owned and controlled subsidiary, Empire Life Investments Inc. The Company owns 100% of the voting shares of its subsidiary. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. On an ongoing basis, management evaluates its judgements and estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements, estimates and assumptions. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

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

Item	Accounting Policy	Notes
Impairment of financial instruments	d	4 (b)
Insurance contract liabilities	k	11, 29
Reinsurance	e	11, 29
Employee benefits	j	13

(d) Financial Instruments

i) Fair Value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset quoted in an active market is generally the bid price and, for a financial liability quoted in an active market, the fair value is generally the ask price. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments approximates fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cash equivalents, and exchange traded common and preferred shares.

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

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

All of the Company's financial instruments requiring fair value measurement meet the requirements of Level 1 or Level 2 of the fair value hierarchy.

ii) Cash 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 and short-term investments comprise financial assets with maturities of greater than three months and less than one year when acquired.

Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as Fair value through profit or loss (FVTPL). These assets may be comprised of cash, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Changes in the fair value of these financial assets are recorded in fair value change in FVTPL assets in the Consolidated statement of operations in the period in which they occur.

Most financial assets supporting capital and surplus are classified as Available for sale (AFS). These assets may be comprised of short-term investments, bonds and debentures, or common and preferred shares. AFS assets are carried at fair value in the Consolidated statement of financial position. Except for foreign currency gains/losses on monetary AFS assets and impairment losses, any changes in the fair value are recorded, net of income taxes, in Other comprehensive income (OCI). Gains and losses realized on sale or maturity of AFS assets are reclassified from OCI to realized gain (loss) on AFS assets in the Consolidated statement of operations.

Loans and receivables may include mortgage loans, loans on policies, and policy contract loans. These assets 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.

All transactions are recorded on the trade date. Transaction costs are expensed for FVTPL instruments and capitalized for all others.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Impairment

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

(1) AFS Debt Instruments

An AFS debt instrument would be identified as impaired when there is objective observable 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 net income (loss). Impairment losses previously recorded through net income (loss) are reversed if the fair value subsequently increases and the increases can be objectively related to an event occurring after the impairment loss was recognized.

(2) AFS Equity Instruments

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

The accounting for an impairment that is recognized in net income (loss) is the same as described for AFS debt instruments above with the exception that impairment losses previously recognized in net income (loss) cannot be subsequently reversed. Any subsequent increase in value is recorded in OCI.

(3) Loans and Receivables

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

Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a mortgage, policy contract loan or a loan on a policy. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability and credit worthiness 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 net income (loss). 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 net income (loss).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Derecognition

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

v) Hedge Accounting

From time to time, the Company enters into hedging arrangements. Where the Company has elected to use hedge accounting, a hedge relationship is designated and documented at inception. The Company evaluates hedge effectiveness at the inception of the relationship and at least on a quarterly basis using a variety of techniques including the cumulative dollar offset method. Both at inception and throughout the term of the hedge, the Company expects that each hedging instrument will be highly effective in offsetting the risk being hedged. When it is determined that the hedging relationship is no longer effective, or the hedged item has been sold or terminated, the Company discontinues hedge accounting prospectively. In such cases, if the derivative hedging instrument is not sold or terminated, any subsequent change in fair value of the derivative is recognized in investment income.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging instrument is recorded in OCI while the ineffective portion is recognized in investment income in the Consolidated statement of operations. Gains and losses in Accumulated other comprehensive income (AOCI) are reclassified and recognized in investment income in the Consolidated statement of operations during the periods when the variability in the cash flows hedged or the hedged forecasted transactions are recognized in the Consolidated statement of operations. Gains and losses on cash flow hedges accumulated in AOCI are reclassified immediately to investment income in the Consolidated statement of operations when either the hedged item is sold or the forecasted transaction is no longer expected to occur. When hedge accounting is discontinued, and it remains probable that the hedged forecasted transaction will occur, then the amounts previously recognized in AOCI are reclassified and recognized in investment income in the Consolidated statement of operations in the periods during which variability in the cash flows hedged or the hedged forecasted transactions are recognized in the Consolidated statement of operations.

vi) Other

Insurance receivables have been classified as loans or receivables and are carried at amortized cost. Accounts payable and other liabilities and Insurance payables have been classified as other financial liabilities and are carried at amortized cost. For these financial instruments, carrying value approximates fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance

The Company enters into reinsurance agreements with reinsurers in order to limit its exposure to significant losses. The Company 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 Insurance receivables and Insurance liabilities in the Consolidated statement of financial position. Premiums for reinsurance ceded are presented as Premiums ceded to reinsurers in the Consolidated statement of operations. Reinsurance recoveries on claims incurred are recorded as Claims recovery from reinsurers in the Consolidated statement of operations. The reinsurers' share of Insurance contract liabilities is recorded as Reinsurance assets or Reinsurance liabilities, as appropriate, in the Consolidated statement of financial position.

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 statement of operations.

Gains or losses on buying reinsurance are recognized in the Consolidated statement of operations immediately at the date of purchase and are not amortized.

(f) Property and Equipment

Property and equipment comprises own use land, building, leasehold improvements and furniture and equipment. All classes of assets are carried at cost less accumulated amortization and any impairment losses, except for land, which is not subject to amortization. Cost includes all expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

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

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

Amortization is included in Operating expenses in the Consolidated statement of operations.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 statement of operations. 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.

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

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses are recognized in the Consolidated statement of operations.

(h) Segregated Funds

Certain policy contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. The policyholder bears the risks and rewards associated with these assets except to the extent there are guarantees, and as a result, the assets and liabilities associated with segregated funds are not included with other assets and liabilities, but are presented as separate items on the Consolidated statement of financial position. The assets of these funds are carried at their period-end fair values, which also represents the segregated fund policy liability. The Company's Consolidated statement of operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit and maturity benefit guarantees of these funds. A continuity schedule of segregated funds is disclosed in Note 9.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within Insurance contract liabilities. Sensitivity of the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 29.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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 statement of operations.

(j) Employee Benefits

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

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

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

The asset or liability recognized in the Consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on market yields for high-quality corporate bonds that are denominated in Canadian dollars and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains (losses) arise from the difference between actual long-term rates of return on plan assets for a period and the expected long-term rates of return on plan assets for that period or from changes in actuarial assumptions used to determine the defined benefit obligation. The excess of the net actuarial gain (loss) over 10% of the greater of the defined benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees. The vested portion of past service cost arising from plan amendments is recognized immediately in the Consolidated statement of operations. The unvested portion is amortized on a straight-line basis over the average remaining service period until the benefits become vested.

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

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

Termination Benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Company classifies its insurance and investment contracts into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

(1) Insurance Contracts

The Company's insurance contract liabilities are determined using accepted actuarial practices according to standards established by the Canadian Institute of Actuaries (CIA) and the requirements of OSFI. The Company uses the Canadian Asset Liability Method (CALM) for valuation of insurance contracts, which satisfies the IFRS 4 *Insurance Contracts* requirements for eligibility for use under IFRS.

a. Short-term Insurance Contracts

These 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 Company experience for claims incurred but not reported.

b. Long-term Insurance Contracts

These 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the Company'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 for the duration of the disability.

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that insurance contract liabilities are adequate to pay future benefits. 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 Change in insurance contract liabilities in the Consolidated statement of operations 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 at the Consolidated statement of financial position date. 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 Change in insurance contract liabilities in the Consolidated statement of operations.

(2) Investment Contracts

These contracts include annuity products that do not involve the transfer of significant risk, either at inception or during the life of the contract. For the Company, 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 statement of operations. Deposits and withdrawals are recorded in Investment contract liabilities on the Consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of operations.

(l) Participating Policies

The Company 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 OSFI under sections 457-60 of the *Insurance Companies Act* (Canada). The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company 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 expensed through the Consolidated statement of operations.

At the end of the reporting period all participating insurance contract 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 assets or Reinsurance liabilities. The participating policyholders' portion of retained earnings and AOCI is reported separately in the Policyholders' equity section of the Consolidated statement of changes in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investment Policy

The investments in the participating account are subject to limits established by the *Insurance Companies Act* (Canada) and to investment guidelines established by the Investment Committee of the Company's Board of Directors (the "Board"). The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Asset/Liability Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels.

ii) Investment Income Allocation

Investment income is attributed to each asset segment. A portion of investment income is allocated to or from the Shareholders' Capital and Surplus segment from or to the participating account's asset segments in proportion to the deficiency or excess of funds over assets of each segment.

iii) Expense Allocation

For purposes of allocation of profits to the participating accounts, expenses associated directly with the participating account will be attributed to the participating account. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

iv) Income Tax Allocation

For the purpose of allocation of profits to the participating accounts, income taxes are allocated to the participating account in proportion to total taxable income for the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Fee Income

Fee income includes fund management fees, policy administration fees and surrender charges, and is recognized on an accrual basis. Fee income earned for investment management and administration of the segregated funds is generally calculated and recorded as revenue daily based on closing segregated fund net asset market values.

(n) Investment Income

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income and dividend income are included in Investment income in the Consolidated statement of operations for all financial assets, regardless of classification.

(o) Income Taxes

Income tax expense for the period comprises current and deferred tax. Tax is recognized in the Consolidated statement of operations except to the extent that it relates to items recognized in OCI or directly in equity. In these cases, the tax is recognized 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 the amount 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. 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 tax and 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 their substantive enactment.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

(p) 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 statement of operations.

For monetary financial assets designated as AFS, translation differences are recognized in the Consolidated statement of operations. Translation differences on non-monetary items, such as foreign denominated AFS common equities, are recognized in OCI and included in the AFS component within AOCI. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in equity is recognized in the Consolidated statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Comprehensive Income

Comprehensive income consists of Net income and Other comprehensive income. OCI includes unrealized fair value change on AFS financial assets, net of amounts reclassified to the Consolidated statement of operations, and the effective portion of the change in the fair value of cash flow hedging instruments, net of amounts reclassified to the Consolidated statement of operations, all 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 Net income. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(s) Leases

The Company leases certain property and equipment. The Company does not have substantially all of the risks and rewards of ownership and these leases are therefore classified as operating leases.

Payments made under operating leases are charged to Net income on a straight-line basis over the term of the lease.

(t) Earnings per Share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to common share owners of the Company by the weighted average number of common shares outstanding during the period. The Company does not have any potentially dilutive instruments. As a result, diluted earnings per share are the same as basic earnings per share.

(u) Future Accounting Changes

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

IFRS 9 *Financial Instruments – Classification and Measurement*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 10 *Consolidated Financial Statements*

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

IFRS 12 *Disclosure of Interests in Other Entities*

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

IFRS 13 *Fair Value Measurement*

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

IAS 1 *Presentation of Financial Statements*

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

IAS 19 *Employee Benefits*

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

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

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

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

(a) First-time Adoption Exemptions Applied

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

i) IFRS Optional Exemptions

(1) Business Combinations

IFRS 1 provides the option to apply IFRS 3 *Business Combinations*, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and therefore such business combinations have not been restated.

(2) Employee Benefits

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

(3) Fair Value or Revaluation as Deemed Cost

IFRS 1 allows an entity to use a previous GAAP revaluation of an item of property and equipment at, or before, the date of transition to IFRS as deemed cost if, at the date of the revaluation, the revaluation was broadly comparable to fair value, or the cost or depreciated cost in accordance with IFRS. The Company has elected to use a previous GAAP revaluation as the asset's deemed cost at the transition date since this value was broadly comparable to fair value at the date of the revaluation. The Company's head office land and buildings, which were presented as real estate investment under previous Canadian GAAP, were last valued as of September 22, 2009.

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(4) Designation of Previously Recognized Financial Instruments

IFRS 1 permits the redesignation of previously recognized financial assets at the date of transition as AFS or, provided the asset meets the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, FVTPL. The Company has elected to re-designate $151,047 of financial assets, previously classified as AFS and held in support of insurance operations, as FVTPL and maintain financial assets held in support of Shareholders' equity as AFS. The re-designated assets are valued at fair value under both designations.

ii) IFRS Mandatory Exceptions

(1) Estimates

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

(2) Hedge Accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. The Company discontinued hedge accounting on foreign exchange effective January 1, 2010. The impact was not material.

(b) Reconciliations of Previous Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The adoption of IFRS has not changed the Company's actual cash flows, however it has resulted in certain changes to the Company's reported financial position and results of operations. IFRS has also resulted in a number of presentation changes on the face of the Company's consolidated financial statements. In order to allow the users of the consolidated financial statements to better understand these changes, the Company has reconciled its previous Canadian GAAP Statement of financial position, Statement of operations, Statement of comprehensive income and Statement of cash flows for the year ended December 31, 2010 as well as the opening Statement of financial position as at January 1, 2010 to an IFRS basis. Explanations for the transitional adjustments and presentation reclassifications are provided below.

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

i) Reconciliations

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

	Reference	Share capital	Contributed surplus	Retained earnings	AOCI	Shareholders' equity
As reported under Canadian GAAP - December 31, 2009		$ 985	$ 19,387	$ 697,212	$ 33,470	$ 751,054
Differences increasing (decreasing) reported amount:						
1. Financial instruments	a	-	-	10,393	(10,357)	36
2. Employee benefits	b	-	-	3,430	-	3,430
3. Impairment of financial assets	f	-	-	(647)	647	-
4. Contract classification	c	-	-	1,190	-	1,190
5. Real estate	d	-	-	18	-	18
6. Income taxes	e	-	-	(461)	461	-
IFRS changes at January 1, 2010		-	-	13,923	(9,249)	4,674
Total Shareholders' Equity Under IFRS – as at January 1, 2010		$ 985	$ 19,387	$ 711,135	$ 24,221	$ 755,728

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

	Reference	Retained earnings	AOCI	Policyholders' equity
As reported under Canadian GAAP - December 31, 2009		$ 57,839	$ 2,973	$ 60,812
Differences increasing (decreasing) reported amount:				
1. Impairment of financial assets		-	-	-
2. Income taxes	e	(63)	63	-
IFRS changes at January 1, 2010		(63)	63	-
Total Policyholders' Equity Under IFRS – as at January 1, 2010		$ 57,776	$ 3,036	$ 60,812

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

	Reference	Share capital	Contributed surplus	Retained earnings	AOCI	Total equity
As reported under Canadian GAAP - December 31, 2009		$ 985	$ 19,387	$ 755,051	$ 36,443	$ 811,866
Differences increasing (decreasing) reported amount:						
1. Financial instruments	a	-	-	10,393	(10,357)	36
2. Employee benefits	b	-	-	3,430	-	3,430
3. Impairment of financial assets	f	-	-	(647)	647	-
4. Contract classification	c	-	-	1,190	-	1,190
5. Real estate	d	-	-	18	-	18
6. Income taxes	e	-	-	(524)	524	-
IFRS changes at January 1, 2010		-	-	13,860	(9,186)	4,674
Total Equity Under IFRS – as at January 1, 2010		$ 985	$ 19,387	$ 768,911	$ 27,257	$ 816,540

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of shareholders' equity as at December 31, 2010

	Reference	Share capital	Contributed surplus	Retained earnings	AOCI	Shareholders' equity
As reported under Canadian GAAP - December 31, 2010		$ 985	$ 19,387	$ 712,402	$ 58,744	$ 791,518
IFRS changes at January 1, 2010		-	-	13,923	(9,249)	4,674
Differences increasing (decreasing) reported amount:						
1. Financial instruments	a	-	-	(9,487)	(4,979)	(14,466)
2. Employee benefits	b	-	-	(187)	-	(187)
3. Impairment of financial assets	f	-	-	(699)	699	-
4. Contract classification	c	-	-	(136)	-	(136)
5. Real estate	d	-	-	(527)	-	(527)
6. Income taxes	e	-	-	683	(683)	-
IFRS changes for the year ended December 31, 2010		-	-	(10,353)	(4,963)	(15,316)
Total Shareholders' Equity Under IFRS – as at December 31, 2010		$ 985	$ 19,387	$ 715,972	$ 44,532	$ 780,876

Reconciliation of policyholders' equity as at December 31, 2010

	Reference	Retained earnings	AOCI	Policyholders' equity
As reported under Canadian GAAP - December 31, 2010		$ 52,968	$ 4,637	$ 57,605
IFRS changes at January 1, 2010		(63)	63	-
Differences increasing (decreasing) reported amount:				
1. Impairment of financial assets	f	(92)	92	-
2. Income taxes	e	73	(73)	-
IFRS changes for the year ended December 31, 2010		(19)	19	-
Total Policyholders' Equity Under IFRS – as at December 31, 2010		$ 52,886	$ 4,719	$ 57,605

Reconciliation of total equity as at December 31, 2010

	Reference	Share capital	Contributed surplus	Retained earnings	AOCI	Total equity
As reported under Canadian GAAP - December 31, 2010		$ 985	$ 19,387	$ 765,370	$ 63,381	$ 849,123
IFRS changes at January 1, 2010		-	-	13,860	(9,186)	4,674
Differences increasing (decreasing) reported amount:						
1. Financial instruments	a	-	-	(9,487)	(4,979)	(14,466)
2. Employee benefits	b	-	-	(187)	-	(187)
3. Impairment of financial assets	f	-	-	(791)	791	-
4. Contract classification	c	-	-	(136)	-	(136)
5. Real estate	d	-	-	(527)	-	(527)
6. Income taxes	e	-	-	756	(756)	-
IFRS changes for the year ended December 31, 2010		-	-	(10,372)	(4,944)	(15,316)
Total Equity Under IFRS – as at December 31, 2010		$ 985	$ 19,387	$ 768,858	$ 49,251	$ 838,481

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of net income (loss) for the year ended December 31, 2010

	Reference	Shareholders'	Policyholders'	Total
Net income (loss) under Canadian GAAP, December 31, 2010		$ 30,190	$ (4,871)	$ 25,319
IFRS changes increasing (decreasing) reported net income:				
1. Redesignation of financial instruments	a	(9,487)	-	(9,487)
2. Employee benefits	b	(187)	-	(187)
3. Impairment of financial assets	f	(699)	(92)	(791)
4. Contract classification	c	(136)	-	(136)
5. Real estate	d	(527)	-	(527)
6. Income taxes	e	683	73	756
Total IFRS changes for the year ended December 31, 2010		(10,353)	(19)	(10,372)
Net Income (Loss) Under IFRS		$ 19,837	$ (4,890)	$ 14,947

Reconciliation of other comprehensive income (loss) for the year ended December 31, 2010

	Reference	Shareholders'	Policyholders'	Total
Other comprehensive income (loss) under Canadian GAAP		$ 25,274	$ 1,664	$ 26,938
IFRS changes increasing (decreasing) reported other comprehensive income:				
1. Redesignation of financial instruments	a	(4,979)	-	(4,979)
2. Impairment of financial assets	f	699	92	791
3. Income taxes	e	(683)	(73)	(756)
Total IFRS changes for the year ended December 31, 2010		(4,963)	19	(4,944)
Other Comprehensive Income (Loss) Under IFRS		$ 20,311	$ 1,683	$ 21,994

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Statement of financial position as of January 1, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
ASSETS					**ASSETS**
GENERAL FUNDS					
Cash and cash equivalents		$ 149,141	$ -	$ 149,141	Cash and cash equivalents
					Investments
Short-term investments		37,080	-	37,080	Short-term investments
Bonds		2,795,896	-	2,795,896	Bonds
Common and preferred shares	a	949,742	36	949,778	Common and preferred shares
Mortgages		223,642	-	223,642	Mortgages
Real estate	d	15,601	(15,601)	-	
Loans on policies		38,728	-	38,728	Loans on policies
Policy contract loans		137,764	-	137,764	Policy contract loans
		4,198,453	(15,565)	4,182,888	Total investments
Accrued investment income		17,827	-	17,827	Accrued investment income
Premiums receivable	i	3,914	13,746	17,660	Insurance receivables
Current income taxes receivable		-	-	-	Current income taxes receivable
	h	-	32,693	32,693	Reinsurance assets
Other assets	b,i	32,718	(13,170)	19,548	Other assets
	d,i	-	19,973	19,973	Property and equipment
	i	-	3,688	3,688	Intangible assets
	g	-	4,186,585	4,186,585	Segregated fund assets
TOTAL GENERAL FUND ASSETS		$ 4,402,053	$ 4,227,950	$ 8,630,003	**TOTAL ASSETS**
TOTAL SEGREGATED FUND ASSETS	g	$ 4,310,401	$ (4,310,401)	-	
LIABILITIES					**LIABILITIES**
GENERAL FUNDS					
Accounts payable and other liabilities	b,d,j	$ 86,172	(41,029)	45,143	Accounts payable and other liabilities
	h,j	-	57,908	57,908	Insurance payables
Current income taxes payable		30,065	-	30,065	Current income taxes payable
Policy liabilities	c,h	3,192,988	33,157	3,226,145	Insurance contract liabilities
	c	-	17,566	17,566	Investment contract liabilities
Policyholders' funds on deposit		29,702	-	29,702	Policyholders' funds on deposit
Provision for unpaid and unreported claims	h	32,606	(32,606)	-	
Provision for profits to policyholders		18,558	-	18,558	Provision for profits to policyholders
Future income taxes	b,c	1,116	1,695	2,811	Deferred income taxes
Subordinated debt		198,980	-	198,980	Subordinated debt
	g	-	4,186,585	4,186,585	Segregated fund policy liabilities
		3,590,187	4,223,276	7,813,463	
SHAREHOLDERS' & POLICYHOLDERS' EQUITY					**SHAREHOLDERS' & POLICYHOLDERS' EQUITY**
Shareholders' equity					Shareholders' equity
Capital stock		985	-	985	Capital stock
Contributed surplus		19,387	-	19,387	Contributed surplus
Retained earnings	a,b,c,d,e,f	697,212	13,923	711,135	Retained earnings
Accumulated other comprehensive income	a,e,f	33,470	(9,249)	24,221	Accumulated other comprehensive income
		751,054	4,674	755,728	
Policyholders' equity					Policyholders' equity
Retained earnings	e	57,839	(63)	57,776	Retained earnings
Accumulated other comprehensive income	e	2,973	63	3,036	Accumulated other comprehensive income
		60,812	-	60,812	
		811,866	4,674	816,540	
TOTAL GENERAL FUND LIABILITIES AND EQUITY		$ 4,402,053	$ 4,227,950	$ 8,630,003	**TOTAL LIABILITIES AND EQUITY**
TOTAL SEGREGATED FUND LIABILITIES	g	$ 4,310,401	$ (4,310,401)	$ -	

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Statement of financial position as of December 31, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
ASSETS					**ASSETS**
GENERAL FUNDS					
Cash and cash equivalents		$ 151,332	$ -	$ 151,332	Cash and cash equivalents
					Investments
Short-term investments		50,914	-	50,914	Short-term investments
Bonds		3,221,908	-	3,221,908	Bonds
Common and preferred shares	a	1,002,238	155	1,002,393	Common and preferred shares
Mortgages		226,887	-	226,887	Mortgages
Real estate	d	15,656	(15,656)	-	
Loans on policies		40,242	-	40,242	Loans on policies
Policy contract loans		119,896	-	119,896	Policy contract loans
		4,677,741	(15,501)	4,662,240	Total investments
Accrued investment income		18,411	-	18,411	Accrued investment income
Premiums receivable	i	3,108	21,513	24,621	Insurance receivables
Current income taxes receivable	a	11,054	(47)	11,007	Current income taxes receivable
Other assets	b,i	38,281	(19,366)	18,915	Other assets
	d,i	-	21,257	21,257	Property and equipment
	i	-	2,244	2,244	Intangible assets
	g	-	4,620,899	4,620,899	Segregated fund assets
TOTAL GENERAL FUND ASSETS		$ 4,899,927	$ 4,630,999	$ 9,530,926	**TOTAL ASSETS**
TOTAL SEGREGATED FUND ASSETS	g	$ 4,706,658	$ (4,706,658)	$ -	
LIABILITIES					**LIABILITIES**
GENERAL FUNDS					
Accounts payable and other liabilities	b,d, j	$ 81,654	$ (43,946)	$ 37,708	Accounts payable and other liabilities
	h, j	-	73,055	73,055	Insurance payables
	a,h	-	17,680	17,680	Reinsurance liabilities
Policy liabilities	a,c,h	3,669,504	3,814	3,673,318	Insurance contract liabilities
	c	-	16,978	16,978	Investment contract liabilities
Policyholders' funds on deposit		30,037	-	30,037	Policyholders' funds on deposit
Provision for unpaid and unreported claims	h	42,977	(42,977)	-	
Provision for profits to policyholders		20,104	-	20,104	Provision for profits to policyholders
Future income taxes	a,b,c	7,343	(3,862)	3,481	Deferred income taxes
Subordinated debt		199,185	-	199,185	Subordinated debt
	g	-	4,620,899	4,620,899	Segregated fund policy liabilities
		4,050,804	4,641,641	8,692,445	
SHAREHOLDERS' & POLICYHOLDERS' EQUITY					**SHAREHOLDERS' & POLICYHOLDERS' EQUITY**
Shareholders' equity					Shareholders' equity
Capital stock		985	-	985	Capital stock
Contributed surplus		19,387	-	19,387	Contributed surplus
Retained earnings	a,b,c,d,e,f	712,402	3,570	715,972	Retained earnings
Accumulated other comprehensive income (loss)	a,e,f	58,744	(14,212)	44,532	Accumulated other comprehensive income (loss)
		791,518	(10,642)	780,876	
Policyholders' equity					Policyholders' equity
Retained earnings	e,f	52,968	(82)	52,886	Retained earnings
Accumulated other comprehensive income	e,f	4,637	82	4,719	Accumulated other comprehensive income (loss)
		57,605	-	57,605	
		849,123	(10,642)	838,481	
TOTAL GENERAL FUND LIABILITIES AND EQUITY		$ 4,899,927	$ 4,630,999	$ 9,530,926	**TOTAL LIABILITIES AND EQUITY**
TOTAL SEGREGATED FUNDS	g	$ 4,706,658	$ (4,706,658)	$ -	

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Statement of operations for year ended December 31, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
REVENUE					**REVENUE**
Insurance premiums		$ 577,847	$ (577,847)	$ -	
Annuity premiums	c	239,864	(239,864)	-	
	c,h		890,514	890,514	Gross premiums
	h		(73,988)	(73,988)	Premiums ceded to reinsurers
	h	817,711	(1,185)	816,526	Net premiums
Investment income	d	205,360	(1,012)	204,348	Investment income
Fair value change in held for trading assets	a	198,111	15,535	213,646	Fair value change in FVTPL assets
Realized gain (loss) on held for trading assets	a	8,248	(201)	8,047	Realized gain (loss) on FVTPL assets
Realized gain (loss) on available for sale assets including impairment write-downs	a,f	15,463	(7,967)	7,496	Realized gain (loss) on available for sale assets including impairment write-downs
Fee income	d	113,151	(57)	113,094	Fee income
		1,358,044	5,113	1,363,157	
BENEFITS AND EXPENSES					**BENEFITS AND EXPENSES**
	c,h	-	596,607	596,607	Gross benefits and claims paid
	h	-	(62,845)	(62,845)	Claims recovery from reinsurers
		-	533,762	533,762	Net benefits and claims
	a,c,h		447,173	447,173	Gross change in insurance contract liabilities
	a,h		50,373	50,373	Change in insurance contract liabilities ceded
		-	497,546	497,546	Net change in insurance contract liabilities
	c	-	910	910	Change in investment contract provision
Insurance benefits		306,847	(306,847)	-	
Annuity benefits	c	230,048	(230,048)	-	
Policy dividends		19,079	-	19,079	Policy dividends
Increase (decrease) in policy liabilities		476,516	(476,516)	-	
Operating expenses	b,d	116,527	(116)	116,411	Operating expenses
Commissions	h	157,081	2,004	159,085	Commissions
	h	-	(2,004)	(2,004)	Commissions recovery from reinsurers
Interest expense		13,665	-	13,665	Interest expense
		1,319,763	(1,013,527)	306,236	
		1,319,763	18,691	1,338,454	Total benefits and expenses
NET INCOME BEFORE TAXES		38,281	(13,578)	24,703	**NET INCOME BEFORE TAXES**
Taxes - premium		12,198	-	12,198	Taxes - premium
- investment and capital		3,300	-	3,300	- investment and capital
- income	a,b,c,d,e,f	(2,536)	(3,206)	(5,742)	- income
		12,962	(3,206)	9,756	
NET INCOME		25,319	(10,372)	14,947	**NET INCOME**
Participating policyholders' net income (loss)	e,f	(4,871)	(19)	(4,890)	Participating policyholders' portion of net income (loss)
SHAREHOLDERS' NET INCOME		$ 30,190	$ (10,353)	$ 19,837	**SHAREHOLDERS' NET INCOME**

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
SHAREHOLDERS'					**SHAREHOLDERS'**
Net income		$ 30,190	$ (10,353)	$ 19,837	Net income
Other comprehensive income, net of income taxes:					Other comprehensive income (loss), net of income taxes:
Unrealized fair value change on available for sale investments	a	33,690	(10,636)	23,054	Unrealized fair value change on available for sale investments
Less realized fair value change on available for sale investments including impairment write-downs reclassified to net income	a,e,f	9,063	(5,671)	3,392	Less realized fair value change on available for sale investments including impairment write-downs reclassified to net income
Net unrealized fair value increase (decrease)		24,627	(4,965)	19,662	Net unrealized fair value increase (decrease)
Gain/loss on derivative investments designated as cash flow hedges		-	-	-	Gain (loss) on derivative investments designated as cash flow hedges
Less gain/loss on derivative investments designated as cash flow hedges reclassified to net income		(462)	-	(462)	Less gain (loss) on derivative investments designated as cash flow hedges reclassified to net income
Net gain/loss on derivatives designated as cash flow hedges		462	-	462	Net gain (loss) on derivatives designated as cash flow hedges
Shareholder portion of policyholder other comprehensive income (loss)		185	2	187	Shareholder portion of policyholder other comprehensive income (loss)
Total other comprehensive income (loss)		25,274	(4,963)	20,311	**Total other comprehensive income (loss)**
Comprehensive income (loss)		$ 55,464	$ (15,316)	$ 40,148	**Comprehensive income (loss)**
POLICYHOLDERS'					**POLICYHOLDERS'**
Net income (loss)		$ (4,871)	$ (19)	$ (4,890)	Net income (loss)
Other comprehensive income (loss), net of income taxes:					Other comprehensive income (loss), net of income taxes:
Unrealized fair value change on available for sale investments		2,388	-	2,388	Unrealized fair value change on available for sale investments
Less realized fair value change on available for sale investments including impairment write-downs reclassified to net income	e,f	539	(21)	518	Less realized fair value change on available for sale investments including impairment write-downs reclassified to net income
Net unrealized fair value increase (decrease)		1,849	21	1,870	Net unrealized fair value increase (decrease)
Shareholder portion of policyholder other comprehensive (income) loss		(185)	(2)	(187)	Shareholder portion of policyholder other comprehensive income (loss)
Total other comprehensive income (loss)		1,664	19	1,683	**Total other comprehensive income (loss)**
Comprehensive income (loss)		$ (3,207)	$ -	$ (3,207)	**Comprehensive income (loss)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except for per share amounts and where otherwise stated)

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Statement of cash flows for year ended December 31, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
OPERATING ACTIVITIES					**OPERATING ACTIVITIES**
Net income	a,b,c,d,e,f	$ 25,319	$ (10,372)	$ 14,947	Net income
Non-cash items affecting net income					Non-cash items affecting net income:
Increase (decrease) in policy liabilities	a,c,h	476,516	(28,433)	448,083	Change in contract liabilities
	h		50,373	50,373	Change in reinsurance liabilities
Fair value change in held for trading assets	a	(198,111)	(15,535)	(213,646)	Fair value change in FVTPL assets
Realized (gain) loss on assets including impairment write downs	a,f	(23,711)	8,168	(15,543)	Realized (gain) loss on assets including impairment write downs
Amortization related to invested assets		(68,419)	-	(68,419)	Amortization related to invested assets
	d		4,109	4,109	Amortization related to capital assets
Future income taxes	a,b,c,d	6,227	(5,557)	670	Deferred income taxes
Other items		(47,981)	(2,753)	(50,734)	Other items
Cash provided from operating activities		169,840	-	169,840	Cash provided from operating activities
INVESTING ACTIVITIES					**INVESTING ACTIVITIES**
Portfolio investments					Portfolio investments
Purchases and advances		(1,375,230)	-	(1,375,230)	Purchases and advances
Sales and maturities		1,223,373	-	1,223,373	Sales and maturities
Loans on policies					Loans on policies
Advances		(7,800)	-	(7,800)	Advances
Repayments		24,791	-	24,791	Repayments
Decrease (increase) in short-term investments		(13,834)	-	(13,834)	Decrease (increase) in short-term investments
	i		(133)	(133)	Purchase of intangible assets and property and equipment
Other	i	(3,949)	133	(3,816)	Other
Cash provided from (used for) investing activities		(152,649)	-	(152,649)	Cash provided from (used for) investing activities
FINANCING ACTIVITIES					**FINANCING ACTIVITIES**
Dividends to common shareholders		(15,000)	-	(15,000)	Dividends to common shareholders
Debt issue		-	-	-	Debt issue
Debt repayment		-	-	-	Debt repayment
Cash provided from financing activities		(15,000)	-	(15,000)	Cash provided from financing activities
Net change in cash and cash equivalents		2,191	-	2,191	Net change in cash and cash equivalents
Cash and cash equivalents – beginning of period		149,141	-	149,141	**Cash and cash equivalents – beginning of year**
Cash and cash equivalents – end of year		$ 151,332	$ -	$ 151,332	**Cash and cash equivalents – end of year**

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

ii) Notes to the IFRS Reconciliations

The following narratives explain the significant differences between previous Canadian GAAP and IFRS impacting the Company's financial statements.

(1) Transitional Adjustments

a. Financial Instruments

As noted in the "IFRS Optional Exemptions" section, $151,047 of financial assets supporting insurance contract liabilities designated as AFS under previous Canadian GAAP have been re-designated as FVTPL under IFRS. In addition, common and preferred shares previously carried as AFS at cost are now carried as AFS at fair value. The effects of these adjustments as of January 1, 2010, were an increase in Retained earnings of $10,393, a decrease in AOCI of $10,357 and an increase in Common and preferred shares of $36.

During 2010, the Company updated its method for setting the investment return on its insurance contract liabilities by utilizing a modified mean reversion approach. The effects of this adjustment and the above noted adjustment on 2010 operating results were an increase in Common and preferred shares of $119, a decrease in Current income taxes receivable of $47, an increase in Insurance contract liabilities of $19,326, an increase in Reinsurance liabilities of $392, a reduction of Deferred income taxes of $5,180, a reduction in Net income of $9,487, and a reduction in OCI of $4,979.

b. Employee Benefits

As noted in the "IFRS Optional Exemptions" section, the Company elected under IFRS 1 to recognize all cumulative unamortized actuarial gains and losses related to its defined benefit plans in opening Retained earnings at the date of transition. The Company also recognized unamortized transitional amounts that existed at the date of transition. The recognition of these unamortized amounts resulted in the following adjustments to the Statement of financial position at January 1, 2010: a decrease in Other liabilities of $348, an increase in Other assets of $4,263, an increase in Deferred income taxes of $1,181, and an increase in Retained earnings of $3,430.

The effects of these adjustments on the Statement of financial position as at December 31, 2010 were: a decrease in Other liabilities of $33, a decrease in Other assets of $285, a decrease in Deferred income taxes of $65, and a decrease in Retained earnings of $187.

The Company also adjusted its pension expense to remove the amortization of both actuarial gains and losses and transitional assets and obligations. These items are combined in the adjustment to Operating expenses in the Company's Statement of operations reconciliation. The impact on net income for the year ended December 31, 2010 was a reduction of $187.

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

c. Contract Classification

Under previous Canadian GAAP all policy contracts were presented as a single item on the face of the financial statements. Under IFRS investment contracts without a significant insurance element are presented as investment contract liabilities. Certain of the Company's policy contracts do not meet the significant insurance element requirement under IFRS and as a result have been reclassified to investment contracts. Deposits and withdrawals on these policies are recorded in a liability account rather than revenue and expense accounts. Contract liabilities of $19,270 were removed from Insurance contract liabilities on transition. These contracts were then measured as Investment contracts under IAS 39 using the effective interest rate method and valued at $17,566. Deferred income taxes of $514 arose on the difference in measurement. Retained earnings increased by $1,190.

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

d. Property and Equipment

The Company's office properties (head office land and buildings) that were classified as real estate investments under previous Canadian GAAP ($15,601) do not meet the definition of investment property under IFRS. As a result, they are accounted for as Property and equipment under IFRS ($15,601) and have been reclassified accordingly on the Company's Statement of financial position. The effects on the Statement of financial position were a decrease in Investments of $15,601 and an increase of the same amount to Property and equipment, a decrease in Accounts payable and other liabilities of $18 and an increase in Shareholders' retained earnings of $18 as of January 1, 2010.

During 2010, the Company reversed rental income and rental expense (reported in Investment income and Operating expenses, respectively) related to own use property on the 2010 Statement of operations. The Company also recognized amortization expense of $644 on the 2010 Statement of operations related to Property and equipment that was previously reported as investment real estate. The resulting impact on Net income for the year ended December 31, 2010 was a reduction of $527.

e. Income Taxes

Under previous Canadian GAAP the full impact of the March 4, 2009 amendments to the *Income Tax Act* (Canada) was recorded in Net income. Under IAS 12 *Income Taxes*, the impact of any substantively enacted amendments relating to items recorded in OCI would have been reported in OCI. The unrealized tax recovery at January 1, 2010 associated with this tax law change was reclassified from Retained earnings to AOCI on transition (Shareholders' $461, Policyholders' $63).

During the year ended December 31, 2010, as tax recoveries were realized they were transferred from OCI to Net income (Shareholders' $683, Policyholders' $73).

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

f. Impairment of AFS Assets

IAS 39 *Financial Instruments: Recognition and Measurement* requires the recognition of an impairment loss on a financial asset or group of financial assets when there is objective evidence that the financial assets are impaired. Under previous Canadian GAAP, an impairment loss was recognized when there was objective evidence of impairment and the decline in fair value was other than temporary. On transition to IFRS, the Company recognized additional impairment on certain preferred share investments at January 1, 2010 as a result of the impairment review conducted in accordance with IAS 39. The impact of this adjustment on the Statement of financial position at January 1, 2010 was a decrease to Retained earnings of $647 and an increase to AOCI of $647.

The Company also recognized additional impairment on its equity investments for the year ended December 31, 2010, resulting in a $699 decrease to Shareholders' Net income and a $92 decrease to Policyholders' Net income with equivalent increases to OCI in the Statement of comprehensive income.

(2) Presentation Reclassifications

Certain amounts on the Statement of financial position, Statement of operations and Statement of cash flows have been reclassified to conform to the presentation adopted under IFRS. These presentation differences have no impact on reported net income or total equity.

g. Segregated Funds

Under previous Canadian GAAP, segregated fund assets and liabilities were presented separately from general funds on the face of the Statement of financial position and a continuity schedule was presented in a Statement of changes in segregated funds. Under IFRS total segregated fund assets are presented as a separate line item and included in total assets. Segregated fund policy liabilities are also presented as a separate line item and included in total liabilities. A breakdown by asset type and a change in segregated funds schedule is presented in Note 9. The Statement of operations presentation of segregated funds was not impacted by the change to IFRS. Segregated fund assets and Segregated fund liabilities were decreased by $123,816 to eliminate the Company's investment in Segregated funds on transition (December 31, 2010 $85,759).

h. Presentation of Insurance and Reinsurance

Under previous Canadian GAAP reinsurance ceded to third parties was deducted from insurance contract liabilities, insurance premiums, annuity premiums, insurance benefits, annuity benefits and commissions. IFRS requires these items to be presented on a gross basis. The grossing up of insurance contract liability balances has no effect on comprehensive income or equity. In addition, the Provision for unpaid and unreported claims has been disaggregated and reclassified to Insurance receivables, Reinsurance assets, Reinsurance liabilities, Insurance payables, or Insurance contract liabilities as appropriate.

i. Disaggregation of Other Assets

IFRS requires that insurance related assets, intangible assets and property and equipment be presented separately in the Statement of financial position. These line items have been reclassified from Other assets and Real estate investments, where they were presented under previous Canadian GAAP.

3. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

j. Disaggregation of Other Liabilities

IFRS requires that insurance related liabilities be presented separately in the Statement of financial position. These line items have been reclassified from Accounts payable and other liabilities, where they were presented under previous Canadian GAAP.

4. FINANCIAL INSTRUMENTS

(a) Summary of Invested Assets

The carrying values and fair values of portfolio investments are as follows:

	As at December 31, 2011				
Asset category	Designated as Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Short-term investments					
Canadian federal government	$ 5,979	$ 14,908	$ -	$ 20,887	$ 20,887
Canadian provincial governments	3,994	8,986	-	12,980	12,980
Total Short-term Investments	9,973	23,894	-	33,867	33,867
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	62,729	229,091	-	291,820	291,820
Canadian provincial and municipal governments	2,301,634	161,880	-	2,463,514	2,463,514
Total Government Bonds Issued or Guaranteed	2,364,363	390,971	-	2,755,334	2,755,334
Canadian corporate bonds by industry sector:					
Financial services	462,997	206,259	-	669,256	669,256
Infrastructure	196,681	34,838	-	231,519	231,519
Utilities	176,436	15,360	-	191,796	191,796
Energy	36,783	17,135	-	53,918	53,918
Consumer staples	36,754	9,001	-	45,755	45,755
Industrials	37,012	4,732	-	41,744	41,744
Health care	69,011	5,564	-	74,575	74,575
Total Canadian Corporate Bonds	1,015,674	292,889	-	1,308,563	1,308,563
Total Bonds	3,380,037	683,860	-	4,063,897	4,063,897
Preferred shares					
Canadian	215,582	108,648	-	324,230	324,230
Total Preferred Shares	215,582	108,648	-	324,230	324,230
Common shares					
Canadian	276,934	183,625	-	460,559	460,559
U.S.	13,766	6,957	-	20,723	20,723
Other	3,169	-	-	3,169	3,169
Total Common Shares	293,869	190,582	-	484,451	484,451
Mortgages	-	-	264,238	264,238	279,855
Loans on policies	-	-	41,981	41,981	41,981
Policy contract loans	-	-	113,118	113,118	113,118
Total	$ 3,899,461	$ 1,006,984	$ 419,337	$ 5,325,782	$ 5,341,399

4. FINANCIAL INSTRUMENTS (continued)

	As at December 31, 2010				
Asset category	Designated as Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Short-term investments					
Canadian federal government	$ 3,987	$ 34,954	$ -	$ 38,941	$ 38,941
Canadian provincial governments	-	11,973	-	11,973	11,973
Total Short-term Investments	3,987	46,927	-	50,914	50,914
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	53,684	107,870	-	161,554	161,554
Canadian provincial and municipal governments	1,851,697	150,735	-	2,002,432	2,002,432
Total Government Bonds Issued or Guaranteed	1,905,381	258,605	-	2,163,986	2,163,986
Canadian corporate bonds by industry sector:					
Financial services	488,225	158,274	-	646,499	646,499
Infrastructure	145,435	26,656	-	172,091	172,091
Utilities	120,888	17,221	-	138,109	138,109
Energy	20,262	4,937	-	25,199	25,199
Consumer staples	38,187	3,152	-	41,339	41,339
Industrials	25,058	2,695	-	27,753	27,753
Health care	6,932	-	-	6,932	6,932
Total Canadian Corporate Bonds	844,987	212,935	-	1,057,922	1,057,922
Total Bonds	2,750,368	471,540	-	3,221,908	3,221,908
Preferred shares					
Canadian	250,187	121,143	-	371,330	371,330
Total Preferred Shares	250,187	121,143	-	371,330	371,330
Common shares					
Canadian	299,648	312,828	-	612,476	612,476
U.S.	16,934	-	-	16,934	16,934
Other	1,653	-	-	1,653	1,653
Total Common Shares	318,235	312,828	-	631,063	631,063
Mortgages	-	-	226,887	226,887	236,824
Loans on policies	-	-	40,242	40,242	40,242
Policy contract loans	-	-	119,896	119,896	119,896
Total	$ 3,322,777	$ 952,438	$ 387,025	$ 4,662,240	$ 4,672,177

4. FINANCIAL INSTRUMENTS (continued)

Asset category	Designated as Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
	As at January 1, 2010				
Short-term investments					
Canadian federal government	$ 4,099	$ 12,986	$ -	$ 17,085	$ 17,085
Corporate	-	19,995	-	19,995	19,995
Total Short-term Investments	4,099	32,981	-	37,080	37,080
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	126,759	191,664	-	318,423	318,423
Canadian provincial and municipal governments	1,426,409	149,427	-	1,575,836	1,575,836
Other foreign government	153	1,418	-	1,571	1,571
Total Government Bonds Issued or Guaranteed	1,553,321	342,509	-	1,895,830	1,895,830
Canadian corporate bonds by industry sector:					
Financial services	465,020	122,544	-	587,564	587,564
Infrastructure	87,472	19,109	-	106,581	106,581
Utilities	118,297	20,108	-	138,405	138,405
Energy	9,488	5,252	-	14,740	14,740
Consumer staples	38,444	4,176	-	42,620	42,620
Industrials	8,829	1,327	-	10,156	10,156
Total Canadian Corporate Bonds	727,550	172,516	-	900,066	900,066
Total Bonds	2,280,871	515,025	-	2,795,896	2,795,896
Preferred shares					
Canadian	275,640	124,985	-	400,625	400,625
Total Preferred Shares	275,640	124,985	-	400,625	400,625
Common shares					
Canadian	245,901	227,816	-	473,717	473,717
U.S.	26,308	19,290	-	45,598	45,598
Other	10,440	19,398	-	29,838	29,838
Total Common Shares	282,649	266,504	-	549,153	549,153
Mortgages	-	-	223,642	223,642	225,160
Loans on policies	-	-	38,728	38,728	38,728
Policy contract loans	-	-	137,764	137,764	137,764
Total	$ 2,843,259	$ 939,495	$ 400,134	$ 4,182,888	$ 4,184,406

4. FINANCIAL INSTRUMENTS (continued)

(b) Impairments

i) Loans and Receivables

Investments in individual assets have been reduced by the following specific allowances for impairment:

	As at December 31, 2011		
Impaired Loans	Recorded Investment	Allowance for Impairment	Carrying Amount
Mortgages	$ 8,010	$ 2,571	$ 5,439
Policy contract loans	813	549	264
Total	$ 8,823	$ 3,120	$ 5,703

	As at December 31, 2010		
Impaired Loans	Recorded Investment	Allowance for Impairment	Carrying Amount
Mortgages	$ 10,649	$ 2,421	$ 8,228
Policy contract loans	813	565	248
Total	$ 11,462	$ 2,986	$ 8,476

	As at January 1, 2010		
Impaired Loans	Recorded Investment	Allowance for Impairment	Carrying Amount
Mortgages	$ 10,214	$ 2,061	$ 8,153
Policy contract loans	813	578	235
Total	$ 11,027	$ 2,639	$ 8,388

The Company holds collateral of $5,462 in respect of these mortgages and $264 in respect of these policy contract loans as at December 31, 2011. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

Continuity of Allowance for Loan Impairment	2011	2010
Allowance - beginning of year	$ 2,986	$ 2,639
Provision for (recovery of) loan impairment	505	925
Write off of loans	(371)	(578)
Allowance - End of Year	$ 3,120	$ 2,986

The Company has recorded interest income of $854 (2010 $764) on these assets.

As at December 31, 2011 loans and receivables past due but not impaired are $nil (December 31, 2010 $nil, January 1, 2010 $9,270).

4. FINANCIAL INSTRUMENTS (continued)

ii) Available for Sale

For the year ended December 31, 2011, the Company reclassified a pre-tax loss of $10,199 from OCI to Net income due to write-downs of impaired available for sale common and preferred shares (2010 $5,380). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 4(e) Fair Value of Financial Instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 29 Risk Management.

(c) Hedge Accounting

In conjunction with the issuance of unsecured subordinated debentures (Note 24), the Company entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative has been accounted for as a hedging item in a cash flow hedging relationship.

The Company expects to reclassify a loss of $791 from AOCI to investment income on the Consolidated statement of operations in the next twelve months.

(d) Investment Income

Investment income is comprised of the following:

For the year ended December 31	2011	2010
Interest income	$ 183,244	$ 169,423
Dividend income	34,398	35,713
Other	(355)	137
Impaired asset recovery (write-down)	(505)	(925)
Investment Income	$ 216,782	$ 204,348

Included in interest income is $50,228 (2010 $49,212) relating to assets not classified as fair value through profit or loss.

4. FINANCIAL INSTRUMENTS (continued)

(e) Fair Value of Financial Instruments

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

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

As of December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 151,332	$ -	$ -	$ 151,332
Fair value through profit or loss:				
Bonds	-	2,750,368	-	2,750,368
Common shares	318,235	-	-	318,235
Preferred shares	250,187	-	-	250,187
Short-term investments	-	3,987	-	3,987
Available for sale:				
Bonds	-	471,540	-	471,540
Common shares	312,828	-	-	312,828
Preferred shares	121,143	-	-	121,143
Short-term investments	-	46,927	-	46,927
Total	$ 1,153,725	$ 3,272,822	$ -	$ 4,426,547

As of January 1, 2010	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 149,141	$ -	$ -	$ 149,141
Fair value through profit or loss:				
Bonds	-	2,280,871	-	2,280,871
Common shares	282,649	-	-	282,649
Preferred shares	275,640	-	-	275,640
Short-term investments	-	4,099	-	4,099
Available for sale:				
Bonds	-	515,025	-	515,025
Common shares	266,504	-	-	266,504
Preferred shares	124,985	-	-	124,985
Short-term investments	-	32,981	-	32,981
Total	$ 1,098,919	$ 2,832,976	$ -	$ 3,931,895

4. FINANCIAL INSTRUMENTS (continued)

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2011 or during the year ended December 31, 2010.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Notes 4(a) and 29.

(f) Derivative Financial Instruments

As at December 31, 2011

	Notional Principal	Current Replacement Cost	Fair Value Positive	Fair Value Negative	Credit Equivalent Amount	Risk Weighted Balance
Exchange-traded						
Equity index futures	$ 22,681	$ 30	$ 30	$ 161	$ -	$ -
Equity options	-	-	-	-	-	-
Over-the-counter						
Foreign currency forwards	16,200	16	16	289	178	3
Other equity contracts	-	-	-	-	-	-
Total	$ 38,881	$ 46	$ 46	$ 450	$ 178	$ 3

As at December 31, 2010

	Notional Principal	Current Replacement Cost	Fair Value Positive	Fair Value Negative	Credit Equivalent Amount	Risk Weighted Balance
Exchange-traded						
Equity index futures	$ 9,424	$ 25	$ 25	$ 154	$ -	$ -
Equity options	-	-	-	-	-	-
Over-the-counter						
Foreign currency forwards	6,571	12	12	40	78	1
Other equity contracts	11,545	730	730	526	1,422	23
Total	$ 27,540	$ 767	$ 767	$ 720	$ 1,500	$ 24

As at January 1, 2010

	Notional Principal	Current Replacement Cost	Fair Value Positive	Fair Value Negative	Credit Equivalent Amount	Risk Weighted Balance
Exchange-traded						
Equity index futures	$ 10,128	$ 66	$ 66	$ -	$ -	$ -
Equity options	7	3	3	-	3	-
Over-the-counter						
Foreign currency forwards	22,425	124	124	247	349	5
Other equity contracts	15,515	2,300	2,300	-	3,407	55
Total	$ 48,075	$ 2,493	$ 2,493	$ 247	$ 3,759	$ 60

All contracts mature in less than one year. Fair value positive amounts and fair value negative amounts are reported on the Consolidated statement of financial position as Other assets and Accounts payable and other liabilities respectively.

5. INSURANCE RECEIVABLES

As at	December 31, 2011	December 31, 2010	January 1, 2010
Due from policyholders	$ 3,400	$ 3,108	$ 3,914
Due and accrued from reinsurers	18,593	16,235	9,437
Fees receivable	2	2,781	1,355
Other	2,160	2,497	2,954
Insurance Receivables	$ 24,155	$ 24,621	$ 17,660

All amounts are expected to be recovered within one year of the Consolidated statement of financial position date.

6. OTHER ASSETS

Other assets consist of the following:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Trade accounts receivable	$ 18,696	$ 4,590	$ 6,431
Pension asset	13,137	12,016	10,506
Prepaid expenses	2,631	2,309	2,611
Other Assets	$ 34,464	$ 18,915	$ 19,548

Of the above total, $13,137 (December 31, 2010 $12,016, January 1, 2010 $10,506) is expected to be recovered more than one year after the Consolidated statement of financial position date.

7. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture and Equipment	Leasehold Improvements	Total
Cost					
As at January 1, 2010	$ 2,728	$ 12,873	$ 13,074	$ 3,271	$ 31,946
Additions	-	-	2,413	1,403	3,816
Disposals	-	-	(2,609)	-	(2,609)
As at December 31, 2010	2,728	12,873	12,878	4,674	33,153
Additions	-	-	2,214	520	2,734
Disposals	-	-	-	-	-
As at December 31, 2011	**$ 2,728**	**$ 12,873**	**$ 15,092**	**$ 5,194**	**$ 35,887**
Amortization					
As at January 1, 2010	$ -	$ -	$ (10,422)	$ (1,551)	$ (11,973)
Charge for the year	-	(644)	(1,296)	(592)	(2,532)
Disposals	-	-	2,609	-	2,609
As at December 31, 2010	-	(644)	(9,109)	(2,143)	(11,896)
Charge for the year	-	(611)	(1,515)	(624)	(2,750)
Disposals	-	-	-	-	-
As at December 31, 2011	**$ -**	**$ (1,255)**	**$ (10,624)**	**$ (2,767)**	**$ (14,646)**
Carrying Amount					-
January 1, 2010	$ 2,728	$ 12,873	$ 2,652	$ 1,720	$ 19,973
December 31, 2010	$ 2,728	$ 12,229	$ 3,769	$ 2,531	$ 21,257
December 31, 2011	**$ 2,728**	**$ 11,618**	**$ 4,468**	**$ 2,427**	**$ 21,241**

There were no asset impairments in 2011 or 2010.

8. INTANGIBLE ASSETS

Cost		
As at January 1, 2010	$	38,767
Additions		133
Disposals		-
As at December 31, 2010		38,900
Additions		324
Disposals		(893)
As at December 31, 2011	**$**	**38,331**
Amortization		
As at January 1, 2010	$	(35,079)
Charge for the year		(1,577)
Disposals		-
As at December 31, 2010		(36,656)
Charge for the year		(1,164)
Disposals		579
As at December 31, 2011	**$**	**(37,241)**
Carrying Amount		
January 1, 2010	$	3,688
December 31, 2010	$	2,244
December 31, 2011	**$**	**1,090**

The Company's total amount of research and development expenditure recognized as an expense during 2011 is $2,023 (2010 $889).

There were no asset impairments during 2011 or 2010.

9. SEGREGATED FUNDS

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

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

(b) The following table presents the change in segregated fund assets:

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

10. INSURANCE PAYABLES

As at	December 31, 2011	December 31, 2010	January 1, 2010
Claims due and accrued	$ 31,610	$ 38,344	$ 21,910
Payable to agents	7,734	7,270	6,306
Premiums paid in advance	2,753	2,314	2,608
Due to reinsurance companies	6,976	7,799	5,260
Other	14,486	17,328	21,824
Insurance Payables	$ 63,559	$ 73,055	$ 57,908

Of the above total, $3,002 (December 31, 2010 $7,031, January 1, 2010 $7,281) is expected to be settled more than one year after the Consolidated statement of financial position date.

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES

(a) Nature and Composition of 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.

The Company reinsures excess risks with Canadian regulated reinsurance companies. The reinsurance asset (liability) is determined based on both the premiums expected to be paid by the Company under reinsurance agreements over the duration of the insurance contracts that they support, and the insurance claims expected to be received by the Company when an insured event occurs under those insurance contracts. The Company's gross exposure to insurance risk is decreased (increased) by reinsurance assets (liabilities) of $(156,119) (December 31, 2010 $(17,680), January 1, 2010 $32,693). The change in reinsurance liability is primarily related to the Company's revised mortality assumptions, which reduce the present value of insurance claims expected to be recovered from the reinsurance companies. The Company 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.

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES (continued)

The Company is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets. The tables below show the concentration of insurance contract liabilities and related reinsurance assets (liabilities) by type of contract.

Concentration of Insurance Contract Liabilities

	As at December 31, 2011		
	Gross Insurance Contract Liabilities	Reinsurance Assets (Liabilities)	Net
Participating Individual			
- Life	$ 449,045	$ (2,579)	$ 451,624
- Other	446	-	446
Non-participating Individual			
- Life	2,365,799	(253,239)	2,619,038
- Annuity	1,066,630	16,932	1,049,698
- Health	85,937	10,502	75,435
Non-participating Group			
- Life	23,782	774	23,008
- Annuity	70,196	-	70,196
- Health	192,841	71,491	121,350
Segregated fund deferred acquisition costs	(55,175)	-	(55,175)
Segregated fund guarantee liability	-	-	-
Total	$ 4,199,501	$ (156,119)	$ 4,355,620

	As at December 31, 2010		
	Gross Insurance Contract Liabilities	Reinsurance Assets (Liabilities)	Net
Participating Individual			
- Life	$ 387,804	$ (4,230)	$ 392,034
- Other	463	-	463
Non-participating Individual			
- Life	1,951,227	(103,475)	2,054,702
- Annuity	1,067,767	18,439	1,049,328
- Health	61,427	9,555	51,872
Non-participating Group			
- Life	20,963	810	20,153
- Annuity	74,691	-	74,691
- Health	167,496	61,221	106,275
Segregated fund deferred acquisition costs	(58,520)	-	(58,520)
Segregated fund guarantee liability	-	-	-
Total	$ 3,673,318	$ (17,680)	$ 3,690,998

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES (continued)

	As at January 1, 2010		
	Gross Insurance Contract Liabilities	Reinsurance Assets (Liabilities)	Net
Participating Individual			
- Life	$ 341,582	$ (3,282)	$ 344,864
- Other	483	-	483
Non-participating Individual			
- Life	1,660,305	(50,598)	1,710,903
- Annuity	990,191	21,376	968,815
- Health	43,914	8,727	35,187
Non-participating Group			
- Life	19,279	736	18,543
- Annuity	75,581	-	75,581
- Health	153,745	55,734	98,011
Segregated fund deferred acquisition costs	(58,935)	-	(58,935)
Segregated fund guarantee liability	-	-	-
Total	$ 3,226,145	$ 32,693	$ 3,193,452

The Company expects to pay $4,082,809 (December 31, 2010 $3,539,517) of Insurance contract liabilities and $161,885 (December 31, 2010 $24,911) of Reinsurance liabilities more than one year after the Consolidated statement of financial position date.

The following segregated fund deferred acquisition costs are included in Insurance contract liabilities:

	2011	2010
Segregated funds deferred acquisition costs - beginning of year	**$ 58,520**	$ 58,935
Deferred during year	**21,250**	23,093
Amortized during year	**(24,595)**	(23,508)
Segregated Funds Deferred Acquisition Costs - End of Year	**$ 55,175**	$ 58,520

Of the above total, $52,128 (December 31, 2010 $55,580, January 1, 2010 $56,228) is expected to be recovered more than one year after the Consolidated statement of financial position date.

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES (continued)

(b) Change in Insurance Contract Liabilities and Reinsurance Assets/Liabilities

		2011		
		Gross Liabilities	Reinsurance Assets (Liabilities)	Net
Insurance contracts	- beginning of year	$ 3,673,318	$ (17,680)	$ 3,690,998
Changes in methods and assumptions	- improvements in mortality/morbidity experience	(181,964)	(142,405)	(39,559)
	- updated approach for establishing mortality assumption	(46,744)	(23,782)	(22,962)
	- decrease in investment return assumption	81,296	(32)	81,328
	- model enhancements	(8,628)	3,807	(12,435)
	- other changes	2,350	8,091	(5,741)
Normal changes	- new business	154,250	6,729	147,521
	- in-force business	525,623	9,153	516,470
Insurance Contracts - End of Year		$ 4,199,501	$ (156,119)	$ 4,355,620

		2010		
		Gross Liabilities	Reinsurance Assets (Liabilities)	Net
Insurance contracts	- beginning of year	$ 3,226,145	$ 32,693	$ 3,193,452
Changes in methods and assumptions	- updated approach for establishing investment return assumption	8,391	(63)	8,454
	- improvements in mortality/morbidity experience	(79,878)	(50,163)	(29,715)
	- decrease in investment return assumption	40,167	1,387	38,780
	- revision to lapse assumptions	(9,673)	(14,357)	4,684
	- other changes	(5,405)	(1,115)	(4,290)
Normal changes	- new business	250,875	808	250,067
	- in-force business	242,696	13,130	229,566
Insurance Contracts - End of Year		$ 3,673,318	$ (17,680)	$ 3,690,998

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

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

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

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

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

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

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

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

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES (continued)

(c) Mix of Assets Allocated to Insurance, Annuity and Investment Contract Liabilities and Equity

As at December 31, 2011

	Insurance Contract Liabilities	Annuity Contract Liabilities	Investment Contract Liabilities	Equity	Total
Cash and short-term investments	$ 135,886	$ 20,425	$ 274	$ 32,841	$ 189,426
Bonds	2,781,320	602,396	8,092	672,089	4,063,897
Mortgages	7,082	253,748	3,408	-	264,238
Preferred shares	74,824	192,022	2,579	54,805	324,230
Common shares	293,869	-	-	190,582	484,451
Loans on policies	41,981	-	-	-	41,981
Policy contract loans	20,403	43,605	586	48,524	113,118
Other	20,832	10,176	137	87,018	118,163
Total	$ 3,376,197	$ 1,122,372	$ 15,076	$ 1,085,859	$ 5,599,504

As at December 31, 2010

	Insurance Contract Liabilities	Annuity Contract Liabilities	Investment Contract Liabilities	Equity	Total
Cash and short-term investments	$ 122,637	$ 21,994	$ 332	$ 57,283	$ 202,246
Bonds	2,082,779	597,735	9,027	532,367	3,221,908
Mortgages	-	223,511	3,376	-	226,887
Preferred shares	84,928	227,545	3,437	55,420	371,330
Common shares	318,235	-	-	312,828	631,063
Loans on policies	40,242	-	-	-	40,242
Policy contract loans	19,680	48,531	733	50,952	119,896
Other	16,713	4,862	73	74,807	96,455
Total	$ 2,685,214	$ 1,124,178	$ 16,978	$ 1,083,657	$ 4,910,027

As at January 1, 2010

	Insurance Contract Liabilities	Annuity Contract Liabilities	Investment Contract Liabilities	Equity	Total
Cash and short-term investments	$ 97,645	$ 12,684	$ 213	$ 75,679	$ 186,221
Bonds	1,740,732	496,948	8,358	549,858	2,795,896
Mortgages	-	219,943	3,699	-	223,642
Preferred shares	90,016	250,412	4,212	55,985	400,625
Common shares	282,649	-	-	266,504	549,153
Loans on policies	38,728	-	-	-	38,728
Policy contract loans	18,921	57,091	960	60,792	137,764
Reinsurance assets	11,317	21,376	-	-	32,693
Other	13,499	7,366	124	57,707	78,696
Total	$ 2,293,507	$ 1,065,820	$ 17,566	$ 1,066,525	$ 4,443,418

Provisions made for anticipated future losses of principal and interest on investments and included as a component of insurance contract liabilities are $93,000 (2010 $86,900).

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES (continued)

(d) Fair Value of Insurance and Investment Contract Liabilities and Reinsurance Assets/Liabilities

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

(e) Liquidity

The Company defines liquid assets as high quality marketable investments that may be easily sold, meaning there exists an active market and observable prices for the investments. Liquid asset values are based on fair value as at December 31.

The Company defines cash demands or demand liabilities as those policyholder obligations that may be called on immediately at the discretion of the policyholder. More specifically, demand liabilities include cash surrender values under whole life insurance products as well as current accumulated values of annuity products. Amounts would be gross of any surrender charge or market value adjustment allowed under the terms of the contract. Demand liabilities are determined as though all such policyholders made their call at the same time and as such cannot be readily compared to insurance contract liabilities that are determined based on actuarial assumptions associated with lapse as well as other decrements.

The Company maintains a high level of liquid assets so that cash demands can be readily met. The Company's liquidity position is as follows:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Assets:			
Cash and short-term paper	$ 189,426	$ 202,246	$ 186,221
Canada and provincial bonds	2,725,635	2,140,324	1,880,942
Other readily-marketable bonds and stocks	1,865,898	1,924,529	1,822,638
Total Liquid Assets	$ 4,780,959	$ 4,267,099	$ 3,889,801
Liabilities:			
Demand liabilities with fixed values	$ 460,881	$ 438,738	$ 420,280
Demand liabilities with market value adjustments	994,877	978,820	873,268
Total Liquidity Needs	$ 1,455,758	$ 1,417,558	$ 1,293,548

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	$ 48,225	$ 16,864	$ 29,230
Employee future benefit accrued obligation	11,318	10,920	10,509
Accrued interest on subordinated debt	1,604	1,604	1,604
Other	8,950	8,320	3,800
Accounts Payable and Other Liabilities	$ 70,097	$ 37,708	$ 45,143

Of the above total, $11,318 (December 31, 2010 $10,920, January 1, 2010 $10,509) is expected to be settled more than one year after the Consolidated statement of financial position date.

13. EMPLOYEE BENEFIT PLANS

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

The following tables present financial information for the Company's defined benefit plans.

The amounts recognized in the Consolidated statement of financial position are as follows:

	Pension Benefit Plans		
	December 31, 2011	December 31, 2010	January 1, 2010
Present value of funded obligations	$ (148,207)	$ (132,807)	$ (118,455)
Fair value of plan assets	139,196	136,737	128,961
Funded status - surplus (deficit)	(9,011)	3,930	10,506
Unrecognized actuarial loss (gains)	22,148	8,086	-
Defined Benefit Asset (Liability) *(Note 6)*	$ 13,137	$ 12,016	$ 10,506

	Other Post-Employment Benefit Plans		
	December 31, 2011	December 31, 2010	January 1, 2010
Present value of unfunded obligations	(12,473)	(11,663)	(10,509)
Unrecognized actuarial loss (gains)	1,155	743	-
Defined Benefit Asset (Liability) *(Note 12)*	$ (11,318)	$ (10,920)	$ (10,509)

The defined benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated statement of financial position as Other assets or Accounts payables and other liabilities.

The movement in the present value of the Company's defined benefit obligation over the year is as follows:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Present value of defined benefit obligation				
Opening defined benefit obligation	$ 132,807	$ 118,455	$ 11,663	$ 10,509
Current service cost	4,192	3,142	108	106
Employee contributions	2,172	2,015	-	-
Interest cost	7,395	7,465	631	645
Benefits paid	(5,957)	(7,170)	(343)	(340)
Actuarial loss (gain) obligations	7,598	8,900	414	743
Closing Defined Benefit Obligation	$ 148,207	$ 132,807	$ 12,473	$ 11,663

Changes in the fair value of pension plan assets are as follows:

	Pension Benefit Plans	
	2011	2010
Plan assets		
Fair value at beginning of year	$ 136,737	$ 128,961
Expected return on plan assets	7,784	7,982
Actuarial (loss) gain assets	(6,476)	814
Employer contributions	4,936	4,135
Employee contributions	2,172	2,015
Benefits paid	(5,957)	(7,170)
Fair Value at End of Year	$ 139,196	$ 136,737

13. EMPLOYEE BENEFIT PLANS (continued)

The actual return on plan assets for the year ended December 31, 2011 was a gain of $1,308 (2010 gain of $8,796).

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

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Unrecognized actuarial loss (gain) as of January 1	$ 8,086	$ -	$ 743	$ -
Experience adjustments on plan obligations	397	(1,861)	(255)	(229)
Experience adjustments on plan assets	6,476	(814)	-	-
Changes due to discount rate assumptions	7,200	10,761	669	972
Changes due to other actuarial assumptions	-	-	-	-
Unrecognized actuarial loss (gain) in the year	14,073	8,086	414	743
Less net actuarial loss (gain) recognized in the year	11	-	2	-
Total Unrecognized Actuarial Loss (Gain) as of December 31	$ 22,148	$ 8,086	$ 1,155	$ 743

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

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2011	2010	2011	2010
Defined benefit plan expense				
Current service cost	$ 4,192	$ 3,142	$ 108	$ 106
Interest cost	7,395	7,465	631	645
Expected return on plan assets	(7,784)	(7,982)	-	-
Net actuarial loss (gain) recognized in the year	11	-	2	-
	$ 3,814	$ 2,625	$ 741	$ 751

Defined benefit plan expense is recognized in Operating expenses.

Defined benefit plan assets consist of:

	Pension Benefit Plans	
	2011	2010
Equity securities	54%	55%
Debt securities	36%	36%
Short-term securities	5%	5%
Other	5%	4%
	100%	100%

13. EMPLOYEE BENEFIT PLANS (continued)

The average remaining service period of the active employees covered by the pension plan and other benefit plans as at December 31 is as follows:

Remaining Service in years	Defined Benefit Plans	
	2011	2010
Staff pension plan	**10**	12
Supplemental employee retirement benefit plan	**10**	10
Retiree health benefits	**9**	9

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans	
	2011	2010
Defined benefit obligation as at December 31:		
Discount rate	**5.1%**	5.5%
Inflation assumption	**2.0%**	2.0%
Rate of compensation increase	**3.5%**	3.5%
Future pension increases	**3.0%**	3.0%
Benefit expense for year ended December 31:		
Discount rate	**5.5%**	6.3%
Expected long-term rate of return on plan assets	**5.7%**	6.2%
Expected long-term rate of return on:		
Equity securities	**7.5%**	8.0%
Debt securities	**3.7%**	4.2%

	Other Post-Employment Benefit Plans	
	2011	2010
Defined benefit obligation as at December 31:		
Discount rate	**5.0%**	5.5%
Inflation assumption	**2.0%**	2.0%
Benefit expense for year ended December 31:		
Discount rate	**5.5%**	6.3%
Assumed health care cost trend rates at December 31:		
Initial health care cost trend rate	**7.2%**	7.2%
Cost trend rate declines to	**4.5%**	4.5%
Year that the rate reaches the rate it is assumed to remain at	**2026**	2026

13. EMPLOYEE BENEFIT PLANS (continued)

The discount rate was selected based on a review of current market interest rates of high quality corporate bonds adjusted to reflect the duration of expected future cash outflows for pension benefit payments. A 1% increase in this rate would reduce the defined benefit obligation by approximately $17,756 as of December 31, 2011 (December 31, 2010 $15,231) and the service cost by approximately $946 in 2011 (2010 $723).

The expected return on plan assets is determined for each asset class by considering both market conditions at the opening financial position date and any expectations for longer-term changes in current returns. A 1% increase in the expected rate of return on assets would decrease pension expense by approximately $1,295 in 2011 (2010 $1,280).

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

	2011		2010	
	Increase	Decrease	Increase	Decrease
Defined benefit obligation	**$ 1,787**	**$ (1,486)**	$ 1,541	$ (1,291)
Total service and interest cost	**$ 108**	**$ (90)**	$ 100	$ (84)

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

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

	Pension Benefit Plans		**Other Post-Employment Benefit Plans**	
	2011	2010	**2011**	2010
As at December 31				
Present value of defined benefit obligation	**$ (148,207)**	$ (132,807)	**$ (12,473)**	$ (11,663)
Fair value of plan assets	**139,196**	136,737	**-**	-
Funded Status - Surplus (Deficit)	**$ (9,011)**	$ 3,930	**$ (12,473)**	$ (11,663)
Experience adjustments on plan liabilities	**$ 397**	$ (1,861)	**$ (255)**	$ (229)
Percentage of the present value of plan liabilities	**(0.27%)**	1.40%	**2.04%**	1.96%
Experience adjustments on plan assets	**$ (6,476)**	$ 814	**-**	-
Percentage of plan assets	**(4.65%)**	0.60%	**-**	-

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2012 are approximately $5,917.

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

14. INSURANCE PREMIUMS

For the year ended December 31	2011			2010		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	$ 407,163	$ (60,157)	$ 347,006	$ 378,612	$ (55,597)	$ 323,015
Health premiums	289,813	(19,811)	270,002	273,223	(18,391)	254,832
Total life and health premiums	696,976	(79,968)	617,008	651,835	(73,988)	577,847
Annuity premiums	141,446	-	141,446	238,679	-	238,679
Insurance Premiums	$ 838,422	$ (79,968)	$ 758,454	$ 890,514	$ (73,988)	$ 816,526

15. FEE INCOME

For the year ended December 31	2011	2010
Investment management, policyholder administration and guarantee fees	$ 109,096	$ 103,179
Surrender charges and other miscellaneous fees	11,147	9,915
Fee Income	$ 120,243	$ 113,094

16. BENEFITS AND EXPENSES

(a) Insurance Contract Benefits and Claims Paid

For the year ended December 31	2011			2010		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	$ 143,033	$ (39,991)	$ 103,042	$ 175,988	$ (52,610)	$ 123,378
Health claims	200,884	(11,802)	189,082	194,436	(11,423)	183,013
Total life and health claims	343,917	(51,793)	292,124	370,424	(64,033)	306,391
Annuity benefits	223,827	(2,539)	221,288	226,183	1,188	227,371
Benefits and Claims Paid	$ 567,744	$ (54,332)	$ 513,412	$ 596,607	$ (62,845)	$ 533,762

16. BENEFITS AND EXPENSES (continued)

(b) Change in Insurance Contract Liabilities and Reinsurance Ceded

For the year ended December 31	2011			2010		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	$ 483,456	$ 148,080	$ 631,536	$ 342,603	$ 53,395	$ 395,998
Health	45,015	(11,148)	33,867	27,461	(5,959)	21,502
Total life and health	528,471	136,932	665,403	370,064	47,436	417,500
Annuity	(2,288)	1,507	(781)	77,109	2,937	80,046
Change in Insurance Contract Liabilities	$ 526,183	$ 138,439	$ 664,622	$ 447,173	$ 50,373	$ 497,546

17. SEGMENTED INFORMATION

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. Operating results are segmented into three product lines along with the Company's capital and surplus segment as follows:

	For the year ended December 31, 2011				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 141,446	$ 278,306	$ 338,702	$ -	$ 758,454
Interest income	43,491	5,115	109,301	25,337	183,244
Total investment income	55,366	5,947	118,247	37,222	216,782
Fair value change in fair value through profit or loss assets	24,371	14,029	356,112	-	394,512
Realized gain (loss) on fair value through profit or loss assets	6,805	1,737	32,782	-	41,324
Realized gain (loss) on available for sale assets including impairment write-downs	(75)	(65)	(327)	26,313	25,846
Fee income from external customers	110,693	6,744	1,241	1,565	120,243
Net benefits and claims	221,288	196,678	95,446	-	513,412
Net change in insurance contract liabilities	(780)	17,913	647,489	-	664,622
Change in investment contract provision	745	-	-	-	745
Policy dividends	-	-	20,962	-	20,962
Amortization of capital assets	1,201	971	1,742	-	3,914
Total operating expenses	45,089	38,399	45,372	1,005	129,865
Net commission expense	54,612	26,625	82,969	-	164,206
Interest expense	-	-	-	13,680	13,680
Premium tax	-	6,075	6,910	-	12,985
Investment and capital tax	-	-	3,400	-	3,400
Income tax expense (recovery)	1,432	5,899	(20,407)	13,215	139
Net income (loss) after tax	16,220	15,109	(35,384)	37,200	33,145

17. SEGMENTED INFORMATION (continued)

	For the year ended December 31, 2010				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 238,679	$ 261,659	$ 316,188	$ -	$ 816,526
Interest income	44,325	4,531	96,415	24,152	169,423
Total investment income	58,280	5,823	104,408	35,837	204,348
Fair value change in fair value through profit or loss assets	10,188	7,785	195,673	-	213,646
Realized gain (loss) on fair value through profit or loss assets	4,475	142	3,430	-	8,047
Realized gain (loss) on available for sale assets including impairment write downs	(187)	(188)	(1,234)	9,105	7,496
Fee income from external customers	103,829	6,462	1,341	1,462	113,094
Net benefits and claims	227,365	189,442	116,955	-	533,762
Net change in insurance contract liabilities	80,046	9,633	407,867	-	497,546
Change in investment contract provision	910	-	-	-	910
Policy dividends	-	-	19,079	-	19,079
Amortization of capital assets	1,610	875	1,624	-	4,109
Total operating expenses	43,671	34,637	37,136	967	116,411
Net commission expense	56,619	23,941	76,521	-	157,081
Interest expense	-	-	-	13,665	13,665
Premium tax	-	5,708	6,490	-	12,198
Investment and capital tax	-	-	3,300	-	3,300
Income tax expense (recovery)	(2,978)	5,332	(16,226)	8,130	(5,742)
Net income (loss) after tax	9,630	12,778	(31,103)	23,642	14,947

17. SEGMENTED INFORMATION (continued)

Assets are segmented into three product lines along with the Company's capital and surplus.

As at December 31, 2011	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	$ 1,137,448	$ 151,964	$ 3,224,233	$ 1,085,859	$ 5,599,504
Segregated funds	4,391,908	-	23,410	-	4,415,318
Total Assets	$ 5,529,356	$ 151,964	$ 3,247,643	$ 1,085,859	$ 10,014,822

As at December 31, 2010	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	$ 1,141,156	$ 132,477	$ 2,552,737	$ 1,083,657	$ 4,910,027
Segregated funds	4,592,482	-	28,417	-	4,620,899
Total Assets	$ 5,733,638	$ 132,477	$ 2,581,154	$ 1,083,657	$ 9,530,926

As at January 1, 2010	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	$ 1,083,386	$ 121,806	$ 2,171,701	$ 1,066,525	$ 4,443,418
Segregated funds	4,157,826	-	28,759	-	4,186,585
Total Assets	$ 5,241,212	$ 121,806	$ 2,200,460	$ 1,066,525	$ 8,630,003

A description of the product lines is as follows:

The **Wealth Management** product line includes segregated funds, guaranteed interest rate annuities and annuities providing income for life.

The **Employee Benefits** product line offers group benefit plans to employers for medical, dental, disability, and life insurance coverage of their employees.

The **Individual Insurance** product line includes both non-participating and participating individual life and health insurance products.

The **Capital and Surplus** segment is made up of assets held in the shareholders' and participating policyholders' equity accounts.

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' and policyholders' equity accounts, all general fund assets are available to pay all general fund liabilities if required. Segregated fund assets are not available to pay liabilities of the general fund.

18. OPERATING EXPENSES

Operating expenses include the following:

For the year ended December 31	2011	2010
Salary and benefits expense	$ 73,463	$ 66,840
Professional services	18,138	14,966
Rent, leasing and maintenance	8,666	8,742
Amortization of capital assets	4,227	4,109
Other	25,371	21,754
Total	$ 129,865	$ 116,411

19. INCOME TAXES

(a) Income Tax Expense

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

For the year ended December 31	2011	2010
Current income tax expense	$ (2,966)	$ (6,412)
Deferred income tax expense (benefit)		
- relating to the origination and reversal of temporary differences	3,681	1,671
- resulting from substantively enacted changes in tax rates	(576)	(1,001)
Income Tax Expense	$ 139	$ (5,742)

During 2011 the Company paid income tax installments totaling $4,010 (2010 $13,004) and paid (recovered) income taxes in respect of prior years totaling $(11,525) (2010 $29,125).

The Company has unused tax losses of $69,527 (2010 $69,823) in the province of Ontario related to the harmonization of Ontario and Federal income tax administration that result in income tax credits which will expire in 2013. The amount of income tax recoverable of $4,001 (2010 $4,099) related to these tax losses is included in deferred income taxes. The Company also has an Ontario minimum tax carry-forward of $4,863. $2,463 of this amount expires in 20 years and $2,400 expires in 19 years. Management considers it more likely than not that these tax losses will be realized before they expire.

19. INCOME TAXES (continued)

(b) Variance from Statutory Provision

Income taxes provided varies from the expected statutory provision as follows:

For the year ended December 31	2011	2010
Net income before income taxes	$ 33,284	$ 9,205
Income tax provision at statutory rates	9,326	2,778
Increase (decrease) resulting from:		
Substantively enacted changes in income tax rates	(2,586)	(1,001)
Tax paid dividends on stocks	(9,498)	(10,026)
Impact of recognizing tax rule changes	-	890
Miscellaneous	2,897	1,617
Income Tax Expense	$ 139	$ (5,742)

In 2007 the Federal government passed a tax reduction plan to lower the corporate income tax rate in Canada. The Federal government also encouraged the Provinces and Territories to do the same. The overall goal of the Federal Government is to achieve a combined Federal/Provincial tax rate of 25%. The current enacted corporate tax rates as they impact the Company in 2011 stand at 28.02% (2010 30.17%). This rate is expected to drop to approximately 26.27% in 2012 and 25.90% in 2013. The impact of the future enacted drop in corporate tax rates has been taken into consideration in the deferred tax calculation.

(c) Deferred Income Taxes

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

As at	December 31, 2011	December 31, 2010	January 1, 2010
Insurance contracts	$ (12,632)	$ 20,826	$ 53,820
Portfolio investments	(11,479)	(38,219)	(67,480)
Losses recoverable in future years	17,747	13,405	10,052
Other, net	(222)	507	797
Deferred Income Tax Liability	$ (6,586)	$ (3,481)	$ (2,811)

Of the above total, $(2,436) (December 31, 2010 $(3,338), January 1, 2010 $(1,313)) is expected to be received (paid) more than one year after the Consolidated statement of financial position date.

The net movement on the deferred income tax account is as follows:

For the year ended December 31	2011	2010
Beginning of year	$ (3,481)	$ (2,811)
Statement of operations charge (credit)	3,105	670
End of Year	$ (6,586)	$ (3,481)

19. INCOME TAXES (continued)

(d) Income Taxes Included in Other Comprehensive Income

Other comprehensive income (loss) is presented net of income taxes.

The following Income tax amounts are included in each component of total OCI.

For the year ended December 31	2011			2010		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ (4,148)	$ (1,134)	$ (3,014)	$ 36,328	$ 10,886	$ 25,442
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(25,845)	(9,644)	(16,201)	(7,495)	(3,585)	(3,910)
Gain (loss) on derivative investments designated as cash flow hedges	-	-	-	-	-	-
Gain (loss) on derivative investments designated as cash flow hedges reclassified to net income	735	239	496	684	222	462
Net Other Comprehensive Income (Loss)	$ (29,258)	$ (10,539)	$ (18,719)	$ 29,517	$ 7,523	$ 21,994

The following income tax amounts are included in each component of shareholders' OCI:

For the year ended December 31	2011			2010		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ (2,859)	$ (773)	$ (2,086)	$ 32,921	$ 9,867	$ 23,054
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(24,933)	(9,173)	(15,760)	(6,661)	(3,269)	(3,392)
Gain (loss) on derivative investments designated as cash flow hedges	-	-	-	-	-	-
Gain (loss) on derivative investments designated as cash flow hedges reclassified to net income	735	239	496	684	222	462
Shareholder portion of policyholder other comprehensive income (loss)	(220)	(83)	(137)	286	99	187
Net Other Comprehensive Income (Loss)	$ (27,277)	$ (9,790)	$ (17,487)	$ 27,230	$ 6,919	$ 20,311

The following income tax amounts are included in each component of policyholders' OCI:

For the year ended December 31	2011			2010		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ (1,289)	$ (361)	$ (928)	$ 3,407	$ 1,019	$ 2,388
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(912)	(471)	(441)	(834)	(316)	(518)
Shareholder portion of policyholder other comprehensive (income) loss	220	83	137	(286)	(99)	(187)
Net Other Comprehensive Income (Loss)	$ (1,981)	$ (749)	$ (1,232)	$ 2,287	$ 604	$ 1,683

20. DIVIDENDS

The dividends paid in 2011 and 2010 were $15,800 and $15,000, respectively. This represents a dividend payout rate of $16.0394 per share in 2011 and $15.2273 per share in 2010.

No dividends have been declared between the date of the Statement of financial position to February 24, 2012, being the date on which these financial statements have been authorized for issue.

21. CAPITAL MANAGEMENT

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

As at	December 31, 2011	December 31, 2010	January 1, 2010
Tier 1 capital	$ 705,288	$ 714,802	$ 721,338
Tier 2 capital	314,129	314,598	291,341
Total Regulatory Capital	$ 1,019,417	$ 1,029,400	$ 1,012,679

22. COMMITMENTS AND CONTINGENCIES

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments in 2011 were $2,786 (2010 $2,605). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
2011	$ -	$ 2,355
2012	2,559	2,069
2013	2,234	1,819
2014	2,086	1,678
2015	1,184	985
2016 (and thereafter for comparative)	810	3,065
2017 (and thereafter)	2,406	-
	$ 11,279	$ 11,971

Other Contingencies

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

22. COMMITMENTS AND CONTINGENCIES (continued)

In connection with its operations, the Company is from time to time named as 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 by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against contractual indemnities and liabilities arising from their service to the Company. The broad general nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability.

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

23. RELATED PARTY TRANSACTIONS

The Company is a 98.3% owned subsidiary of E-L Financial Services Limited which in turn is an 81.0% owned subsidiary of E-L Financial Corporation Limited. The Company's ultimate controlling party is The Honourable Henry N. R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman. In the normal course of business, the Company enters into transactions with its Shareholder and other companies under common control or common influence involving the leasing of office property, investment management services, and miscellaneous office services. During 2011, the Company received investment management service fees of $1,565 (2010 $1,462) from related companies under common shareholder control. For all other services, the amounts paid and received were not significant. Some directors and officers have insurance policies underwritten by the Company.

Compensation of Key Management Personnel

Key management personnel are comprised of directors and executive officers of the Company. The remuneration of key management personnel is as follows:

For the year ended December 31	2011	2010
Salaries and other short-term employee benefits	$ 5,591	$ 5,444
Post-employment benefits	346	238
Other long-term benefits	-	-
Total	$ 5,937	$ 5,682

Post-employment benefits are comprised of employer current service costs for pension and other post-employment benefits.

There were no termination benefits expensed during 2011 or 2010.

Management has established procedures to review and approve transactions with related parties and reports annually to the Conduct Review Committee of the Board of Directors on the procedures followed and the results of the review.

24. SUBORDINATED DEBT

On May 20, 2009, the Company issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of May 20, 2019. The interest rate from May 20, 2009 until May 20, 2014 is 6.73%, and the rate from May 20, 2014 until May 20, 2019 will be equal to the 3-month Canadian Deposit Offering Rate plus 5.75%. Interest is payable semi-annually at May 20 and November 20 until May 20, 2014, quarterly thereafter with the first such payment on August 20, 2014. The debenture is recorded at amortized cost using the effective interest rate method.

The debt is subordinated in right of payment to all policy contract liabilities of the Company and all other senior indebtedness of the Company. The Company may call for redemption of the issue at any time subject to the approval of OSFI. The holder has no right of redemption.

The fair value of these debentures was $218,032 as of December 31, 2011 (December 31, 2010 $218,858, January 1, 2010 $213,420).

25. SHAREHOLDERS' EQUITY ENTITLEMENT

Shareholders' entitlement to $6,357 (December 31, 2010 $6,401, January 1, 2010 $6,757) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

26. CAPITAL STOCK

a) Authorized Common shares: 2,000,000 shares with no par value

b) Issued and fully paid

As at	December 31, 2011	December 31, 2010	January 1, 2010
Number of common shares: 985,076	$ 985	$ 985	$ 985

27. SUPPLEMENTARY CASH FLOW INFORMATION

Supplementary cash flow information:

For the year ended December 31	2011	2010
Interest paid on subordinated debt	$ 13,460	$ 13,460
Income taxes paid, net of (refunds)	(7,515)	42,129
Interest income received	111,564	103,662
Dividend income received	34,424	35,158

All amounts were reflected as operating cash flows in the Consolidated statement of cash flows.

28. SUPPLEMENTARY PARTICIPATING POLICYHOLDER INFORMATION

Participating Account Assets

As at	December 31, 2011	December 31, 2010	January 1, 2010
Assets backing participating account equity	$ 57,211	$ 57,605	$ 60,812
Assets backing participating account liabilities	500,635	439,141	383,508

Transfers to Shareholders' Account

The Company transferred in 2011 $2,172 (2010 $1,978), equal to 1/9th of the dividends credited to the participating policyholders, from the participating account to the shareholders' account.

29. RISK MANAGEMENT

The objective of the Company's risk management process is to ensure that the operations of the Company that expose it to risk are consistent with the Company's objectives and risk philosophy, while maintaining an appropriate risk/reward balance. In support of this, the Company has created a Risk Management Policy. Oversight and management of this policy falls under the responsibility of the Management Risk Committee, a multi-disciplinary management committee with representation from all functional areas of the Company, chaired by the Chief Actuary and reporting directly to the Board. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment and are presented to the Board on an annual basis.

The Company is exposed to financial risks arising from its investing activities and its insurance operations and to general reputation risk associated with its activities and ability to manage specific risks. The specific risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company, are outlined below in order of importance:

(a) Investment Risk:

i) Market Risk, including:

(1) Market Price Fluctuations

(2) Interest Rate Risk

(3) Foreign Currency Risk

ii) Liquidity Risk

iii) Credit Risk

(b) Insurance Risk:

i) Experience Risk

(1) Mortality

(2) Investment Returns

(3) Policy Termination (Lapse)

(4) Expenses

(5) Morbidity

ii) Product Design and Pricing Risk

iii) Underwriting and Claims Risk

iv) Reinsurance Risk

29. RISK MANAGEMENT (continued)

(a) Investment Risk

i) Market Risks

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, trading prices of equity and other securities, credit spreads and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are market price fluctuations, interest rate risk, and foreign currency risk.

(1) Market Price Fluctuations

The Company's investment portfolio includes primarily bonds and equity securities, and the fair value of its investments varies according to changes in general economic and securities market conditions, including volatility and declines in equity markets. Equity market volatility could occur as a result of general market volatility or as a result of specific social, political or economic events. A decline in securities markets could have an adverse impact on the return on assets backing capital, capital adequacy, the management fees collected on segregated fund contracts and on index funds within universal life contracts, and insurance policy liabilities and capital requirements, particularly in respect of segregated fund guarantees.

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

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

A core aspect of the Company's investment strategy is to maintain a higher than industry average level of publicly-listed "large cap" common stocks in its capital and surplus investment portfolio, in pursuit of superior long-term returns. Therefore, the Company has a relatively large common stock portfolio and is exposed to significant loss from declines in its fair value. A decrease in the fair value of the Company's common stock portfolio results in reduced shareholders' equity, reduced policyholders' surplus, and a reduced MCCSR position. Regulatory pressure to increase capital escalates as the MCCSR ratio approaches OSFI's supervisory minimum. Net income would also be reduced if the declines in value are realized through dispositions or recognized in provisions for impairment.

29. RISK MANAGEMENT (continued)

The Company manages this risk exposure mainly through investment limits and Investment Committee oversight of its investment managers. The Investment Committee actively monitors the portfolio size and asset mix. The Company is fully exposed to the portfolio's fair value changes and does not hedge this exposure.

The Company's general fund investments are subject to limits established by the *Insurance Companies Act* (Canada) and to investment guidelines established by the Investment Committee of its Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments by segment. The Investment Committee receives monthly reporting on general fund asset mix and performance by segment, derivatives matching, segregated fund asset mix and performance, and investment transactions for all funds. In addition, on at least a quarterly basis, management and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board of Directors, on portfolio content, asset mix, the Company's matched position, the performance of general and segregated funds, and compliance with the investment guidelines.

The Company uses stochastic models to monitor and manage risk associated with segregated fund guarantees, and establishes policyholder liability provisions in accordance with standards set forth by the CIA. Product development and pricing policies also require consideration of portfolio risk and capital requirements in the design, development and pricing of the products. The Asset Liability Management Committee (ALM), a management committee, reports quarterly to the Investment Committee of the Board on the nature and value of the Company's segregated fund guarantee liabilities, including potential top-up exposure and capital requirements.

The Company has established a Capital Management Policy, capital management levels that exceed regulatory minimums, and Dynamic Capital Adequacy Testing that takes into account the potential effect of adverse investment risk scenarios (including adverse market conditions and adverse interest rates) on the Company's capital position. Management monitors its MCCSR position on a regular basis and reports at least quarterly to the Board of Directors on the Company's MCCSR.

The following table summarizes the potential impact on the Company of a change in global equity markets. The Company 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 its equity market sensitivity. For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantee policy liabilities represent the impact on shareholders' net income.

29. RISK MANAGEMENT (continued)

	As at December 31, 2011			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	$ 11,056	$ (11,056)	$ 22,124	$ (28,943)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 11,477	$ (11,477)	$ 22,954	$ (22,954)
Policyholders' other comprehensive income	$ 2,241	$ (2,241)	$ 4,482	$ (4,482)
Segregated fund guarantee policy liabilities	$ nil	$ nil	$ nil	$ nil

	As at December 31, 2010			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	$ 10,582	$ (10,582)	$ 21,276	$ (21,276)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 19,498	$ (19,498)	$ 38,996	$ (38,996)
Policyholders' other comprehensive income	$ 2,254	$ (2,254)	$ 4,508	$ (4,508)
Segregated fund guarantee policy liabilities	$ nil	$ nil	$ nil	$ nil

The following table identifies the concentration of common equity holdings.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	$ 214,097	$ 245,668	$ 200,399
Percentage of total cash and investments	3.9%	5.1%	4.6%
Exposure to the largest single issuer of common equities	$ 41,687	$ 46,192	$ 42,430
Percentage of total cash and investments	0.8%	1.0%	1.0%

(2) Interest Rate Risk

Interest rate risk is the risk of economic loss due to the need to reinvest or divest during periods of changing interest rates. Changes in interest rates, as a result of the general market volatility or as a result of specific social, political or economic events, could have an adverse effect on the Company's business and profitability in several ways. Certain of the Company's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, the Company may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited, thereby adversely affecting the Company's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls, and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased policy surrenders. Fluctuations in interest rates may cause losses to the Company due to the need to reinvest or divest during periods of changing interest rates, which may force the Company 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 the Company's financial position and operating results.

29. RISK MANAGEMENT (continued)

The following tables summarize the impact on Net income and Other comprehensive income of a reasonably possible change in interest rates.

As at December 31, 2011

	1% Increase	1% Decrease	2% Increase	2% Decrease
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ (20,609)	$ 21,848	$ (40,097)	$ 44,963
Policyholders' other comprehensive income	$ (1,945)	$ 2,045	$ (3,791)	$ 4,201

As at December 31, 2010

	1% Increase	1% Decrease	2% Increase	2% Decrease
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ (12,961)	$ 13,794	$ (25,125)	$ 27,602
Policyholders' other comprehensive income	$ (760)	$ 801	$ (1,485)	$ 1,643

Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Company's investment guidelines establish investment objectives and eligible interest rate sensitive investments, as well as establish diversification criteria, exposure, concentration and asset quality limits for these investments. The ALM Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable levels and within risk tolerances. Product development and pricing policies and practices also require consideration of interest rate risk in the design, development and pricing of the products.

(3) Foreign Currency Risk

Foreign currency risk is the risk that the fair value of 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 on the Company's functional currency.

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately $1,174 (2010 $487) on Net income, $410 (2010 $319) on shareholders' OCI and $91 (2010 $nil) on policyholders' OCI. The Company has no significant foreign currency exposure in its financial liabilities.

The Company uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. The Company 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, with total credit exposure limited to $25 million.

The Company has a foreign exchange risk management policy which outlines objectives, risk limits and authority associated with any foreign exchange exposure. Oversight and management of this policy falls under the responsibility of the ALM Committee, which reports exposures and breaches to the Investment Committee of the Board.

29. RISK MANAGEMENT (continued)

ii) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The majority of the Company's obligations relate to its policy liabilities, the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, and morbidity). The remaining obligations of the Company relate to the subordinated debenture which matures in 2019 (refer to Note 24 Subordinated Debt) and to 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 Company's liquidity risk management program is monitored by management and by the Board of the Company through regular reporting to the Investment Committee and the Board. The Company monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short term investments.

The Company maintains a liquidity policy requiring an assessment of the Company's liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the ALM Committee and exposures and breaches are reported to the Investment Committee of the Board. The Company's current liquidity position as at December 31 is provided in a table in Note 11(e).

Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of policy liabilities. Policy liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, policyholder dividends, amounts on deposit, commission and premium taxes offset by contractual future premiums and fees on in-force business. Recoveries from reinsurance agreements are also reflected. Segregated fund liabilities are excluded from this analysis. These estimated cash flows are based on the best estimate assumptions, with margins for adverse deviations, used in the determination of policy liabilities. The actuarial and other policy liability amounts included in the Company's 2011 consolidated financial statements 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.

29. RISK MANAGEMENT (continued)

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

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

The Company is able to fund its short-term cash outflows by generating positive cash inflows from operations and from investment income earned on its investment portfolio. The ALM Committee, which meets regularly, monitors the matched position of the Company'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. The Company maintains a portion of its investments in short-term investments and cash equivalents to meet its short-term funding requirements. As at December 31, 2011, 3.5% (2010 4.2%) of cash and investments were held in these shorter duration investments.

iii) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is subject to credit risk which arises from debtors or counterparties who are unable to meet their obligations under debt or derivative instruments. This credit risk is derived primarily from: investments in bonds, debentures, preferred shares, short-term investments and mortgages; and amounts recoverable from reinsurers under reinsurance agreements.

29. RISK MANAGEMENT (continued)

The Company manages this risk by applying its investment guidelines and product design and pricing risk management policy established by the Investment Committee of the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of the Company's Board on the credit risk to which the portfolio is exposed. The Reinsurance Risk Management Policy (along with supporting material in the product design and pricing risk management policy) establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. The Company enters into reinsurance agreements only with reinsurance companies that have a credit rating of "A-" or better.

Credit risk analysis includes the consideration of credit spreads. From an investment perspective, when buying credit the Company is guided by two principles; first that there is a high likelihood of return of principal and second that there is an acceptable return on investment. The Company looks to obtain a risk/reward balance that aligns with its objectives and risk philosophy. When determining insurance contract liabilities, credit spreads and changes in credit spreads are reflected implicitly in the interest rate assumption.

The Company has the following assets that are exposed to credit risk:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$ 155,559	$ 151,332	$ 149,141
Short-term investments	33,867	50,914	37,080
Bonds	4,063,897	3,221,908	2,795,896
Preferred shares	324,230	371,330	400,625
Mortgages	264,238	226,887	223,642
Loans on policies	41,981	40,242	38,728
Policy contract loans	113,118	119,896	137,764
Accrued investment income	20,107	18,411	17,827
Premiums receivable	3,400	3,108	3,914
Reinsurance assets	-	-	32,693
Total	$ 5,020,397	$ 4,204,028	$ 3,837,310

Mortgages, Loans on policies and Policy contract loans are fully or partially secured.

The Company has made provision in its Statement 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 policy liabilities (see Notes 4(b) and 11(c)).

29. RISK MANAGEMENT (continued)

Concentration of Credit Risk

(1) Bonds and Debentures

The concentration of the Company's bond portfolio by investment grade is as follows:

As at	December 31, 2011		December 31, 2010		January 1, 2010	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	$ 304,142	7%	$ 172,028	5%	$ 323,732	12%
AA	1,295,345	32%	1,025,075	32%	811,887	29%
A	2,255,901	56%	1,858,650	58%	1,523,876	54%
BBB	208,509	5%	166,155	5%	130,882	5%
BB	-	0%	-	0%	5,519	0%
Total	$ 4,063,897	100%	$ 3,221,908	100%	$ 2,795,896	100%

Provincial bonds represent the largest concentration in the bond portfolio, as follows:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Provincial bond holdings	$ 2,433,815	$ 1,978,770	$ 1,559,947
Percentage of total bond holdings	60%	61%	56%

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

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

The following table discloses the holdings of fixed income securities in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds.

As at	December 31, 2011	December 31, 2010	January 1, 2010
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	$ 3,000,342	$ 2,539,709	$ 2,174,181
Percentage of total cash and investments	54.8%	52.6%	50.0%
Exposure of the largest single issuer of corporate bonds	$ 140,581	$ 102,940	$ 88,790
Percentage of total cash and investments	2.6%	2.1%	2.0%

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

29. RISK MANAGEMENT (continued)

(2) Preferred Shares

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

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with $258,277 or 98% (December 31, 2010 $218,903 or 96%, January 1, 2010 $213,885 or 96%) of the total portfolio.

(b) Insurance Risk

The Company provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by segment as follows:

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

The Company is in the business of measuring and managing risk, as reflected in the valuation of insurance contract liabilities. The Company is exposed to various insurance risks, and the most important insurance risks of the Company, include:

i) Experience Risk, including:

(1) Mortality

(2) Investment Returns

(3) Policy Termination (Lapse)

(4) Expenses

(5) Morbidity

ii) Product Design and Pricing Risk

iii) Underwriting and Claims Risk

iv) Reinsurance Risk

The Company regularly evaluates its exposure to foreseeable risks through Dynamic Capital Adequacy Testing analysis.

29. RISK MANAGEMENT (continued)

i) Experience Risk

The principal risk the Company 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 the Company is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

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

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

Policy liability assumptions are reviewed and updated at least annually, and the impact of changes in those assumptions is reflected in earnings in the year of the change. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of the Company'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, 2011. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(1) Mortality

The Company 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 Net income by approximately $10,900 ($12,800 for 2010). For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately $3,900 ($3,300 for 2010).

29. RISK MANAGEMENT (continued)

(2) Investment Returns

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

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

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

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

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

The impact of an immediate change in interest rates can be found in Note 29 under the Investment Risk section. If the change in interest rates persisted for one year, then a change to the actuarial reinvestment assumption would be required. For non-participating insurance business, a 1% decrease in assumed reinvestment rates would result in an increase to policy liabilities thereby reducing net income by approximately $47,400 ($34,800 in 2010). This assumes no change in the ultimate reinvestment rate. For annuity business, the impact is negligible as a result of the matching process described above.

The impact of an immediate change in equity markets can be found in Note 29 under the Investment Risk section. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing net income by approximately $40,200 ($31,000 in 2010).

29. RISK MANAGEMENT (continued)

(3) Policy Termination (Lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of the Company's own internal termination studies (conducted annually) and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, renewable term insurance, term insurance to age 100, and 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 a reduction to net income by approximately $99,900 ($75,400 in 2010). For products where fewer terminations would be financially adverse to the Company, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to the Company, the change is applied as an increase to the lapse assumption.

(4) 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 net income by approximately $5,700 ($5,000 in 2010).

(5) Morbidity

The Company 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.

29. RISK MANAGEMENT (continued)

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 morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing net income by approximately $5,000 ($4,400 in 2010).

ii) Product Design and Pricing Risk

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

The Company manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described below. The Company 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. The Company has established an active capital management process that includes a Capital Management policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts Dynamic Capital Adequacy Testing and reports annually to the Company's Audit Committee on the Company's financial condition, outlining the impact on capital levels should future experience be adverse. The Company has also developed a product design and pricing policy for each of its major product lines. This policy, which is established by management and approved by the Company's Board of Directors, defines the Company'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.

29. RISK MANAGEMENT (continued)

iii) Underwriting and Claims Risk

The Company 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 the Company'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, the Company also manages underwriting and claims risk through its underwriting and liability management policy for each of its major product lines. This policy is established by management and approved by the Company's Board of Directors. Together, these policies define the Company's underwriting and risk management philosophy. These policies also set out by 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. The Company 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.

iv) Reinsurance Risk

The Company is subject to the risk of financial loss due to improper reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. The Company 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 the Company relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and availability, which can also affect earnings.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Most of the Company's individual life reinsurance (with the exception of its Term 10 and Term 20 products) is on an excess basis (with a $500 retention limit), meaning the Company retains 100% of the risk up to $500 in face amount. With the Company's Term 10 and 20 products, however, all amounts over $100 are reinsured at an 80% level, meaning that the Company retains only 20% of the risk on coverage over $100, to a maximum retention of $500. In addition the Company also retains a maximum of $100 on individual accidental death policies. Retention amounts are lower for group business but are in addition to those noted for individual business. As a result of this reinsurance strategy, the Company utilizes lower than average levels of reinsurance and absorbs the resultant negative impact on short-term earnings due to additional sales strain. The Company does not have any material assumed reinsurance annual premium revenue and it does not reinsure its own segregated fund guaranteed products or those issued by other insurance companies.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with new financial statement presentation standards adopted in 2011.

31. SUBSEQUENT EVENTS

(a) Empire Life Investments Inc. (ELII)

Effective January 1, 2012, the investment management operations of The Empire Life Insurance Company were transferred to its wholly owned subsidy, Empire Life Investments Inc.

On January 4, 2012, ELII filed a simplified prospectus with the Ontario Securities Commission with respect to the following mutual funds:

Series A units, Series T6 units, Series T8 units and Series I units (unless otherwise indicated) of:

Empire Life Emblem Conservative Portfolio (not available in Series T8 units)

Empire Life Emblem Balanced Portfolio

Empire Life Emblem Moderate Growth Portfolio

Empire Life Emblem Growth Portfolio

Empire Life Emblem Aggressive Growth Portfolio

Empire Life Small Cap Equity Mutual Fund

Empire Life Canadian Equity Mutual Fund

Empire Life Dividend Growth Mutual Fund

Empire Life Monthly Income Mutual Fund

Empire Life Money Market Mutual Fund (not available in Series T6 units or Series T8 units)

Simultaneously, The Empire Life Insurance Company provided $6,500 of seed funding to the funds.

On January 5, 2012, ELII obtained the final receipt from the Ontario Securities Commission on the Empire Life Mutual Funds Simplified Prospectus dated January 4, 2012. ELII is now a registered Investment Funds Manager. The prospectus was filed under Multilateral Instrument 11-102 Passport System in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and Northwest Territories. The receipt for the prospectus is deemed to be issued by the regulator in each of those jurisdictions.

The funds are managed by Empire Life Investments Inc., which also serves as the trustee of the funds.

(b) Employee Benefits Plans

In August 2011, the Company announced changes to The Empire Life Insurance Company Staff Pension Plan that took effect January 1, 2012. The Empire Life Insurance Company Staff Pension Plan now consists of a defined benefit component and a newly-created defined contribution component. The defined contribution component became effective January 1, 2012. Plan participants as of September 30, 2011 were offered the choice of continuing membership in the defined benefit component or switching to the newly created defined contribution component on January 1, 2012. The Company discontinued new enrolments in the defined benefit component effective October 1, 2011. Plan participants advised the Company of their decisions on November 30, 2011. Approximately 5.8% of employees enrolled in the defined benefit component of the plan opted to switch to the defined contribution component. Given the relatively few number of employees that transferred to the defined contribution component of the pension plan, the Company will report a plan settlement (not a plan curtailment). The Company has not provided for settlement costs in the December 31, 2011 financial statements. All costs related to plan settlement will be recorded once the Company receives regulatory approval for the plan amendments.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

The Board of Directors of The Empire Life Insurance Company has approved the following policy:

Participating Account Management Policy

Description of the Participating Account and its Policies

The Empire Life Insurance Company ("Empire Life") maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by the Office of the Superintendent of Financial Institutions under section 456 of the *Insurance Companies Act* (Canada). The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive dividends every five years as per contractual provisions. Empire Life does not maintain sub-accounts within the participating account for life, disability and annuity plans, other funds, or blocks of business acquired from other companies. Empire Life does not have any closed blocks of participating business established as part of the demutualization of a mutual company into a shareholder company.

Investment Policy

The general fund investments in the participating account are subject to limits established by the *Insurance Companies Act* (Canada) and to investment guidelines established by the Investment Committee of Empire Life's Board of Directors (the "Board"). The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Asset/Liability Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels. Within the participating account, Empire Life has established three asset segments to nominally match the investments to the specific type of liabilities or surplus as follows: Protection Par, Miscellaneous Insurance Par and Policyholders' Surplus. Each asset segment is assigned specific assets in an amount approximately equal to its total liabilities or surplus. Each asset segment is also subject to asset segmentation guidelines established by the Asset/Liability Management Committee and approved by the Investment Committee.

The Investment Committee receives monthly reporting on general fund asset mix and performance and investment transactions for all funds by asset segment. In addition, on at least a quarterly basis, management and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board of Directors, on portfolio content, asset mix, the Company's matched position, the performance of general and segregated funds, and compliance with the investment guidelines. The investment guidelines are reviewed at least annually by the Board.

Investment Income Allocation

Investment income is recorded directly to each asset segment. A portion of investment income is allocated to or from the Shareholders' Capital and Surplus segment from or to the participating account's asset segments in proportion to the deficiency or excess of funds over assets of each segment.

Expense Allocation

General expenses are allocated to the participating account using cost centre methods. Expenses associated directly with the participating account are so charged. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

Income Tax Allocation

Income taxes are allocated to the participating account in proportion to total taxable income for the Company. Deferred tax assets and liabilities are treated consistently between participating and non-participating accounts.

Surplus Management

The level of surplus in the participating account will be managed by Company management taking into consideration the continuing solvency of the participating account, the participating account's ability to fulfill all of its contractual obligations and the extent to which existing participating business is financing new participating business.

Transfers to Shareholders' Account

It is Empire Life's intention to transfer the full permitted percentage of distributable participating profits to the shareholders' account as allowed by section 461 of the *Insurance Companies Act* (Canada). The Company's current practice, so long as the participating account in aggregate remains below $250 million, is to transfer an amount equal to 1/9th of the dividends credited to participating policyholders from the participating account to the shareholders' account.

Amendments

The Company's participating account management policy may be amended from time to time at the discretion of its Board. The principal factors that would be expected to change the policy include changes in legislation, regulation of participating account, accepted actuarial practice, capital requirements, taxation and accounting rules or fundamental changes to the circumstances of the Company. The policy will also be reviewed if the Company decides to stop accepting new business in the participating account. Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

PARTICIPATING ACCOUNT DIVIDEND POLICY

The Board of Directors of The Empire Life Insurance Company has approved the following policy:

Participating Policy Dividends and Bonus Policy

This dividend policy applies to all policies issued in the participating account of The Empire Life Insurance Company ("Empire Life" or the "Company") that entitle its policyholders to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive the dividends every five years as per contractual provisions.

Dividends are declared at the discretion of the Board. The aggregate amount of dividend and allocation of the dividend to the different classes of participating policies is declared annually at the discretion of the Board of Directors (the "Board") of Empire Life under section 464(1) of the *Insurance Companies Act* (Canada). Before declaring the aggregate amount of dividend, the Board will consider Company management's recommendations for policyholder dividends and the Appointed Actuary's opinion on the conformity of the proposed dividend to this policy and its fairness to participating policyholders. Company management's recommendations and the Appointed Actuary's opinions shall be prepared in compliance with applicable legislative and regulatory requirements, and generally accepted actuarial practice with such changes as determined by the Office of the Superintendent of Financial Institutions.

Principal Factors that Affect the Aggregate Amount of Dividends

The aggregate amount of dividends will reflect operating income on all participating life, annuity and disability coverages, dividends on deposit, participating paid-up additions and participating term additions, as well as income attributable to surplus in the participating account. The aggregate amount of dividends will also be influenced by considerations such as, solvency of the participating account, its ability to fulfill all contractual obligations, the extent to which surplus in the participating account is financing new business, changes in legislation, regulation of the participating account, taxation, accounting rules or fundamental changes in the circumstances of the Company.

Principal Sources of Income

The principal sources of income considered for determining the aggregate amount of dividends are investment income, asset defaults, mortality, lapses, expenses and taxes. The actual experience of the participating account will be reviewed annually by Company management. The sources of income may be adjusted to smooth fluctuations in experience and provide for transitions during periods of major change over a period not to exceed five years. The Company uses a temporary contribution to policyholder surplus philosophy, so that contributions to policyholder surplus from participating account income are expected to be returned to policyholders over the lifetime of the policy.

Since actual experience cannot be known in advance, the aggregate amount of dividends and allocation of the dividends cannot be guaranteed. As a result, dividends will increase or decrease depending on actual experience.

Dividend Allocation

Policyholders participate in this distribution through the setting of dividend scales, which allocate the aggregate amount of dividends among different dividend classes. The Company establishes dividend classes for participating policyholders based on the original pricing assumptions used when setting the guaranteed values provided by the policies. The Company uses a combination of factor-based and pricing methods when setting the dividend scale to allocate the aggregate amount of dividends among different dividend classes. The basic concept of this method is to allocate the aggregate amounts of dividends among dividend classes in the same proportion as the policies are considered to have contributed to the aggregate amount of dividends over the long term. The fundamental objective in the allocation of dividends is the maintenance of reasonable equity between dividend classes and between generations of policyholders, taking into account practical considerations and limits. The dividend scales may also be adjusted to reflect specific policyholder behaviour, such as experience for lapses or for policy loans taken at guaranteed rates. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to income of those blocks. Termination dividends are not payable under any participating policies issued by Empire Life.

Amendments

The Company's dividend policy may be amended from time to time at the discretion of the Board. The principal factors that would be expected to change the policy include changes in legislation, regulation of participating account, accepted actuarial practice, capital requirements, taxation and accounting rules or fundamental changes to the circumstances of the Company. The policy will also be reviewed if the Company decides to stop accepting new business in the participating account. Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

CORPORATE GOVERNANCE OVER RISK MANAGEMENT

The Empire Life Insurance Company (the "Company") is a stock company that has both shareholders and participating policyholders. The Company established a mutual fund subsidiary during the second quarter of 2011, Empire Life Investments Inc. ("ELII"). During the third quarter of 2011, the Company provided working capital to ELII. The Company expects ELII to become operational early in 2012.

Pursuant to the *Insurance Companies Act* (Canada) (the "Act") each holder of one or more participating policies is entitled to one vote in the election of policyholders' directors, and each shareholder is entitled to one vote per share held in the election of shareholders' directors. At least one-third of directors are elected as policyholder directors and the balance are elected as shareholder directors. The Company is governed by the Act, which contains provisions concerning corporate governance. The Company's governance system is supported by internal audit, corporate compliance, external audit by an independent chartered accountants firm, and examination by the Office of the Superintendent of Financial Institutions Canada ("OSFI").

Management is responsible for identifying risks and determining their impact upon the Company. Management is also responsible for establishing appropriate policies, procedures, and controls to mitigate risks. The Company has established an internal risk management committee, which reports to the Board of Directors. An internal audit function is responsible for assessing the adequacy and adherence to the systems of internal control. The results of internal audit's reviews are reported to management and to the Audit Committee of the Board of Directors regularly throughout the year.

Management is supervised in the completion of these responsibilities by the Board of Directors and its Committees. Senior management of the Company reports regularly to the Board on its risk management policies and procedures.

The **Board of Directors** has plenary power. The Board's responsibility is to oversee the conduct of the business and affairs of the Company including oversight and monitoring of the Company's risk management. The Board discharges these responsibilities directly and through delegation to Board Committees and management. The Board met eight times in 2011 and is scheduled to meet seven times in 2012.

The risk management functions overseen by the Board include those relating to market price fluctuations, interest rate risk, credit risk, foreign currency risk, reinsurance risk, liquidity risk, other risks associated with policy liabilities (including mortality risk, investment return risk, policy termination (lapse) risk, expense risk, morbidity risk and risks associated with segregated fund policy guarantees), regulatory risk, and operational risk (including product design and pricing risk, underwriting and claims risk). Primary responsibility for oversight of some of these risks is delegated to four standing Committees of the Board, whose roles and responsibilities are specifically defined. The following is a brief summary of some of the key responsibilities of the four Committees.

The **Audit Committee** is a committee charged with statutory responsibility under the Act to oversee, on behalf of the Board, the Company's financial reporting, accounting and financial reporting systems and internal controls. The Committee also oversees work related to stress testing and capital management.

The **Investment Committee** assists the Board in monitoring the Company's investment and lending policies, standards and procedures and in monitoring the Company's investment activities and portfolios. Some of the activities of the Investment Committee are prescribed by the Company's Investment Guidelines, which reflect the requirements of the Act. The Committee also monitors activities mandated to the Company's Asset/Liability Management Committee.

The **Human Resources Committee** is responsible for reviewing and monitoring the Company's human resources practices, including employee and executive compensation, manpower and pension and benefit plans.

The **Conduct Review Committee** is responsible for oversight of procedures established to identify material related party transactions pursuant to the Act. The Committee also monitors certain corporate policies, including procedures with respect to conflicts of interest, confidentiality of information and outsourcing.

CORPORATE INFORMATION

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The Empire Life Insurance Company is a member of Assuris, the organization that protects Canadian insurance policyholders from loss of benefits due to the financial failure or insolvency of a member company.

Policyholders and prospective policyholders can learn more about Assuris and the protection it provides by visiting www.assuris.ca or calling the Assuris Information Centre at 1 866 878-1225.

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Back row, left to right: Leslie Herr, Edward Iacobucci, James Billett, Duncan Jackman, Harold Hillier, Richard Rooney.
Front row, left to right: Mark Taylor, Clive Rowe, Deanna Rosenswig, Mark Fuller, Stephen Smith. Missing from photo: Hon. Henry Jackman, Rt. Hon. John Turner, Douglas Townsend and Paul Weiss.

BOARD OF DIRECTORS

Shareholders' Directors

Edward M. Iacobucci [1, 4]
Professor of Law
University of Toronto

Duncan N.R. Jackman [1, 2, 3, 4]
Chairman of the Board
The Empire Life Insurance Company

Deanna Rosenswig, B.Com., M.B.A. [1, 3]
Corporate Director

Clive P. Rowe [2]
Partner
Oskie Capital

Stephen J.R. Smith [2, 3]
Chairman and President
First National Financial LP

Mark M. Taylor [2]
Executive Vice-President and Chief Financial Officer
E-L Financial Corporation Limited

Paul R. Weiss, F.C.A. [1, 4]
Corporate Director

James F. Billett [1, 4]
President
J.F. Billett Holdings Ltd.

[1] Member of Audit Committee
[2] Member of Investment Committee
[3] Member of Human Resources Committee
[4] Member of Conduct Review Committee

Policyholders' Directors

Mark J. Fuller, LL.B. [2, 3, 4]
President and Chief Executive Officer
Ontario Pension Board

Leslie C. Herr [2]
President and Chief Executive Officer
The Empire Life Insurance Company

Richard E. Rooney, F.C.A., C.F.A. [2, 3]
President
Burgundy Asset Management

Douglas C. Townsend, F.S.A. [1, 3]
President
Townsend Actuarial Consulting Ltd.

Honorary Chairman

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

Honorary Directors

The Right Honourable John N. Turner, P.C., C.C., Q.C.
Partner
Miller Thomson LLP

Harold W. Hillier
Corporate Director

From left to right: Gaelen Morphet, Gary McCabe, Richard Cleaver, Drew Wallace, Leslie Herr, Anne Butler, Timo Hytonen, Steve Pong and Edward Gibson

CORPORATE MANAGEMENT

Leslie C. Herr
President and Chief Executive Officer

Drew E. Wallace
Executive Vice-President, Retail

Anne E. Butler, B.A., LL.B.
Senior Vice-President, General Counsel and Corporate Secretary

Richard Cleaver
Senior Vice-President and Chief Technology Officer

J. Edward Gibson, F.S.A., F.C.I.A.
Senior Vice-President, Strategy, and Chief Actuary

Timo J. Hytonen, M.B.A., C.H.R.P., F.C.I.P., C.R.M., C.Dir.
Senior Vice-President, Human Resources and Corporate Initiatives

Gary J. McCabe, C.A.
Senior Vice-President and Chief Financial Officer

Gaelen Morphet, C.F.A.
Senior Vice-President and Chief Investment Officer

Steve S. Pong, B.A.Sc.
Senior Vice-President, Group Solutions

EMPIRE LIFE ANNUAL REPORT 2011

The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security.

Empire Life is among the top 10 life insurance companies in Canada[1] and is rated A (Excellent) by A.M. Best Company[2]. Our vision is to be the leading, independently-owned, Canadian financial services company committed to simplicity, being easy to do business with and having a personal touch.

[1] Source: Office of the Superintendent of Financial Institutions (OSFI), based on general and segregated fund assets
[2] As at June 22, 2011

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Empire Life™

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