90 YEARS OF MAKING OUR MARK

Annual Report 2012

Empire Life

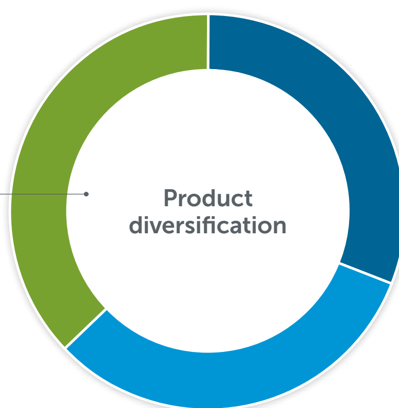
FINANCIAL HIGHLIGHTS

Strength of our capital base

Our Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio is well above the minimum requirements set by the industry regulator. A high MCCSR ratio demonstrates our long-term ability to pay claims and our prudent capital management.

What is an MCCSR ratio?

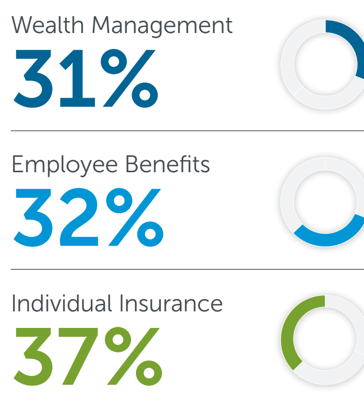
An MCCSR ratio of 100% means that a company has adequate capital to meet obligations to its policyholders. The Office of the Superintendent of Financial Institutions of Canada (OSFI) requires life insurance companies to maintain an MCCSR ratio of at least 120% and expects them to have a target ratio of at least 150%.



Product diversification

by premium and fee income for the 12 months ended December 31, 2012

Empire Life is well-diversified across three product lines:



Shareholders' Net Income
2012 (in millions)

$80.4

Shareholders' Net Income
2011 (in millions): $32.3

Net Premium and Fee Income
2012 (in millions)

$939

Net Premium and Fee Income
2011 (in millions): $879

Total Assets Under Management
2012 (in millions)

$10,839

Total Assets Under Management
2011 (in millions): $9,897

Financial ratings

These financial ratings give you an independent opinion of our financial strength as an insurer and our ability to meet policyholder obligations.

A (Excellent)

A.M. Best Company (as at June 29, 2012)

Subordinated Debt Rating of A (low)

Issuer Rating of A

Claims Paying Rating of IC-2 (2nd of five categories)

DBRS (as at May 29, 2012)

Note: The selected financial information presented above is derived from the audited financial statements of The Empire Life Insurance Company and Management's Discussion and Analysis included in the Empire Life 2012 Annual Report.

90 YEARS OF MAKING OUR MARK

Since 1923, The Empire Life Insurance Company (Empire Life) has made its mark by helping Canadians build wealth and protect their financial security.

With an unwavering focus on our customer, we have grown to be a leader in the industry, recognized for our personal touch, our expertise, and the smart, simple solutions we provide to Canadians.

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CUSTOMER FOCUS

Working with a nationwide network of professional financial advisors, we help our customers navigate through the complex world of financial services. We offer smart, simple solutions for individuals, families and small businesses. Helping our customers prepare for and achieve their goals is at the heart of everything we do.

EXPERTISE

We are known for our experience and expertise. Empire Life has been managing investments for Canadians for more than 45 years. Our in-house investment management team follows a conservative, value-oriented, disciplined investment style, with a strong emphasis on providing downside protection to build wealth.

INNOVATION

How might we...? These three words are the starting point for many big ideas at Empire Life. How might we do things better? How might we deliver superior products and service to our customers? How might we provide peace of mind during a difficult time?

Whether it's a new electronic claims system to make it easier for plan members to submit claims or smart apps that allow advisors to provide instant insurance quotes for customers, we always ask ourselves how we can make things simple and straightforward.

SMART, SIMPLE SOLUTIONS

We try to bring smart thinking and simplicity into everything we do. In 2012, we launched our mutual fund company, Empire Life Investments Inc. Our mutual funds are simple, easy-to-understand and managed by experienced investment professionals.

THE NEXT 90 YEARS

Every day, we make and deliver on promises to Canadians. These promises guide each decision we make. This was true 90 years ago, it's true today, and it will stay true for our next 90 years.

OUR HISTORY

On January 11, 1923, our founder, Milton Palmer Langstaff and four other directors signed the incorporation papers to bring The Empire Life Insurance Company to life. Their vision was simple—to help protect Canadians from the impact of sickness and death.

While our products and services have changed with the times and the needs of our customers, our mission of helping Canadians protect what is important to them remains true to this day.

1923

The Empire Life Insurance Company is founded by Milton Palmer Langstaff in Toronto, Ontario

1926

The Company expands outside Ontario by opening a Branch Office in British Columbia

1929

Merger with The Commonwealth Life and Accident Insurance Company

1934

Acquisition of The Canadian Order of Odd Fellows insurance portfolio

1936

Merger with Mutual Relief Life Insurance Company; Head Office moves from Toronto to Kingston, Ontario

1956

Jackman Family become shareholders

1957

Empire Life begins selling Group products

1968

E-L Financial Corporation Limited is formed as holding company of Empire Life

1970

Life insurance business in-force grows to $1 billion

1987

E-L Financial Corporation Limited brings together through merger and acquisition activities The Empire Life Insurance Company, The Montreal Life Insurance Company and the life insurance section of The Dominion of Canada General Insurance Company

90 years of helping Canadians build wealth and protect their financial security

1992

Acquisition of a block of group business of The Metropolitan Life Insurance Company

1993

Acquisition of non-participating individual insurance policies of The Citadel Life Assurance Company

1995

Agreement to administer and assume deferred annuity and RRIF block of policies of Confederation Life Insurance Company

1997

Acquisition of Colonia Life Insurance Company (name changed to Concordia Life Insurance Company)

Entry into MGA channel

2002

Amalgamation with Concordia Life Insurance Company

2004

Surpasses $5 billion in assets under administration

2005

Enters into National Account Channel

2007

In October, surpasses $1 billion in gross segregated fund sales (year-to-date)

2009

The Empire Life Insurance Company issues $200 million Subordinated Debt

2011

The Company surpasses $10 billion in assets

2011

The Company sets up a new subsidiary Empire Life Investments Inc. (ELII)

2012

ELII launches mutual funds broadening Empire's wealth offering

OUR VISION

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.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

When thinking of the accomplishments of The Empire Life Insurance Company (Empire Life) this past year and reflecting on the company's 90-year history, I am reminded of the saying, history repeats itself.

Sixty years ago, the life insurance industry in Canada was going through tremendous change. Life insurance ownership was on the rise, resulting in dramatic sales growth, excessive new business strain, and decreased earnings for most insurance companies.

Regulators were urged to consider changing reporting and reserve requirements to more accurately reflect the true value of life insurance companies. The rules didn't change and soon, many shareholders began to doubt the value of their investments. Many Canadian insurance companies were bought by foreign entities. To stem this trend, the government allowed life insurance companies to mutualize and buy their own stock. In a seven-year period, the ownership of more than two-thirds of the Canadian life insurance industry changed, either through foreign control or mutualization.

I think it is worth noting that during this turbulent period in the history of our industry, Empire Life was the only Canadian life insurance company that was not bought by foreign companies or mutualized. The company's management stayed true to its roots and looked for Canadian investors, a group led by my grandfather, Henry Jackman. He became the first Chairman of the Board for this company and believed strongly in the people and mission of Empire Life. Two generations later, that conviction remains.

I find it interesting that even today, a number of years after demutualization and the more recent financial crisis, industry change and regulatory matters continue to play a significant role in how we do business. In the past year, we have seen almost all life insurers make fundamental decisions about their products and strategy in response to economic and regulatory conditions. The Board of Directors believes Empire Life is responding to these pressures in ways that will make it a stronger company, just as it has responded to past challenges in its history.

As a Board, we are responsible for making sure Empire Life does what it needs to do to honour its commitments, keep growing and remain financially strong, for today and the future. I have been impressed with how the Board and management have worked together to increase understanding of the issues and the level of transparency needed to make the right decisions. We are confident that the company continues to be managed well, with integrity, which is reflected in its results.

Harold Hillier joined our Board this year as Policyholder Director. Mr. Hillier brings extensive investment management and leadership expertise, adding to the Board's overall strength and diversity.

I am proud of the leadership my grandfather and father gave to Empire Life, helping build a strong foundation for the company we see today. As the next chapter of history unfolds for this great company, the Board supports and thanks all Empire Life employees for their work and dedication to its success.

Duncan N.R. Jackman
Chairman of the Board
Toronto, Ontario
February 27, 2013

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

For 90 years, The Empire Life Insurance Company (Empire Life) has made its mark by helping Canadians build wealth and protect their financial security. This past year we continued on our journey to become a financial services company known for simplicity, being easy to do business with and having a personal touch. We remain focused on that goal.

The business environment is challenging, no question. However, our customers, distribution partners, shareholders and employees expect us to deliver on our promises regardless of what's happening in the world. We cannot get distracted. I believe that 2012 allowed us to demonstrate that we can compete well and respond appropriately to the many challenges we face and still deliver exceptional results.

Our results

We achieved overall shareholders' net income of $80.4 million, a record level of earnings for Empire Life. Results across all three business lines were positive, with strong Capital and Surplus earnings.

Our Employee Benefits line of business had another strong year, achieving $17.2 million in net income, an increase of $2.1 million over 2011. Sales were slow at the beginning of the year, but strong results and momentum in the last half of the year helped push sales above 2011 levels. Favourable long-term disability claims experience also contributed to our Employee Benefits income result.

The net income result of $7.3 million for our Wealth business was lower than last year due to a strengthening of annuity reserves in 2012, versus reserve releases last year. We experienced very strong sales, particularly in segregated funds which saw 60% higher gross sales than 2011. While sales of mutual funds through our subsidiary, Empire Life Investments Inc., did not meet our first year objectives, I am pleased with how we have positioned this new product line in a very competitive market.

Individual Insurance results were strong at $12.6 million, much higher than the $35.4 million net loss this line experienced in 2011. Careful and thoughtful decisions regarding price increases and product changes to this line helped us achieve solid sales levels in 2012. Price increases and sales results prevented excessive sales strain, and a release of reserves and a less severe interest rate drop in 2012 also contributed favourably to this result.

Our Shareholders' Capital and Surplus earnings was $35.7 million, up from $34.8 million in 2011. Our Minimum Continuing Capital and Surplus Requirements Ratio (MCCSR) was 203% as at December 31, 2012, well above minimum requirements.

Moving the company forward

We have made good progress on a number of key initiatives this past year that are moving us towards our vision of becoming a company known for simplicity and being easy to do business with.

Our Single View of the Customer initiative will enable us to access and analyze customer information housed on multiple administration systems. This system will be in place in early 2013 and will give us tremendous knowledge and understanding of our customers' needs so we can better serve them.

We have made significant progress on the second phase of the conversion of our wealth administration systems onto one platform through our service provider, Citigroup (Citi). The next phase of the conversion will take place in

August 2013 and will help us achieve greater efficiency in serving our customers and distribution partners. We are very encouraged at how the relationship between Empire Life and Citi has grown and work has already begun on future conversions.

Early in 2012, we entered the mutual fund market with our new family of Empire Life Mutual Funds offered through Empire Life Investments Inc. A brand and marketing campaign helped us position our funds to appeal to value-oriented investors looking for uncomplicated funds to add to their portfolio. We are encouraged by the interest from advisors we have seen so far for this product line and believe it is important to the future success of Empire Life.

We completed two key initiatives in our Group Solutions area this past year including designing and implementing a new online health benefits claims system, and introducing a drug-pooling product. Drug-pooling is an industry-wide initiative that helps insulate employee health benefit plans from the full impact of high-cost prescription drug claims. By doing this, we help protect business owners from dramatic increases in their premium renewals if one of their employees requires an expensive drug treatment. It is an important development for our industry and will help many Canadians.

Over the past two years, we made a number of changes to our insurance products and pricing, in response to sustained low interest rates. Almost all of our competitors took similar steps to continue to profitably offer long-term products to Canadians, while reducing company risk. We carefully considered the impact to our customers and distribution partners in making these changes and tried to stay focused on our own business plans and not overreact to what was happening outside Empire Life. We continue to conduct a critical review of what products we can offer and expect to continue to change our product design, mix and pricing.

Our industry has gone through a tremendous period of change. I believe this is the new norm. Making sure we can offer the right product solutions to Canadians and maintain profitability remains a priority. I also believe we have been successful in managing the company well through these changes and that our ability to adapt appropriately is one of our key strengths.

On January 11, 2013, Empire Life celebrated its 90th anniversary. Our long and successful history comes from the efforts and dedication of our employees, past and present, our committed ownership and the guidance and confidence of our Board of Directors. Empire Life may not be as large as some of our competitors, but our stature within the industry and importance to our customers and distribution partners are by no means small.

I know that with our clear vision, strong leadership and the commitment and resourcefulness of our people, we will continue to be highly profitable, and become a company that can offer smarter, simpler financial solutions to Canadians.

Leslie C. Herr
President and Chief Executive Officer
Kingston, Ontario
February 27, 2013

SOURCE OF EARNINGS

Source of earnings is a methodology for identifying and quantifying the various sources of International Financial Reporting Standards (IFRS) 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)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Expected profit on in-force business	**$ 35.9**	$ 28.3	**$ 17.4**	$ 15.9	**$ 38.9**	$ 39.0			**$ 92.2**	$ 83.2
Impact of new business	**(24.7)**	(17.1)	**(12.5)**	(11.1)	**(19.5)**	(33.8)			**(56.7)**	(62.0)
Experience gains & losses	**2.2**	2.0	**12.8**	14.0	**(3.9)**	(36.9)			**11.1**	(20.9)
Management actions and changes in assumptions	**(6.5)**	4.5	**5.0**	2.2	**2.9**	(19.4)			**1.4**	(12.7)
Other	**-**	-	**-**	-	**3.5**	-			**3.5**	-
Earnings on operations before income taxes	**6.9**	17.7	**22.7**	21.0	**21.9**	(51.1)	**-**	-	**51.5**	(12.4)
Earnings on surplus	**-**	-	**-**	-	**-**	-	**48.3**	47.1	**48.3**	47.1
Income before income tax	**$ 6.9**	$ 17.7	**$ 22.7**	$ 21.0	**$ 21.9**	$ (51.1)	**$ 48.3**	$ 47.1	**$ 99.8**	$ 34.7
Income taxes	**(0.4)**	1.5	**5.5**	5.9	**1.7**	(17.3)	**12.6**	12.3	**19.4**	2.4
Shareholders' Net Income	**$ 7.3**	$ 16.2	**$ 17.2**	$ 15.1	**$ 20.2**	$ (33.8)	**$ 35.7**	$ 34.8	**$ 80.4**	$ 32.3

Wealth Management

Wealth Management's 2012 earnings on operations were lower than the level achieved in 2011. In 2012 there was a decrease in income resulting from management actions and changes in assumptions primarily related to annuitant mortality assumptions. In contrast, the 2011 assumption updates were due primarily to favourable updates to investment assumptions and favourable annuitant mortality experience resulting in an increase in 2011 income. 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.

In addition, there was a decrease in earnings on operations in 2012 compared to 2011 from the impact of new business due to strong growth in segregated fund gross sales. This sales growth is attributable primarily to guaranteed minimum withdrawal benefit (GMWB) products.

These items were partly offset by an increase in expected profit on in-force business due primarily to the segregated fund business. Higher net income on inforce business in 2012 was due to the growth of the GMWB product which generates higher fees than other segregated fund products.

Employee Benefits

Employee Benefit's 2012 earnings on operations were higher than the level achieved in 2011. Most of the increase was due to a more favourable update of policy liability assumptions in 2012 relative to 2011. Net income was strong in both years in this product line as claims experience was favourable in both years.

SOURCE OF EARNINGS BY LINE OF BUSINESS

Individual Insurance

The increase in Individual Insurance earnings on operations was primarily due to several large items. The most significant item was improved investment experience which was due primarily to a less severe drop in long-term interest rates in 2012. The improvement also resulted from a rise in stock markets in 2012, compared to a significant stock market drop in 2011. While the impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities, net income is impacted as it is not possible to perfectly match future liability cash flows with future asset cash flows.

In addition, there were improved results from management actions and changes in assumptions in 2012. The 2012 update of policy liability assumptions included favourable asset mix changes, mortality assumption updates and actuarial method changes partly offset by the unfavourable impact of fixed income future reinvestment rate assumptions. In contrast, the update of policy liability assumptions was very unfavourable in 2011. This 2011 policy liability strengthening was primarily related to reinvestment assumptions, driven by the persisting low interest rate environment. The 2011 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.

New business strain also improved in 2012. Lower new business strain resulted from higher prices on long-term products and lower annualized premium sales.

The gain from other items in 2012 relates to a decrease in policy liabilities due to a tax law change that lowered future expected premium taxes in the province of Quebec.

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, 2012 and 2011. This MD&A should be read in conjunction with the Company's December 31, 2012 consolidated financial statements, which form part of The Empire Life Insurance Company 2012 Annual Report dated February 27, 2013. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars.

This 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.

Financial Analysis

Overview

(in millions of dollars)	Fourth quarter		Year	
	2012	2011	**2012**	2011
Shareholders' net income	**$ 25.2**	$ 8.2	**$ 80.4**	$ 32.3

Empire Life reported full year shareholders' net income of $80.4 million for 2012, compared to $32.3 million in 2011.

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

1. In 2012, there was a relatively small decrease in long-term interest rates, compared to the significant drop that occurred in 2011.
2. Higher prices on long-term products and lower annualized premium sales resulted in lower new business strain in 2012 compared to 2011.
3. The update of policy liability assumptions was favourable in 2012 compared to a very unfavourable impact in 2011. This favourable 2012 update of assumptions included favourable mortality and model enhancements partly offset by unfavourable lapse, reinvestment assumption and other assumptions. The 2012 reinvestment assumption update is made up of two large components. The first component is a shareholders' net loss of $116 million primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions. The second component is a shareholders' net gain of $95 million due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products.

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

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

Empire Life has three major product lines (Wealth Management, Employee Benefits and Individual Insurance) and maintains distinct accounts for Capital and Surplus. A discussion of each product line's 2012 net income compared to 2011 is shown in the Product Line Results sections later in this report.

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

Empire Life established a mutual fund subsidiary, Empire Life Investments Inc. (ELII), in 2011. ELII became a registered Investment Funds Manager on January 5, 2012. Empire Life's consolidated financial statements include ELII.

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

The analysis and discussion which follows is focused on the full year 2012 and comparative 2011 line of business net income after tax.

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

	For the year ended December 31									
	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(in millions of dollars)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue										
Net premium income	$ 176	$ 141	$ 290	$ 278	$ 348	$ 339	$ -	$ -	$ 814	$ 758
Fee and other income	115	110	7	7	1	1	2	2	125	120
Investment income	53	56	6	6	143	118	35	37	237	217
Realized gain on fair value through profit or loss investments	2	6	2	2	50	33	-	-	54	41
Realized gain (loss) on available for sale investments including impairment write-downs	-	-	-	-	-	-	28	26	28	26
Fair value change in fair value through profit or loss investments	1	25	(3)	14	3	356	-	-	1	395
	347	338	302	307	545	847	65	65	1,259	1,557
Expenses										
Benefits and expenses	341	320	273	280	526	892	15	15	1,155	1,507
Income and other taxes	(1)	2	12	12	7	(10)	13	13	31	17
	340	322	285	292	533	882	28	28	1,186	1,524
Net Income (Loss) After Tax	$ 7	$ 16	$ 17	$ 15	$ 12	$ (35)	$ 37	$ 37	$ 73	$ 33
Policyholders' portion									(7)	1
Shareholders' Net Income									$ 80	$ 32
Assets under management										
General fund assets	$ 1,147	$ 1,137							$ 5,909	$ 5,600
Segregated fund assets	$ 4,993	$ 4,392			$ 21	$ 23			$ 5,014	$ 4,415
Mutual fund assets	$ 13	$ -							$ 13	$ -
Annualized premium sales			$ 44	$ 41	$ 65	$ 73				

Total Revenue

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

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

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

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

Fair value change in fair value through profit or loss (FVTPL) investments including realized amounts often cause large revenue volatility. These assets experienced a net gain for the year in both 2012 and 2011. In 2012, the gain was from primarily an increase in bond prices (due to a decrease in market interest rates) and an increase in common share prices. In 2011 the gain was from primarily a large increase in bond prices (due to a large decrease in market interest rates) partly offset by a decrease in common share prices. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities (discussed in the Total Benefits and Expenses section below).

Realized gain on available for sale (AFS) investments including impairment write-downs was a larger gain for the year in 2012 relative to 2011 due primarily to common share impairment write-downs in 2011. These gains and losses impact net income and are considered in the net income investment experience comments for each of the impacted product lines (see Product Line Results sections later in this report). The assets sold, and the impaired assets written down, back primarily capital and surplus.

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

Total Benefits and Expenses

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

Total benefits and expenses at Empire Life for the year decreased by 23% to $1.16 billion compared to $1.5 billion in 2011. Major benefit and expense items are discussed below.

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

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the year, the main reason for the large change from 2011 for this item was the change in insurance contract liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the increase in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of operations.

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

Product Line Results – Wealth Management

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

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

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

Premium income for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund products. For the year, fixed interest annuity premiums were up 24% compared to 2011 due primarily to increased sales of fixed interest deferred annuities.

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

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

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

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

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

In 2011, a $10 million loss occurred in this product line related to updating insurance liabilities to reflect new industry guidance from the Canadian Institute of Actuaries (CIA), for annuitant mortality assumptions. This new guidance revised methods for reflecting mortality improvements up to and beyond the valuation date, generally resulting in higher levels of mortality improvement in the valuation assumption.

The update of policy liability assumptions was favourable by $13 million in 2011. The 2011 updates for general fund annuities related primarily to favourable updates to investment assumptions and favourable updates to annuitant mortality assumptions.

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

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

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

Product Line Results – Employee Benefits

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

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

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

(in millions of dollars)	Fourth quarter	Year
Employee Benefits Net Income Analysis		
Net income after tax 2012	$ 5	$ 17
Net income after tax 2011	3	15
Increase in Net Income After Tax	$ 2	$ 2
Components of increase		
2011 gain (loss) from update of policy liability assumptions	$ (2)	$ (2)
2012 gain from update of policy liability assumptions	4	4
Total	$ 2	$ 2

Net income was strong in both years in this product line as claims experience was favourable in both years. The update of policy liability assumptions was more favourable in 2012 than 2011. The 2012 update of policy liability assumptions was due primarily to refinements of valuation models for group long-term disability claims.

Product Line Results – Individual Insurance

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

For the year, annualized premium sales in this product line decreased by 11% compared to 2011, and premium income increased by 3% compared to 2011. This product line's full year sales result is attributable primarily to higher than normal volume in 2011 resulting from distributor concerns in 2011 that further price increases may occur for several long-term products. Empire Life has been increasing prices on long-term products due to the low long-term interest rate environment. We have observed a similar trend with many of our competitors.

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

(in millions of dollars)	Fourth quarter	Year
Individual Insurance Net Income (Loss) Analysis		
Net income after tax 2012	$ -	$ 12
Net loss after tax 2011	(13)	(35)
Increase in Net Income After Tax	$ 13	$ 47
Components of increase		
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)
2011 loss from update of policy liability assumptions	41	41
2012 gain from update of policy liability assumptions	1	1
Improved (worsened) investment experience	(3)	29
Improved (worsened) mortality, surrender and other experience	7	(5)
Lower new business strain	3	17
Total	$ 13	$ 47

In 2011, a $27 million gain occurred in this product line related to updating insurance liabilities to reflect new industry guidance from 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 $9 million gain occurred in this product line related to updating insurance liabilities to reflect the impact of moving to an adjusted book value method for participating insurance business. The method change results in greater consistency with industry peers.

The update of policy liability assumptions was very unfavourable in 2011. The 2011 updates related primarily to unfavourable updates to investment assumptions caused by a significant drop in long-term interest rates (decreased 2011 shareholders' net income by $66 million). This unfavourable assumption update was partly offset by a favourable assumption update in 2011 resulting from favourable mortality experience in the individual life insurance business (increased 2011 shareholders' net income by $26 million). These two 2011 items were the primary reason for the $41 million loss related to update of policy liability assumptions.

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

Components of income increase from update of policy liability assumptions		Year
(in millions of dollars)		
Fixed income asset assumptions	$	(116)
Non-fixed income asset assumptions		95
Net re-investment assumptions	$	(21)
Mortality		16
Model enhancements		24
Lapse		(11)
Other		(7)
Total 2012 Gain From Update of Policy Liability Assumptions	$	1

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

1. For fixed income asset assumptions, a shareholders' net loss of $116 million primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions; and
2. For non-fixed income asset assumptions, a shareholders' net gain of $95 million was due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products. This resulted primarily from an asset liability management and capital management decision in the fourth quarter of 2012 to purchase $174 million of common equities to match longer-term liabilities.

Empire Life uses an ultimate reinvestment rate (URR) assumption of 3.1% (3.7% for 2011). Empire Life uses a best estimate return assumption for equities used to match long-term liabilities of 8.11% (8.43% for 2011). This equity return assumption is then reduced by margins to determine the net return used in the valuation. Additional information regarding investment return assumptions can be found in note 27(b)i)(2) to the consolidated financial statements.

Investment experience had a year-over-year improvement of $29 million. This was due primarily to a relatively small decrease in long-term interest rates in 2012, compared to the significant drop that occurred in 2011. The improvement also resulted from a rise in stock markets in 2012, compared to a significant stock market drop in 2011. While the impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities, net income is impacted as it is not possible to perfectly match future liability cash flows with future asset cash flows.

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

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

Results – Capital and Surplus

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

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders' Capital and Surplus and to Policyholders' Surplus. During the fourth quarter and the full year, Capital and Surplus earnings were similar to 2011 levels. The following table provides a breakdown of the components of this year-over-year change in net income.

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

Decreased net income from sale of investments was due primarily to lower gains from the sale of certain AFS equity investments compared to 2011. In both years, a portion of these gains relate to asset mix changes in Shareholders' Capital and Surplus. Approximately $7 million in shareholders' net income resulted from gains on the sale of $100 million of equities in the fourth quarter of 2011 aimed at lowering equity exposure in Empire Life's asset mix. Approximately $15 million in shareholders' net income resulted from gains on the sale of $174 million of equities in the fourth quarter of 2012. This 2012 sale of equity assets was aimed at lowering equity exposure in Empire Life's Shareholders' Capital and Surplus to allow capacity to purchase $174 million of common equities to match longer-term liabilities in the Individual Insurance product line.

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

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

Total Cash Flow

	Year	
(in millions of dollars)	2012	2011
Cash Flow provided from (used for)		
Operating Activities	$ 229	$ 193
Investing Activities	(123)	(160)
Financing Activities	(13)	(29)
Net Change in Cash and Cash Equivalents	$ 93	$ 4

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

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

The decrease in cash used for financing activities in 2012 relative to 2011 was due to Empire Life's decision to retain cash to finance operations growth rather than pay a dividend to common shareholders.

Capital Resources

	2012	2012	2012	2012	2011
	Dec 31	Sept 30	June 30	Mar 31	Dec 31
MCCSR Ratio	203%	203%	205%	210%	207%

Empire Life continues to maintain a strong balance sheet and capital position. The A (Excellent) rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength. Empire Life's risk-based regulatory capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements (MCCSR), of 203% as at December 31, 2012 continued to be well above requirements, and above minimum internal targets.

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

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

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

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

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

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

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

1. There will be changes to the MCCSR standards related to lapse-required regulatory capital which is expected to improve Empire Life's MCCSR ratio by 14 points.
2. Implementation of IAS 19R *Employee Benefits* standards (related to employee defined benefit plans) in the first quarter 2013 is expected to lower Empire Life's available regulatory capital by $26 million, which would decrease Empire Life's MCCSR ratio by 5 points.

Other Comprehensive Income

	Fourth quarter		Year	
(in millions of dollars)	**2012**	2011	**2012**	2011
Other comprehensive income (OCI) (loss) (OCL)				
Shareholders' OCI (OCL)	**$ (17)**	$ (6)	**$ (13)**	$ (18)
Policyholders' OCI (OCL)	**$ -**	$ 1	**$ 2**	$ (1)

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

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

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

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

Industry Dynamics and Management's Strategy

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

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

The Wealth Management product line at Empire Life has historically been comprised of segregated fund products and guaranteed interest products. In January 2012, mutual funds were added to this product line. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value-oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management is expecting to grow market share through this long-term performance along with broadened distribution reach and the addition of new funds and fund products such as the recently launched mutual fund products. Empire Life achieved strong growth in its GMWB segregated fund business in 2012. However, Empire Life has taken several steps to limit GMWB risk exposure. In the fourth quarter of 2012, Empire Life announced a new version of the GMWB product for launch in early 2013. The new version reduces the amount of risk Empire Life is taking on, while still offering a competitive guaranteed income solution to customers. Empire Life will continue to monitor the competitive landscape for this product.

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

Individual Insurance products are very long-term in nature and consequently can be subject to significant levels of new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create significant new business strain that has a negative impact on short-term earnings. Sales strain was particularly high in 2010 and 2011 due to the low long-term interest rate environment that followed the financial crisis. The low interest rate environment continued in 2012. This has impacted the entire industry resulting in significant price increases in both 2011 and 2012 for individual insurance products by Empire Life and many of our competitors. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower-than-average levels of reinsurance with the resultant negative impact on short-term earnings. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to have a cost structure that allows us to compete while generating an acceptable long-term financial contribution. Empire Life is reviewing its Individual Insurance products to improve profitability, reduce interest rate risk, reduce required regulatory capital, and improve the customer experience.

Risk Management

Empire Life's MCCSR ratio, among other things, is sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2012 Empire Life had $5.0 billion of segregated fund assets and liabilities. Of this amount, approximately $4.8 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

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

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. For segregated fund guarantee insurance contract liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period-end stock markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period-end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. Based on stock market levels at December 31 for 2012 and December 31 for 2011, the sensitivity of shareholders' net income 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:				
2012 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2011 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:

	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity to Stock Markets:				
December 31, 2012 MCCSR Ratio	**-0.5%**	**0.0%**	**-1.1%**	**-12.2%**
December 31, 2011 MCCSR Ratio	0.9%	-2.4%	1.7%	-19.1%

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

Empire Life has not historically hedged or reinsured its segregated fund guarantee risk. Given the current segregated fund product mix and level of sensitivity to stock markets, Empire Life has not hedged or reinsured its segregated fund guarantee risk as of December 31, 2011 or December 31, 2012. In addition, Empire Life does not reinsure any other insurer's segregated fund products.

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

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

Segregated Funds

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

The first four columns of the table above show all segregated fund policies where the future maturity guarantee, or future death benefit guarantee, is greater than the fund value. The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The fifth column of the above table shows GMWB top-up exposure. The GMWB top-up amount at risk represents the amount that could be paid by Empire Life to GMWB customers if the net return on each GMWB customer's assets is zero for the remainder of each GMWB customer's life, based on life expectancy. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates. The level of actuarial liabilities and required regulatory capital is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist upon either future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders, or upon the occurrence of future top-up payments to GMWB customers. The amounts at risk in December 2012 decreased from the December 2011 levels for maturity guarantee, and death benefit guarantee, due primarily to the increase in many global stock markets including Canada's. The amount at risk in December 2012 increased from the December 2011 levels for GMWB top-up exposure, due primarily to strong GMWB sales in 2012.

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

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form 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 27 to the consolidated financial statements.

Critical Accounting Estimates

Empire Life's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these accounting estimates for Empire Life are the valuation of policy liabilities, financial instrument classification, pension and other employee future benefits and the determination of allowances for impaired investments.

Policy Liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in Note 27 to the consolidated financial statements.

Financial instrument classification

Management judgement is used to classify financial instruments as FVTPL, AFS or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income. Additional information regarding financial instrument classification is included in Notes 2(d), 3(a), 3(e), and 10(c).

Pension and other employee future benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. If actual experience differs from the assumptions used, pension and other employee future benefits expense could increase or decrease in future years. The expected rate of return on plan assets is a management estimate that significantly affects the calculation of pension expense. The expected rate of return on plan assets is determined using the plan's target asset allocation and estimated rates of return for each asset class. Additional information regarding pension and other employee future benefits is included in Notes 2(j), 2(u), and 12.

Provision for Impaired Investments

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

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

Outlook

In 2012 economic growth remained weak, interest rates continued to drop, but the drop was far less than the large drop that occurred in 2011. Stock markets remained volatile, but most significant markets rose in 2012. Canada's main stock market rose in 2012, an improvement from the significant decline in 2011. The European sovereign debt crisis and U.S. fiscal issues contributed strongly to the volatility and impacted consumer confidence. However, stock and credit markets continue to be improved from the economic turmoil of 2008 and early 2009. Stock market conditions mainly impact in-force profit margin results and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line. Looking forward, consumers continue to be cautious about stock market exposure and Empire Life is well-positioned with segregated fund, mutual fund and fixed interest annuity product offerings to satisfy demand for lower risk investments.

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

A key issue for the Individual Insurance product line in 2011 and 2012 was the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases for individual insurance products by Empire Life and many of our competitors. Long-term interest rates and product pricing are expected to continue to be issues for Empire Life's Individual Insurance product line in 2013.

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

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

Longer-term accounting standard and regulatory changes are expected by 2016 or later regarding 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 banks' capital ratios. It is unclear whether similar changes will occur for life insurance companies in the future.

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

Quarterly Results

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

	2012	**2012**	**2012**	**2012**	2011	2011	2011	2011
(in millions of dollars)	**Dec 31**	**Sept 30**	**June 30**	**Mar 31**	Dec 31	Sept 30	June 30	Mar 31
Revenue	**$ 299**	**$ 377**	**$ 368**	**$ 215**	$ 476	$ 499	$ 345	$ 237
Shareholders' Net income (loss)	**$ 25**	**$ 20**	**$ 18**	**$ 17**	$ 8	$ (7)	$ 17	$ 14

Revenue for the three months ended December 31, 2012 decreased to $299 million (2011 $476 million). The decrease was primarily due to net gains on FVTPL investments in 2011 resulting from an increase in bond prices in 2011. 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 from primarily improved Individual Insurance product line net income. This was due primarily to a favourable impact from the update of policy liability assumptions in 2012 compared to unfavourable in 2011. 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, 2012. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2012.

The Board of Directors, 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 27, 2013

Gary J. McCabe
Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 27, 2013

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 statement of financial position as at December 31, 2012 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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 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, 2012 and financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 27, 2013

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, 2012 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 27, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31	2012	2011
Assets		
Cash and cash equivalents *(Note 3)*	$ 248,382	$ 155,559
Investments		
Short-term investments *(Note 3)*	16,440	33,867
Bonds *(Note 3)*	4,227,329	4,063,897
Common and preferred shares *(Note 3)*	878,085	808,681
Mortgages *(Note 3)*	302,531	264,238
Loans on policies *(Note 3)*	43,071	41,981
Policy contract loans *(Note 3)*	95,461	113,118
Total investments	5,562,917	5,325,782
Accrued investment income	21,452	20,107
Insurance receivables *(Note 4)*	30,035	28,455
Current income taxes receivable	-	17,106
Other assets *(Note 5)*	21,468	34,464
Property and equipment *(Note 6)*	22,827	21,241
Intangible assets *(Note 7)*	2,071	1,090
Segregated fund assets *(Note 8)*	5,014,392	4,415,318
Total Assets	$ 10,923,544	$ 10,019,122
Liabilities		
Accounts payable and other liabilities *(Note 11)*	$ 46,671	$ 70,097
Insurance payables *(Note 9)*	63,152	67,859
Current income taxes payable	7,473	-
Reinsurance liabilities *(Note 10)*	244,808	156,119
Insurance contract liabilities *(Note 10)*	4,375,441	4,199,501
Investment contract liabilities	14,591	15,076
Policyholders' funds on deposit	30,634	30,263
Provision for profits to policyholders	22,142	21,791
Deferred income taxes *(Note 18)*	4,792	6,586
Subordinated debt *(Note 23)*	199,642	199,405
Segregated fund policy liabilities	5,014,392	4,415,318
	10,023,738	9,182,015
Equity		
Capital stock *(Note 25)*	985	985
Contributed surplus	19,387	19,387
Retained earnings *(Note 24)*	860,025	786,203
Accumulated other comprehensive income	19,409	30,532
	899,806	837,107
Total Liabilities and Equity	$ 10,923,544	$ 10,019,122

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	2012	2011
Revenue		
Gross premiums	$ 902,733	$ 838,422
Premiums ceded to reinsurers	(89,201)	(79,968)
Net premiums *(Note 13)*	813,532	758,454
Investment income *(Note 3)*	237,354	216,782
Fair value change in fair value through profit or loss assets	1,397	394,512
Realized gain (loss) on fair value through profit or loss assets sold	54,349	41,324
Realized gain (loss) on available for sale assets including impairment write-downs *(Note 3)*	28,405	25,846
Fee income *(Note 14)*	125,218	120,243
Total revenue	1,260,255	1,557,161
Benefits and Expenses		
Gross benefits and claims paid *(Note 15)*	590,041	567,744
Claims recovery from reinsurers *(Note 15)*	(48,795)	(54,332)
Gross change in insurance contract liabilities *(Note 15)*	175,940	526,183
Change in insurance contract liabilities ceded *(Note 15)*	88,689	138,439
Change in investment contracts provision	754	745
Policy dividends	20,478	20,962
Operating expenses *(Note 17)*	139,788	129,865
Commissions	177,175	166,392
Commission recovery from reinsurers	(2,336)	(2,186)
Interest expense	13,697	13,680
Total benefits and expenses	1,155,431	1,507,492
Premium tax	13,466	12,985
Investment and capital tax	3,900	3,400
Net Income Before Income Taxes	87,458	33,284
Income taxes *(Note 18)*	13,636	139
Net Income	$ 73,822	$ 33,145
Net Income (Loss) Attributable to:		
Participating Policyholders	(6,597)	838
Shareholders	80,419	32,307
Total	$ 73,822	$ 33,145
Earnings per share - basic and diluted (2,000,000 shares authorized; 985,076 shares outstanding)	$ 81.64	$ 32.80

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	2012	2011
Net income	$ 73,822	$ 33,145
Other comprehensive income (loss), net of income taxes:		
Unrealized fair value change on available for sale investments *(Note 18)*	7,504	(3,014)
Fair value change on available for sale investments reclassified to net income including impairment write-downs *(Note 18)*	(19,161)	(16,201)
Net unrealized fair value increase (decrease)	(11,657)	(19,215)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income *(Note 18)*	534	496
Total other comprehensive income (loss)	(11,123)	(18,719)
Comprehensive Income	$ 62,699	$ 14,426
Comprehensive income (loss) attributable to:		
Participating Policyholders	$ (4,960)	$ (394)
Shareholders	67,659	14,820
Total	$ 62,699	$ 14,426

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	2012			2011		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Capital stock *(Note 25)*	$ 985	$ -	$ 985	$ 985	$ -	$ 985
Contributed surplus	$ 19,387	$ -	$ 19,387	$ 19,387	$ -	$ 19,387
Retained earnings						
Retained earnings - beginning of year	$ 732,479	$ 53,724	$ 786,203	$ 715,972	$ 52,886	$ 768,858
Net income (loss)	80,419	(6,597)	73,822	32,307	838	33,145
Dividends to common shareholders	-	-	-	(15,800)	-	(15,800)
Retained earnings - end of year	$ 812,898	$ 47,127	$ 860,025	$ 732,479	$ 53,724	$ 786,203
Accumulated other comprehensive income (AOCI)						
Accumulated other comprehensive income - beginning of year	$ 27,045	$ 3,487	$ 30,532	$ 44,532	$ 4,719	$ 49,251
Other comprehensive income (loss)	(12,760)	1,637	(11,123)	(17,487)	(1,232)	(18,719)
Accumulated other comprehensive income - end of year	$ 14,285	$ 5,124	$ 19,409	$ 27,045	$ 3,487	$ 30,532
Total Equity *(Note 24)*	$ 847,555	$ 52,251	$ 899,806	$ 779,896	$ 57,211	$ 837,107
Composition of AOCI – end of year						
Unrealized gain on available for sale financial assets	$ 14,523	$ 5,693	$ 20,216	$ 27,999	$ 3,874	$ 31,873
Unamortized gain (loss) on cash flow hedges	(807)	-	(807)	(1,341)	-	(1,341)
Shareholder portion of policyholders' AOCI	569	(569)	-	387	(387)	-
Total accumulated other comprehensive income	$ 14,285	$ 5,124	$ 19,409	$ 27,045	$ 3,487	$ 30,532

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		2012		2011
Operating Activities				
Net income	$	73,822	$	33,145
Non-cash items affecting net income				
Change in contract liabilities		176,694		526,928
Change in reinsurance liabilities		88,689		138,439
Fair value change in fair value through profit or loss assets		(1,397)		(394,512)
Realized (gain) loss on assets including impairment write-downs on available for sale assets		(82,754)		(67,170)
Amortization related to invested assets		(73,108)		(73,094)
Amortization related to capital asssets		3,673		3,914
Deferred income taxes		(1,794)		3,105
Other items		45,131		22,406
Cash provided from operating activities		228,956		193,161
Investing Activities				
Portfolio investments				
Purchases and advances		(1,354,055)		(1,569,477)
Sales and maturities		1,219,502		1,389,722
Loans on policies				
Advances		(7,600)		(7,646)
Repayments		8,293		13,424
Decrease (increase) in short-term investments		17,427		17,047
Net purchase of capital assets		(6,240)		(2,744)
Cash provided from (used for) investing activities		(122,673)		(159,674)
Financing Activities				
Dividends to common shareholders		-		(15,800)
Interest paid on subordinated debt		(13,460)		(13,460)
Cash provided from (used for) financing activities		(13,460)		(29,260)
Net Change in Cash and Cash Equivalents		92,823		4,227
Cash and Cash Equivalents – Beginning of Year		155,559		151,332
Cash and Cash Equivalents – End of Year	$	248,382	$	155,559
Supplementary cash flow information:				
Income taxes paid, net of (refunds)	$	(15,476)	$	(7,515)
Interest income received		124,863		111,564
Dividend income received		43,994		34,424

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" or "Empire Life") 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, mutual 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. Empire Life 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 in 2011, Empire Life Investments Inc. (ELII). ELII became a registered Investment Funds Manager on January 5, 2012. The head office for 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 27, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The annual consolidated financial statements of the Company for the year ended December 31, 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable at December 31, 2012.

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 except for per share amounts and where otherwise stated. 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 and maintains control of its subsidiary. Control is defined as the power to govern the financial and operating activities of an entity so as to obtain the benefits from its activities. The financial statements of its subsidiary are included in the Company's results from the day control was established, the commencement of operations, and will be deconsolidated should control cease. 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, estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

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

i) Insurance-related liabilities

Liabilities for insurance contracts are determined using the Canadian Asset Liability Method, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities. See Note 27(b) for information on the Company's sensitivity to changes in best estimate assumptions.

Additional information regarding insurance-related liabilities is included in Notes 2(e), 2(k), 10 and 27(b).

ii) Financial instrument classification

Management judgement is used to classify financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income.

Additional information regarding financial instrument classification is included in Notes 2(d), 3(a), 3(e), and 10(c).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Pension and other employee future benefits

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

Additional information regarding pension and other employee future benefits is included in Notes 2(j), 2(u), and 12.

iv) Impairment

Available for sale securities and loans and receivables are reviewed at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. For available for sale securities and loans and receivables, impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows of the instrument and the impact can be reliably estimated. Objective evidence of impairment includes, but is not limited to, bankruptcy or default, delinquency by a debtor, and specific adverse conditions affecting an industry or a region. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment. For these purposes management considers a significant decline to be 20% or greater and a prolonged period to be 12 months or greater. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. Impairment write-downs on debt securities are not recorded when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.

Additional information regarding impairment is included in Notes 2(d), 3(b), 10(c) and 27(a).

(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 designated as 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 and participating accounts are classified as 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 forcasted transactions are recognized in the Consolidated statement of operations.

vi) Other

Insurance receivables and Trade receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as Other assets. Accounts payable and other liabilities 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 in the Consolidated statement of financial position at the same time as the underlying insurance contract liability to which it relates.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that not all amounts due under the terms of the contract will be received. If a reinsurance asset is determined to be impaired, it would be written down to its recoverable amount and the impairment loss would be recorded in the Consolidated 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 including 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 insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. The policyholder bears the risks and rewards associated with segregated fund assets except to the extent there are guarantees, and as a result, the assets associated with segregated funds are not reported as Investments of Empire Life, but are reported as a separate item on the Consolidated statement of financial position. The assets of these funds are carried at their period-end fair values, which also represents the segregated fund policy liability. The Company's Consolidated statement of operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit and maturity benefit guarantees of these funds. See Note 8 for details on segregated fund assets and changes in segregated fund assets.

The Company provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within Insurance contract liabilities. Sensitivity of the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 27 (a) i) (1).

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 liabilities.

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

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 inforce.

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 in case of 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 456-464 of the *Insurance Companies Act*. 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. Net income (loss) attributable to participating policyholders is shown on the Consolidated statements of operations. Comprehensive income (loss) attributable to participating policyholders is shown on the Consolidated statements of comprehensive income. The participating policyholders' portion of Retained earnings and AOCI is reported separately in the Policyholders' equity section of the Consolidated statements 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* 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 recorded directly to each asset segment. When there is a deficiency of funds over assets, a portion of investment income is allocated to the Shareholders' Capital and Surplus segment from the participating account's asset segments in proportion to the deficiency of funds over assets of each segment. When there is an excess of funds over assets, a portion of investment income is allocated from the Shareholders' Capital and Surplus segment to the participating account's asset segments in proportion to the 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 and mutual funds is generally calculated and recorded as revenue daily based on the funds' closing net asset 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.

(o) Income Taxes

Income tax expense for the period comprises of 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 net income, and the amortization of loss on derivative investments designated as cash flow hedges reclassified to net income, 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. Except for IAS 19R, the Company has not yet determined the impact of these standards and amendments on its consolidated financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 19R *Employee Benefits*

An amended version of IAS 19 *Employee Benefits* was issued which eliminates the option that allows an entity to defer the recognition of actuarial gains and losses arising from defined benefit plans. The amendments require service cost and net interest to be recognized in net income, 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. IAS 19R also includes enhanced disclosure requirements relating to the characteristics and risks associated with defined benefit plans.

IAS 19R requirements are effective for the Company beginning January 1, 2013 and will be applied retrospectively with restatement of the 2012 figures. The Company has determined that the retrospective impact on its financial statements, as at January 1, 2012, will be a $13,137 decrease in Other assets, a $10,166 increase in Accounts payable and Other liabilities, a $6,154 decrease in Deferred tax liabilities and a $17,149 decrease in AOCI (participating policyholders $854, and shareholders $16,295).

The retrospective impact on Comprehensive income for 2012 will be a $269 decrease in Net income (participating policyholders $13, and shareholders $256) and a $8,741 decrease in OCI (participating policyholders $406, and shareholders $8,335) resulting in a $9,010 decrease in Comprehensive income (participating policyholders $419, and shareholders $8,591).

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

IFRS 13 *Fair Value Measurement*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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. Equity instruments are measured at fair value under almost all circumstances. Debt instruments are permitted to use amortized cost only if the entity is holding the instruments to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, debt instruments would be recorded at fair value. This standard is effective for annual periods beginning on or after January 1, 2015.

3. FINANCIAL INSTRUMENTS

(a) Summary of Cash and Investments

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

	As at December 31, 2012				
Asset category	Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Cash and cash equivalents	$ 248,382	$ -	$ -	$ 248,382	$ 248,382
Short-term investments					
Canadian federal government	3,991	-	-	3,991	3,991
Canadian provincial governments	-	-	-	-	-
Corporate	12,449	-	-	12,449	12,449
Total Short-term Investments	16,440	-	-	16,440	16,440
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	66,391	186,822	-	253,213	253,213
Canadian provincial and municipal governments	2,249,585	188,453	-	2,438,038	2,438,038
Total Government Bonds Issued or Guaranteed	2,315,976	375,275	-	2,691,251	2,691,251
Canadian corporate bonds by industry sector:					
Financial services	544,631	229,081	-	773,712	773,712
Infrastructure	239,394	36,418	-	275,812	275,812
Utilities	204,291	7,348	-	211,639	211,639
Communications	-	9,986	-	9,986	9,986
Energy	37,559	31,898	-	69,457	69,457
Consumer staples	55,124	7,163	-	62,287	62,287
Industrials	44,935	6,404	-	51,339	51,339
Health care	75,944	5,881	-	81,825	81,825
Materials	21	-	-	21	21
Total Canadian Corporate Bonds	1,201,899	334,179	-	1,536,078	1,536,078
Total Bonds	3,517,875	709,454	-	4,227,329	4,227,329
Preferred shares					
Canadian	213,879	107,442	-	321,321	321,321
Total Preferred Shares	213,879	107,442	-	321,321	321,321
Common shares					
Canadian	479,933	53,877	-	533,810	533,810
U.S.	13,755	523	-	14,278	14,278
Other	8,676	-	-	8,676	8,676
Total Common Shares	502,364	54,400	-	556,764	556,764
Mortgages	-	-	302,531	302,531	314,349
Loans on policies	-	-	43,071	43,071	43,071
Policy contract loans	-	-	95,461	95,461	95,461
Total	$ 4,498,940	$ 871,296	$ 441,063	$ 5,811,299	$ 5,823,117

3. FINANCIAL INSTRUMENTS (continued)

	As at December 31, 2011				
Asset category	Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Cash and cash equivalents	$ 155,559	$ -	$ -	$ 155,559	$ 155,559
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	$ 4,055,020	$ 1,006,984	$ 419,337	$ 5,481,341	$ 5,496,958

3. 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, 2012		
Impaired Loans	Recorded Investment	Allowance for Impairment	Carrying Amount
Mortgages	$ 8,186	$ 2,878	$ 5,308
Policy contract loans	813	533	280
Total	$ 8,999	$ 3,411	$ 5,588

	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

The Company holds collateral of $5,343 (2011 $5,462) in respect of these mortgages and $280 (2011 $264) in respect of these policy contract loans as at December 31, 2012. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

Continuity of Allowance for Loan Impairment	2012	2011
Allowance - beginning of year	$ 3,120	$ 2,986
Provision for (recovery of) loan impairment	1,193	505
Write off of loans	(902)	(371)
Allowance - End of Year	$ 3,411	$ 3,120

The Company has recorded interest income of $864 (2011 $854) on these assets.

As at December 31, 2012 loans and receivables past due but not impaired are $6,248 (2011 $nil).

3. FINANCIAL INSTRUMENTS (continued)

ii) Available for Sale

For the year ended December 31, 2012, the Company reclassified a pre-tax loss of $2,138 from OCI to Net income due to write-downs of impaired available for sale common and preferred shares (2011 $10,199). 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 3(e) Fair Value of Financial Instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 27 Risk Management.

(c) Hedge Accounting

In conjunction with the issuance of unsecured subordinated debentures (Note 23), the Company entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative had been accounted for as a hedging item in a cash flow hedging relationship.

The Company expects to reclassify a pre-tax loss of $849 (2011 $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	2012	2011
Interest income	$ 194,294	$ 183,244
Dividend income	43,703	34,398
Other	550	(355)
Impaired asset recovery (write-down)	(1,193)	(505)
Investment Income	$ 237,354	$ 216,782

Included in interest income is $53,130 (2011 $50,228) relating to assets not classified as fair value through profit or loss.

3. 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 at December 31, 2012			
	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 248,382	$ -	$ -	$ 248,382
Fair value through profit or loss:				
Bonds	-	3,517,875	-	3,517,875
Common shares	493,511	8,853	-	502,364
Preferred shares	213,879	-	-	213,879
Short-term investments	-	16,440	-	16,440
Available for sale:				
Bonds	-	709,454	-	709,454
Common shares	54,400	-	-	54,400
Preferred shares	107,442	-	-	107,442
Short-term investments	-	-	-	-
Total	$ 1,117,614	$ 4,252,622	$ -	$ 5,370,236

	As at 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

3. 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, 2012 or during the year ended December 31, 2011.

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 3(a) and 27.

(f) Derivative Financial Instruments

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

As at December 31, 2012

	Notional Principal	Current Replacement Cost	Fair Value Positive	Fair Value Negative	Credit Equivalent Amount	Risk Weighted Balance
Exchange-traded						
Equity index futures	$ 22,203	$ 182	$ 182	$ -	$ -	$ -
Over-the-counter						
Foreign currency forwards	15,802	61	61	44	219	4
Total	$ 38,005	$ 243	$ 243	$ 44	$ 219	$ 4

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	$ -	$ -
Over-the-counter						
Foreign currency forwards	16,200	16	16	289	178	3
Total	$ 38,881	$ 46	$ 46	$ 450	$ 178	$ 3

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.

Current replacement cost represents the current cost of replacing all contracts having a positive fair value, should the counterparty default.

As the regulator of the Canadian insurance industry, OSFI provides guidelines to quantify the use of derivatives. The credit equivalent amount, a measure used to approximate the potential credit exposure, is determined as the replacement cost of the derivative contracts having a positive fair value plus an amount representing the potential future credit exposure. Equity index futures have negligible credit risk as they are settled daily.

The risk-weighted credit equivalent balance is a measure used to determine the amount of capital necessary to support derivative transactions for Canadian regulatory purposes. It is determined by weighting the credit equivalent amount according to the nature of the derivative and the creditworthiness of the counterparties.

For analysis of the Company's risks arising from financial instruments, refer to Note 27 Risk Management.

4. INSURANCE RECEIVABLES

As at December 31	2012	2011
Due from policyholders	$ 3,653	$ 3,400
Due and accrued from reinsurers	11,080	18,593
Fees receivable	8,923	4,302
Other	6,379	2,160
Insurance Receivables	$ 30,035	$ 28,455

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

5. OTHER ASSETS

Other assets consist of the following:

As at December 31	2012	2011
Trade accounts receivable	$ 5,757	$ 18,696
Pension asset	12,338	13,137
Prepaid expenses	3,373	2,631
Other Assets	$ 21,468	$ 34,464

Of the above total, $12,338 (2011 $13,137) is expected to be recovered more than one year after the Consolidated statement of financial position date.

6. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture and Equipment	Leasehold Improvements	Total
Cost					
As at January 1, 2011	$ 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
Additions	-	-	3,948	684	4,632
Disposals	-	-	-	-	-
As at December 31, 2012	**$ 2,728**	**$ 12,873**	**$ 19,040**	**$ 5,878**	**$ 40,519**
Amortization					
As at January 1, 2011	$ -	$ (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)
Charge for the year	-	(581)	(1,761)	(704)	(3,046)
Disposals	-	-	-	-	-
As at December 31, 2012	**$ -**	**$ (1,836)**	**$ (12,385)**	**$ (3,471)**	**$ (17,692)**
Carrying Amount					-
December 31, 2011	$ 2,728	$ 11,618	$ 4,468	$ 2,427	$ 21,241
December 31, 2012	**$ 2,728**	**$ 11,037**	**$ 6,655**	**$ 2,407**	**$ 22,827**

There were no asset impairments in 2012 or 2011.

7. INTANGIBLE ASSETS

Cost	
As at January 1, 2011	$ 38,900
Additions	324
Disposals	(893)
As at December 31, 2011	38,331
Additions	1,608
Disposals	-
As at December 31, 2012	**$ 39,939**
Amortization	
As at January 1, 2011	$ (36,656)
Charge for the year	(1,164)
Disposals	579
As at December 31, 2011	(37,241)
Charge for the year	(627)
Disposals	-
As at December 31, 2012	**$ (37,868)**
Carrying Amount	
December 31, 2011	$ 1,090
December 31, 2012	**$ 2,071**

The Company's total amount of research and development expenditure recognized as an expense during 2012 is $4,461 (2011 $2,023).

There were no asset impairments during 2012 or 2011.

8. SEGREGATED FUNDS

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

As at December 31	2012	2011
Cash and cash equivalents	$ 192,581	$ 139,781
Short-term investments	150,376	163,846
Bonds	1,204,163	909,071
Common and preferred shares	3,510,274	3,270,227
Net other assets (liabilities)	28,127	(6,204)
	5,085,521	4,476,721
Less segregated funds held within general fund investments	(71,129)	(61,403)
Total	$ 5,014,392	$ 4,415,318

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

For the year ended December 31	2012	2011
Segregated funds - beginning of year	$ 4,415,318	$ 4,620,899
Additions to segregated funds:		
Amount received from policyholders	1,421,084	1,081,150
Interest	45,478	41,258
Dividends	101,066	114,256
Other income	18,221	17,679
Net realized gains on sale of investments	-	162,546
Net unrealized increase in fair value of investments	180,651	-
	1,766,500	1,416,889
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,016,535	1,130,268
Net realized losses on sale of investments	2,819	-
Net unrealized decrease in fair value of investments	-	376,417
Management fees and other operating costs	138,346	140,141
	1,157,700	1,646,826
Net change in segregated funds held within general fund investments	(9,726)	24,356
Segregated Funds - End of Year	$ 5,014,392	$ 4,415,318

9. INSURANCE PAYABLES

As at December 31		2012		2011
Claims due and accrued	$	23,876	$	31,610
Payable to agents		10,173		7,734
Premiums paid in advance		2,446		2,753
Due to reinsurance companies		7,674		6,976
Other		18,983		18,786
Insurance Payables	$	63,152	$	67,859

Of the above total, $1,523 (2011 $3,002) is expected to be settled more than one year after the Consolidated statement of financial position date.

10. 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 $(244,808) (2011 $(156,119)). 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.

10. 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, 2012		
	Gross Insurance Contract Liabilities	Reinsurance Assets (Liabilities)	Net
Participating Individual			
Life	$ 480,011	$ (3,482)	$ 483,493
Other	425	-	425
Non-participating Individual			
Life	2,505,369	(332,870)	2,838,239
Annuity	1,088,572	16,727	1,071,845
Health	97,206	9,323	87,883
Non-participating Group			
Life	26,297	807	25,490
Annuity	67,617	-	67,617
Health	181,783	64,687	117,096
Segregated fund deferred acquisition costs	(71,839)	-	(71,839)
Segregated fund guarantee liability	-	-	-
Total	$ 4,375,441	$ (244,808)	$ 4,620,249

	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

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

The Company expects to pay $4,264,345 (2011 $4,082,809) of Insurance contract liabilities and $245,543 (2011 $161,885) of Reinsurance liabilities more than one year after the Consolidated statement of financial position date.

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

	2012	2011
Segregated funds deferred acquisition costs - beginning of year	$ 55,175	$ 58,520
Deferred during year	39,097	21,250
Amortized during year	(22,433)	(24,595)
Segregated Funds Deferred Acquisition Costs - End of Year	$ 71,839	$ 55,175

Of the above total, $28,740 (2011 $23,832) is expected to be amortized during the next year.

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

		2012		
		Gross Liabilities	Reinsurance Assets (Liabilities)	Net
Insurance contracts	- beginning of year	$ 4,199,501	$ (156,119)	$ 4,355,620
Changes in methods and assumptions	- improvements in mortality/morbidity experience	(97,053)	(81,111)	(15,942)
	- updated approach for establishing mortality assumption	-	-	-
	- update of investment return assumptions	28,489	(579)	29,068
	- model enhancements	(49,478)	(10,238)	(39,240)
	- other changes	22,799	(2,911)	25,710
Normal changes	- new business	151,083	3,520	147,563
	- in-force business	120,100	2,629	117,471
Insurance Contracts - End of Year		$ 4,375,441	$ (244,808)	$ 4,620,249

		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)
	- update of investment return assumptions	81,296	(32)	81,328
	- model enhancements	(8,628)	3,807	(12,435)
	- other changes	2,350	8,091	(5,741)
Normal changes	- new business	154,250	6,729	147,521
	- in-force business	525,623	9,153	516,470
Insurance Contracts - End of Year		$ 4,199,501	$ (156,119)	$ 4,355,620

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

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

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

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

1. For fixed income asset assumptions, a $158,100 policy liability increase primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions; and
2. For non-fixed income asset assumptions, a $129,800 policy liability decrease is due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products. This resulted primarily from an asset liability management and capital management decision in the fourth quarter to purchase $174 million of common equities to match longer-term liabilities.

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

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

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

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

As at December 31, 2012

	Insurance Liabilities	Annuity Liabilities	Investment Contract Liabilities	Equity and Other Liabilities	Total
Cash and short-term investments	$ 80,147	$ 20,622	$ 266	$ 163,787	$ 264,822
Bonds	2,883,431	607,537	7,827	728,534	4,227,329
Mortgages	36,777	262,374	3,380	-	302,531
Preferred shares	69,425	195,230	2,515	54,151	321,321
Common shares	502,364	-	-	54,400	556,764
Loans on policies	43,071	-	-	-	43,071
Policy contract loans	4,513	40,927	527	49,494	95,461
Other	12,755	5,817	76	79,205	97,853
Total	$ 3,632,483	$ 1,132,507	$ 14,591	$ 1,129,571	$ 5,909,152

As at December 31, 2011

	Insurance Liabilities	Annuity Liabilities	Investment Contract Liabilities	Equity and Other Liabilities	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	91,318	122,463
Total	$ 3,376,197	$ 1,122,372	$ 15,076	$ 1,090,159	$ 5,603,804

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

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are $124,900 (2011 $93,000).

(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	2012	2011
Assets:		
Cash and short-term investments	$ 264,822	$ 189,426
Canada and provincial bonds	2,609,190	2,725,635
Other readily-marketable bonds and stocks	2,067,815	1,865,898
Total Liquid Assets	$ 4,941,827	$ 4,780,959
Liabilities:		
Demand liabilities with fixed values	$ 480,943	$ 460,881
Demand liabilities with market value adjustments	1,056,768	994,877
Total Liquidity Needs	$ 1,537,711	$ 1,455,758

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of:

As at December 31	2012	2011
Accounts payable	$ 25,859	$ 48,225
Employee future benefit accrued obligation	11,744	11,318
Accrued interest on subordinated debt	1,604	1,604
Other	7,464	8,950
Accounts Payable and Other Liabilities	$ 46,671	$ 70,097

Of the above total, $11,744 (2011 $11,318) is expected to be settled more than one year after the Consolidated statement of financial position date.

12. EMPLOYEE BENEFIT PLANS

The Empire Life Insurance Company Staff Pension Plan consists of a defined benefit component and a recently created defined contribution component. The defined contribution component became effective January 1, 2012. Plan participants as of September 30, 2011 were offered the choice of continuing membership in the defined benefit component or switching to the defined contribution component on January 1, 2012. The Company discontinued new enrolments in the defined benefit component effective October 1, 2011. 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.

In addition to pension benefits, the Company also provides for post-employment health and dental care coverage and other future benefits to qualifying employees and retirees.

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		Other Post-Employment Benefit Plans	
	2012	2011	**2012**	2011
Present value of funded obligations	**$ (172,925)**	$ (148,207)	**$ -**	$ -
Fair value of plan assets	**147,787**	139,196	**-**	-
Funded status - surplus (deficit)	**(25,138)**	(9,011)	**-**	-
Present value of unfunded obligations	**-**	-	**$ (9,820)**	$ (12,473)
Unamortized actuarial loss (gains)	**37,476**	22,148	**(1,924)**	1,155
Defined Benefit Asset (Liability)	**$ 12,338**	$ 13,137	**$ (11,744)**	$ (11,318)

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	
	2012	2011	**2012**	2011
Present value of defined benefit obligation				
Opening defined benefit obligation	**$ 148,207**	$ 132,807	**$ 12,473**	$ 11,663
Current service cost	**4,773**	4,192	**98**	108
Employee contributions	**2,212**	2,172	**-**	-
Interest cost	**7,707**	7,395	**613**	631
Benefits paid	**(7,054)**	(5,957)	**(288)**	(343)
Actuarial loss (gain) on obligations	**17,080**	7,598	**(3,076)**	414
Closing Defined Benefit Obligation	**$ 172,925**	$ 148,207	**$ 9,820**	$ 12,473

12. EMPLOYEE BENEFIT PLANS (continued)

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

	Pension Benefit Plans	
	2012	2011
Plan assets		
Fair value at beginning of year	**$ 139,196**	$ 136,737
Expected return on plan assets	**7,546**	7,784
Actuarial (loss) gain on plan assets	**1,038**	(6,476)
Employer contributions	**4,849**	4,936
Employee contributions	**2,212**	2,172
Benefits paid	**(7,054)**	(5,957)
Fair Value at End of Year	**$ 147,787**	$ 139,196

The actual return on plan assets for the year ended December 31, 2012 was a gain of $8,584 (2011 gain of $1,308).

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

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2012	2011	**2012**	2011
Unamortized actuarial loss (gain) as of January 1	**$ 22,148**	$ 8,086	**$ 1,155**	$ 743
Experience adjustments on plan obligations	**226**	397	**(3,956)**	(255)
Experience adjustments on plan assets	**(1,038)**	6,476	**-**	-
Changes due to discount rate assumptions	**20,204**	7,200	**880**	669
Changes due to other actuarial assumptions	**(3,350)**	-	**-**	-
Unamortized actuarial loss (gain) in the year	**16,042**	14,073	**(3,076)**	414
Less amortization of actuarial loss (gain)	**714**	11	**3**	2
Total Unamortized Actuarial Loss (Gain) as of December 31	**$ 37,476**	$ 22,148	**$ (1,924)**	$ 1,155

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

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2012	2011	**2012**	2011
Defined benefit plan expense				
Current service cost	**$ 4,773**	$ 4,192	**$ 98**	$ 108
Interest cost	**7,707**	7,395	**613**	631
Expected return on plan assets	**(7,546)**	(7,784)	**-**	-
Amortization of actuarial loss (gain)	**714**	11	**3**	2
	$ 5,648	$ 3,814	**$ 714**	$ 741

Defined benefit plan expense is recognized in Operating expenses.

Defined benefit plan assets consist of:

	Pension Benefit Plans	
	2012	2011
Equity securities	**58%**	54%
Debt securities	**36%**	36%
Short-term securities	**1%**	5%
Other	**5%**	5%
	100%	100%

12. 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:

Average Remaining Service Period (in years)	Defined Benefit Plans	
	2012	2011
Staff pension plan	**10**	10
Supplemental employee retirement benefit plan	**9**	10
Retiree health benefits	**9**	9

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Post-Employment Benefit Plans	
	2012	2011	**2012**	2011
Defined benefit obligation as at December 31:				
Discount rate	**4.2%**	5.1%	**4.1%**	5.0%
Inflation assumption	**2.0%**	2.0%	**2.0%**	2.0%
Rate of compensation increase	**3.5%**	3.5%	**N/A**	N/A
Future pension increases	**3.0%**	3.0%	**N/A**	N/A
Benefit expense for years ended December 31:				
Discount rate	**5.1%**	5.5%	**5.0%**	5.5%
Expected long-term rate of return on plan assets	**5.4%**	5.7%	**N/A**	N/A
Expected long-term rate of return on:				
Equity securities	**7.5%**	7.5%	**N/A**	N/A
Debt securities	**3.0%**	3.7%	**N/A**	N/A
Refundable tax deposits and cash	**0.0%**	0.0%	**N/A**	N/A
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	**N/A**	N/A	**8.4%**	7.2%
Cost trend rate declines to	**N/A**	N/A	**4.5%**	4.5%
Year that the rate reaches the rate it is assumed to remain at	**N/A**	N/A	**2026**	2026

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 $23,414 (2011 $17,756) and the service cost by approximately $1,239 (2011 $946).

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 $1,384 (2011 $1,295).

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

	2012		2011	
	Increase	**Decrease**	Increase	Decrease
Defined benefit obligation	**$ 1,194**	**$ (976)**	$ 1,787	$ (1,486)
Total service and interest cost	**$ 111**	**$ (92)**	$ 108	$ (90)

12. EMPLOYEE BENEFIT PLANS (continued)

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

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

As at December 31	Pension Benefit Plans			Other Post-Employment Benefit Plans		
	2012	2011	2010	**2012**	2011	2010
Present value of defined benefit obligation	**$ (172,925)**	$ (148,207)	$ (132,807)	**$ (9,820)**	$ (12,473)	$ (11,663)
Fair value of plan assets	**147,787**	139,196	136,737	**-**	-	-
Funded Status - Surplus (Deficit)	**$ (25,138)**	$ (9,011)	$ 3,930	**$ (9,820)**	$ (12,473)	$ (11,663)
Experience adjustments on plan liabilities	**$ 226**	$ 397	$ (1,861)	**$ (3,956)**	$ (255)	$ (229)
Percentage of the present value of plan liabilities	**(0.13%)**	(0.27%)	1.40%	**40.29%**	2.04%	1.96%
Experience adjustments on plan assets	**$ 1,038**	$ (6,476)	$ 814	**$ -**	$ -	$ -
Percentage of plan assets	**(0.70%)**	(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, 2013 are approximately $6,037.

13. INSURANCE PREMIUMS

For the year ended December 31	2012			2011		
	Gross	**Reinsurance Ceded**	**Net**	Gross	Reinsurance Ceded	Net
Life premiums	**$ 427,623**	**$ (68,094)**	**$ 359,529**	$ 407,163	$ (60,157)	$ 347,006
Health premiums	**299,338**	**(21,107)**	**278,231**	289,813	(19,811)	270,002
Total life and health premiums	**726,961**	**(89,201)**	**637,760**	696,976	(79,968)	617,008
Annuity premiums	**175,772**	**-**	**175,772**	141,446	-	141,446
Insurance Premiums	**$ 902,733**	**$ (89,201)**	**$ 813,532**	$ 838,422	$ (79,968)	$ 758,454

14. FEE INCOME

For the year ended December 31	2012	2011
Investment management, policyholder administration and guarantee fees	**$ 117,802**	$ 113,503
Surrender charges and other miscellaneous fees	**7,416**	6,740
Fee Income	**$ 125,218**	$ 120,243

15. BENEFITS AND EXPENSES

(a) Insurance Contract Benefits and Claims Paid

For the year ended December 31	2012			2011		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	$ 164,415	$ (34,453)	$ 129,962	$ 143,033	$ (39,991)	$ 103,042
Health claims	209,078	(10,626)	198,452	200,884	(11,802)	189,082
Total life and health claims	373,493	(45,079)	328,414	343,917	(51,793)	292,124
Annuity benefits	216,548	(3,716)	212,832	223,827	(2,539)	221,288
Benefits and Claims Paid	$ 590,041	$ (48,795)	$ 541,246	$ 567,744	$ (54,332)	$ 513,412

(b) Change in Insurance Contract Liabilities and Reinsurance Ceded

For the year ended December 31	2012			2011		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	$ 175,781	$ 80,525	$ 256,306	$ 483,456	$ 148,080	$ 631,536
Health	(2,520)	7,959	5,439	45,015	(11,148)	33,867
Total life and health	173,261	88,484	261,745	528,471	136,932	665,403
Annuity	2,679	205	2,884	(2,288)	1,507	(781)
Change in Insurance Contract Liabilities	$ 175,940	$ 88,689	$ 264,629	$ 526,183	$ 138,439	$ 664,622

16. SEGMENTED INFORMATION

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. A description of the product lines is as follows:

The Wealth Management product line includes segregated funds, mutual 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.

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, 2012				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 175,772	$ 289,510	$ 348,250	$ -	$ 813,532
Interest income	42,075	5,324	120,491	26,404	194,294
Total investment income	53,037	6,273	143,385	34,659	237,354
Fair value change in fair value through profit or loss assets	1,388	(2,963)	2,972	-	1,397
Realized gain (loss) on fair value through profit or loss assets	2,944	1,625	49,780	-	54,349
Realized gain (loss) on available for sale assets including impairment write-downs	182	199	57	27,967	28,405
Fee income from external customers	115,355	7,217	1,009	1,637	125,218
Net benefits and claims	212,831	206,059	122,356	-	541,246
Net change in insurance contract liabilities	2,883	(1,774)	263,520	-	264,629
Change in investment contract provision	754	-	-	-	754
Policy dividends	-	-	20,478	-	20,478
Amortization of capital assets	1,316	1,007	1,350	-	3,673
Total operating expenses	52,654	40,870	45,181	1,083	139,788
Net commission expense	72,639	27,645	74,555	-	174,839
Interest expense	-	-	-	13,697	13,697
Premium tax	-	6,312	7,154	-	13,466
Investment and capital tax	-	-	3,900	-	3,900
Income tax expense (recovery)	(370)	5,522	(4,223)	12,707	13,636
Net income (loss) after tax	7,287	17,227	12,532	36,776	73,822

16. SEGMENTED INFORMATION (continued)

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

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

As at December 31, 2012	**Wealth Management**	**Employee Benefits**	**Individual Insurance**	**Capital & Surplus**	**Total**
Assets excluding segregated funds	**$ 1,147,098**	**$ 150,149**	**$ 3,482,334**	**$ 1,129,571**	**$ 5,909,152**
Segregated funds	**4,993,338**	**-**	**21,054**	**-**	**5,014,392**
Total Assets	**$ 6,140,436**	**$ 150,149**	**$ 3,503,388**	**$ 1,129,571**	**$ 10,923,544**

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	$ 1,090,159	$ 5,603,804
Segregated funds	4,391,908	-	23,410	-	4,415,318
Total Assets	$ 5,529,356	$ 151,964	$ 3,247,643	$ 1,090,159	$ 10,019,122

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.

17. OPERATING EXPENSES

Operating expenses include the following:

For the year ended December 31		2012		2011
Salary and benefits expense	$	**84,657**	$	73,463
Professional services		**18,488**		18,138
Rent, leasing and maintenance		**9,471**		8,666
Amortization and disposal of capital assets		**3,673**		4,227
Other		**23,499**		25,371
Total	$	**139,788**	$	129,865

Significant components of other expenses include travel, advertising, and office supplies and services.

18. 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		2012		2011
Current income tax expense	$	**15,430**	$	(2,966)
Deferred income tax expense (benefit)				
- relating to the origination and reversal of temporary differences		**(2,368)**		3,681
- resulting from substantively enacted changes in tax rates		**574**		(576)
Income Tax Expense	$	**13,636**	$	139

During 2012 the Company paid income tax installments totaling $3,920 (2011 $4,010) and recovered income taxes in respect of prior years totaling $19,396 (2011 $11,525).

The Company has an Ontario minimum tax carry-forward of $6,400. Of this amount, $1,536 expires in 17 years, $2,432 expires in 18 years, and $2,432 expires in 19 years. Management considers it more likely than not that these tax carry-forwards will be realized before they expire.

(b) Variance from Statutory Provision

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

For the year ended December 31		2012		2011
Net income before income taxes	$	**87,458**	$	33,284
Income tax provision at statutory rates		**23,098**		9,326
Increase (decrease) resulting from:				
Substantively enacted changes in income tax rates		**74**		(2,586)
Tax paid dividends on stocks		**(11,371)**		(9,498)
Miscellaneous		**1,835**		2,897
Income Tax Expense	$	**13,636**	$	139

The current enacted corporate tax rates as they impact the Company in 2012 stand at 26.41% (2011 28.02%). This rate is expected to remain at 26.41% through to 2016. The impact of future enacted corporate tax rates has been taken into consideration in the deferred tax calculation.

18. INCOME TAXES (continued)

(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	2012	2011
Insurance contracts	$ (14,281)	$ (12,632)
Portfolio investments	(9,417)	(11,479)
Recoverable in future years	19,342	17,747
Other, net	(436)	(222)
Deferred Income Tax Liability	$ (4,792)	$ (6,586)

Of the above total, $109 (2011 $(2,436)) 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	2012	2011
Beginning of year	$ (6,586)	$ (3,481)
Deferred income tax expense (benefit)	(1,794)	3,105
End of Year	$ (4,792)	$ (6,586)

(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	2012			2011		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ 10,192	$ 2,688	$ 7,504	$ (4,148)	$ (1,134)	$ (3,014)
Fair value change on available for sale investments reclassified to net income, including impairment write-downs	(28,405)	(9,244)	(19,161)	(25,845)	(9,644)	(16,201)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	791	257	534	735	239	496
Net Other Comprehensive Income (Loss)	$ (17,422)	$ (6,299)	$ (11,123)	$ (29,258)	$ (10,539)	$ (18,719)

18. INCOME TAXES (continued)

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

For the year ended December 31	2012			2011		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ 8,454	$ 2,229	$ 6,225	$ (2,859)	$ (773)	$ (2,086)
Fair value change on available for sale investments reclassified to net income, including impairment write-downs	(29,256)	(9,555)	(19,701)	(24,933)	(9,173)	(15,760)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	791	257	534	735	239	496
Shareholder portion of policyholder other comprehensive income (loss)	259	77	182	(220)	(83)	(137)
Net Other Comprehensive Income (Loss)	$ (19,752)	$ (6,992)	$ (12,760)	$ (27,277)	$ (9,790)	$ (17,487)

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

For the year ended December 31	2012			2011		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ 1,738	$ 459	$ 1,279	$ (1,289)	$ (361)	$ (928)
Fair value change on available for sale investments reclassified to net income, including impairment write-downs	851	311	540	(912)	(471)	(441)
Shareholder portion of policyholder other comprehensive (income) loss	(259)	(77)	(182)	220	83	137
Net Other Comprehensive Income (Loss)	$ 2,330	$ 693	$ 1,637	$ (1,981)	$ (749)	$ (1,232)

19. DIVIDENDS

Shareholder dividends paid in 2012 and 2011 were $nil and $15,800, respectively. This represents a dividend pay out rate of $nil per share in 2012 and $16.0394 per share in 2011.

No dividends have been declared between the date of the Statement of financial position to February 27, 2013, being the date on which these financial statements have been authorized for issue.

20. CAPITAL MANAGEMENT

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2012 and December 31, 2011 the Company was in compliance with these ratios.

As at December 31	2012	2011
Tier 1 Regulatory capital	$ 755,641	$ 705,288
Tier 2 Regulatory capital	327,187	314,129
Total Regulatory Capital	$ 1,082,828	$ 1,019,417

21. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments in 2012 were $2,987 (2011 $2,786). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012	2011
2012	$ -	$ 2,559
2013	2,722	2,234
2014	2,568	2,086
2015	1,513	1,184
2016	1,202	810
2017 (and thereafter for comparative)	955	2,406
2018 (and thereafter)	1,937	-
	$ 10,897	$ 11,279

Investment Commitments

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

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 practicable 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.

21. COMMITMENTS AND CONTINGENCIES (continued)

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.

22. 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 2012, the Company earned investment management service fees of $1,634 (2011 $1,565) from related companies under common shareholder control. For all other services, the amounts earned and expensed 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	2012	2011
Salaries and other short-term employee benefits	$ 6,367	$ 5,591
Post-employment benefits	413	346
Other long-term benefits	-	-
Total	$ 6,780	$ 5,937

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

There were no termination benefits expensed during 2012 or 2011.

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.

23. 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 three-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 $211,432 as of December 31, 2012 (2011 $218,032).

24. SHAREHOLDERS' EQUITY ENTITLEMENT

Shareholders' entitlement to $5,806 (2011 $6,357) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

25. CAPITAL STOCK

(a) Authorized

Common shares: 2,000,000 shares with no par value

b) Issued and fully paid

As at December 31	2012	2011
Number of common shares: 985,076	$ 985	$ 985

26. SUPPLEMENTARY PARTICIPATING POLICYHOLDER INFORMATION

Participating Account Assets

As at December 31	2012	2011
Assets backing participating account equity	$ 52,251	$ 57,211
Assets backing participating account liabilities	533,215	500,635

Transfers to Shareholders' Account

In 2012, the Company transferred $2,267 (2011 $2,172), equal to 1/9th of the dividends credited to the participating policyholders, from the participating account to the shareholders' account.

27. 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

27. RISK MANAGEMENT (continued)

(a) Investment Risk

i) Market Risk

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. The Company's investment strategy also includes the use of publicly-listed "large cap" common stocks to support the liabilities under its insurance policies. 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. Furthermore, 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.

27. RISK MANAGEMENT (continued)

The Company manages equity 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 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 through the Asset Liability Management (ALM) Committee, 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, capital and surplus 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 ALM 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.

27. RISK MANAGEMENT (continued)

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. The impact of a change in future equity return assumptions can be found in Note 27 (b)i)(2) under the Insurance Risk Investment Return section.

	As at December 31, 2012			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' net income	**$ 18,083**	**$ (18,083)**	**$ 36,184**	**$ (36,184)**
Policyholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Shareholders' other comprehensive income	**$ 1,525**	**$ (1,525)**	**$ 3,050**	**$ (3,050)**
Policyholders' other comprehensive income	**$ 2,478**	**$ (2,478)**	**$ 4,956**	**$ (4,956)**
Segregated fund guarantee policy liabilities	**$ nil**	**$ nil**	**$ nil**	**$ nil**

	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

The following table identifies the concentration of common equity holdings.

As at December 31	**2012**	2011
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	**$ 249,655**	$ 214,097
Percentage of total cash and investments	**4.3%**	3.9%
Exposure to the largest single issuer of common equities	**$ 39,328**	$ 41,687
Percentage of total cash and investments	**0.7%**	0.8%

(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.

27. RISK MANAGEMENT (continued)

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.

The following tables summarize the immediate financial impact on Net income and Other comprehensive income as a result of a change in interest rates. The impact of a change in future interest rate assumptions can be found in Note 27(b)i)(2) under the Insurance Risk Investment Return section.

	As at December 31, 2012			
	100 bps Increase	100 bps Decrease	200 bps Increase	200 bps Decrease
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ (20,421)	$ 21,525	$ (39,827)	$ 43,713
Policyholders' other comprehensive income	$ (2,435)	$ 2,575	$ (4,740)	$ 5,295

	As at December 31, 2011			
	100 bps Increase	100 bps Decrease	200 bps Increase	200 bps 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

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.

27. RISK MANAGEMENT (continued)

(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 in the Company's functional currency.

The Company's primary foreign currency exposure arises from portfolio investments denominated in U.S. dollars. A 10% fluctuation in the U.S. dollar would have an impact of approximately $1,278 (2011 $1,174) on net income, $nil (2011 $410) on shareholders' OCI and $38 (2011 $91) 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.

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 23 – 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 10(e).

27. RISK MANAGEMENT (continued)

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 2012 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.

	As at December 31, 2012				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 111,573	$ 297,823	$ 386,770	$ 11,069,490	$ 11,865,656
Investment contract liabilities	2,919	7,866	5,745	3,373	19,904
Subordinated debt	13,460	53,482	218,927	-	285,868
Other liabilities	165,372	3,827	11,744	-	180,943
Total liabilities	293,324	362,998	623,186	11,072,863	12,352,371
Operating lease commitments	2,722	6,238	1,937	-	10,897
Total	$ 296,046	$ 396,236	$ 625,123	$ 11,072,863	$ 12,363,268

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

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 cash, cash equivalents and short-term investments to meet its short-term funding requirements. As at December 31, 2012, 4.6% (2011 3.5%) of cash and investments were held in these shorter duration investments.

27. RISK MANAGEMENT (continued)

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, cash and cash equivalents and mortgages.

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	2012	2011
Cash and cash equivalents	$ 248,382	$ 155,559
Short-term investments	16,440	33,867
Bonds	4,227,329	4,063,897
Preferred shares	321,321	324,230
Mortgages	302,531	264,238
Loans on policies	43,071	41,981
Policy contract loans	95,461	113,118
Accrued investment income	21,452	20,107
Insurance receivables	30,035	28,455
Trade accounts receivable	5,757	18,696
Total	$ 5,311,779	$ 5,064,148

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 (see Note 3(b)) and partly through a provision in policy liabilities (see Note 10(c)).

27. 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	2012		2011	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	$ 266,832	6%	$ 304,142	7%
AA	1,274,244	30%	1,295,345	32%
A	2,253,538	54%	2,255,901	56%
BBB	432,535	10%	208,509	5%
BB	180	0%	-	0%
Total	$ 4,227,329	100%	$ 4,063,897	100%

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

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

As at December 31	2012	2011
Provincial bond holdings	$ 2,355,977	$ 2,433,815
Percentage of total bond holdings	56%	60%

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

As at December 31	2012		2011	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
1 year or less	$ 53,360	1%	$ 81,509	2%
1 - 5 years	434,762	10%	469,470	12%
5 - 10 years	510,229	12%	379,338	9%
Over 10 years	3,228,978	77%	3,133,580	77%
Total	$ 4,227,329	100%	$ 4,063,897	100%

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

As at December 31	2012	2011
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	$ 2,935,033	$ 3,000,342
Percentage of total cash and investments	50.4%	54.8%
Exposure of the largest single issuer of corporate bonds	$ 139,727	$ 140,581
Percentage of total cash and investments	2.4%	2.6%

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

27. RISK MANAGEMENT (continued)

(2) Preferred Shares

The Company's preferred share investments are all issued by Canadian companies, with 86% (2011 86%) of these investments rated as P1 and the remaining 14 % (2011 14%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with $298,432 or 99% (2011 $258,277 or 98%) of the total mortgage portfolio.

(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 product line as follows:

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net premium income	$ 176	$ 141	$ 290	$ 278	$ 348	$ 339	$ -	$ -	$ 814	$ 758
Fee and other income	115	110	7	7	1	1	2	2	125	120
Total	$ 291	$ 251	$ 297	$ 285	$ 349	$ 340	$ 2	$ 2	$ 939	$ 878

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.

27. 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, lapse, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

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

Policy liability assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of 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, 2012. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(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 $12,400 ($10,900 for 2011). 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 $4,100 ($3,900 for 2011).

27. 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 for the assets supporting policy liabilities 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, bond and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored on a daily basis.

For the life insurance business, where the insurance contract liabilities have a longer term than most available bonds and mortgages, the Company's policy is to cover estimated insurance liability cash flows rigorously only for a rolling 20-year period. For investment income expected to be earned on reinvestments during the rolling 20-year period, the Company uses an initial reinvestment rate (IRR) assumption. Under Canadian actuarial standards of practice, the IRR is determined as 90% of the interest rates based on the current economic outlook and the Company's expected future asset mix, which grades to the ultimate reinvestment rate assumption (URR) (described below) over the 20-year rolling period. In order to provide a margin that recognizes the longer-term mismatch for the 20-year rolling-period, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios.

The impact of an immediate change in interest rates can be found in Note 27(a)i)(2) under the Investment Risk section. If interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1% decrease in assumed IRR would result in an increase to policy liabilities thereby reducing net income by approximately $47,300 ($47,400 for 2011). This assumes no change in the URR.

For investment income expected to be earned on reinvestments beyond the rolling 20-year period, the Company uses an URR assumption. Under Canadian actuarial standards of practice, the URR must not exceed the lessor of 5% or 90% of an interest rate based on a moving average of Government of Canada long-term bond rates over the last 10 years. The maximum prescribed URR decreased from 3.8% for 2011 to 3.4% for 2012. If long-term interest rates remain at current levels for the next year, then the URR is estimated to decrease to 3.1% for 2013. In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios. The Company uses an URR of 3.1% (3.7% for 2011) to reflect the downward trend in long-term interest rates. For non-participating insurance business, a 0.10% decrease in assumed URR would result in an increase to policy liabilities thereby reducing net income by approximately $16,600 ($16,400 for 2011).

27. RISK MANAGEMENT (continued)

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

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

The impact of an immediate change in equity markets can be found in Note 27 (a)i)(1) 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 $86,300 ($40,200 in 2011).

For annuity business, where the timing and amount of the benefit obligations can be more readily determined, the matching of the asset and liability cash flows is tightly controlled. A sudden increase or decrease in interest rates would have a negligible effect on future profits from annuity business currently in force. For annuity business, the impact of a 1% decrease in assumed IRR or a 0.10% decrease in assumed URR is negligible as a result of the matching process described above. The Company does not use equity investments to match annuity liability cash flows.

(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, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that extra lapses will occur at each renewal point and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

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

For non-participating insurance and annuity business a 10% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing net income by approximately $104,200 ($99,900 in 2011). 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.

27. RISK MANAGEMENT (continued)

(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 $6,300 ($5,700 in 2011).

(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.

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 $5,200 ($5,000 in 2011).

27. RISK MANAGEMENT (continued)

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.

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 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.

27. RISK MANAGEMENT (continued)

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, compared to Canadian competitors, and absorbs the resultant negative impact on short-term earnings due to additional sales strain. The Company does not have any assumed reinsurance business and it does not reinsure its own segregated fund guaranteed products or those issued by other insurance companies.

28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted in 2012.

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)
A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, and unrealized foreign currency translation gains and losses. These items have been recognized in comprehensive income, but excluded from net income.

Available For Sale (AFS) Financial Assets
Non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as Available for sale (AFS).

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

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

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

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

Fair Value Through Profit or Loss (FVTPL)
Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as Fair value through profit or loss (FVTPL).

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

Minimum Continuing Capital and Surplus Requirements (MCCSR)
The ratio of the available regulatory capital of a life insurance company to its required regulatory capital, each as calculated under the Office of the Superintendent of Financial Institutions' (OSFI) published guidelines.

Other Comprehensive Income (OCI)
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.

Office of the Superintendent of Financial Institutions Canada (OSFI)
The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Participating Policies
The participating account includes all policies issued by 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.

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" or 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 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 also has a mutual fund subsidiary, Empire Life Investments Inc. (ELII).

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 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 2012 and is scheduled to meet seven times in 2013.

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. Those not delegated to a standing Committee remain with the Board. The following is a brief summary of some of the key responsibilities of the four Committees.

The **Audit Committee** has 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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BOARD OF DIRECTORS

Shareholders' Directors

James F. Billett [1, 3, 4]
President
J.F. Billett Holdings Ltd.

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.P.A., F.C.A. [1, 4]
Corporate Director

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

Harold W. Hillier [2]
Corporate Director

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

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

Honorary Chairman

The Honourable Henry N.R. Jackman, O.C., O. Ont., LL.D, C.D.
Honorary Chairman
The Empire Life Insurance Company

Honorary Directors

Andrew S. Birrell
Chief Financial Officer
Guardian Financial Services

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

Jonathan J. Yates
Chief Executive Officer
Guardian Financial Services

Photo above:

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, Paul Weiss, Andrew S. Birrell and Jonathan J. Yates.

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

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.P.A., 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

Photo above:

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

EMPIRE LIFE ANNUAL REPORT 2012

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) and company annual reports, based on general and segregated fund assets
[2] As at June 29, 2012

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