E-L Financial Corporation Limited

ANNUAL REPORT

2013

The Year at a Glance

(Thousands of dollars)		2013		2012 [3]
Continuing Operations				
Net Premiums	**$**	**821,544**	$	813,532
Total Revenues	**$**	**1,644,896**	$	1,664,540
Shareholders' Operating Income [1]	**$**	**140,591**	$	71,455
Total				
Shareholders' Net Income	**$**	**907,679**	$	479,604
Shareholders' Comprehensive Income	**$**	**871,577**	$	469,420
Changes in E-L Financial Shareholders' Equity:				
Beginning of the year	**$**	**3,245,697**	$	2,695,871
Comprehensive income:				
Net income		**907,679**		479,604
Other comprehensive loss		**(36,102)**		(10,184)
		871,577		469,420
Dividends		**(319,016)**		(16,407)
Reclassification of AOCI from discontinued operations		**(46,816)**		-
Preferred share issuance, net of costs		**-**		97,446
Other		**1,438**		(633)
End of the year	**$**	**3,752,880**	$	3,245,697
Per Share Information: [2]				
Continuing Operations				
Net Operating Income [1]	**$**	**31.84**	$	14.53
Total				
Net Income	**$**	**227.18**	$	118.41
Comprehensive Income	**$**	**217.99**	$	115.82
Net Equity Value [1]	**$**	**872.45**	$	740.49

(1) See Management's Discussion and Analysis for use of non-GAAP measures.
(2) All earnings per share figures are net of dividends paid on First Preference shares.
(3) Amounts for December 31, 2012 have been restated to reflect the adoption of new accounting standards related to the remeasurement of defined benefit plans (refer to Note 2 of the accompanying consolidated financial statements for the year ended December 31, 2013 for further details).

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:30 a.m. on Tuesday May 13, 2014, 4th floor meeting room, 165 University Avenue, Toronto. All shareholders are invited to attend.

Board of Directors

J. Christopher Barron,
Corporate Director

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

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

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

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

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

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

Douglas C. Townsend, F.C.I.A.,
President, Townsend Actuarial Consulting Ltd.

Honorary Director

The Right Honourable John N. Turner

Officers

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

Executive Vice-Presidents
Leslie C. Herr
Mark M. Taylor

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

Treasurer
Susan C. Clifford

REPORT ON E-L FINANCIAL CORPORATION LIMITED

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for the years ended December 31, 2013 and 2012 for E-L Financial ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2013 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2013 Annual Report dated March 4, 2014. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Chartered Professional Accountants of Canada. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars.

On November 1, 2013, the Company completed the sale of its formerly wholly-owned subsidiary, The Dominion of Canada General Insurance Company ("The Dominion") to The Travelers Companies, Inc. for gross proceeds of $1.08 billion. The financial performance and cash flows of The Dominion have been presented as a discontinued operation in the Company's consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows for all periods presented.

Certain comparative amounts have been restated to reflect the adoption of new accounting standards related to the remeasurement of defined benefit plans (refer to Note 2 of the consolidated financial statements for the year ended December 31, 2013 for further details).

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

Unless otherwise stated, all per share amounts are based on the average number of Common Shares and Series A Convertible Preference Shares outstanding for the period, adjusted for the Company's proportionate interest in its own common shares held indirectly through investments in associates ("Adjusted Common Shares").

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

Use of non-GAAP measures

The MD&A contains reference to net operating income, net operating income per share and net equity value per share. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

The Company believes that these measures provide information useful to its shareholders in evaluating the Company's financial results. Net operating income is net income excluding realized gain (loss) on available for sale investments ("AFS") including impairment write downs, the Company's share of income (loss) from associates, the fair value change in fair value through profit or loss ("FVTPL") investments in the E-L Corporate portfolio and the gain on the excess of the fair value of United Corporations Limited's ("United") assets and liabilities over the Company's carrying value of United. Net operating income per share is net operating income less preferred dividends divided by the average number of Adjusted Common Shares outstanding. Net equity value per share is described and reconciled to shareholders' equity on page 6.

The Company

E-L Financial operates as an investment and insurance holding company. The Empire Life Insurance Company ("Empire" or "Empire Life") (80% owned) underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products. Empire Life is consolidated into E-L Financial for financial reporting purposes. The Dominion (100% owned prior to the sale on November 1, 2013) has been reported as discontinued operations.

The Company also owns investments in stocks and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies ("E-L Corporate"). Included within E-L Corporate are the Company's significant investments in United, Economic Investment Trust Limited ("Economic") and Algoma Central Corporation ("Algoma"). Economic and United are both closed-end investment companies and Algoma is a shipping company. Economic and Algoma are reported as investments in associates and are accounted for using the equity method. United (51% owned) is consolidated into E-L Financial for financial reporting purposes.

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

Review of results attributable to shareholders of E-L Financial

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

	2013				
	Continuing Operations			Discontinued	Total
(thousands of dollars)	E-L Corporate	Empire Life	Total	The Dominion	
Net operating income	$ 47,913	$ 92,678	$ 140,591		
Realized gain (loss) on available for sale investments including impairment write downs	11,061	(2,459)	8,602		
Share of income of associates	51,337	-	51,337		
E-L Corporate's fair value change in fair value through profit or loss investments	396,023		396,023		
Net income	506,334	90,219	596,553	311,126	907,679
Other comprehensive income (loss)	32,834	(5,235)	27,599	(63,701)	(36,102)
Comprehensive income	$ 539,168	$ 84,984	$ 624,152	$ 247,425	$ 871,577

(thousands of dollars)	2012				
	Continuing Operations			Discontinued	Total
	E-L Corporate	Empire Life	Total	The Dominion	
Net operating income	$ 23,301	$ 48,154	$ 71,455		
Realized gain on available for sale investments including impairment write downs	4,310	15,690	20,000		
Share of income of associates	72,823	-	72,823		
E-L Corporate's fair value change in fair value through profit or loss investments	125,810		125,810		
Gain on the consolidation of United	142,241	-	142,241		
Net income	368,485	63,844	432,329	47,275	479,604
Other comprehensive income (loss)	5,863	(16,800)	(10,937)	753	(10,184)
Comprehensive income	$ 374,348	$ 47,044	$ 421,392	$ 48,028	$ 469,420

Net operating income from continuing operations

E-L Financial earned consolidated net operating income from continuing operations of $140.6 million or $31.84 per share in 2013 compared with $71.4 million or $14.53 per share in 2012. The $69.2 million increase in net operating income in 2013 versus 2012 is mainly attributable to the $44.5 million increase in Empire Life's net operating income resulting primarily from the Individual Insurance product line. The increase is due mainly to the favourable impact of long-term interest rate movements and stock market movements in 2013. E-L Corporate's net operating income increased $24.6 million principally due to the recovery of refundable dividend taxes resulting from the $301.5 million payment of the special dividend to Common shareholders.

Net income

E-L Financial earned consolidated net income from continuing operations of $596.6 million compared with $432.3 million in 2012. The $164.3 million increase in net income is due primarily to a $396.0 million increase in E-L Corporate's FVTPL investments during the year compared to $125.8 million in 2012, an increase of $131.6 million from United's investments and the favourable impact of stock market movements during 2013. In 2012, the Company recognized a $142.2 million gain on the consolidation of United.

On November 1, 2013, the Company completed the sale of its formerly wholly-owned subsidiary, The Dominion, to The Travelers Companies, Inc. for gross proceeds of $1.08 billion, resulting in an after-tax gain of $266.4 million. This gain combined with The Dominion's ten month earnings for 2013 of $44.7 million resulted in $311.1 million earned from discontinued operations.

Net income from continuing and discontinued operations resulted in E-L Financial earning total consolidated net income of $907.7 million or $227.18 per share compared with $479.6 million or $118.41 per share in 2012.

Comprehensive income

E-L Financial earned consolidated comprehensive income of $871.6 million or $217.99 per share in 2013 compared with $469.4 million or $115.82 per share in 2012. Consolidated other comprehensive loss ("OCL") was $36.1 million or $9.19 per share compared with $10.2 million or $2.59 per share in 2012.

The $25.9 million increase in OCL for 2013 is mainly due to the reclassification of significant gains relating to The Dominion's liquidation of its common share portfolio.

Net equity value per share

Under IFRS, investments in associates are reported at their carrying value and not at fair value. Therefore, to provide an indication of the accumulated shareholder value, the following table adjusts shareholders' equity to reflect investments in associates at fair value:

(thousands of dollars)	**December 31, 2013**	December 31, 2012
E-L Financial shareholders' equity	**$ 3,752,880**	$ 3,245,697
Less: First preference shares	**(300,000)**	(300,000)
	3,452,880	2,945,697
Adjustments for E-L Corporate not carried at fair value:		
Investments in associates		
Carrying value	**(288,884)**	(230,994)
Fair value	**351,241**	266,247
	62,357	35,253
Deferred income tax	**(8,262)**	(4,407)
	54,095	30,846
Net equity value	**$ 3,506,975**	$ 2,976,543
Common Shares[1] outstanding at period end	**4,019,667**	4,019,667
Net equity value per Common Share[1]	**$ 872.45**	$ 740.49

[1] Common Shares includes Series A Convertible Preference Shares.

E-L Financial's net equity value per Common Share increased 28% (adjusted for dividends paid) on a year over year basis.

Fourth quarter results

<u>Net operating income from continuing operations</u>

For the three months ended December 31, 2013, E-L Financial incurred consolidated net operating income from continuing operations of $54.9 million or $12.98 per share compared with $15.0 million or $2.84 per share for the comparable period in 2012. Empire Life net operating income increased $18.0 million due primarily to improved Individual Insurance product line results. This product line's improved result was due primarily to the favourable impact of stock market movements during the fourth quarter of 2013. E-L Corporate's net operating income increased $21.8 million primarily due to the recovery of refundable dividend taxes resulting from the $301.5 million payment of the special dividend to common shareholders.

<u>Net income</u>

For the three months ended December 31, 2013, E-L Financial had consolidated net income of $507.4 million or $128.23 per share compared with $247.5 million or $62.03 per share in 2012. The $259.9 million increase in net income is mainly due to $266.4 million from the sale of The Dominion combined with a $185.4 million increase in FVTPL investments in 2013, partially offset by the $142.2 million gain recognized upon the consolidation of United in 2012.

<u>Comprehensive income</u>

For the three months ended December 31, 2013, E-L Financial had a consolidated comprehensive income of $534.6 million or $135.14 per share compared with $233.3 million or $58.42 per share for the comparable period in 2012. Other comprehensive income ("OCI") was $27.1 million or $6.91 per share compared with OCL of $14.2 million or $3.61 per share in 2012. The $41.3 million increase in OCI is mainly due to higher net unrealized gains on AFS investments.

The following table summarizes the quarterly results:

(millions of dollars, except per share amounts)	2013				2012			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue - Continuing Operations								
Net premium income	**$ 215**	**$ 203**	**$ 197**	**$ 207**	$ 213	$ 213	$ 193	$ 194
Associates [1]	**25**	**14**	**17**	**3**	40	13	(5)	36
FVTPL [2]	**273**	**11**	**(161)**	**172**	47	96	43	15
AFS [3]	**3**	**-**	**4**	**3**	24	3	3	4
Investment and other	**132**	**110**	**116**	**101**	103	93	107	88
Gain on consolidation of United	**-**	**-**	**-**	**-**	142	-	-	-
Total	**$ 648**	**$ 338**	**$ 173**	**$ 486**	$ 569	$ 418	$ 341	$ 337
Net income (loss) [4]								
Continuing operations	**$ 265**	**$ 92**	**$ 107**	**$ 132**	$ 271	$ 51	$ (13)	$ 123
Discontinued operations	**243**	**(29)**	**84**	**14**	(24)	(3)	42	33
Total	**$ 508**	**$ 63**	**$ 191**	**$ 146**	**$** 247	**$** 48	**$** 29	**$** 156
Earnings per share [4]								
Continuing operations								
- basic	**$ 66.41**	**$ 22.61**	**$ 26.23**	**$ 32.70**	$ 68.01	$ 12.04	$ (4.38)	$ 30.73
- diluted	**$ 56.27**	**$ 19.68**	**$ 22.70**	**$ 28.09**	$ 56.31	$ 10.44	$ (4.38)	$ 26.94
Total								
- basic	**$ 128.23**	**$ 15.13**	**$ 47.62**	**$ 36.20**	$ 62.03	$ 11.14	$ 6.24	$ 39.02
- diluted	**$ 107.88**	**$ 13.45**	**$ 40.54**	**$ 31.01**	$ 51.43	$ 9.72	$ 5.84	$ 34.06

(1) Share of income (loss) of associates, including impairment write downs
(2) Realized and unrealized gains on FVTPL investments
(3) Realized gain on AFS, including impairment write downs
(4) Attributable to shareholders

Quarterly trend analysis

The consolidated revenue and consolidated net income of the Company are expected to fluctuate on a quarterly basis given its various segments. In particular, equity market movements, changes in interest rates, underwriting results, policy liability discount rates and policy reserve adjustments are likely to cause fluctuations.

Revenue – Continuing operations

For the past eight quarters, Empire Life has had a moderate but steady growth in net premium income. The quarterly fluctuations found in the investments in associates, FVTPL and AFS categories have been significant and can be attributed to the volatility in equity markets and movement in bond prices. Investment and other income has increased in 2013 due to higher fee and dividend income. In the fourth quarter of 2012, the Company recorded a one-time gain on the consolidation of United.

Shareholders' net income

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

Commencing in 2013, United was reported on a consolidated basis versus as income from associates in 2012. This resulted in an increase in E-L Corporate's FVTPL investments resulting from consolidating United's investments partially offset by a decrease in income from associates for each of the quarters throughout 2013. During the first quarter of 2013, net income decreased due to poor underwriting results at The Dominion combined with the unfavourable impact of long-term interest rate movements on Empire Life's Individual Insurance product line. The Dominion's poor underwriting results continued throughout the second and third quarters of 2013. In the second quarter of 2013, The Dominion liquidated its common share portfolio which resulted in a realized gain on AFS investments. In the fourth quarter of 2013, a gain of $266.4 million was recognized on the sale of The Dominion.

Selected annual information

(millions of dollars)	**2013**	2012	2011
Revenue - Continuing operations			
E-L Corporate	**$ 739**	$ 404	$ (99)
Empire Life	**906**	1,260	1,557
	$ 1,645	$ 1,664	$ 1,458
Shareholder net income (loss)			
E-L Corporate	**$ 507**	$ 369	$ (96)
Empire Life	**90**	64	26
Continuing operations	**597**	433	(70)
Discontinued operations - The Dominion	**311**	47	25
Total	**$ 908**	$ 480	$ (45)
Earnings per share			
Continuing operations			
- basic	**$ 147.95**	$ 106.37	$ (20.34)
- diluted	**$ 126.82**	$ 91.14	$ (20.34)
Total			
- basic	**$ 227.18**	$ 118.41	$ (13.93)
- diluted	**$ 192.97**	$ 101.10	$ (13.93)
Assets			
E-L Corporate	**$ 3,805**	$ 2,336	$ 1,329
Empire Life	**12,080**	10,916	10,015
The Dominion	**-**	3,403	3,256
Total assets	**$ 15,885**	$ 16,655	$ 14,600
Cash dividends per share			
First Preference shares, Series 1	**$ 1.3250**	$ 1.3250	$ 1.3250
First Preference shares, Series 2	**$ 1.1875**	$ 1.1875	$ 1.1875
First Preference shares, Series 3	**$ 1.3750**	$ 1.0868	
Common shares	**$ 75.50**	$ 0.50	$ 0.50

Revenue – Continuing operations

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

- E-L Corporate has had significant fluctuations in the fair value change in FVTPL and share of income of associate’s revenue streams. In 2011 the fair value change in FVTPL was a loss of $88.0 million rebounding to an increase of $125.8 million in 2012. Income from associates has shown similar movements with a loss of $23.9 million in 2011 followed by income of $72.8 million in 2012. In 2012 revenue includes a $142.2 million gain from the consolidation of United. In 2013 E-L Corporate’s FVTPL investments increased $396.0 million, reflecting an increase of $294.8 million from United’s investments and the favourable impact of stock market movements during 2013. Commencing in 2013, income from United is reported on a consolidated basis as opposed to income from associates in 2012.

- Empire Life has experienced steady growth in insurance premium income over the past three years coupled with some volatility related to annuity premiums. Overall the revenue for the insurance operations in 2011 increased due primarily to gains on FVTPL investments resulting from a large increase in bond prices during the year. In 2012 and 2013, Empire Life’s revenue decreased due primarily to lower gains on FVTPL investments resulting from a decrease in bond prices over the two year period.

Net income (loss)

In general, the net income for the Company is significantly impacted by the movements in the global stock markets. Over the three year period global stock markets have experienced significant volatility.

- E-L Corporate’s net income is directly related to its revenue, which increased significantly as previously discussed. In 2012 net income was impacted by a $142.2 million one-time gain relating to the consolidation of United.

- In 2011 Empire Life’s net income increased as a result of realized gains from the sale of AFS investments. In 2012 Empire Life’s net income increased from primarily improved Individual Insurance product line net income. This was due primarily to a less severe long term interest rate drop in 2012, higher product prices in 2012, and the favourable impact from the update of policy liability assumptions in 2012 compared to 2011. In 2013 net income increased due to the reasons noted in net operating income, partly offset by lower AFS realized gains.

- The Dominion’s net income declined in 2011 as a result of a significantly higher underwriting loss Net income increased in 2012 mainly due to a modest improvement in underwriting results (as explained in the prior section). Net income for 2013 reflects 10 months of operations combined with a $266.4 gain on the sale of The Dominion.

Assets

Total assets increased in 2012 compared to 2011 due to $97.4 million in net proceeds from the issuance of preferred shares which was mainly invested in equities, increases in the fair value of common stock, improvements in bond fair values and a one-time gain from the consolidation of United. In 2013 total assets for E-L Corporate and Empire Life increased due to favourable stock market movements and strong net sales in segregated fund assets. On November 1, 2013, the Company sold The Dominion for gross proceeds of $1.08 billion. The proceeds from the sale resulted in a special dividend of $75.00 per share to common shareholders, re-investment of approximately $650.0 million into U.S. and international equities, with the remainder added to E-L Corporate cash reserves.

Cash dividends

For the three year period, the Company paid out a regular annual dividend of $0.50 per share on each of its common shares. In addition, on December 16, 2013, the Company paid a special cash dividend of

$75.00 per common share related to the sale of The Dominion.

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2013. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2013.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2013. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2013. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Liquidity and capital resources

Liquidity refers to the Company's ability to maintain cash flow adequate to fund operations, as well as to provide resources for additional investments. The Company's liquidity management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

The Company's corporate obligations, primarily dividend payments on its outstanding Common and Preferred Shares, are funded by cash flows arising from its equity and fixed income portfolio as well as dividends from its subsidiaries. Excess cash flows are invested within E-L Corporate, as opportunities become available.

On April 2, 2012, the Company issued 4,000,000 First Preference shares, Series 3 at a price of $25.00 per share for a gross aggregate amount of $100 million. Refer to the 2013 audited consolidated financial statements – Note 18 for further detail as to the attributes of these shares.

Empire Life meets their cash requirements primarily through funds generated by insurance operations. Empire Life carries sufficient excess capital in the event of reasonably possible adverse claims experience or investment results. On May 31, 2013, Empire Life issued $300 million principal amount of unsecured subordinated debentures with a maturity date of May 31, 2023. Refer to the 2013 audited consolidated financial statements – Note 15 for further details. At December 31, 2013, The Empire Life's Minimum Continuing Capital and Surplus Requirements measure was 267%.

Analysis of business segments

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

E-L CORPORATE

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

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

Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At December 31, 2013, investments - corporate had aggregate investments of $3.4 billion, comprised primarily of common shares, compared to aggregate investments at December 31, 2012 of $2.0 billion.

The fair value of investments - corporate as at December 31, 2013 and 2012 are summarized in the table below.

	December 31, 2013	December 31, 2012
Short-term investments	$ 126,353	$ 33,527
Preferred shares	1,058	1,058
Common shares	3,254,006	1,992,059
	$ 3,381,417	$ 2,026,644

The common share holdings in investments - corporate as at December 31, 2013 and 2012 are summarized by country and regional exposure in the table below.

	December 31, 2013	December 31, 2012
Canadian	$ 637,777	$ 477,176
U.S.	1,453,042	753,085
Europe	727,340	476,529
Other	435,847	285,269
	$ 3,254,006	$ 1,992,059

The increase in common share investments of $1.3 billion from $2.0 billion at December 31, 2012 to $3.3 billion at December 31, 2013 primarily reflected net additions of $650 million to U.S. and international equities (funded by proceeds from the sale of The Dominion), net appreciation of common share investments driven by positive stock market returns globally, and dividend income. The annual return on investments – corporate for the year-ended December 31, 2013 was approximately 35%.

Net operating income

E-L Corporate’s net operating income for the quarter was $29.3 million after tax compared with $7.5 million after tax in 2012. The increase in net operating income is primarily due to a recovery of refundable dividend taxes resulting from the $301.5 million payment of special dividends to common shareholders combined with an increase in dividend income.

For the year ended December 31, 2013, E-L Corporate earned net operating income of $47.9 million after tax compared to $23.3 million after tax for the comparative year. The increase is due to the reasons noted above.

Share of income of associates

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

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Share of income	**$ 21.8**	$ 25.1	**$ 39.3**	$ 59.0
Net impairment reversal	**-**	9.1	**12.0**	13.8
	21.8	34.2	**51.3**	72.8
Share of OCI	**3.2**	0.4	**3.5**	(1.0)
	$ 25.0	$ 34.6	**$ 54.8**	$ 71.8

E-L Corporate's share of net income from associates for the three months ended December 31, 2013 was $21.8 million after tax compared to $34.2 million after tax in 2012. The decrease in income for the quarter reflects United's reclassification from an associate during 2012 to a subsidiary in 2013.

On a year to date basis, E-L Corporate recorded net income from associates of $51.3 million after tax compared to $72.8 million after tax in 2012.

E-L Corporate's share of OCI from associates increased $2.8 million during the quarter and $4.5 million on a full year basis reflecting an increase in the actuarial gains on employee future benefits.

During the year, E-L Corporate invested $nil (December 31, 2012 - $2.1 million) in Economic. The value of the investments in associates is as follows:

(millions of dollars)	**December 31, 2013**			December 31, 2012		
	Ownership	**Carrying value**	**Fair value**	Ownership	Carrying value	Fair value
Algoma	**34.7%**	**$ 168.8**	**$ 224.1**	34.7%	$ 153.8	$ 189.1
Economic	**24.0%**	**120.1**	**127.1**	24.0%	77.2	77.2
Total		**$ 288.9**	**$ 351.2**		$ 231.0	$ 266.3

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

Fair value change in FVTPL investments

Fair value change in FVTPL investments includes both realized and unrealized gains (losses). Commencing in fiscal 2013, E-L Corporate's results are impacted by the movement in United's FVTPL investments, as well as the purchase of $650 million in equities resulting from the proceeds from the sale of The Dominion.

For the three months ended December 31, 2013, the fair value of FVTPL investments increased $185.4 million after tax compared to $66.5 million after tax in 2012 reflecting an increase of $53.3 million from United's investments.

For the year ended December 31, 2013, the fair value of FVTPL investments increased $396.0 million after tax compared to $125.8 million in 2012, reflecting the favourable impact of stock market movements compared to the prior year. Included in the increase is $131.6 million from United's investments.

Comprehensive income

(millions of dollars)	Fourth quarter 2013	Fourth quarter 2012	Year 2013	Year 2012
Comprehensive income				
Net income	**$ 240.9**	$ 251.0	**$ 506.3**	$ 368.5
OCI				
a) Items that may be reclassified subsequently to net income:				
Unrealized fair value increase on AFS investments	**15.8**	3.5	**40.5**	11.9
Realized gain on AFS investments reclassified to net income	**(4.2)**	(0.6)	**(11.0)**	(4.3)
Share of OCI (OCL) of associates	**3.8**	(1.0)	**3.8**	(1.0)
	15.4	1.9	**33.3**	6.6
b) Items that will not be reclassified to net income:				
Net remeasurement of defined benefit plans	**(0.3)**	(0.1)	**(0.3)**	(0.7)
Share of OCI (OCL) of associates	**(0.5)**	1.4	**(0.2)**	-
Total OCI	**14.6**	3.2	**32.8**	5.9
Total	**$ 255.5**	$ 254.2	**$ 539.1**	$ 374.4

For the three months ended December 31, 2013, E-L Corporate earned OCI of $14.6 million compared to $3.2 million in 2012. For the year ended December 31, 2013, E-L Corporate earned OCI of $32.8 million compared to $5.9 million in 2012. The improvement in OCI for both periods is due to a larger unrealized fair value increase on AFS investments compared to the prior year.

Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. Market risk is the most significant risk impacting E-L Corporate as its investing activities are influenced by equity and interest rate risk. In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at www.sedar.com. Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 4, 5 and 25 to the consolidated financial statements.

Critical accounting estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the financial statements. Note 2 to the consolidated financial statements describes the significant accounting policies. Critical accounting estimates for the E-L Corporate segment relate to evaluating investments for impairment.

Impairment of AFS securities and investments in associates

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

Investments in associates recognize an impairment loss if the investment in associate's recoverable amount is determined to be lower than the investment's carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment's fair value less costs to sell and value in use. Impairment losses are recognized in the consolidated statements of income. Previously recognized impairment losses are reversed if the investment's recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

Consolidation and associates

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

Liquidity and capital resources

E-L Corporate's liquidity, capital resources and cashflow is managed from a non-consolidated perspective.

Composition of cash flows:

Year ended December 31	**E-L Financial (non-consolidated)**		**United**		**Empire Life**		**The Dominion**		**Total**	
(millions of dollars)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Cash flows from:										
Operating activities	**$ 26**	$ 35	**$ (2)**	$ -	**$ 222**	$ 229	**$ 30**	$ 159	**$ 276**	$ 423
Financing activities										
- subordinated debt	**-**	-	**-**	-	**298**	-	-	-	**298**	-
- preference shares	**-**	97	**-**	-	**-**	-	**-**	-	**-**	97
- cash dividends	**(319)**	(15)	**(9)**	-	**(5)**	-	-	-	**(333)**	(15)
- other	**-**		**-**		**(18)**	(13)			**(18)**	(13)
Investing activities	**328**	(149)	**23**	-	**(509)**	(123)	**(114)**	(72)	**(272)**	(344)
Net change in cash and cash equivalents	**$ 35**	$ (32)	**$ 12**	$ -	**$ (12)**	$ 93	**$ (84)**	$ 87	**$ (49)**	$ 148

Cash flows on a non-consolidated basis for 2013 consisted of net investment income of $26 million (2012 - $35 million), cash dividends received from its subsidiaries of $28 million (2012 - $38 million) and $nil (2012 - $97 million) from the Company's issuance of preferred shares. In addition, the sale of The Dominion provided $1,071 million in net cash inflows. These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $319 million (2012 - $15 million), provided $806 million (2012 - $155 million) for investment opportunities. After the sale of The Dominion, $650 million was invested into U.S. and international equities with the balance being added to E-L Corporate cash reserves.

E-L Corporate maintains sufficient liquidity through holding short-term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary, to fund new investment opportunities and to meet any operating cash flow requirements.

Composition of E-L Financial (non-consolidated) liquidity:

(thousands of dollars)	**2013**	2012
Cash and cash equivalents	**$ 88,364**	$ 25,059
Short-term investments	**126,353**	33,527
Total	**$ 214,717**	$ 58,586

Outlook

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of its insurance company subsidiary. The performance of the E-L Corporate portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend income. More information on the outlook for the insurance subsidiary is provided in the outlook section of the insurance operation's report in the MD&A.

REPORT ON EMPIRE LIFE

Empire Life provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors ("IFA"), Managing General Agents ("MGA"), National Account firms, Mutual Fund Dealers and Employee Benefits brokers and representatives.

Empire Life reported record full year shareholders' net income of $113.3 million for 2013, compared to $80.2 million for 2012. Empire Life's net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Net income, contribution to E-L Financial from Empire Life				
Shareholders' net income	**$ 29.9**	$ 25.1	**$ 113.3**	$ 80.2
Non-controlling interests portion of net income	**6.1**	5.1	**23.1**	16.3
Net income, contribution to E-L Financial from Empire Life	**$ 23.8**	$ 20.0	**$ 90.2**	$ 63.9

For the year shareholders' net income was higher relative to 2012 due primarily to improved Individual Insurance product line net income. This product line's improvement was due primarily to three items:

1. In 2013 there was a significant increase in long-term interest rates (for the year, 30 year Canadian federal government bond yield up 87 basis points from 2.37% to 3.24%), compared to the small decrease that occurred in 2012.

2. In 2013 there was a significant increase in stock markets (for the year, S&P TSX up 9.6%, S&P 500 up 29.6%), compared to the modest increase that occurred in 2012.

3. Higher prices on long-term products and lower annualized premium sales resulted in lower new business strain in 2013 compared to 2012.

In addition, the Wealth Management product line reported a strong improvement in net income in 2013 relative to 2012. The improvement was due primarily to growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit ("GMWB") products. This improvement in fee income was due primarily to strong GMWB sales and the positive impact of favourable stock market conditions on management fees earned.

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 2013 net income compared to 2012 is shown in the Product Line Results sections later in this report.

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

The Summary of Life Insurance Operations on page 134 of this Annual Report provides an overview of results for the five-year period from 2009 to 2013. The analysis and discussion which follows is focused on the full year 2013 and comparative 2012 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 *(millions of dollars)*	**Wealth Management 2013**	Wealth Management 2012	**Employee Benefits 2013**	Employee Benefits 2012	**Individual Insurance 2013**	Individual Insurance 2012	**Capital & Surplus 2013**	Capital & Surplus 2012	**Total 2013**	Total 2012
Revenue										
Net premium income	**$ 159**	$ 176	**$ 307**	$ 290	**$ 356**	$ 348	**$ -**	$ -	**$ 822**	$ 814
Fee and other income	**140**	115	**8**	7	**1**	1	**2**	2	**151**	125
Investment income	**54**	53	**4**	6	**140**	143	**42**	35	**240**	237
Realized gain on FVTPL investments	**7**	2	**-**	2	**38**	50	**-**	-	**45**	54
Realized gain (loss) on available for sale investments including impairment write downs	**1**	-	**-**	-	**-**	-	**(3)**	28	**(2)**	28
Fair value change in FVTPL investments	**(36)**	1	**(7)**	(3)	**(306)**	3	**-**	-	**(349)**	1
	325	347	**312**	302	**229**	545	**41**	65	**907**	1,259
Expenses										
Benefits and expenses	**302**	341	**294**	273	**132**	526	**21**	15	**749**	1,155
Income and other taxes	**4**	(1)	**9**	12	**31**	7	**4**	13	**48**	31
	306	340	**303**	285	**163**	533	**25**	28	**797**	1,186
Net income after tax	**$ 19**	$ 7	**$ 9**	$ 17	**$ 66**	$ 12	**$ 16**	$ 37	**$ 110**	$ 73
Policyholders' portion									**(3)**	(7)
Shareholders' net income									**113**	80
Non-controlling interests portion of net income									**23**	16
Net income attributable to owners of E-L Financial									**$ 90**	$ 64
Assets under management										
General fund assets	**$ 1,105**	$ 1,147								
Segregated fund assets	**$ 5,932**	$ 4,993			**$ 22**	$ 21				
Mutual Fund assets	**$ 38**	$ 13								
Annualized premium sales			**$ 52**	$ 44	**$ 55**	$ 65				

Total Revenue

(millions of dollars)	**Fourth quarter 2013**	Fourth quarter 2012	**Year 2013**	Year 2012
Revenue				
Net premium income	**$ 215**	$ 212	**$ 822**	$ 814
Investment income	**64**	58	**240**	237
Fair value change in FVTPL investments including realized amounts	**5**	(29)	**(304)**	56
Realized (loss) gain on available for sale investments including impairment write downs	**(2)**	23	**(2)**	28
Fee and other income	**40**	35	**150**	125
Total	**$ 322**	$ 299	**$ 906**	$ 1,260

For the year, total revenue at Empire Life decreased by 28% to $906 million compared to $1.26 billion in 2012. Major revenue items are discussed below.

Net premium income for the year increased in 2013 relative to 2012. The increase related primarily to the Employee Benefits product line.

Fair value change in FVTPL investments including realized amounts often causes large revenue volatility. These assets experienced a net loss in 2013 compared to a net gain in 2012. In 2013 the large loss was from primarily a decrease in bond prices (due to a large increase in market interest rates). This was partly offset by an increase in common share prices in 2013. 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. 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 (loss) on available for sale investments including impairment write downs was a loss in 2013 relative to gains in 2012. The decreased revenue was due primarily to losses from the sale of AFS bonds in 2013, compared to gains from the sale of AFS equities in 2012. 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 were used primarily to back capital and surplus.

Fee and other income increased in 2013 relative to 2012 due primarily to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. The growth in both of these items was due primarily to strong GMWB product sales in the second half of 2012 and for the full year in 2013 and GMWB price increases in 2013. In addition, there was a positive impact on average assets under management and management fees earned, resulting from stock market conditions, as stock markets were higher on average during 2013 than 2012.

Total Benefits and Expenses

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Benefits and Expenses				
Net benefits and claims	**$ 145**	$ 148	**$ 560**	$ 541
Net change in insurance contract liabilities	**43**	14	**(160)**	265
Change in investment contracts provision	**-**	-	**1**	1
Policy dividends	**6**	5	**22**	20
Operating expenses	**36**	39	**139**	140
Net commissions	**47**	55	**168**	175
Interest expense	**6**	3	**19**	14
Total	**$ 283**	$ 264	**$ 749**	$ 1,156

Total benefits and expenses at Empire Life for the year decreased by 35% to $749 million compared to $1.156 billion in 2012. 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 the Employee Benefits product line. 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 2012 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 net change in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of income.

Commission expenses decreased year over year due primarily to lower Individual Insurance sales.

Interest expense increased in 2013 relative to 2012 due to the issuance of $300 million of subordinated debentures on May 31, 2013.

Product Line Results - Wealth Management

	As at December 31	
(millions of dollars)	**2013**	2012
Assets under management		
General fund annuities	**$ 1,105**	$ 1,147
Segregated funds	**5,932**	4,993
Mutual funds	**38**	13

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Selected financial information				
Fixed interest annuity premiums	**$ 44**	$ 50	**$ 159**	$ 176
Segregated fund gross sales	**302**	539	**1,009**	1,159
Segregated fund net sales	**107**	313	**231**	404
Segregated fund fee income	**37**	32	**139**	115
Mutual fund gross sales	**10**	9	**22**	13
Mutual fund net sales	**10**	9	**20**	13
Mutual fund fee income	**-**	-	**-**	-
Net income (loss) after tax fixed income annuity portion	**$ (4)**	$ (4)	**$ -**	$ -
Net income after tax segregated fund portion	**7**	2	**22**	10
Net loss after tax mutual fund portion	**(1)**	(1)	**(3)**	(3)
Net income (loss) after tax	**$ 2**	$ (3)	**$ 19**	$ 7

Assets in Empire Life general fund annuities decreased by 4%, while segregated fund assets increased by 19% during the last 12 months. The increase over the last 12 months for segregated funds was attributable to positive investment returns, due to the stock market increase since December 31, 2012, and strong net sales (gross sales net of withdrawals) described below.

Premium income for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund products. For the year, fixed interest annuity premiums were down 9% compared to 2012 due to decreased sales of fixed interest immediate annuities.

For the year, segregated fund gross sales were down 13% compared to 2012. This product line's gross sales decline for the year is attributable to GMWB products. While GMWB product sales remain strong they are down from the elevated levels experienced in the third and fourth quarters of 2012. The elevated sales in the third and fourth quarters of 2012 appeared 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 first quarter of 2013 Empire Life launched a new version of the GMWB product. The new version reduces the amount of risk Empire Life is taking on and commands a higher price, while still offering a competitive guaranteed income solution to policyholders.

Segregated fund net sales for the year were down 43% compared to 2012 due to the above mentioned gross sales result, and higher withdrawals compared to 2012.

For the year, segregated fund fee income increased by 21% in 2013 relative to 2012. The increase was due primarily to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. The growth in both of these items was due primarily to strong GMWB product sales in the second half of 2012 and for the full year in 2013 and GMWB price increases in 2013. In addition, there was a positive impact on average assets under management and management fees earned, resulting from stock market conditions, as stock markets were higher on average during 2013 than 2012.

Empire Life launched its new mutual fund business during the first quarter in 2012. Therefore, Empire Life's mutual fund business is still in its early stages of development and represents a small portion of the Wealth Management product line. For the year, mutual fund gross sales were up 65% in 2013 compared to 2012. Mutual fund gross sales also improved during 2013 as sales for the fourth quarter came in at $10 million compared to $6 million in the third quarter and $3 million in both the first and second quarters.

During the fourth quarter and for the year earnings from this product line increased relative to 2012. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Fourth quarter**	**Year**
Wealth management net income analysis		
Net income after tax 2013	**$ 2**	$ 19
Net income (loss) after tax 2012	**(3)**	7
Increase in net income after tax	**$ 5**	$ 12
Components of increase		
2012 loss from update of policy liability assumptions	**$ 5**	$ 5
2013 loss from update of policy liability assumptions	**(2)**	(2)
Increase in inforce profit margins	**2**	9
Lower new business strain	**2**	1
Improved (worsened) investment experience	**(2)**	1
Worsened annuitant mortality experience	**-**	(2)
Total	**$ 5**	$ 12

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

In 2013, the update of policy liability assumptions was unfavourable by $2 million. The 2013 updates for general fund annuities also related primarily to annuitant mortality assumptions.

Higher net income on inforce business in 2013 was due primarily to the strong growth of the GMWB product which generates higher fees than other segregated fund products. In addition, inforce business profits improved due to the positive impact of favourable stock market conditions in 2013 on average assets under management and management fees earned.

Higher net income from lower new business strain resulted from weaker GMWB segregated fund sales in 2013 relative to 2012.

Improved investment experience resulted from market interest rate movements and the availability of assets at attractive yields for matching fixed interest annuity contract liabilities.

Worsened annuitant mortality experience relates to the fixed interest immediate annuity business.

Product Line Results - Employee Benefits

(millions of dollars)	Fourth quarter 2013	Fourth quarter 2012	Year 2013	Year 2012
Selected financial information				
Annualized premium sales	**$ 12**	$ 11	**$ 52**	$ 44
Premium income	**78**	74	**307**	290
Net income after tax	**$ 1**	$ 5	**$ 9**	$ 17

For the year, sales in this product line increased by 18% relative to 2012. The 2013 sales reflect continuing strength compared to the recessionary lows experienced four years ago. This product line's premium income for the year increased by 6% relative to 2012 due to continuing growth of the inforce block.

During the fourth quarter and for the year earnings from this product line decreased relative to 2012. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Fourth quarter**	**Year**
Employee benefits net income analysis		
Net income after tax 2013	**$ 1**	$ 9
Net income after tax 2012	**5**	17
Decrease in net income after tax	**$ (4)**	$ (8)
Components of decrease		
2012 gain from update of policy liability assumptions	**$ (4)**	$ (4)
Worsened claims experience	**$ (2)**	$ (6)
Increase in inforce profit margins	**2**	2
Total	**$ (4)**	$ (8)

In 2012, the update of policy liability assumptions was favourable. The 2012 update of policy liability assumptions was due primarily to refinements of valuation models for group long-term disability claims.

In 2013, the update of policy liability assumptions was not significant for this line of business.

In 2013 worsened claims experience relates to unfavourable health claims and long-term disability results.

Higher net income on inforce business in 2013 was due to strong growth of the inforce block of business.

Product Line Results - Individual Insurance

(millions of dollars)	Fourth quarter 2013	Fourth quarter 2012	Year 2013	Year 2012
Selected financial information				
Annualized premium sales	**$ 18**	$ 16	**$ 55**	$ 65
Premium income	**93**	89	**356**	348
Net income (loss) after tax				
Net income after tax shareholders' portion	**$ 25**	$ 3	**$ 72**	$ 20
Net income (loss) after tax policyholders' portion	**(4)**	(3)	**(6)**	(8)
Net income after tax	**$ 21**	$ -	**$ 66**	$ 12

For the year, annualized premium sales in this product line decreased by 16% compared to 2012, and premium income increased by 2% compared to 2012. This product line's full year sales result is attributable primarily to slower universal life product sales. During 2011, 2012 and 2013, Empire Life increased prices on long-term products, including universal life, due to the low long-term interest rate environment. We have observed a similar trend with many of our competitors. However, during the fourth quarter of 2013 Empire Life has reduced the prices of certain life insurance products to improve competitiveness and to reflect the recent rise in interest rates and continuing mortality improvements.

During the fourth quarter and for the year, earnings from this product line increased relative to 2012. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Fourth quarter	Year
Individual insurance net income analysis		
Net income after tax 2013	**$ 21**	$ 66
Net income after tax 2012	**-**	12
Increase in net income after tax	**$ 21**	$ 54
Components of income increase		
2012 gain from update of policy liability assumptions	**$ (1)**	$ (1)
2013 gain from update of policy liability assumptions	**2**	2
Improved investment experience	**22**	37
Lower new business strain	**2**	8
Improved (worsened) mortality, surrender and other experience	**(4)**	8
Total	**$ 21**	$ 54

In 2012, the update of policy liability assumptions was favourable by $1 million.

In 2013, the update of policy liability assumptions was favourable by $2 million. The following table provides a breakdown of the components of this amount:

Components of income increase from update of policy liability assumptions	**Year**
Net re-investment assumptions	$ 4
Mortality	13
Model enhancements	9
Lapse	(32)
Other	8
Total 2013 gain from update of policy liability assumptions	$ 2

Empire Life uses an ultimate reinvestment rate (“URR”) assumption of 3.0% (3.1% for 2012). Empire Life uses a best estimate return assumption for equities used to match long-term liabilities of 7.7% (8.1% for 2012). 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 26 to the consolidated financial statements.

For the year, investment experience improved by $37 million year over year due primarily to the favourable impact from long-term interest rate movements in 2013. While market interest rates remain unusually low, they increased significantly during the year, particularly during the second quarter of 2013. Empire Life took advantage of the higher rates by purchasing long-term bonds during the second quarter at these increased interest rates for the purpose of matching long-term liabilities. As a result, a reserve release from locking in these higher investment yields occurred in the second quarter resulting in a $7 million increase in net income for this line of business. For the year, investment experience also improved in 2013 due to the impact of changes in long-term interest rates on existing insurance contract liabilities and matching assets. While the impact of bond asset market value changes 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, investment experience improved strongly year over year due to the favourable impact from stock market movements in 2013. Empire Life makes use of common share assets for the purpose of matching long-term liabilities. Full year investment experience improved in 2013 due to the impact of changes in common share returns on existing insurance contract liabilities and matching assets. While the impact of common share asset market value changes 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.

Higher net income from lower new business strain caused a year over year improvement in net income. Lower new business strain resulted from higher prices on long-term products and lower annualized premium sales.

Results - Capital and Surplus

	Fourth quarter		**Year**	
(millions of dollars)	**2013**	2012	**2013**	2012
Net income after tax				
Net income after tax shareholders' portion	**$ 2**	$ 20	**$ 14**	$ 36
Net income after tax policyholders' portion	**1**	-	**2**	1
Net income after tax	**$ 3**	$ 20	**$ 16**	$ 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 for the year Capital and Surplus earnings decreased relative to 2012. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Fourth quarter**	**Year**
Capital and surplus net income analysis		
Net income after tax 2013	**$ 3**	$ 16
Net income after tax 2012	**20**	37
Decrease in net income after tax	**$ (17)**	$ (21)
Components of decrease		
Decreased net income from sale of investments	**$ (17)**	$ (22)
Lower impairment write downs	**-**	1
Higher interest expense	**(2)**	(4)
Higher investment income	**2**	4
Total	**$ (17)**	$ (21)

Decreased net income from sale of investments was due primarily to losses on the sale of AFS bond investments in 2013, compared to gains from the sale of AFS equity investments in 2012. In 2012 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.

Higher interest expense was due to the issuance of $300 million of subordinated debentures on May 31, 2013.

Higher investment income was due primarily to an increase in invested assets resulting from the investment of the proceeds from the above mentioned issuance of subordinated debentures.

Total cash flow

	Year	
(millions of dollars)	**2013**	2012
Cash flow provided from (used for)		
Operating activities	**$ 222**	$ 229
Investing activities	**(509)**	(123)
Financing activities	**256**	(13)
Net change in cash and cash equivalents	**$ (31)**	$ 93

The decrease in cash provided by operating activities in 2013 relative to 2012 was due primarily to cash outflows related to income taxes in 2013 compared to cash inflows related to income taxes in 2012.

The increase in cash used for investing activities during 2013 relative to 2012 was due primarily to the investment of proceeds from the May 31, 2013 issuance of $300 million of subordinated debentures (described below). In addition, cash used for investing activities increased due to completion of asset mix changes that began late in 2012. A sale of common share 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 occurred in the first quarter of 2013.

The increase in cash provided from financing activities was due to the issuance of $300 million of subordinated debentures on May 31, 2013. The debentures will mature on May 31, 2023 and bear interest at a fixed annual rate of 2.870% for the first five years, payable semi-annually, and a variable annual rate equal to the 3-month Bankers' Acceptance Rate plus 1.05% for the last five years, payable quarterly. This was partially offset by the payment of $24.1 million of dividends to common shareholders during the third quarter. Empire Life's dividends to E-L Financial are fully eliminated in the consolidated financial statements of E-L Financial.

Capital resources

	Dec. 31 2013*	Sept. 30 2013*	Jun. 30 2013*	Mar. 31 2013*	Dec. 31 2012
MCCSR Ratio	**267%**	265%	262%	212%	203%

*Reflects adoption of IAS 19R and new MCCSR standards related to lapse required capital on January 1, 2013.

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 267% as at December 31, 2013 continued to be well above requirements, and above minimum internal targets.

The MCCSR ratio increased by 2 points from the previous quarter and increased by 64 points on a full year basis. This change was due to increases in available regulatory capital for both the fourth quarter and the year to date, as shown in the table below. For the fourth quarter this was partly offset by increases in required regulatory capital, as shown in the table below. However, for the full year required regulatory capital decreases contributed to the MCCSR increase.

(millions of dollars)	**Dec. 31 2013***	Sept. 30 2013*	Jun. 30 2013*	Mar. 31 2013*	Dec. 31 2012
Available regulatory capital					
Tier 1	**$ 831**	$ 785	$ 775	$ 732	$ 756
Tier 2	**533**	523	521	335	327
Total	**$ 1,364**	$ 1,308	$ 1,296	$ 1,067	$ 1,083
Required regulatory capital	**$ 511**	$ 493	$ 494	$ 503	$ 533

*Reflects adoption of IAS 19R and new MCCSR standards related to lapse required capital on January 1, 2013.

Tier 1 and Tier 2 available regulatory capital increased from the previous quarter and on a year to date basis.

The increase in Tier 1 available regulatory capital from the previous quarter was due primarily to fourth quarter net income.

For the year the increase in Tier 1 available regulatory capital was due primarily to net income, partly offset by the payment of a common share dividend and the impact of implementation of IAS 19R Employee Benefits standards. The dividend of $24.1 million, which was paid during the third quarter, decreased Empire Life's MCCSR ratio by 7 points. The implementation of IAS 19R (related to employee defined benefit plans), which occurred in the first quarter 2013, lowered Empire Life's available regulatory capital by $26 million, and decreased Empire Life's MCCSR ratio by 5 points.

The increase in Tier 2 available regulatory capital from the previous quarter was not significant. The increase in Tier 2 available regulatory capital for the year to date was due primarily to the issuance of $300 million of subordinated debentures on May 31, 2013.

Regulatory capital requirements increased from the previous quarter, but decreased on a year to date basis. The increase from the previous quarter was due primarily to higher investment and lapse exposures. For the year to date the decrease was due primarily to higher interest rates which lowered required regulatory capital related to lapse risk, and to changes to the MCCSR standards related to lapse required regulatory capital in the first quarter which improved Empire Life's MCCSR ratio by 14 points. The above items were partly offset by the impact of higher investment exposures which were caused primarily by increased investment in common shares and bonds.

On February 25, 2014 the Board of Directors of Empire Life approved the declaration of a common share dividend of $34 million payable in the first quarter of 2014. On a pro forma basis, after giving effect to the dividend payment, Empire Life estimates that, as at December 31, 2013, its MCCSR ratio would have decreased by 10 points.

In May 2014 Empire Life intends to redeem $200 million 6.73% subordinated debentures at par. The redemption is subject to approval by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). On a pro forma basis, after giving effect to the debenture redemption, Empire Life estimates that, as at December 31, 2013, its MCCSR ratio would have decreased by 19 points.

Comprehensive income

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Comprehensive income				
Net income, contribution to E-L Financial	**$ 23.8**	$ 20.0	**$ 90.2**	$ 63.9
Unrealized fair value increase (decrease) on AFS investments	**1.2**	(1.9)	**(18.9)**	7.5
Realized loss (gain) on AFS investments reclassification to net income	**1.6**	(15.1)	**1.9**	(19.2)
	2.8	(17.0)	**(17.0)**	(11.7)
Amortization of loss on deriviative investments designated as cash flow hedges reclassified to net income	**0.2**	0.1	**0.6**	0.5
Items that will not be reclassified to net income:				
Remeasurements of defined benefit plans	**(0.1)**	0.9	**12.9**	(8.7)
	2.9	(16.0)	**(3.5)**	(19.9)
Less: Participating Policyholders	**(1.9)**	(0.3)	**(3.1)**	(1.2)
Non-controlling interests	**(0.2)**	3.3	**1.3**	4.3
Other comprefensive income (loss), contribution to E-L Financial	**0.8**	(13.0)	**(5.3)**	(16.8)
Comprehensive income, contribution to E-L Financial	**$ 24.6**	$ 7.0	**$ 84.9**	$ 47.1

For the year 2013, Empire Life incurred an other comprehensive loss of $5.3 million due primarily to unrealized fair value decreases relating to AFS bonds. For the year 2012 Empire Life incurred an other comprehensive loss of $16.8 million due primarily to the reclassification to net income of a large realized gain from the sale of AFS equity investments during the fourth quarter of 2012.

In the first quarter of 2013 the new accounting standard relating to the remeasurement of the defined benefit ("DB") plans was applied retrospectively resulting in the restatement of 2012. For the year 2013 Empire Life experienced a $12.9 million gain after tax on its DB plans. The gain for the year was due primarily to the impact of higher equity markets on DB plan assets. DB plan liabilities also experienced a net gain due to higher interest rates partly offset by losses due primarily to updated mortality assumptions.

For the year 2012 Empire Life experienced an $8.7 million loss after tax on its DB plans. This loss was due primarily to the impact of lower interest rates on DB plan liabilities.

Unrealized fair value increases and decreases on AFS bonds in other comprehensive income do not impact MCCSR. Remeasurement of DB plans do not immediately impact MCCSR as each quarter's remeasurement gain or loss is amortized over 12 quarters for MCCSR purposes.

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 is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management 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 assets under management from its GMWB segregated fund business in 2013. However, Empire Life has taken several steps to limit GMWB risk exposure. In the first quarter of 2013 Empire Life launched a new version of the GMWB product. 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 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. However, while market long-term interest rates remain unusually low in 2013 they increased significantly during the year, particularly during the second quarter of 2013. During the fourth quarter of 2013 Empire Life has reduced the prices of certain life insurance products to improve competitiveness and to reflect this recent rise in interest rates and continuing mortality improvements. 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, develop web based products and processes, and improve the customer and advisor 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, 2013 Empire Life had $5.95 billion of segregated fund assets and liabilities. Of this amount, approximately $5.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec. 31 2013	Dec. 31 2012
Percentage of segregated fund assets with:		
75% maturity guarantee and a 100% death benefit guarantee	**57.4%**	63.8%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.2%**	5.2%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit ("GMWB"))	**37.4%**	31.0%

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 2013 and 2012, the sensitivity of shareholders’ net income (attributable to the owners of E-L Financial) to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

(millions of dollars)	**10% increase**	**10% decrease**	**20% increase**	**20% decrease**
Sensitivity to segregated fund guarantees:				
2013 Net income attributable to E-L Financial	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2012 Net income attributable to E-L Financial	$ nil	$ nil	$ nil	$ nil

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

	10% increase	**10% decrease**	**20% increase**	**20% decrease**
Sensitivity to stock markets:				
December 31, 2013 MCCSR Ratio	**-1.2%**	**1.2%**	**-2.3%**	**2.5%**
December 31, 2012 MCCSR Ratio	-0.5%	0.0%	-1.1%	-12.2%

The use of common share assets to match longer term liabilities causes the sensitivity of Empire Life's MCCSR ratio to stock market increases to be reduced or slightly negative. Increased stock markets cause a gain on common share 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 share assets increases. As of December 31, 2013 and 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.

Similarly, the above mentioned increased use of common equities to match longer term liabilities has caused the sensitivity of Empire Life's MCCSR ratio to stock market decreases to be slightly positive. As of December 31, 2013, under a 10% and 20% stock market decrease scenario, the decrease in required capital slightly outweighs the decrease in available capital resulting in a slightly positive impact on Empire Life's MCCSR ratio.

Empire Life has not historically hedged its segregated fund guarantee risk. Given the current segregated fund product mix and level of sensitivity to stock markets, Empire Life has not hedged its segregated fund guarantee risk as of December 31, 2013 or December 31, 2012 (except for the reinsurance agreement described below).

Effective January 1, 2013 Empire Life has entered into a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement. If this agreement was in place as at December 31, 2012 approximately $8 million of the $112 million death benefit "amount at risk" reported as at December 31, 2012 in the table below would be ceded to the reinsurer. Empire Life does not reinsure any other insurer's segregated fund products.

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

Segregated Funds	**Guarantee > Fund Value**		**Death Benefit > Fund Value**		**GMWB Top-up**	**Actuarial**	**MCCSR**
(millions of dollars)	**Fund Value**	**Amount at Risk**	**Fund Value**	**Amount at Risk**	**Amount at Risk**	**Liabilities**	**Required Capital**
December 31, 2013	**$ 29**	**$ 3**	**$ 264**	**$ 18**	**$ 328**	**$ nil**	**$ nil**
December 31, 2012	$ 107	$ 11	$ 1,250	$ 112	$ 298	$ nil	$ <1

The first four columns of the above table show all segregated fund policies where the future maturity guarantee, or future death benefit guarantee, is greater than the fund value. The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The fifth column of the above table shows GMWB top-up exposure. The GMWB top-up amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. 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 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 policyholders. The amounts at risk in December 2013 decreased from the December 2012 levels for maturity guarantee, and death benefit guarantee exposure due primarily to the increase in many global stock markets. The amount at risk in December 2013 increased from the December 2012 levels for GMWB top-up exposure, due primarily to strong GMWB sales in 2013.

In addition, Empire Life's MCCSR ratio is sensitive to changes in market interest rates. The impact of an immediate 1% decrease in interest rates, and a 1% decrease in assumed initial reinvestment rate ("IRR") for nonparticipating insurance business, would result in a decrease to Empire Life's MCCSR ratio of 35 points as of December 31, 2013 (32 points as of December 31, 2012). 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 23 points as of December 31, 2013 (28 points as of December 31, 2012).

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form. Additional disclosures of Empire Life's sensitivity to risks are included in Notes 25 and 26 to the consolidated financial statements.

Critical Accounting Estimates

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

Policy liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in Notes 25 and 26 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 and 6.

Pension and other employee future benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made effect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI. Additional information regarding pension and other employee future benefits is included in Notes 2 and 16.

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 2013 Canada's economy remained stable, but experienced relatively weak growth. 2013 headlines in Canada were filled with economic concerns about unemployment, commodity prices, factory closures, housing markets and consumer debt levels. Global concerns in 2012 about the European sovereign debt crisis and U.S. fiscal issues eased significantly in 2013, improving consumer confidence. As a result, global stock and credit markets have improved significantly from the economic turmoil of 2008 and early 2009. Canadian long-term interest rates increased significantly in 2013, after 3 years of falling rates. Global stock markets remained volatile, but most significant markets rose strongly in 2013. This was particularly the case in the U.S., where stock markets provided investors with excellent returns in 2013. Canada's main stock market rose in 2013, which was an improvement from the moderate gains of 2012. However, Canada's stock market performance in 2013 was meager compared to the US. Stock market conditions mainly impact inforce profit margin results and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line. Looking forward, consumers continue to be somewhat 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.

While Canada faired well during the financial crisis compared to many other countries, Canada's economy is growing slowly and there continues to be uncertainty resulting in mixed economic indicators. As a result businesses remain cautious and this could cause 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. However, while market long-term interest rates remained unusually low in 2013 they increased significantly during the year. During the fourth quarter of 2013 Empire Life has reduced the prices of certain life insurance products to improve competitiveness and to reflect this recent rise in interest rates and continuing mortality improvements. Long-term interest rates and product pricing are expected to continue to be issues for Empire Life's Individual Insurance product line in 2014.

Regulatory change related to segregated fund guarantees continues to evolve. OSFI is currently reviewing the overall approach for determining capital requirements for segregated fund risks, and is implementing this change in two stages. In the first stage, the parameters within life company stochastic models were strengthened with respect to new business issued after January 1, 2011. This did not have a significant impact on Empire’s MCCSR ratio. In the second stage, a new approach will be implemented for all inforce segregated fund business (including new business issued in 2011 and later). With respect to the second stage, OSFI states that “we are considering a range of alternatives including a more market-consistent approach and potentially credit for hedging” and that the target date for this is 2017 or later.

Longer term accounting standard changes are expected by 2018 or later regarding International Financial Reporting Standards (“IFRS”) for Insurance Contracts. In a parallel process, capital adequacy standards are also becoming more aligned with the international framework known as “Solvency II” within a similar timeframe. 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 capital adequacy standards 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.

OSFI’s Corporate Governance Guideline (compliance required January 31, 2014) includes requirements related to board responsibilities, the independence of oversight functions, enhancing risk reporting and commissioning third party reviews of board and oversight function effectiveness. OSFI’s Own Risk Solvency Assessment Guideline (effective January 1, 2014) requires insurers to complete a self-assessment process that aims to link an insurer’s risk profile to its capital needs.

The Canadian Securities Administrators (“CSA”) is increasing disclosure requirements for mutual fund companies, including point of sale requirements (effective mid-2014) and customer relationship model initiatives (staggered implementation with full effectiveness mid-2016).

Regulatory change is also occurring 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. In 2013 the Canadian Life and Health Insurance Association (“CLHIA”) has developed a new Insurer-MGA Relationship Guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, stating that insurers should: perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility.

REPORT ON THE DOMINION

The Dominion underwrites property and casualty insurance. The sale of The Dominion impacts the Company's consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows in that The Dominion is reported as a discontinued operation for all periods presented.

In addition to IFRS measures, The Dominion uses "non-GAAP" measures for assessing financial performance. The "loss ratio" equals claims expense divided by net premiums earned. The "combined ratio" is equal to the sum of claims expense and underwriting expenses divided by net premiums earned. In the calculation of both ratios, claims expense excludes changes in the claims discount rate (provisions for unpaid and unreported claims are discounted, based on the market yields of supporting investments). These two ratios indicate how much of each net premium dollar earned in a period is used for claims and total costs, respectively. Unless otherwise indicated, in this MD&A claims expense is net of applicable reinsurance recoveries.

The loss ratios quoted in this MD&A are "calendar year" loss ratios, meaning they are determined using claims expense as reported in net income which comprises estimates for the ultimate cost of claims that occurred in the current financial reporting period as well as changes made in the current reporting period to estimates for claims that occurred in prior years ("prior year claims development"). In this MD&A, prior year claims development is as determined in the financial reporting period in which it is recognized, and is not adjusted for subsequent changes made to estimates for those prior year claims in subsequent financial reporting periods. Although some of these metrics are commonly used in the P&C insurance industry, there may be variations in how they are calculated such that The Dominion's non-GAAP measures may not be comparable with measures used by other entities.

Results of operations

The following table presents The Dominion's results of operations. The 2013 figures only include ten months of results, while the 2012 figures include full year results.

(dollars in millions)	**Ocober 2013 Year to date**	2012
Gross premiums written	**$ 1,110.1**	$ 1,273.5
Revenue		
Net premiums	**972.3**	1,209.3
Net investment income	**82.6**	101.2
Fair value change in FVTPL investments	**(2.2)**	0.6
Realized gain on AFS investments including impairment write downs	**122.4**	34.5
	1,175.1	1,345.6
Expenses		
Benefits and expenses	**1,116.3**	1,284.7
Income taxes	**14.0**	13.6
	1,130.3	1,298.3
Net income	**44.8**	47.3
(OCL) OCI, net of tax	**(63.7)**	0.7
Comprehensive (loss) income	**$ (18.9)**	$ 48.0
Combined Ratio % - excluding changes in discount rate	**116.2%**	105.3%

The Dominion’s after-tax net income for the ten month period ending October 31, 2013 was $44.8 million. These results reflect realized gains on AFS investments including, impairment write downs, of $122.4 million (mainly resulting from the liquidation of The Dominion’s common share investment portfolios) and net investment income of $82.6 million (mainly interest from bonds and debentures), partially offset by underwriting losses of $144.0 million, a decline in the fair value of FVTPL investments of $2.2 million and income tax expense of $14.0 million.

On October 31, 2013, Net premiums written were reduced by a one-time payment of $38.0 million which is the cost of The Dominion’s purchase of a reinsurance contract under which The Dominion receives excess of loss coverage against the potential adverse development of its net undiscounted claim reserves from October 31, 2013 onward, subject to certain retentions, limits and other terms and conditions (the “Adverse Development Reinsurance”).

Excluding the effect of changes in the claims discount rates, The Dominion’s combined ratio for the ten month period ending October 31, 2013 increased by 10.9 points compared to the combined ratio for the full 2012 year. The ceded premium for the Adverse Development Reinsurance reduced net earned premiums by $38.0 million and, accordingly, accounted for 4.4 points of the year to date 2013 combined ratio and 4.4 points of the increase from the combined ratio of 2012. The increase in the combined ratio is mostly due to an increase in the loss ratio as explained in the following section.

Underwriting results by line of business

The Dominion’s underwriting results by major line of business for the ten month period ending October 31, 2013 and the 2012 full year are summarized as follows:

(dollars in millions)	**Automobile**		**Personal Property**		**Commercial Property & Casualty**		**Total**	
	Oct. 2013 Year to date	2012	**Oct. 2013 Year to date**	2012	**Oct. 2013 Year to date**	2012	**Oct. 2013 Year to date**	2012
Gross premiums written	**$ 686**	$ 783	**$ 241**	$ 271	**$ 183**	$ 219	**$ 1,110**	$ 1,273
Mix of business %	**62**	62	**22**	21	**16**	17	**100**	100
Loss Ratio % - excluding changes in discount rate	**85.8**	79.5	**74.6**	55.8	**62.1**	64.2	**80.0**	72.2

In addition to the impact of the Adverse Development Reinsurance, which increased each of the loss ratios in 2013 versus 2012, the increase in the automobile loss ratio of 6.3 points also reflects higher overall claims frequency and higher claims expense for large losses. The increase in the personal property loss ratio of 18.8 points also reflects higher claims expense for weather-related losses, including the Alberta flooding (June 2013) and Toronto flooding (July 2013) catastrophes and large losses. The decrease in the commercial property and casualty loss ratio of 2.1 points for the period also reflects an increase in favourable prior year development, partly offset by higher claims expense for weather-related losses.

Duncan N.R. Jackman

Chairman, President and Chief Executive Officer

March 4, 2014

MANAGEMENT REPORT

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements necessarily include amounts that are based on judgments, which are applied consistently and are considered appropriate in the circumstances.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the consolidated financial statements.

The Company and its subsidiaries maintain systems of internal control over financial reporting which are designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded and that financial records are reliable for preparing the consolidated financial statements in accordance with Canadian generally accepted accounting principles. Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2013. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2013.

The Board of Directors carries out its responsibility for the consolidated financial statements in this Annual Report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committee of the insurance subsidiary also meets periodically with the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors of the insurance subsidiary to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiary's financial statements. The Appointed Actuary uses the work of the external auditors in verifying data used for valuation purposes.

PricewaterhouseCoopers LLP has been appointed external auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual consolidated financial statements. In carrying out their audit, the external auditors also consider the work of the actuaries and their report on policy liabilities. The external auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Auditors' Report outlines the scope of their examination and their opinion.

Duncan N.R. Jackman

Duncan N.R. Jackman	Mark M. Taylor
Chairman, President and Chief Executive Officer	Executive Vice-President and Chief Financial Officer

March 4, 2014

Independent Auditor's Report

To the Shareholders of E-L Financial Corporation Limited

We have audited the accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries, which comprise the consolidated Statements of Financial Position as at December 31, 2013 and December 31, 2012 and the consolidated Statements of Income, Comprehensive Income (Loss), Changes in Equity and Cash Flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of E-L Financial Corporation Limited and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
March 4, 2014

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

(in thousands of Canadian dollars)

	December 31, 2013	December 31, 2012 (Restated - Note 2)
Assets		
Cash and cash equivalents (Note 9)	**$ 319,749**	$ 393,998
Investments - corporate (Note 5)	**3,381,417**	2,026,644
Investments - insurance operations (Note 6)	**5,803,051**	8,222,486
Investments in associates (Note 7)	**288,884**	230,994
Accrued investment income	**26,598**	35,941
Premiums receivable	**20,849**	330,476
Reinsurance recoverable (Note 17)	**-**	77,361
Income taxes receivable	**1,841**	-
Deferred tax assets (Note 21)	**2,400**	46,436
Other assets (Note 12)	**52,105**	43,438
Deferred acquisition expenses	**-**	112,990
Property and equipment (Note 10)	**29,773**	38,599
Intangible assets (Note 11)	**4,317**	80,926
Segregated fund assets (Note 13)	**5,954,508**	5,014,392
Total assets	**$ 15,885,492**	$ 16,654,681
Liabilities		
Accounts payable	**$ 46,547**	$ 98,319
Policyholders' funds on deposit	**30,937**	30,634
Reinsurance liabilities (Note 17)	**284,627**	244,808
Insurance contract liabilities (Note 17)	**4,214,272**	6,849,328
Investment contract liabilities	**12,687**	14,591
Provision for profits to policyholders	**23,893**	22,142
Income and other taxes payable	**35,543**	26,095
Deferred tax liabilities (Note 21)	**154,885**	71,672
Other liabilities (Note 14)	**66,371**	157,640
Subordinated debt (Note 15)	**498,343**	199,642
Segregated fund liabilities (Note 13)	**5,954,508**	5,014,392
Total liabilities	**$ 11,322,613**	$ 12,729,263
Equity		
Capital stock (Note 18)	**$ 372,388**	$ 372,388
Retained earnings	**3,342,064**	2,764,971
Accumulated other comprehensive income ("AOCI")	**38,428**	108,338
Total E-L Financial shareholders' equity	**3,752,880**	3,245,697
Non-controlling interests in subsidiaries ("NCI")	**759,177**	628,743
Participating policyholders' interests ("PAR")	**50,822**	50,978
Total equity	**$ 4,562,879**	$ 3,925,418
Total liabilities and equity	**$ 15,885,492**	$ 16,654,681

Approved by the Board

Duncan N.R. Jackman, Director

James F. Billett, Director

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

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

(in thousands of Canadian dollars)

		2013		2012 (Restated - Note 2)
Revenue				
Gross premiums	**$**	**918,521**	$	902,733
Premiums ceded to reinsurers		**(96,977)**		(89,201)
Net premiums		**821,544**		813,532
Investment and other income (Note 8)		**459,277**		390,524
Share of income of associates (Note 7)		**59,178**		83,945
Fair value change in fair value through profit or loss investments		**294,558**		200,772
Realized gain on available for sale investments including impairment write downs (Notes 5 and 6)		**10,339**		33,526
Excess of fair value of net assets acquired over purchase price (Note 30)		**-**		142,241
		1,644,896		1,664,540
Expenses				
Gross claims and benefits		**437,904**		786,459
Claims and benefits ceded to reinsurers		**(16,653)**		39,894
Net claims and benefits		**421,251**		826,353
Change in investment contracts provision		**945**		754
Commissions		**168,257**		174,839
Operating (Note 20)		**157,594**		150,758
Interest expense		**18,977**		13,697
Premium taxes		**14,011**		13,466
		781,035		1,179,867
Income before income taxes		**863,861**		484,673
Income tax expense (Note 21)		**114,515**		42,635
Net income from continuing operations		**749,346**		442,038
Net income from discontinued operations, including gain on sale (Note 3)		**311,126**		47,275
Net income		**1,060,472**		489,313
Less: Participating policyholders' loss		**(3,243)**		(6,610)
Non-controlling interests in net income		**156,036**		16,319
		152,793		9,709
E-L Financial shareholders' net income	**$**	**907,679**	$	479,604
Basic earnings per share attributable to E-L Financial common shareholders (Note 22)				
Earnings per share from continuing operations	**$**	**147.95**	$	106.37
Earnings per share from discontinued operations		**79.23**		12.04
Basic earnings per share from net income	**$**	**227.18**	$	118.41
Diluted earnings per share attributable to E-L Financial common shareholders (Note 22)				
Earnings per share from continuing operations	**$**	**126.82**	$	91.14
Earnings per share from discontinued operations		**66.15**		9.96
Diluted earnings per share from net income	**$**	**192.97**	$	101.10

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

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

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

	2013	2012 (Restated - Note 2)
Net income	**$ 1,060,472**	$ 489,313
Other comprehensive income ("OCI") (loss) ("OCL"), net of taxes (Note 23)		
Items that may be reclassified subsequently to net income:		
Net unrealized fair value increase (decrease) on available for sale invesments ("AFS")	**12,474**	(4,067)
Net gain on amortization of derivatives designated as cash flow hedges reclassified to net income	**574**	534
Share of OCI (OCL) of associates (Note 7)	**3,820**	(1,040)
	16,868	(4,573)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	**12,779**	(9,427)
Share of OCL of associates (Note 7)	**(299)**	-
	12,480	(9,427)
OCI (OCL) from continuing operations, net of taxes	**29,348**	(14,000)
(OCL) OCI from discontinued operations, net of taxes (Note 3)	**(63,701)**	753
Total OCL	**(34,353)**	**(13,247)**
Comprehensive income	**1,026,119**	**476,066**
Less: Participating policyholders' comprehensive loss	**(156)**	(5,379)
Non-controlling interests in comprehensive income	**154,698**	12,025
	154,542	6,646
E-L Financial shareholders' comprehensive income	**$ 871,577**	$ 469,420
Comprehensive income is attributable to shareholders relating to:		
Continuing operations	**$ 624,152**	$ 421,392
Discontinued operations	**247,425**	48,028
Comprehensive income	**$ 871,577**	$ 469,420

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

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	E-L Financial shareholders' equity						
	Capital stock	**Retained earnings**	**Total AOCI**	**Total**	**NCI**	**PAR**	**Total equity**
At January 1, 2013	**$ 372,388**	**$ 2,764,971**	**$ 108,338**	**$ 3,245,697**	**$ 628,743**	**$ 50,978**	**$ 3,925,418**
Net income (loss) for the year	**-**	**907,679**	**-**	**907,679**	**156,036**	**(3,243)**	**1,060,472**
Other comprehensive (loss) income	**-**	**-**	**(36,102)**	**(36,102)**	**(1,338)**	**3,087**	**(34,353)**
Comprehensive income (loss)	**-**	**907,679**	**(36,102)**	**871,577**	**154,698**	**(156)**	**1,026,119**
Dividends paid during the year	**-**	**(319,016)**	**-**	**(319,016)**	**(13,555)**	**-**	**(332,571)**
Acquisition of subsidiary shares (note 29)	**-**	**1,438**	**-**	**1,438**	**(10,709)**	**-**	**(9,271)**
Discontinued operations (note 3)	**-**	**(13,008)**	**(33,808)**	**(46,816)**	**-**		**(46,816)**
	-	**(330,586)**	**(33,808)**	**(364,394)**	**(24,264)**	**-**	**(388,658)**
At December 31, 2013	**$ 372,388**	**$ 3,342,064**	**$ 38,428**	**$ 3,752,880**	**$ 759,177**	**$ 50,822**	**$ 4,562,879**

	E-L Financial shareholders' equity						
(Restated - Note 2)	Capital stock	Retained earnings	Total AOCI	Total	NCI	PAR	Total equity
At January 1, 2012, as previously stated	$ 272,388	$ 2,304,961	$ 142,044	$ 2,719,393	$ 158,605	$ 57,211	$ 2,935,209
Effect of accounting policy changes	-	-	(23,522)	(23,522)	(3,317)	(854)	(27,693)
Balance as at January 1, 2012 (restated)	272,388	2,304,961	118,522	2,695,871	155,288	56,357	2,907,516
Net income (loss) for the year	-	479,604	-	479,604	16,319	(6,610)	489,313
Other comprehensive income (loss)	-	-	(10,184)	(10,184)	(4,294)	1,231	(13,247)
Comprehensive income (loss)	-	479,604	(10,184)	469,420	12,025	(5,379)	476,066
Net refundable dividend taxes	-	(23)	-	(23)	-	-	(23)
Dividends paid during the year	-	(16,407)	-	(16,407)	-	-	(16,407)
Preferred share issuance	100,000	-	-	100,000	-	-	100,000
Preferred share issuance costs, net of tax	-	(2,554)	-	(2,554)	-	-	(2,554)
Minority interest on assets acquired (note 30)	-	-	-	-	461,430	-	461,430
Elimination of the cost of reciprocal shares	-	(610)	-	(610)	-	-	(610)
	100,000	(19,594)	-	80,406	461,430	-	541,836
At December 31, 2012	$ 372,388	$ 2,764,971	$ 108,338	$ 3,245,697	$ 628,743	$ 50,978	$ 3,925,418

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

E-L Financial Corporation Limited and subsidiary companies
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	2013	2012 (Restated - Note 2)
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 1,060,472**	$ 489,313
Continuing operations		
Items not affecting cash resources:		
Change in insurance and investment contract liabilities (Note 17)	**(159,439)**	265,383
Realized gain on available for sale of investments including impairment write downs	**(10,339)**	(33,526)
Fair value change in fair value through profit or loss investments	**(294,558)**	(200,772)
Deferred taxes (Note 21)	**77,939**	23,097
Share of income of associates, net of dividends received (Note 7)	**(53,874)**	(71,709)
Amortization related to investments	**(70,842)**	(73,108)
Gain on the sale of The Dominion, before tax (Note 3)	**(306,849)**	-
Excess of fair value of net assets acquired over purchase price (Note 30)	**-**	(142,241)
Other items	**39,439**	75,281
	281,949	331,718
Net change in other assets and liabilities	**8,074**	4,554
	290,023	336,272
Discontinued operations (Note 3)	**(14,330)**	88,804
	275,693	425,076
Financing		
Continuing operations		
Issuance of subordinated debt (Note 15)	**298,255**	-
Issuance of preferred shares, net of expenses and tax	**-**	97,446
Cash dividends to shareholders (Note 18)	**(319,016)**	(15,032)
Cash dividends by subsidiaries to non-controlling interests (Note 29)	**(13,555)**	-
Interest paid on subordinated debt (Note 15)	**(17,765)**	(13,460)
	(52,081)	68,954
Investing		
Continuing operations		
Purchases of investments	**(3,191,053)**	(1,515,345)
Proceeds from sale or maturity of investments	**2,066,882**	1,223,600
Net (purchases) sales of short-term investments	**(101,835)**	14,500
Net proceeds from the sale of The Dominion (Note 3)	**1,071,451**	-
Net (purchases) sales of other assets	**(3,345)**	5,435
	(157,900)	(271,810)
Discontinued operations (Note 3)	**(114,490)**	(73,993)
	(272,390)	(345,803)
(Decrease) increase in cash and cash equivalents	**(48,778)**	148,227
Cash and cash equivalents, beginning of the year	**368,527**	220,300
Cash and cash equivalents, end of the year (Note 9)	**$ 319,749**	$ 368,527

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

1. Business operations

E-L Financial Corporation Limited (the "Company") is an investment and insurance holding company, publicly traded on the Toronto Stock Exchange and incorporated under the laws of Ontario.

The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

The consolidated financial statements were approved by the Company's Board of Directors on March 4, 2014.

2. Significant accounting policies

(a) Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in Part I of the Handbook of The Chartered Professional Accountants of Canada which represent International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

As described in Note 3, on November 1, 2013, the Company completed the sale of its formerly wholly-owned subsidiary, The Dominion of Canada General Insurance Company ("The Dominion") to The Travelers Companies, Inc. The financial performance and cash flows of The Dominion have been presented as a discontinued operation in the Company's consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows for all periods presented.

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

All figures included in the consolidated financial statements are presented in thousands of Canadian dollars, rounded to the nearest thousand, except per share amounts and where otherwise stated.

(b) 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 judgments:

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.

For property and casualty insurance, the ultimate cost to The Dominion will vary from the assumptions used to determine the liabilities recognized, as additional information with respect to the facts and circumstance of each claim incurred is incorporated into the liability.

Additional information is included in Notes 2(m), 17, 25 and 26.

Impairment of financial instruments

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

Additional information regarding impairment of financial instruments is included in Notes 2(g)iii, 5, 6, 7 and 25.

Pension and other employee future benefits

Pension and other employee post-employment benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made effect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI.

Additional information regarding pension and other employee future benefits is included in Notes 2(l) and 16.

Consolidation and associates

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

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

(c) Principles of consolidation

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

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

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Company's accounting policies.

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

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

iii) Disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

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

The most recent available financial statements of associates are used in applying the equity method. The difference between the end of the reporting period of the associates and that of the Company is no more than three months. Adjustments are made for the effects of significant transactions or events that occur between the dates of the associates' financial statements and the date of the Company's financial statements.

(d) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Internal reports about these segments are regularly reviewed by the Company's Chief Executive Officer and by the Board of Directors to assess their performance and to allocate capital and resources.

(e) Product classification

Products issued by Empire Life that transfer significant insurance risk have been classified as insurance contracts. Otherwise, products issued by Empire Life are classified as either investment contracts or service contracts, as appropriate. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

All of the insurance policies issued by The Dominion transfer significant insurance risk and have been classified as insurance contracts prior to the sale of The Dominion.

(f) Discontinued operations

A disposal group is classified as assets held for sale when the Company expects the carrying amount to be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met when the disposal group is available for sale in its present condition and the sale is highly probable and expected to occur within one year from the date of reclassification. Disposal groups classified as held for sale are measured at the lower of their previous carrying amounts, prior to being reclassified, and fair value less costs to sell. Liabilities directly associated with the held for sale assets of a disposal group are presented separately from liabilities related to continuing operations. Discontinued operations are presented separately from our continuing operations in our consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows.

(g) Financial instruments

i) Fair value of financial instruments

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

Fair value measurements used in these consolidated financial statements have been classified by using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as level 1 generally include cash and exchange traded common and preferred shares.

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

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

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.

The Company's financial assets are designated as fair value through profit or loss ("FVTPL"), available for sale ("AFS") or loans and receivables based on management's intentions or characteristics of the instrument. All transactions are recorded on a trade date basis. Transaction costs are expensed for FVTPL instruments and capitalized for all others when the transaction costs are directly attributable to the acquisition of the financial asset.

FVTPL instruments are carried at fair value in the consolidated statements of financial position with changes in the fair value recorded in the consolidated statements of income in the period in which they occur.

AFS common and preferred share instruments and AFS short-term investments, bonds and debentures are carried at fair value in the consolidated statements of financial position. Changes in the fair value of AFS instruments are recorded in OCI in the consolidated statements of comprehensive income until realized, or required to be written down due to impairment, at which time, these gains and losses will be reclassified to the consolidated statements of income. Loans and receivables include mortgage loans,

loans on policies and policy contract loans. Loans and receivables are recorded at amortized cost, using the effective interest method, net of provisions for impairment losses, if any.

The Company designates the majority of its Investments - corporate as FVTPL. Empire Life classifies most financial assets supporting insurance contract liabilities and investment contract liabilities as FVTPL. These assets may be comprised of cash, short-term investments, bonds and debentures, common shares, preferred shares, futures, forwards and options. Most financial assets supporting capital and surplus are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures and common and preferred shares. The Dominion in 2012 had designated almost all of its investments in preferred shares, common shares, bonds and debentures, short-term investments and cash equivalents as AFS. From time to time, The Dominion held investments that were designated as FVTPL. Commercial loans in 2012 were classified as loans and receivables.

iii) Impairment

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

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through the consolidated statements of income. Impairment losses previously recorded through the consolidated statements of income are to be reversed through net income if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

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

The accounting for an impairment that is recognized in the consolidated statements of income is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in the consolidated statements of income cannot be subsequently reversed. Any subsequent increase in value is recorded in OCI in the consolidated statements of comprehensive income.

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 or policy contract loan. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in the consolidated statements of income to reduce the carrying value of the financial asset to its present value of estimated future cash flows. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed and the reversal is recognized in the consolidated statements of income.

Investments in associates

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

iv) Derecognition

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

v) Hedge accounting

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

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

vi) Other

Insurance 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 are carried at amortized cost. For these financial instruments, carrying value approximates fair value.

(h) Reinsurance

Reinsurance is ceded to other insurers in order to limit exposure to significant losses. Reinsurance ceded does not relieve the insurance operation of its primary liability. Ceded reinsurance premiums are recorded as premiums ceded to reinsurers in net income. Reinsurance recoveries on claims and policy benefits incurred are recorded as claims and benefits ceded in the consolidated statements of income. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance recoverable in the consolidated statements of financial position. Reinsurance recoverable is valued on a discounted basis, in accordance with accepted actuarial practice.

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

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

(i) Property and equipment

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

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

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

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

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

Amortization is included in operating expenses in the consolidated statement of income.

(j) 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 income. For intangible assets under development, amortization begins when the asset is available for use. The Company does not have intangible assets with indefinite useful lives.

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 income.

(k) Income taxes

Income tax comprises both current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and consolidated financial statement bases for assets and liabilities and for certain carry-forward items.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

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

(l) 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 also provides other post-employment benefits.

i) Pension benefits

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

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

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

ii) Other post-employment benefits

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

iii) 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.

(m) Insurance and investment contracts

Empire Life

i) Product classification

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

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.

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

(1) Insurance contracts

Empire Life'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. Empire Life 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 Empire Life's experience for claims incurred but not reported.

b. Long-term insurance contracts

These contracts include insurance products, annuity products and group benefits. In all cases, liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes on policies in force.

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

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies 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 gross claims and benefits in the consolidated statement of operation income in the year of the change.

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) are sufficient to cover the obligations and deferred acquisition costs that relate to policies in force 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 income.

(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 Empire Life, products so classified are limited to term certain annuities that provide for income payments for a specified period of time.

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

ii) 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.

iii) 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 income.

The Dominion

The Dominion's insurance contract liabilities include provisions for unearned premiums and unpaid and unreported claims. The provision for unpaid and unreported claims provides for all costs of investigation and settlement of insurance losses that have occurred prior to the year end, net of anticipated salvage and subrogation, which are not significant.

Determination of the ultimate costs of investigation and settlement of insurance claims is inherently subject to uncertainty. Estimates must be made of the ultimate costs for known or reported claims as well as an estimate for those claims incurred but not yet reported. Many assumptions underlie these estimates, such as claims frequency and severity, claims payment trends, inflation and interest rates, as well as potential changes in legislation and in the interpretation of liability by the courts. Unpaid and unreported claims are valued on a discounted basis, in accordance with accepted actuarial practice.

On a case-by-case basis, The Dominion's claims adjusters use their experience and judgment and follow a documented claims reserving philosophy to enter a case reserve for each individual claim in The Dominion's claims system. For certain claims, the system automatically applies an average reserve established by The Dominion's actuaries. Case reserves are adjusted promptly as additional information becomes known that changes the adjuster's view. The terms of the reinsurance agreements are applied to the case reserves, where applicable.

The Dominion's Appointed Actuary performs ongoing valuations to establish the provisions for unpaid and unreported claims and reinsurance recoverable. The actuarial valuations include analyzing case and average reserves, historical settlement patterns, estimates of trends in frequency and severity, trends in legal interpretations and other internal and external information. Projection techniques are applied to The Dominion's claims data to determine the ultimate costs, including a provision for claims that have occurred but have not yet been reported. Provisions for unpaid and unreported claims arising in prior years are also changed as a result of ongoing actuarial re-evaluations of expected ultimate payments and such changes are reflected in the period in which they are determined. Measurement uncertainty in these estimates arises from many internal and external factors, including changes to the product, regulations, internal claims handling procedures, economic inflation and legal trends. The knowledge and judgment of The Dominion's senior management on these factors is taken into account in the actuary's selection of assumptions where appropriate.

(n) Segregated funds

The segregated fund asset and liability amounts in the consolidated statements of financial position are in respect of investment funds held on behalf of Empire Life insurance policyholders. Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by Empire Life 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. Empire Life'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 13 for details on segregated fund assets and changes in segregated fund assets.

Empire Life provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within insurance contract liabilities. Sensitivity of Empire Life's liability for segregated fund guarantees to market fluctuations is disclosed in Note 26.

(o) Participating policyholders' interest

Certain life, disability and annuity policies issued by Empire Life are defined as participating policies by contractual provisions, and are eligible for periodic dividends. Empire Life maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by the Office of the Superintendent of Financial Institutions under section 456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. The distribution of dividends is made from the earnings attributed to the performance of the participating business. Most policies are credited with dividends annually, while a few older plans receive dividends every five years as per contractual provisions. Empire Life has discretion over the amount and timing of the distribution of these earnings to policyholders. Participating policyholder dividends are expensed through the consolidated statement of income.

At the end of the reporting period, all participating policy liabilities, both guaranteed and discretionary are held within insurance contract liabilities, policyholders' funds on deposit, and provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within reinsurance recoverable or reinsurance liabilities. Net income (loss) attributable to participating policyholders is shown on the consolidated statements of income. Comprehensive income (loss) attributable to participating policyholders is shown on the consolidated statements of comprehensive income. The participating policyholders' portion of equity is reported separately in the Company's total equity section of the consolidated statements of financial position.

(p) Revenue recognition

For Empire Life, gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

For The Dominion, premiums are recognized on a straight-line basis over the term of the related insurance policies. Premium finance fee income, included in investment and other income, is earned using the effective interest method over the term of the related policies.

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

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument. Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date. Interest income and dividend income are included in investment and other income in the consolidated statements of income for all financial assets, regardless of classification.

(q) Foreign currency translation

The Company uses the Canadian dollar as both its functional and presentational currency.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income.

Translation differences on FVTPL non-monetary items are reported as part of the fair value gain or loss. Translation differences on AFS non-monetary financial assets are recognized in OCI in the consolidated statements of comprehensive income. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in OCI is recognized in the consolidated statements of income.

(r) Earnings per share ("EPS")

Basic EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on First Preferred shares, divided by the weighted average number of adjusted common shares outstanding for the period. "Adjusted Common Shares" is determined based on the total common shares and Series A Preference shares less the Company's proportionate interest in its own common shares held indirectly through investments in associates.

Diluted EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on First Preferred shares, divided by the weighted average number of diluted adjusted common shares outstanding for the period. Diluted adjusted common shares reflect the potential dilutive effect of converting the First Preference shares into common shares.

(s) Comprehensive income

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

(t) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in the consolidated statements of income. Provisions are not recognized for future operating losses. Provisions are measured 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.

(u) Leases

The Company leases certain property and equipment. The Company does not have substantially all of the risks and rewards of ownership and these leases are therefore classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

(v) Subordinated debt

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

(w) Changes in accounting policies and disclosures

New and amended standards adopted

The following standards have been adopted for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the consolidated financial statements:

(i) IAS 1, *Presentation of Financial Statements*

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments require the Company to group OCI items by those that will be subsequently reclassified to net income and those that will not be reclassified. These changes did not result in any adjustments to OCI or comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definitions of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries.

(iii) IFRS 12, *Disclosures of interests in other entities*

IFRS 12, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. Additional disclosures have been made in the financial statement notes to comply with this disclosure.

(iv) IFRS 13, *Fair Value Measurement*

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

In accordance with IFRS 13, at January 1, 2013, the Company began measuring the fair value of its Level 1 financial assets at closing market prices. The change in fair value from bid price to closing price did not result in any significant measurement adjustments as at January 1, 2013.

IFRS 13 also requires enhanced disclosures when fair value is used for measurement. Such enhanced disclosures are included in these consolidated financial statements.

(v) IAS 19R, *Employee Benefits*

IAS 19R requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits expense. Instead, post-employment benefits expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in OCI. The Company immediately recognizes in AOCI all pension adjustments recognized in OCI. AOCI amounts related to IAS 19R will remain in AOCI and will not be reclassified to net income in the future. The Company recognizes interest expense (income) on net post-employment benefits liabilities (assets) in operating expense in the consolidated statements of income.

The Company adopted the amendments of IAS 19R retrospectively and adjusted its opening equity as at January 1, 2012 to recognize previously unamortized actuarial gains and losses. The operating expense for the comparable period has been adjusted to reflect the accounting changes for defined benefit plans. The adjustments for each financial statement line item affected are presented in the tables below. Post-employment assets are included in other assets and post-employment liabilities are included in other liabilities on the consolidated statements of financial position.

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

Impact of IAS 19R accounting policy changes on the consolidated statements of financial position:

	December 31, 2012			January 1, 2012		
	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes
Assets						
Pension asset	$ 20,283	$ (20,283)	$ -	$ 20,513	$ (17,061)	$ 3,452
Deferred tax assets	36,741	9,695	46,436	49,545	3,337	52,882
All other assets	16,605,315	2,930	16,608,245	14,529,525	-	14,529,525
Total assets	$ 16,662,339	$ (7,658)	$ 16,654,681	$ 14,599,583	$ (13,724)	$ 14,585,859
Liabilities						
Employee benefit liabilites (note 16)	$ 23,517	$ 36,928	$ 60,445	$ 27,790	$ 20,401	$ 48,191
Deferred tax liabilities	76,971	(5,299)	71,672	41,000	(6,432)	34,568
All other liabilities	12,594,219	2,927	12,597,146	11,595,584	-	11,595,584
Total liabilities	12,694,707	34,556	12,729,263	11,664,374	13,969	11,678,343
Equity						
Capital stock	372,388	-	372,388	272,388	-	272,388
Retained earnings	2,758,108	6,863	2,764,971	2,304,961	-	2,304,961
AOCI	151,077	(42,739)	108,338	142,044	(23,522)	118,522
Total E-L Financial shareholders' equity	3,281,573	(35,876)	3,245,697	2,719,393	(23,522)	2,695,871
Non-controlling interests in subsidiaries	633,808	(5,065)	628,743	158,605	(3,317)	155,288
Participating policyholders' interests	52,251	(1,273)	50,978	57,211	(854)	56,357
Total equity	3,967,632	(42,214)	3,925,418	2,935,209	(27,693)	2,907,516
Total liabilities and equity	$ 16,662,339	$ (7,658)	$ 16,654,681	$ 14,599,583	$ (13,724)	$ 14,585,859

The Company reports pension asset and employee benefit liabilities as other assets and other liabilities respectively in the consolidated statements of financial position.

Impact of IAS 19R accounting policy changes on the consolidated statements of income:

	Year ended December 31, 2012		
	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes
Revenue	$ 1,664,540	$ -	$ 1,664,540
Expenses			
Operating	150,464	294	150,758
All other expenses	1,029,109	-	1,029,109
Net income before taxes	484,967	(294)	484,673
Income taxes from continuing operations	42,714	(79)	42,635
Net income from continuing operations	442,253	(215)	442,038
Net income from discontinued operations	40,262	7,013	47,275
Net Income	482,515	6,798	489,313
Less: Participating policyholders' loss	(6,597)	(13)	(6,610)
Non-controlling interests in net income	16,371	(52)	16,319
E-L Financial shareholders' net income	$ 472,741	$ 6,863	$ 479,604
Basic earnings per share ("EPS") attributable to E-L Financial common shareholders			
EPS from continuing operations	$ 106.41	$ (0.04)	$ 106.37
EPS from discontinued operations	10.25	1.79	12.04
Basic EPS from net income	$ 116.66	$ 1.75	$ 118.41
Diluted EPS attributable to E-L Financial common shareholders			
EPS from continuing operations	$ 91.17	$ (0.03)	$ 91.14
EPS from discontinued operations	8.49	1.47	9.96
Diluted EPS from net income	$ 99.66	$ 1.44	$ 101.10

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

Impact of IAS 19R accounting policy changes on the consolidated statements of comprehensive income:

	Year ended December 31, 2012		
	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes
Net income	$ 482,515	$ 6,798	$ 489,313
OCI (OCL), net of tax			
Net post-employment benefit liabilities	-	(9,427)	(9,427)
All other comprehensive income	(4,573)	-	(4,573)
OCL from continuing operations	(4,573)	(9,427)	(14,000)
OCI from discontinued operations	12,645	(11,892)	753
Total OCI (OCL)	8,072	(21,319)	(13,247)
Comprehensive income	490,587	(14,521)	476,066
Non-controlling interests and participating policyholders' loss in comprehensive income	8,813	(2,167)	6,646
E-L Financial shareholders' comprehensive income	$ 481,774	$ (12,354)	$ 469,420

(x) Future accounting changes

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statement. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9’s full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when issued.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

3. Discontinued operations

During the second quarter of 2013, the Company announced that it had entered into an agreement to sell the shares of its wholly-owned subsidiary, The Dominion, to The Travelers Companies, Inc. Following receipt of all regulatory approvals, the sale closed on November 1, 2013 for total proceeds of $1.08 billion and resulted in a gain upon sale of $266,368 after closing adjustments and tax.

The Dominion has been classified as a discontinued operations, the results of which are set out below. The 2013 net income and other comprehensive income results represent the 10-month period ending November 1, 2013, the date of sale. Results reported for 2012 represent the 12-month period ending December 31, 2012.

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

(a) Analysis of net income from discontinued operations

	2013	2012
Revenue		
Net premiums earned	**$ 972,284**	$ 1,209,265
Investment and other income	**82,560**	101,186
Investment gains	**120,256**	35,109
	1,175,100	1,345,560
Expenses		
Gross claims and benefits	**836,170**	906,106
Claims and benefits ceded to reinsurers	**(72,122)**	(22,148)
	764,048	883,958
Commissions	**190,174**	221,432
Other expenses	**162,127**	179,340
	1,116,349	1,284,730
Income before tax of discontinued operations	**58,751**	60,830
Income tax expense	**13,993**	13,555
Income after tax of discontinued operations	**44,758**	47,275
Gain on sale of discontinued operations [1]	**306,848**	-
Tax expense of sale of discontinued operations	**40,480**	-
After tax gain on sale of discontinued operations	**266,368**	-
Net income from discontinued operations, including gain on sale	**$ 311,126**	$ 47,275

[1] Included in the gain on sale is a $46,816 reclassification of The Dominion's unrealized fair value increase on AFS investments from AOCI to the consolidated statements of income. The remaining $13,008 in AOCI, which relates to the remeasurement of defined benefit plans, has been reclassified to retained earnings.

(b) Other comprehensive income (loss) related to discontinued operations

	2013	2012
Other comprehensive income ("OCI") (loss) ("OCL")		
Items that may be reclassified subsequently to net income:		
Unrealized fair value increase on AFS investments	**$ 22,198**	$ 50,284
Income tax	**(5,891)**	(13,270)
	16,307	37,014
Realized gain on AFS investments reclassified to net income	**(122,449)**	(34,555)
Income tax	**33,783**	10,186
	(88,666)	(24,369)
Net unrealized fair value increase on AFS investments	**(72,359)**	12,645
Items that will not be reclassified to net income:		
Remeasurement of defined benefit plans	**11,575**	(16,188)
Income tax	**(2,917)**	4,296
Net remeasurement of defined benefit plans	**8,658**	(11,892)
(OCL) OCI from discontinued operations	**$ (63,701)**	$ 753

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

(c) Analysis of assets and liabilities disposed

	November 1, 2013
Assets	
Cash and cash equivalents	$ 58,024
Invested assets	2,709,843
Accrued investment income	21,861
Premiums receivable	323,518
Reinsurance recoverable	139,338
Deferred tax assets	48,641
Other assets	130,237
Property and equipment	5,667
Intangible assets	91,741
	3,528,870
Liabilities	
Accounts payable	-
Insurance contract liabilities	2,593,478
Income and other taxes payable	6,945
Other liabilities	117,020
	2,717,443
Net assets disposed	$ 811,427

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

4. Operating segments

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

The following is an analysis of significant items of profit and loss by operating segment, operating segment assets and operating segment liabilities, reconciled to the Company's consolidated financial statements. The accounting policies applied by the operating segments are the same as those for the Company as a whole.

Year ended December 31, 2013	Continuing Operations			Discontinued	Total
	E-L Corporate	Empire Life	Total	The Dominion	
Net premiums	$ -	$ 821,544	$ 821,544		
Investment and other income	68,529	390,748	459,277		
Share of income of associates	59,178	-	59,178		
Fair value change in fair value through profit or loss investments	598,150	(303,592)	294,558		
Realized gain on available for sale investments including impairment write downs	12,827	(2,488)	10,339		
Net claims and benefits	-	(421,251)	(421,251)		
Change in investment contracts provision	-	(945)	(945)		
Commissions	-	(168,257)	(168,257)		
Operating expenses	(14,244)	(143,350)	(157,594)		
Interest expense	-	(18,977)	(18,977)		
Premium taxes	-	(14,011)	(14,011)		
Income taxes	(85,130)	(29,385)	(114,515)		
Non-controlling interests in subsidiaries and participating policyholders' interest	(132,976)	(19,817)	(152,793)		
Segment shareholders' net income	$ 506,334	$ 90,219	$ 596,553	$ 311,126	$ 907,679

Year ended December 31, 2013	Continuing Operations			Discontinued	Total
	E-L Corporate	Empire Life	Total	The Dominion	
Segment assets [1]	$ 3,805,082	$ 12,080,410	$ 15,885,492	$ -	$ 15,885,492
Segment liabilities	$ 198,301	$ 11,124,312	$ 11,322,613	$ -	$ 11,322,613

[1] Segment assets for E-L Corporate include investments in associate assets of $288,884.

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

Year ended December 31, 2012 (Restated)	Continuing Operations			Discontinued	Total
	E-L Corporate	Empire Life	Total	The Dominion	
Net premiums	$ -	$ 813,532	$ 813,532		
Investment and other income	27,952	362,572	390,524		
Share of income of associates	83,945	-	83,945		
Fair value change in fair value through profit or loss investments	145,026	55,746	200,772		
Realized gain on available for sale investments including impairment write downs	5,121	28,405	33,526		
Excess of fair value of net assets acquired over purchase price	142,241	-	142,241		
Net claims and benefits	-	(826,353)	(826,353)		
Change in investment contracts provision	-	(754)	(754)		
Commissions	-	(174,839)	(174,839)		
Operating expenses	(6,703)	(144,055)	(150,758)		
Interest expense	-	(13,697)	(13,697)		
Premium taxes	-	(13,466)	(13,466)		
Income taxes	(29,097)	(13,538)	(42,635)		
Non-controlling interests in subsidiaries and participating policyholders' interest	-	(9,709)	(9,709)		
Segment shareholders' net income	$ 368,485	$ 63,844	$ 432,329	$ 47,275	$ 479,604

Restated	Continuing Operations			Discontinued	Total
	E-L Corporate	Empire Life	Total	The Dominion	
Segment assets [1]	$ 2,336,241	$ 10,915,798	$ 13,252,039	$ 3,402,642	$ 16,654,681
Segment liabilities	$ 94,440	$ 10,042,150	$ 10,136,590	$ 2,592,673	$ 12,729,263

[1] Segment assets for E-L Corporate include investments in associate assets of $230,994.

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

5. Investments – corporate

Invested assets

Investments – corporate includes the investments held at the corporate level of E-L Financial. The following table provides a comparison of carrying values by class of asset as at December 31:

Carrying value	2013			2012		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Short-term investments						
Canadian federal government	$ 19,857	$ -	$ 19,857	$ 4,205	$ -	$ 4,205
Canadian provincial governments	60,775	-	60,775	11,532	-	11,532
Canadian corporate	45,721	-	45,721	17,790	-	17,790
Total short-term investments	126,353	-	126,353	33,527	-	33,527
Preferred shares - Canadian	1,058	-	1,058	1,058	-	1,058
Total preferred shares	1,058	-	1,058	1,058	-	1,058
Common shares and units						
Canadian	637,777	-	637,777	477,176	-	477,176
U.S.	1,354,997	98,045	1,453,042	674,808	78,277	753,085
Europe	668,166	59,174	727,340	438,168	38,361	476,529
Other	419,535	16,312	435,847	272,309	12,960	285,269
Total common shares and units	3,080,475	173,531	3,254,006	1,862,461	129,598	1,992,059
Total	$ 3,207,886	$ 173,531	$ 3,381,417	$ 1,897,046	$ 129,598	$ 2,026,644

The Company’s investment in common shares and units includes shares of public and private companies and units in pooled funds.

The carrying value of the Company’s investments in the pooled funds at December 31, 2013 is $392,707 (2012 - $327,812). The Company invests in pooled funds whose objectives range from achieving medium to long-term capital growth and whose investment strategies do not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Company’s investments are susceptible to market price risk arising from the underlying investments in the funds. The Company holds redeemable units in each of its investee funds that entitle the holder to a proportional share in the respective fund’s net assets. The Company has the right to request redemption of its investments in pooled funds on a monthly basis.

The Company’s maximum exposure to loss from its interests in the investment funds is equal to the total fair value of its investments.

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

Investments – measured at fair value

The table below provides a comparison of the fair value hierarchy by class of asset as at December 31:

Fair value	**2013**			**2012**		
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value
Short-term investments						
Canadian federal government	$ 19,857	$ -	$ 19,857	$ 4,205	$ -	$ 4,205
Canadian provincial governments	60,775	-	60,775	11,532	-	11,532
Canadian corporate	45,721	-	45,721	17,790	-	17,790
Total short-term investments	126,353	-	126,353	33,527	-	33,527
Preferred shares - Canadian	-	1,058	1,058	-	1,058	1,058
Total preferred shares	-	1,058	1,058	-	1,058	1,058
Common shares and units						
Canadian	1,170	636,607	637,777	1,065	476,458	477,523
U.S.	1,251,461	201,581	1,453,042	601,504	151,709	753,213
Europe	635,259	92,081	727,340	399,107	77,060	476,167
Other	240,476	195,371	435,847	110,150	175,006	285,156
Total common shares and units	2,128,366	1,125,640	3,254,006	1,111,826	880,233	1,992,059
Total	$ 2,254,719	$ 1,126,698	$ 3,381,417	$ 1,145,353	$ 881,291	$ 2,026,644

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and no Level 3 investments during the year ended December 31, 2013 or during the year ended December 31, 2012.

Impairment

Based on the impairment review as at December 31, 2013, an impairment loss on AFS investments of $nil before tax (2012 - $1,371) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

For analysis of the Company's risks arising from financial instruments, refer to Note 25 – Investment risk management.

6. Investments – insurance operations

The carrying and fair values of the investments held by the insurance operations are provided below:

A detailed analysis of the investments of the insurance operations is provided in Notes 6 (a) and (b).

	Carrying value		Fair value	
	2013	2012	2013	2012
Empire Life	$ 5,803,051	$ 5,562,917	$ 5,807,832	$ 5,574,735
The Dominion		2,659,569		2,659,569
Total	$ 5,803,051	$ 8,222,486	$ 5,807,832	$ 8,234,304

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

(a) Empire Life

Invested assets

The following table provide a comparison of carrying values by class of asset as at December 31:

Carrying value	2013			2012		
Asset category	Fair value through profit or loss	Available for sale	Total carrying value	Fair value through profit or loss	Available for sale	Total carrying value
Short-term investments						
Canadian federal government	$ 7,325	$ -	$ 7,325	$ 3,991	$ -	$ 3,991
Canadian corporate	18,123	-	18,123	12,449	-	12,449
Total short-term investments	25,448	-	25,448	16,440	-	16,440
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	59,870	197,160	257,030	66,391	186,822	253,213
Canadian provincial and municipal governments	2,034,681	252,445	2,287,126	2,249,585	188,453	2,438,038
Total government bonds issued or guaranteed	2,094,551	449,605	2,544,156	2,315,976	375,275	2,691,251
Canadian corporate bonds by industry sector:						
Financial services	495,906	472,359	968,265	544,631	229,081	773,712
Infrastructure	219,882	24,241	244,123	239,394	36,418	275,812
Utilities	224,452	34,962	259,414	204,291	7,348	211,639
Communications	2,194	37,014	39,208	-	9,986	9,986
Energy	49,294	35,535	84,829	37,559	31,898	69,457
Consumer staples	67,223	9,903	77,126	55,124	7,163	62,287
Industrials	40,343	6,469	46,812	44,935	6,404	51,339
Health care	54,621	5,246	59,867	75,944	5,881	81,825
Materials	9,712	-	9,712	21	-	21
Total Canadian corporate bonds	1,163,627	625,729	1,789,356	1,201,899	334,179	1,536,078
Total bonds	3,258,178	1,075,334	4,333,512	3,517,875	709,454	4,227,329
Preferred shares - Canadian	224,313	69,905	294,218	213,879	107,442	321,321
Total preferred shares	224,313	69,905	294,218	213,879	107,442	321,321
Common shares						
Canadian						
Common	476,742	65,778	542,520	471,080	53,877	524,957
Real estate limited partnership units	41,081	-	41,081	8,853	-	8,853
U.S.	116,699	-	116,699	13,755	523	14,278
Other	15,090	-	15,090	8,676	-	8,676
Total common shares	649,612	65,778	715,390	502,364	54,400	556,764
Loans and receivables:						
Mortgages	-	-	299,353	-	-	302,531
Loans on policies	-	-	44,855	-	-	43,071
Policy contract loans	-	-	90,275	-	-	95,461
Total	$ 4,157,551	$ 1,211,017	$ 5,803,051	$ 4,250,558	$ 871,296	$ 5,562,917

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

Investments – measured at fair value

The table below provides a comparison of the fair value hierarchy by class of asset as at December 31:

Fair value	2013			2012		
Asset category	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value	Quoted Prices (Level 1)	Significant other observable inputs (Level 2)	Total fair value
Short-term investments						
Canadian federal government	$ -	$ 7,325	$ 7,325	$ -	$ 3,991	$ 3,991
Canadian corporate	-	18,123	18,123	-	12,449	12,449
Total short-term investments	-	25,448	25,448	-	16,440	16,440
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	-	257,030	257,030	-	253,213	253,213
Canadian provincial and municipal governments	-	2,287,126	2,287,126	-	2,438,038	2,438,038
Total government bonds issued or guaranteed	-	2,544,156	2,544,156	-	2,691,251	2,691,251
Canadian corporate bonds by industry sector:						
Financial services	-	968,265	968,265	-	773,712	773,712
Infrastructure	-	244,123	244,123	-	275,812	275,812
Utilities	-	259,414	259,414	-	211,639	211,639
Communications	-	39,208	39,208	-	9,986	9,986
Energy	-	84,829	84,829	-	69,457	69,457
Consumer staples	-	77,126	77,126	-	62,287	62,287
Industrials	-	46,812	46,812	-	51,339	51,339
Health care	-	59,867	59,867	-	81,825	81,825
Materials	-	9,712	9,712	-	21	21
Total Canadian corporate bonds	-	1,789,356	1,789,356	-	1,536,078	1,536,078
Total bonds	-	4,333,512	4,333,512	-	4,227,329	4,227,329
Preferred shares - Canadian	294,218	-	294,218	321,321	-	321,321
Total preferred shares	294,218	-	294,218	321,321	-	321,321
Common shares						
Canadian						
Common	542,520	-	542,520	524,957	-	524,957
Real estate limited partnership units	-	41,081	41,081	-	8,853	8,853
U.S.	116,699	-	116,699	14,278	-	14,278
Other	15,090	-	15,090	8,676	-	8,676
Total common shares	674,309	41,081	715,390	547,911	8,853	556,764
Loans and receivables:						
Mortgages	-	304,134	304,134	-	314,349	314,349
Loans on policies	-	44,855	44,855	-	43,071	43,071
Policy contract loans	-	90,275	90,275	-	95,461	95,461
Total	$ 968,527	$ 4,839,305	$ 5,807,832	$ 869,232	$ 4,705,503	$ 5,574,735

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

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

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and no Level 3 investments during the year ended December 31, 2013 or during the year ended December 31, 2012.

Impairment

AFS investments

Based on the impairment review as at December 31, 2013, a year to date impairment loss on AFS investments of $409 before tax (2012 - $2,138) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

Loans and receivables

Assets classified as mortgages and policy contract loans have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $7,076 (2012 - $8,186) have been reduced by an allowance for impairment of $2,374 (2012 - $2,878) and policy contract loans with a recorded value of $813 (2012 - $813) have been reduced by an allowance for impairment of $556 (2012 - $533).

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

(b) The Dominion

Invested assets

The following table provide a comparison of carrying values by class of asset as at December 31:

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

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. All preferred and common shares are classified as Level 1 in the fair value hierarchy with the remaining investments classified as Level 2. There were no transfers between Level 1 and Level 2 and no Level 3 investments during the year ended December 31, 2012.

Impairment

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

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

For analysis of the risks arising from financial instruments, refer to Note 25 – Investment risk management.

7. Investments in associates

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

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

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

	2013		2012	
	Ownership	Carrying value	Ownership	Carrying value
Algoma	34.7%	$ 168,747	34.7%	$ 153,812
Economic	24.0%	120,137	24.0%	77,182
Total		$ 288,884		$ 230,994

The following table details the movement during the year:

	2013	2012
Balance, beginning of the year	$ 230,994	$ 419,784
Purchase of additional shares	-	11,400
Income (loss) recorded in the statements of income and comprehensive income:		
Share of income	45,317	68,073
Net impairment reversals	13,861	15,872
	59,178	83,945
Share of other comprehensive income (loss)	4,016	(1,199)
	63,194	82,746
Elimination of the cost of reciprocal shares	-	(703)
Dividends received during the year	(5,304)	(12,236)
Redesignation of:		
United	-	(320,757)
United's investment in Algoma	-	50,760
Balance, end of the year	$ 288,884	$ 230,994

The Company's associates are measured using the equity method. As at December 31, 2013, the fair value of the investments in associates was $351,241 (2012 - $266,247). Fair value is based on the close price for each investment multiplied by the corresponding number of common shares held.

Impairment

The Company has a significant investment in Economic which it regards as an associate and accounts for using the equity method. Economic has historically traded at significant discounts to its net asset values.

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

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

Based on an impairment review of all of the investments in associates as at December 31, 2013, an impairment reversal of $13,861 on Economic (2012 – $15,872) has been recorded in net income. The recoverable amount for Economic is the investment's fair value less costs to sell based on the fair value calculation noted above. Previously recognized impairment losses on Economic were reversed as a result of an increase in the investment's recoverable amount.

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

	Algoma		Economic	
	2013	2012	2013	2012
Cash and cash equivalents	$ 216,057	$ 124,494	$ 451	$ 1,179
Other current assets	87,147	143,130	753,870	494,764
Non-current assets	629,150	608,128	-	-
	932,354	875,752	754,321	495,943
Current liabilities	68,808	64,444	465	354
Non-current liabilities	302,460	312,854	53,473	23,980
	371,268	377,298	53,938	24,334
Net assets	$ 561,086	$ 498,454	$ 700,383	$ 471,609

	Algoma		Economic	
	2013	2012	2013	2012
Revenue	$ 491,499	$ 527,871	$ 268,638	$ 70,075
Net income	$ 39,694	$ 42,156	$ 235,950	$ 57,800
Other comprehensive income (loss)	32,104	(5,113)	-	-
Total comprehensive income	$ 71,798	$ 37,043	$ 235,950	$ 57,800

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

	Algoma		Economic		United	Total	
	2013	2012	2013	2012	2012	2013	2012
Dividends received	$ 3,781	$ 2,173	$ 1,523	$ 1,550	$ 8,513	$ 5,304	$ 12,236

At December 31, 2013 Algoma has commitments of $165,995 (Economic - $nil) mainly relating to the purchase of five new vessels and its employee future benefit plans.

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

8. Investment and other income

Investment and other income from continuing operations is comprised of the following:

	2013	2012
Interest income on:		
Available for sale	$ 39,751	$ 29,033
Fair value through profit or loss investments	147,733	143,128
Loans and receivables	23,469	24,098
Fee income	150,589	125,218
Dividend income	97,412	68,598
Other	323	449
Total	$ 459,277	$ 390,524

	2013	2012
Interest income received	$ 142,982	$ 126,780
Dividend income received	93,148	68,920
Total	$ 236,130	$ 195,700

9. Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid instruments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition. Cash and cash equivalents are measured at fair value under Level 1 or Level 2 of the fair value hierarchy. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

	2013	2012
Cash from continuing operations		
Cash	$ 66,076	$ 38,873
Cash equivalents	253,673	245,592
Total from continuing operations	$ 319,749	284,465
Cash from discontinued operations*		84,062
Total		$ 368,527

* Cash from discontinued operations includes bank indebtedness of $25,471.

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

Cash and cash equivalents	Level 1	Level 2	Level 3	Total fair value
December 31, 2013	$ 66,076	$ 253,673	$ -	$ 319,749
December 31, 2012	$ 39,164	$ 329,363	$ -	$ 368,527

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

10. Property and equipment

Property and equipment are comprised of:

	Office Properties	Furniture and equipment	Computer hardware	Total
Cost				
As at January 1, 2013	$ 47,535	$ 25,915	$ 2,746	$ 76,196
Sale of discontinued operations	(3,830)	(6,875)	(2,746)	(13,451)
	43,705	19,040	-	62,745
Additions	1,854	2,822	-	4,676
Disposals	(3,780)	-	-	(3,780)
As at December 31, 2013	41,779	21,862	-	63,641
Accumulated amortization				
As at January 1, 2013	(18,108)	(17,498)	(1,991)	(37,597)
Sale of discontinued operations	1,637	5,113	1,991	8,741
	(16,471)	(12,385)	-	(28,856)
Amortization	(2,462)	(2,550)	-	(5,012)
Disposals	-	-	-	-
As at December 31, 2013	(18,933)	(14,935)	-	(33,868)
Net book value as at December 31, 2013	$ 22,846	$ 6,927	$ -	$ 29,773

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

Office properties consist of land, building and leasehold improvements on leased or Corporate owned office space.

There were no asset impairments in 2013 or 2012.

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

11. Intangible assets

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

	2013			2012		
	Software	Intangibles under development	Total	Software	Intangibles under development	Total
Cost						
As at January 1	$ 140,305	$ 18,708	$ 159,013	$ 119,799	$ 9,943	$ 129,742
Sale of discontinued operations	(100,366)	(18,708)	(119,074)	-	-	-
	39,939	-	39,939	119,799	9,943	129,742
Additions - internally developed	-	-	-	-	19,850	19,850
Additions - purchased	2,912	-	2,912	8,307	1,192	9,499
Transfers	-	-	-	12,199	(12,199)	-
Disposals	-	-	-	-	-	-
Retirements	-	-	-	-	(78)	(78)
As at December 31	42,851	-	42,851	140,305	18,708	159,013
Accumulated amortization						
As at January 1	(78,087)	-	(78,087)	(64,197)	-	(64,197)
Sale of discontinued operations	40,219	-	40,219	-	-	-
	(37,868)	-	(37,868)	(64,197)	-	(64,197)
Amortization	(666)	-	(666)	(13,890)	-	(13,890)
Disposals	-	-	-	-	-	-
As at December 31	(38,534)	-	(38,534)	(78,087)	-	(78,087)
Net book value as at December 31	$ 4,317	$ -	$ 4,317	$ 62,218	$ 18,708	$ 80,926

Software is mainly comprised of software development costs related to assets that have been put in use. Intangibles under development are comprised of software development costs related to assets that have not yet been put in use.

There were no asset impairments in 2013 or 2012.

12. Other assets

Other assets are comprised of the following:

	2013	2012
Other assets from continuing operations		
Due from reinsurance companies	$ 20,165	$ 11,080
Other	31,940	12,685
Total from continuing operations	$ 52,105	23,765
Other assets from discontinued operations		19,673
Total		$ 43,438

All amounts are expected to be recovered within one year of the consolidated statement of financial position date. These financial instruments are short-term in nature and their fair values approximate carrying value.

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

13. Segregated funds

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

	2013	2012
Cash and cash equivalents	$ 81,079	$ 192,581
Short-term investments	171,903	150,376
Bonds	1,347,287	1,204,163
Common and preferred shares	4,414,766	3,510,274
Net other assets	27,885	28,127
	6,042,920	5,085,521
Less segregated funds held within general fund investments	(88,412)	(71,129)
Total	$ 5,954,508	$ 5,014,392

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

	2013			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 61,504	$ 19,575	$ -	$ 81,079
Common and preferred shares	4,414,766	-	-	4,414,766
Bonds	-	1,347,287	-	1,347,287
Short-term investments	-	171,903	-	171,903
	$ 4,476,270	$ 1,538,765	$ -	$ 6,015,035

	2012			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 40,329	$ 152,252	$ -	$ 192,581
Common and preferred shares	3,510,274	-		3,510,274
Bonds	-	1,204,163	-	1,204,163
Short-term investments	-	150,376	-	150,376
	$ 3,550,603	$ 1,506,791	$ -	$ 5,057,394

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

	2013	2012
Segregated funds - beginning of the year	$ 5,014,392	$ 4,415,318
Additions to segregated funds:		
Amount received from policyholders	1,410,240	1,421,084
Interest	52,730	45,478
Dividends	111,164	101,066
Other income	23,971	18,221
Net realized gains on sale of investments	273,734	-
Net unrealized increase in fair value of investments	438,167	180,651
	2,310,006	1,766,500
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,184,549	1,016,535
Net realized losses on sale of investments	-	2,819
Management fees and other operating costs	168,058	138,346
	1,352,607	1,157,700
Net change in segregated funds held within general fund investments	(17,283)	(9,726)
Segregated funds - end of the year	$ 5,954,508	$ 5,014,392

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

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

Segregated fund products issued by Empire Life contain death and maturity guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees. The impact of market price fluctuations in segregated funds on the shareholders' net income is disclosed in the risk management Note 26.

14. Other liabilities

Other liabilities are comprised of the following:

	2013	2012
Other liabilities from continuing operations		
Employee benefit liabilities (Note 16)	$ 18,836	$ 35,278
Due to reinsurance companies	8,630	7,674
Premiums paid in advance	2,579	2,446
Other	36,326	35,939
Total from continuing operations	$ 66,371	81,337
Other liabilities from discontinued operations		76,303
Total		$ 157,640

Included is other liabilities from discontinued operations is $25,167 relating to employee benefit liabilities. Of the above total, $18,836 (2012 - $60,445) is expected to be settled more than one year after the statement of financial position date. All other amounts are short-term in nature and their fair value approximates carrying value. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value.

15. Subordinated debt

On May 31, 2013, Empire Life issued $300,000 principal amount of unsecured subordinated debentures with a maturity date of May 31, 2023. The interest rate from May 31, 2013 until May 31, 2018 is 2.87%, and the rate from May 31, 2018 until May 31, 2023 will be equal to the 3-month Canadian Deposit Offering Rate plus 1.05%. Interest is payable semi-annually at May 31 and November 30 until May 31, 2018, quarterly thereafter with the first such payment on August 31, 2018. Empire Life may call for redemption of the debentures on or after May 31, 2018 subject to the approval of OSFI. The holders have no right of redemption.

On May 20, 2009, Empire Life issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of May 20, 2019. The interest rate from May 20, 2009 until May 20, 2014 is 6.73%, and the rate from May 20, 2014 until May 20, 2019 will be equal to the 3-month Canadian Deposit Offering Rate plus 5.75%. Interest is payable semi-annually at May 20 and November 20 until May 20, 2014, quarterly thereafter with the first such payment on August 20, 2014. Empire Life may call for redemption of the debentures at any time subject to the approval of OSFI. The holders have no right of redemption.

The debentures are subordinated in right of payment to all policy contract liabilities of Empire Life and all other senior indebtedness of Empire Life.

The fair value of these debentures was $500,609 as of December 31, 2013 (2012 - $211,432), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

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

16. Employee benefit plans

E-L Financial sponsors pension and other post-employment benefit plans for eligible employees. The Empire Life Insurance Company Staff Pension Plan ("the Plan") consists of a defined benefit component and a 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 enrolments in the defined benefit component effective October 1, 2011. The company has supplemental arrangements that provide defined pension benefits in excess of statutory limits. 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 defined benefit component of the Plan is a final salary pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' age, length of service and their salary in the final years leading up to retirement. Pensions generally do not receive inflationary increases once in payment. In the past, however, the Company has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of the Company's Board of Directors. The pension benefit payments are from trustee-administered funds.

The Company's staff pension benefit plan is governed by the Pension Benefits Act of the Province of Ontario, as amended, which requires that the plan sponsor fund the defined benefits determined under the plan. The Company's supplemental employee retirement benefit plan is governed by provisions of the plan, which requires that the plan sponsor fund the defined benefits determined under the plan. The amount of funds contributed to these defined benefit pension plans by Empire Life is determined by an actuarial valuation of the plans.

Under the defined contribution component, contributions are made in accordance with the provisions of the Plan documents.

A pension committee, composed of selected senior members of Empire Life's management and that of its parent, E-L Financial Corporation, oversees the Pension Plan of the Company. The Pension Committee reports quarterly to the Human Resources Committee of the Board of Directors. The Audit Committee of the Board of Directors approves the audited annual financial statements of the Pension Plan.

The other post-employment benefit plan provides for health, dental care, and other future defined benefits to qualifying employees and retirees. It is unfunded and the Company meets the benefit payment obligation as it falls due.

In the absence of an active market for post-employment benefit obligations, the actuarially determined values provide a reasonable approximation of their fair value. Plan assets are carried at fair value.

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

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2013	2012 (Restated)	2013	2012 (Restated)
Present value of obligations	$ (185,725)	$ (201,447)	$ (10,101)	$ (34,645)
Fair value of plan assets	176,990	175,647	-	-
Post-employment benefit liability	$ (8,735)	$ (25,800)	$ (10,101)	$ (34,645)

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

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

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

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2013	2012 (Restated)	2013	2012 (Restated)
Present Value of Defined Benefit Obligation				
Opening defined benefit obligation	$ 201,447	$ 172,503	$ 34,645	$ 36,402
Current service cost	7,758	6,025	458	1,255
Past service cost	286	629	-	-
Interest expense	8,175	8,606	1,227	1,747
Decrease in net income before tax	16,219	15,260	1,685	3,002
Remeasurements				
Loss/(gain) from changes in demographic assumptions	7,423	-	1,146	(3,438)
(Gain)/loss from changes in financial assumptions	(18,523)	20,528	(6,039)	16,370
Actuarial loss (gain) from member experience	3,495	(1,597)	469	(592)
(Increase) decrease in OCI before tax	(7,605)	18,931	(4,424)	12,340
Plan transfers / curtailments	(15,443)	(130)	(20,889)	(16,045)
Employee contributions	2,132	2,328	-	-
Benefits paid	(11,025)	(7,445)	(916)	(1,054)
Closing defined benefit obligation	$ 185,725	$ 201,447	$ 10,101	$ 34,645

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

	Pension Benefit Plans	
	2013	2012 (Restated)
Fair Value of Defined Benefit Assets		
Fair value of Plan assets at beginning of year	$ 175,647	$ 164,166
Interest income	7,161	8,265
Administrative expense	(649)	(650)
Increase in net income before tax	6,512	7,615
Remeasurements		
Return on plan assets, excluding amounts included in interest income	17,356	2,268
Plan transfers / curtailments	(21,382)	(102)
Employer contributions	7,750	6,817
Employee contributions	2,132	2,328
Benefits paid	(11,025)	(7,445)
Fair value of Plan assets at end of year	$ 176,990	$ 175,647

The actual return on plan assets net of administrative expense, for the year ended December 31, 2013 was a gain of $23,868 (2012 - $9,883).

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

The following table summarizes income, expense and remeasurement activity for the Company's defined benefit plans for the years ended:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2013	2012 (Restated)	2013	2012 (Restated)
Operating expense				
Current service cost	$ 7,758	$ 6,025	$ 458	$ 1,255
Past service cost	286	629	-	-
Interest expense	8,175	8,606	1,227	1,747
Interest income on plan assets	(7,161)	(8,265)	-	-
Administrative expense	649	650	-	-
Decrease in net income before tax	$ 9,707	$ 7,645	$ 1,685	$ 3,002
Remeasurements				
Return on plan assets, excluding amounts included in interest income	$ (17,356)	$ (2,268)	$ -	$ -
Loss/(gain) from changes in demographic assumptions	7,423	-	1,146	(3,438)
(Gain)/loss from changes in financial assumptions	(18,523)	20,528	(6,039)	16,370
Actuarial loss (gain) from member experience	3,495	(1,597)	469	(592)
(Increase) decrease in OCI before tax	$ (24,961)	$ 16,663	$ (4,424)	$ 12,340

Based on the chart above, The Dominion's increase in OCI of $11,575 (2012 – decrease of $16,188) before taxes has been reported on OCL (OCI) from continuing operations, net of taxes in the consolidated statements of comprehensive income. Refer to note 3 for additional information.

Defined benefit plan expense is recognized in operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $4,684 (2012 - $4,816) of pension expense related to the defined contribution component of the pension plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2014 are approximately $7,721 (2013 - $6,353).

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

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

	Pension Assets			
	2013		2012	
				(Restated)
Equity				
Canadian				
Consumer discretionary	$ 6,789	4%	$ 3,968	3%
Consumer staples	3,565	2%	1,490	1%
Energy	11,094	6%	15,304	10%
Financials	22,213	13%	15,858	10%
Industrials	4,541	3%	3,159	2%
Information technology	4,168	2%	1,879	1%
Materials	4,148	2%	5,689	4%
Telecom services	1,434	1%	3,808	2%
Utilities	2,022	1%	1,424	1%
Total Canadian	59,974	34%	52,579	34%
Foreign	45,008	25%	28,026	18%
Total Equity	104,982	59%	80,605	52%
Debt				
Government of Canada	10,485	6%	7,135	5%
Provincial governments	12,503	7%	14,412	9%
Municipal governments	1,167	1%	1,139	1%
Canadian corporations	26,399	15%	29,483	19%
Total Debt	50,554	29%	52,169	34%
Cash, cash equivalent, accruals	4,392	2%	5,741	4%
Mutual Funds	8,038	5%	6,682	4%
Other	9,024	5%	8,891	6%
Total fair value of assets from continuing operations	$ 176,990	100%	$ 154,088	100%

At December 31, 2013, the fair value of assets from discontinued operations was $ 21,559.

All equities are classified as level 1 and all debt is classified as level 2 in the fair value hierarchy.

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

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Post-Employment Benefits Plans	
	2013	2012 (Restated)	2013	2012 (Restated)
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	4.8%	4.2%	4.8%	4.0%
Discount rate - net interest	4.2%	5.0%	4.1%	4.7%
Inflation assumption	2.0%	2.0%	n/a	n/a
Rate of compensation increase	3.5%	3.6%	n/a	n/a
Future pension increases	3.0%	3.0%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	n/a	n/a	8.1%	8.0%
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	2030

Assumptions relating to future mortality to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

	2013	2012
Number of years:		
Males aged 65 at measurement date	22.49	19.76
Females aged 65 at measurement date	24.52	22.13
Males aged 40 at measurement date	23.58	21.63
Females aged 40 at measurement date	25.37	23.14

The following table provides the sensitivity of the defined benefit pension and other post-employment benefit obligations to changes in significant actuarial assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the Post-employment benefit liability recognized within the statement of financial position.

	Impact on Pension Benefits		Impact on Other Post-Employment Benefits	
	Increase	Decrease	Increase	Decrease
Discount rate	$ (23,197)	$ 31,632	$ (991)	$ 1,192
Rate of compensation increase	9,035	(7,856)	n/a	n/a
Health care cost increase	n/a	n/a	1,410	(1,093)
Claim rate	n/a	n/a	932	(934)
Life expectancy	$ 4,492	$ (4,801)	$ 499	$ (519)

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

The weighted average duration of the defined benefit obligations:

	2013
Staff pension plan	14
Supplemental employee retirement plan	12
Other post-employment benefits	13

Risks

Through its defined benefit pension plan and the other post-employment benefit plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan obligations are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The pension plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while producing volatility and risk in the short-term.

The following tables summarize the potential impact on OCI of a change in global equity markets regarding assets in Empire Life's pension plan. 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.

	As at December 31, 2013			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' other comprehensive income	$ 6,492	$ (6,492)	$ 12,983	$ (12,983)

	As at December 31, 2012			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' other comprehensive income	$ 5,021	$ (5,021)	$ 10,044	$ (10,044)

The following tables summarize the potential impact on OCI as a result of change in interest rates on assets in Empire Life's pension plan.

	As at December 31, 2013			
	100bps Increase	100bps Decrease	200bps Increase	200bps Decrease
Shareholders' other comprehensive income	$ (1,767)	$ 2,140	$ (3,158)	$ 4,656

	As at December 31, 2012			
	100bps Increase	100bps Decrease	200bps Increase	200bps Decrease
Shareholders' other comprehensive income	$ (2,040)	$ 2,206	$ (3,930)	$ 4,575

Changes in bond yields

A decrease in corporate bond yields will increase plan obligations, although this will be partially offset by an increase in the value of the plans' bond holdings.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

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

In case of the funded plans, the Pension Committee ensures that the investment positions are managed within an asset-liability matching ("ALM") framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plan. Within this framework, the Company's ALM objective is to match assets to the pension obligations by investing in equities as well as in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Plan has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Plan invests primarily in Canadian bonds and equities through its' ownership of units in Empire Life segregated and mutual funds. The Company believes that equities offer the best returns over the long term with an acceptable level of risk.

The last triennial valuation was completed in August 2013, as at December 31, 2012.

The next triennial valuation is due to be completed as at December 31, 2015 for both the defined benefit component of the pension plan and the other post-employment benefits.

17. Insurance contract liabilities and reinsurance liabilities

Insurance contract liabilities are comprised of:

	2013			2012		
	Gross	Reinsurance liabilities	Net	Gross	Reinsurance assets (liabilities)	Net
Empire Life						
Insurance contract liabilities	$ 4,214,272	$ (284,627)	$ 4,498,899	$ 4,399,317	$ (244,808)	$ 4,644,125
The Dominion						
Unearned premiums				591,323	9,069	582,254
Unpaid and unreported claims provision				1,858,688	68,292	1,790,396
				2,450,011	77,361	2,372,650
Total				$ 6,849,328	$ (167,447)	$ 7,016,775

Empire Life

The change in insurance contract liabilities and reinsurance assets (liabilities) related to Empire Life is outlined below:

	2013		
	Insurance contract liabilities	Reinsurance assets/(liabilities)	Net
Balance, beginning of year	$ 4,399,317	$ (244,808)	$ 4,644,125
Changes in methods and assumptions			
- improvements in mortality/morbidity experience	(74,377)	(59,800)	(14,577)
- update of lapse assumptions	42,242	(1,450)	43,692
- update of investment return assumptions	(1,433)	3,402	(4,835)
- model enhancements	(13,912)	2,184	(16,096)
- other changes	(7,600)	(140)	(7,460)
Normal changes			
- new business	112,569	2,491	110,078
- in-force business	(242,534)	13,494	(256,028)
Balance, end of year	$ 4,214,272	$ (284,627)	$ 4,498,899

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

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

The improvements in mortality/morbidity experience for both 2013 and 2012 are primarily related to favourable mortality experience for individual life business.

The refinements to lapse rate assumptions for 2013 are primarily related to lapse rate assumptions for renewable term products, which take into account the Canadian Institute of Actuaries' Renewal Lapse Experience Study for 10-Year Term Insurance (released January 2014) as well as Empire Life's emerging lapse rate experience.

The update in investment return assumptions for 2013 was primarily due to the impact of the higher interest rate environment on the initial reinvestment rate assumption, which was offset by lower ultimate reinvestment rates related to continuing decreases in the moving average of Government of Canada long-term bond rates over the last 10 years.

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

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

The model enhancements for 2013 are related to the refinements of CALM valuation models for universal life 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 participating business.

The model enhancements for 2012 are related to the refinements of CALM valuation models for individual non-participating insurance business. In addition, refinements were made to the valuation models for group LTD claims.

Other changes for 2013 relate primarily to lower unit costs for individual life insurance business developing in recent expense studies. There were several other minor changes to assumptions and methodologies.

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

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

Empire Life expects to pay $4,018,709 (2012 - $4,264,345) of insurance contract liabilities and $288,153 (2012 - $245,543) of reinsurance liabilities more than one year after the consolidated statements of financial position date.

The Dominion

Unpaid and unreported claims

The change in The Dominion's 2012 unpaid and unreported claims, net of reinsurance, is outlined below:

	2012
Balance, beginning of year	$ 1,667,436
Change in prior year's claims estimates	(9,663)
Interest cost	37,189
Impact of change in discount rate	7,658
Current year claims incurred	848,774
Claims payments	(760,998)
Balance, end of year	$ 1,790,396

The 2012 reduction in prior year claims estimates of $9,663 consists of: $7,558 unfavourable development in automobile lines, most of which reflects worse than expected experience in bodily injury claims from recent accident years partly offset by better than expected experience in accident benefits claims; $9,432 favourable development in personal property claims reflecting better than expected experience from recent accident years; and $7,789 favourable development in commercial property and casualty claims, arising mainly from better than expected experience for commercial property claims estimates related to recent accident years.

For additional analysis of the Company's insurance risk please see Note 26 – Insurance risk management.

18. Share capital

	Authorized	Issued and outstanding	2013	2012
Preferred shares				
Series A Preference shares (1)	402,733	258	$ 1	$ 1
First Preference shares, Series 1 (2a)	unlimited	4,000,000	100,000	100,000
First Preference shares, Series 2 (2b)	unlimited	4,000,000	100,000	100,000
First Preference shares, Series 3 (2c)	unlimited	4,000,000	100,000	100,000
Common shares	unlimited	4,019,409	72,387	72,387
Total			$ 372,388	$ 372,388

1. The Series A Preference shares are convertible, at the shareholder's option, in perpetuity into common shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum. The Series A Preference shares and common shares are each entitled to one vote per share.

2. The First Preference shares of each series rank pari passu with every other series of First Preference shares and in priority to the common shares and the Series A Preference shares of the Company with respect to the payment of dividends and the distribution of assets on the dissolution, liquidation or winding up of the Company. As of December 31, 2013 there were three series of First Preference shares outstanding; the First Preference shares, Series 1, the First Preference shares, Series 2 and the First Preference shares, Series 3. The First Preference shares are non-voting unless there has been a

specified default in the payment of dividends or to approve of modifications attending to the series of shares.

(a) The First Preference shares, Series 1 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.325 per share per annum. On and after October 17, 2013, the Company may redeem for cash the First Preference shares, Series 1 in whole or in part, at the Company's option at $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

    On and after October 17, 2009, the Company may convert all or any part of the outstanding First Preference shares, Series 1 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(b) The First Preference shares, Series 2 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.1875 per share per annum. On and after October 17, 2013, the Company may redeem for cash the First Preference shares, Series 2 in whole or in part, at the Company's option at $25.50 if redeemed thereafter and prior to October 17, 2014, $25.25 if redeemed thereafter and prior to October 17, 2015 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

    On and after October 17, 2011, the Company may convert all or any part of the outstanding First Preference shares, Series 2 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

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

    On and after April 17, 2017, the Company may convert all or any part of the outstanding First Preference shares, Series 3 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

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

Dividends during the year are as follows:

	2013	2012
First Preference shares, Series 1, $1.325 per share	$ 5,300	$ 5,300
First Preference shares, Series 2, $1.1875 per share	4,750	4,750
First Preference shares, Series 3, $1.375 (2012 - $1.0868) per share	5,500	4,347
Common shares, $0.50 per share	2,010	2,010
Common shares, $75.00 per share	301,456	-
Total	$ 319,016	$ 16,407

For the year, the Company paid out a regular dividend of $0.50 per share on each of its common shares. In addition, on December 16, 2013, the Company paid a special cash dividend of $75.00 per common share related to the sale of The Dominion.

When calculated on the basis of the Adjusted Common Shares, the total common dividend is $296,633 (2012 – $1,964).

The following dividends were declared by the Board of Directors at their meeting on March 4, 2014, with a record and payable date of April 1, 2014 and April 17, 2014, respectively:

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

19. Reinsurance

In the normal course of business, the insurance subsidiary cedes reinsurance to other insurers in order to limit exposure to significant losses. Reinsurance does not relieve the insurance subsidiary of its primary liability as the originating insurer. Reinsurance agreements typically renew annually and the terms and conditions are reviewed by senior management and reported to the insurance subsidiary's Board. Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that the Company considers credit-worthy. Based on ongoing monitoring, the insurance subsidiary assesses the credit risk associated with the reinsurance recoverable to be insignificant.

Most of Empire Life's individual life reinsurance (with the exception of its Term 10 and Term 20 products) is on an excess basis (with a $500 retention limit), meaning Empire Life retains 100% of the risk up to $500 in face amount. With Empire Life's Term 10 and 20 products, however, all amounts over $100 are reinsured at an 80% level, meaning that Empire Life retains only 20% of the risk on coverage over $100, to a maximum retention of $500. In addition Empire Life also retains a maximum of $100 on individual accidental death policies. Retention amounts are lower for group business but are in addition to those noted for individual business. Effective January 1, 2013 Empire Life has entered into a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement. As a result of this reinsurance strategy, Empire Life utilizes lower than average levels of reinsurance, compared to Canadian competitors, and absorbs the resultant negative impact on short-term earnings due to additional sales strain. Empire Life does not have any assumed reinsurance business.

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

20. Operating expenses

Operating expenses from continuing operations include the following:

	2013	2012
Salary and benefits expense	$ 87,130	$ 87,836
Rent, leasing and maintenance	11,147	9,818
Professional services	14,698	18,580
Amortization of assets	5,678	3,673
Other	38,941	30,851
	$ 157,594	$ 150,758

21. Income taxes

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

	2013	2012
Income taxes at statutory rate	$ 228,895	$ 121,342
Variance as a result of:		
Tax-paid dividends	(13,606)	(15,158)
Non-taxable portion of gains	(88,660)	(70,565)
Substantively enacted changes in income tax rates	-	2,017
Net refundable dividend taxes	(12,913)	-
Other	799	4,999
Income taxes expense	$ 114,515	$ 42,635

The current enacted corporate tax rates as they impact Company in 2013 stand at 26.5% (2012 – 26.5%). This rate is expected to remain at 26.5% through to 2016.

The Company's income taxes (recovery) expense from continuing operations includes provisions for current and deferred taxes as follows:

	2013	2012
Current	$ 36,576	$ 17,784
Deferred	77,939	24,851
Income taxes expense	$ 114,515	$ 42,635

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

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

	2013	2012
Deferred taxes (payable) from continuing operations		
Investments	$ (170,233)	$ (89,283)
Insurance contract liabilities	(11,298)	(14,281)
Losses recoverable in future years	16,942	25,210
Post-employment benefit plans	4,903	9,895
Other	7,201	2,217
Total from continuing operations	$ (152,485)	(66,242)
Deferred taxes receivable from discontinued operations		41,006
Total		$ (25,236)
Recorded as:		
Deferred tax assets	$ 2,400	$ 46,436
Deferred tax liabilities	(154,885)	(71,672)
	$ (152,485)	$ (25,236)

Of the above total, $167,241 (2012 – $58,662) is expected to be paid more than one year after the reporting date.

Deferred tax (recovery) expense included in net income from continuing operations represents movements on the following items:

	December 31, 2013	December 31, 2012
Investments	$ 80,950	$ 20,400
Insurance contract liabilities	(2,983)	1,649
Losses recoverable in future years	8,268	(1,006)
Post-employment benefit plans	4,992	(3,463)
Other	(4,984)	(1,683)
Net change	$ 86,243	$ 15,897
Net change reported in:		
Consolidated statements of income:		
Income tax expense	$ 77,939	$ 24,851
Net income from discontinued operations, including gain on sale	3,441	-
Other comprehensive income:		
Income taxes	4,863	(8,954)
	$ 86,243	$ 15,897

During 2013, the Company and its subsidiaries paid income tax instalments and assessments totalling $47,839 (2012 – $5,033) and received income tax refunds totalling $723 (2012 – $21,073).

Under the Income Tax Act, the Company is subject to a 33 1/3% refundable tax on certain Canadian dividends received. This tax will be refunded to the Company at a rate of $1.00 for every $3.00 of taxable dividends paid in the future. The accumulated amount of refundable dividend tax at December 31, 2013 amount to $nil (2012 – $11,118). The potential benefit of this amount has not been reflected in these consolidated financial statements.

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

22. Earnings per share ("EPS")

Basic and diluted earnings per share

Earnings per share has been calculated by dividing net income (loss) attributed to equity shareholders of the Company for the year, less dividends on First Preference shares, by the amount equal to the total number of Adjusted Common Shares outstanding of 4,019,667 less 92,754 (2012 – 90,758), which is the Company's proportionate interest in its own common shares held indirectly through its associate, Economic.

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

	2013	2012
Basic earnings per common share:		
Net income from continuing operations	$ 596,553	$ 432,329
Less: Dividends on First Preference shares	(15,550)	(14,397)
Net income from continuing operations after dividends on First Preference shares	581,003	417,932
Net income from discontinued operations	311,126	47,275
Net income available to shareholders	$ 892,129	$ 465,207
Weighted average number of Adjusted Common Shares outstanding	3,926,913	3,928,909
Basic earnings per common share from continuing operations	$ 147.95	$ 106.37
Basic earnings per common share from discontinued operations	79.23	12.04
Basic earnings per common share from net income	$ 227.18	$ 118.41
Diluted earnings per common share:		
Net income from continuing operations	$ 596,553	$ 432,329
Net income from discontinued operations	311,126	47,275
Net income available to shareholders	$ 907,679	$ 479,604
Weighted average number of Adjusted Common Shares outstanding	3,926,913	3,928,909
Dilutive effect of the conversion of First Preference shares into common shares	776,879	814,719
Weighted average number of diluted Adjusted Common Shares outstanding	4,703,792	4,743,628
Diluted earnings per common share from continuing operations	$ 126.82	$ 91.14
Diluted earnings per common share from discontinued operations	66.15	9.96
Diluted earnings per common share from net income	$ 192.97	$ 101.10

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

23. Other comprehensive income (loss)

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

	2013	2012
		Restated
Items that may be reclassified subsequently to net income:		
Net unrealized fair value increase (decrease) on available for sale investments		
Unrealized fair value increase on AFS investments	$ 21,647	$ 19,404
Less: Realized gain on AFS investments reclassified to net income	(9,173)	(23,471)
	12,474	(4,067)
Net gain on derivatives designated as cash flow hedges		
Gain on derivatives designated as cash flow hedges	-	-
Add: Amortization of loss on derivatives designated as cash flow hedges reclassified to net income	574	534
	574	534
Share of other comprehensive income (loss) of associates	3,820	(1,040)
	16,868	(4,573)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	12,779	(9,427)
Share of OCL of associates	(299)	-
	12,480	(9,427)
OCI, net of tax	$ 29,348	$ (14,000)

OCL and OCI are presented net of income taxes. The following tax amounts are included in each component of OCL and OCI.

	Income Taxes	
	2013	2012
		Restated
Items that may be reclassified subsequently to net income:		
Net unrealized fair value increase (decrease) on available for sale investments		
Unrealized fair value increase on AFS investments	$ (610)	$ 4,506
Less: Realized gain on AFS investments reclassified to net income	(1,166)	(10,055)
	(1,776)	(5,549)
Net gain on derivatives designated as cash flow hedges		
Gain on derivatives designated as cash flow hedges	-	-
Add: Amortization of loss on derivatives designated as cash flow hedges reclassified to net income	275	257
	275	257
Share of other comprehensive income (loss) of associates	584	(159)
	(917)	(5,451)
Items that will not be reclassified to net income:		
Net remeasurement of defined benefit plans	5,031	(3,388)
Share of OCL of associates	(89)	-
	4,942	(3,388)
Total expense in OCI (OCL)	$ 4,025	$ (8,839)

In anticipation of the issuance of unsecured subordinated debentures (Note 15), Empire Life entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative was accounted for as a hedging item in a cash flow hedging relationship.

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

24. Commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments recognized as an expense from continuing operations in 2013 were $2,661 (2012 - $15,835). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013	2012
2013	$ -	$ 19,190
2014	2,500	17,636
2015	1,872	15,214
2016	1,570	14,140
2017	1,283	11,641
2018 (and thereafter for 2012 comparatives)	1,016	46,093
2019 and thereafter	1,577	-
	$ 9,818	$ 123,914

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2013 there were $11,430 (2012 - $41,281) of outstanding commitments to purchase units in a real estate limited partnership. These commitments are payable on demand and mature within 5 months.

25. Investment risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to financial risks arising from its investing activities. For investment risks, the Company is exposed to credit risk, liquidity risk and various market risks including interest rate risk, market price fluctuations and foreign currency risk.

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

E-L Corporate:

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

In addition to the investments in equities and fixed income securities, the E-L Corporate segment includes the net assets of United, a closed-end investment subsidiary and significant investments in Economic, also a closed-end investment company and Algoma, a shipping company, which are accounted for as investments in associates.

The Company maintains a strategy of long-term growth through investments in common equities. The externally managed portfolios of equities and fixed income securities have mandates in which the manager's performance is evaluated. Their performance is reviewed by management on a monthly basis, evaluating performance over a period of time relative to their mandate. On a quarterly basis, the Board of Directors reviews the E-L Corporate investment portfolio, including investment performance benchmarked against the relevant indices, exposure by geographic distribution, investment concentration and significant movements in the investment portfolios during the period.

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

Empire Life and The Dominion:

The investments held by the insurance subsidiaries consist of equity and fixed income securities, mortgages and loans. Declines in investment values could significantly reduce Empire Life's and The Dominion's net income, shareholder's equity and the adequacy of their regulatory capital. Empire Life and The Dominion have investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. Investing activities are subject to the Insurance Companies Act (Canada) and to Investment Guidelines established by the Investment Committee of the individual company's Board of Directors. Empire Life's and The Dominion's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

Credit risk

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

	2013	2012 [1]
Cash and cash equivalents	$ 319,749	$ 393,998
Short-term investments	151,801	54,954
Bonds	4,333,512	6,299,589
Preferred shares	295,276	445,722
Mortgages	299,353	302,531
Loans on policies	44,855	43,071
Policy contract loans	90,275	95,461
Commercial loans	-	24,455
Accrued investment income	26,598	35,941
Reinsurance recoverable	-	77,361
Premiums receivables	20,849	330,476
Total	$ 5,582,268	$ 8,103,559

[1] Including exposures for discontinued operations

Mortgages, loans on policies, policy contract loans and commercial loans are fully or partially secured. The Company has made provisions in its consolidated statements of financial position for credit losses. Provisions have been made partly through reduction in the value of the assets and partly through a provision in insurance contract liabilities (refer to Note 17).

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

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

	E-L Corporate		Empire Life		The Dominion
	2013	2012	2013	2012	2012
Holdings of fixed income securities* in the ten issuers (excluding federal governments) to which the operating segments had the greatest exposure	$ 96,743	$ 30,380	$ 2,803,115	$ 2,935,033	$ 769,725
Percentage of the segment's total cash and investments	2.8%	1.6%	46.6%	50.4%	27.8%
Exposure to the largest single issuer of corporate bonds	$ nil	$ nil	$ 130,849	$ 139,727	$ 103,175
Percentage of the segment's total cash and investments	0.0%	0.0%	2.2%	2.4%	3.7%

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

a) Investments in bonds and debentures

The following tables provide the composition of the fixed income portfolio classified by the issuer's credit rating:

Empire Life:

	2013		2012	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	$ 290,418	7%	$ 266,832	6%
AA	1,190,826	27%	1,274,244	30%
A	2,257,568	52%	2,253,538	54%
BBB	594,134	14%	432,535	10%
BB	566	0%	180	0%
Total	$ 4,333,512	100%	$ 4,227,329	100%

The Dominion:

	2012	
	Fair value	% of Fair value
AAA	$ 391,935	19%
AA	566,538	27%
A	936,981	45%
BBB	176,806	9%
Total	$ 2,072,260	100%

b) Preferred shares

Empire Life's preferred share investments are all issued by Canadian companies with 33% (2012 – 86%) of these investments rated as P1 as at December 31, 2013 and the remaining 67% (2012 – 14%) rated as P2.

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

In 2012 the Dominion's preferred share investments were all issued by Canadian companies with 83% of these investments rated as P1 as at December 31, 2012 and the remaining 17% rated as P2.

c) Commercial loans

In 2012, the Dominion provided commercial loans to certain independent insurance brokers with whom it conducts business. These loans were provided on market terms. Substantially all of these loans were secured by the related borrower's assets, the primary asset being the borrower's book of business. In some instances, guarantees may have been provided by parties related to the borrower in order to enhance the credit quality of the loan. The loan portfolio was subject to internal financial and credit analysis, approval limits and security requirements established by the investment guidelines.

d) Mortgages and policy contract loans

Empire Life's mortgages in the province of Ontario represent the largest concentration with $296,025 or 99% (2012 – $298,432 or 99%) of the total mortgage portfolio. As at December 31, 2013 loans and receivables past due but not impaired are $nil (2012 – $6,248).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

E-L Corporate:

The majority of the Corporate Investment's obligations relate to its ability to pay annual dividend commitments of $17,560 (2012 – $16,407) and to meet ongoing operating expenses as they fall due. In most years, the Company is able to fund these obligations by its cashflow from net investment income earned on its investment portfolio. In addition to this, the Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cashflow deficiencies.

Composition of E-L Corporate's liquidity:

	2013	2012
Cash and cash equivalents	$ 102,399	$ 36,083
Short-term investments	126,353	33,527
Total	$ 228,752	$ 69,610

Empire Life:

The majority of Empire Life's obligations relate to its policy liabilities the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, morbidity). The remaining obligations of Empire Life relate to its subordinated debt (refer to Note 15 – subordinated debt) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

The actuarial and other policy liability amounts are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

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

The expected maturity profile of Empire Life's significant undiscounted financial liabilities and contractual commitments as at December 31 are shown in the following tables:

2013	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 155,439	$ 231,802	$ 441,101	$ 14,533,202	$ 15,361,544
Investment contract liabilities	2,729	6,294	5,085	3,068	17,176
Subordinated debt	214,218	32,883	326,235	-	573,336
Other liabilities	164,239	-	18,317	-	182,556
Total liabilities	$ 536,625	$ 270,979	$ 790,738	$ 14,536,270	$ 16,134,612
Operating lease commitments	3,011	5,670	1,577	-	10,258
Total	$ 539,636	$ 276,649	$ 792,315	$ 14,536,270	$ 16,144,870

2012	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 107,176	$ 297,823	$ 386,770	$ 14,021,133	$ 14,812,902
Investment contract liabilities	2,919	7,866	5,745	3,373	19,903
Subordinated debt	13,460	53,482	218,927	-	285,869
Other liabilities	141,206	-	34,953	-	176,159
Total liabilities	$ 264,761	$ 359,171	$ 646,395	$ 14,024,506	$ 15,294,833
Operating lease commitments	2,722	6,238	1,937	-	10,897
Total	$ 267,483	$ 365,409	$ 648,332	$ 14,024,506	$ 15,305,730

Empire Life is able to fund its short term cash outflows by generating positive cash flow from operations and from investment income earned on its investment portfolio. The Asset-Liability Management Committee, which meets regularly, monitors the matched position of Empire Life's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Empire Life maintains a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2013, 4.0% (2012 – 4.6%) of cash and investments were held in these shorter duration investments.

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

Empire Life	2013		2012	
	Fair value	% of fair value	Fair value	% of fair value
1 year or less	$ 61,367	1%	$ 53,360	1%
1 - 5 years	658,374	15%	434,762	10%
5 - 10 years	492,778	11%	510,229	12%
Over 10 years	3,120,993	73%	3,228,978	77%
Total	$ 4,333,512	100%	$ 4,227,329	100%

The Dominion:

In 2012, unpaid and unreported claims liabilities were The Dominion's only significant long duration obligation. The remaining liabilities, including unearned premiums, accrued expenses and accounts payable, and premium taxes were generally due within one year or less.

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

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

	2012	
1 year or less	$ 443,706	25%
1 - 3 years	566,788	32%
3 - 5 years	358,748	20%
Over 5 years	421,154	23%
Total	$ 1,790,396	100%

The Dominion funded its short term cash outflows by generating positive cash flow from operations (in most years) and from investment income earned on its investment portfolio. As well, The Dominion maintained a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2012, 4.1% of cash and cash equivalents and investments were held in these shorter duration investments.

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

	2012	
	Fair value	% of fair value
1 year or less	$ 272,194	13%
1 - 3 years	660,612	32%
3 - 5 years	574,920	28%
5 - 10 years	464,382	22%
Over 10 years	100,152	5%
Total	$ 2,072,260	100%

Along with holding short duration investments, The Dominion maintained liquidity in its investment portfolio by managing the maturity profile to provide a steady cash flow from maturities and by holding high quality marketable investments that could easily be sold prior to maturity, if necessary.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are interest rate risk, market price fluctuations and foreign currency risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can result from many factors including general market volatility, or specific social, political or economic events. Changing interest rates have a direct impact on the fair value of the E-L Corporate and the insurance operations' fixed income investments, which total $4.3 billion at December 31, 2013 (2012 – $6.3 billion) on a consolidated basis. Rising interest rates will lead to declines in the fair value of these investments and falling interest rates will lead to increases in the fair value of these investments.

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

E-L Corporate and The Dominion

The following table provides the impact for E-L Corporate and The Dominion that a change in market interest rates would have on shareholders' net income and shareholders' OCI. This calculation is based on the estimated weighted-average maturity of the cash flows (net of tax) on the investments, assumes a parallel shift and holds all other variables constant.

2013	1% Increase	1% Decrease	2% Increase	2% Decrease
E-L Corporate				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	nil	nil	nil	nil

2012	1% Increase	1% Decrease	2% Increase	2% Decrease
E-L Corporate				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	nil	nil	nil	nil
The Dominion				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(54,669)	56,993	(107,119)	116,422

Unpaid and unreported claims and reinsurance recoverable were discounted in accordance with accepted actuarial practice in Canada. As a mitigating factor to the interest rate risk relating to The Dominion's bonds, The Dominion manages the average duration of its bond portfolio within a range that is consistent with the average duration of net unpaid claims liabilities established by the Investment Committee of the Board. Depending on market opportunities, there have been periods when the average bond duration has been extended beyond the liabilities' average duration in order to obtain higher yields at the longer end of the yield curve. At December 31, 2012, the weighed average bond modified duration of 3.6 years was 95% of the net unpaid and unreported claims weighed average modified duration of 3.8 years. The Dominion's fixed income investment managers proactively monitor market conditions and make portfolio mix adjustments in anticipation of significant market changes, within guidelines established by the Investment Committee. Although the range does not constitute strict asset and liability matching, the majority of unrealized gains and losses on bonds that are generated by changes in the market interest rates are substantially offset by changes in the carrying value of net unpaid claims on a discounted basis that are generated by changes in the claims discount rate (due to changes in the underlying market interest rates of the bond portfolio). The impact of a 100 basis point decrease (increase) in the weighted average discount rate was an increase (decrease) in the net unpaid and unreported claims carrying value of $57,125 and an increase (decrease) of $41,964 in net income, net of tax. This calculation is based on the estimated weighted average maturity of the cash flows (net of tax) on net claims, assumes a parallel shift and holds all other variables constant.

Empire Life

Empire Life has interest rate risk in its investments and in its products. Certain of Empire Life's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, Empire Life may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited; thereby adversely affecting Empire Life's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls, and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased policy surrenders. Fluctuations in interest rates may cause losses to Empire Life due to the need to reinvest or divest during periods of changing interest rates, which may force Empire Life to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on Empire Life's financial position and operating results.

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

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

2013	1% Increase	1% Decrease	2% Increase	2% Decrease
Empire Life				
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' OCI	(29,239)	36,231	(51,514)	79,485

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

b) Market price fluctuations

The Company maintains a strategy of long-term growth through investments in common equities as management believe that over long periods of time, common equities, as an asset class, will outperform fixed income instruments or balanced funds. The Company regularly reviews its portfolio and, while expecting and tolerating the volatility associated with such investments, attempts to mitigate its exposure to this risk through diversification.

The insurance operations manage market price risk exposure mainly through investment limits, oversight of Empire's investment managers which manage assets for both insurance operations, and in the case of The Dominion, oversight of the third party investment manager selected by its Investment Committee to manage its investments in equities. The Investment Committees of the insurance operations meet quarterly to review the composition and performance of managed assets. The investments are exposed to fair value changes and this exposure is not hedged.

E-L Corporate and The Dominion

The following table summarizes the potential impact on E-L Corporate and The Dominion of a change in global equity markets. E-L Corporate and The Dominion used a 10% increase or decrease in equity markets as such a change is considered to be a reasonably possible change in equity markets based on historic results and is a useful comparator as it is commonly used. E-L Corporate and The Dominion used a 20% increase or decrease in its equity market to illustrate that changes in equity markets in excess of 10% may result in both linear and non-linear impacts, and a 20% change in equity markets is a commonly used additional sensitivity factor.

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

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

	2013		2012	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Corporate Investments:				
Investments - corporate				
10% fluctuation	$ 221,005	$ 15,184	$ 124,452	$ 11,340
20% fluctuation	$ 442,010	$ 30,368	$ 248,904	$ 22,680
Investments in associates				
10% fluctuation	$ 12,194	$ -	$ 9,535	$ nil
20% fluctuation	$ 24,388	$ -	$ 19,070	$ nil
The Dominion				
10% fluctuation			$ nil	$ 31,920
20% fluctuation			$ nil	$ 63,840

Empire Life

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

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

The following table summarizes the potential impact on Empire Life of a change in global equity markets. Empire Life uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. Empire Life has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. For insurance operations, the effect on shareholders' net income includes the impact on FVTPL equity investments, segregated fund management fees and the impact on policy liabilities (other than segregated fund guarantee policy liabilities). For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

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

The amounts shown below for segregated fund guarantee policy liabilities represent the impact on shareholders' net income.

	2013		2012	
	Effect on shareholders' net income	Effect on shareholders' OCI	Effect on shareholders' net income	Effect on shareholders' OCI
Empire Life				
Insurance operations				
10% fluctuation	$ 16,028	$ 1,434	$ 14,402	$ 1,215
20% fluctuation	$ 32,074	$ 2,867	$ 28,818	$ 2,429
Segregated fund guarantees				
10% increase (decrease)	$ nil	$ nil	$ nil	$ nil
20% increase (decrease)	$ nil	$ nil	$ nil	$ nil

Concentration of common equity holdings

E-L Corporate's largest exposure to common equities relates to its investment in associates of $288,884 (2012 – $230,994) which represents 8% (2012 – 10%) of E-L Corporate's total assets.

	Empire Life		The Dominion
	2013	2012	2012
Exposure to the ten largest common share holdings	$ 260,775	$ 249,655	$ 104,534
As a percentage of the segment's total cash and investments	4.3%	4.3%	3.8%
Exposure to the largest single issuer of common shares	$ 41,081	$ 39,328	$ 12,231
As a percentage of the segment's total cash and investments	0.7%	0.7%	0.4%

c) Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's exposure to foreign currency is limited to its investments in common shares and units. The U.S. dollar represents the largest currency exposure. In addition, the Company has exposure to several currencies worldwide, reflecting the global diversity of its non-Canadian portion of its investments. These investments are managed by both Empire Life's in-house investment managers and third party investment managers, with decisions regarding exposure to currency risk being part of the investment manager's strategy.

A 10% fluctuation in the U.S. dollar would have the following impact:

E-L Corporate: Approximately $97,136 (2012 – $43,314) on shareholders' net income and $13,813 (2012 – $11,627) on other comprehensive income.

Empire Life: Approximately $1,139 (2012 – $1,018) on shareholders' net income and $nil (2012 – $nil) on other comprehensive income.

The Dominion: in 2012 approximately $nil on shareholders' net income and $9,760 on other comprehensive income.

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

26. Insurance risk management

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

The Company and insurance subsidiaries have created Risk Management Policies. Oversight and management of the policies falls under the authority of senior management, Risk Management Committees, where applicable, and the Board of the respective companies.

Empire Life

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

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net premium income	$ 159	$ 176	$ 307	$ 290	$ 356	$ 348	$ -	$ -	$ 822	$ 814
Fee and other income	140	115	8	7	1	1	2	2	151	125
Total revenues	$ 299	$ 291	$ 315	$ 297	$ 357	$ 349	$ 2	$ 2	$ 973	$ 939

Empire Life is in the business of measuring and managing risk, and this is reflected in the valuation of insurance contract liabilities. Empire Life is exposed to experience risk, product design and pricing risk, underwriting and claims risk and reinsurance risk arising from its insurance operations. Empire Life regularly evaluates its exposure to foreseeable risks through Dynamic Capital Adequacy Testing analysis.

Experience risk

The principal risk Empire Life faces under insurance contracts is the risk that experience on claims, policy lapses and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. Therefore, the objective of Empire Life is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

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

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

Policy liability assumptions are reviewed and updated at least annually, and the impact of changes in those assumptions is reflected in earnings in the year of the change. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of Empire Life's estimated shareholders' net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2013. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

(a) Mortality

Empire Life carries out annual internal studies of its own mortality experience. The valuation mortality assumptions are based on a combination of this experience and recent CIA industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders.

For non-participating insurance business, a 2% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $8,800 (2012– $9,900). For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $2,900 (2012 – $3,300).

(b) Investment returns

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

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

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

For the life insurance business, where the insurance contract liabilities have a longer term than most available bonds and mortgages, Empire Life's policy is to cover estimated insurance liability cash flows rigorously only for a rolling 20-year period. For investment income expected to be earned on reinvestments during the rolling 20-year period, Empire Life 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 Empire Life's expected future asset mix, which grades to the ultimate reinvestment rate assumption (described below) over the 20-year rolling period. In order to provide a margin that recognizes the mismatch for the 20-year rolling-period, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios.

The impact of an immediate change in interest rates can be found in Note 25 – Investment risk management. If the change in interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1% decrease in assumed reinvestment rates would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $27,200 (2012 – $37,700). This assumes no change in the ultimate reinvestment rate.

For investment income expected to be earned on reinvestments beyond the rolling 20-year period, Empire Life uses an ultimate reinvestment rate ("URR") assumption. Under Canadian actuarial standards of practice, the URR must not exceed the lesser of 5% or 90% of an interest rate based on a moving average of Government of Canada long-term bond rates over the last 10 years. The maximum prescribed URR decreased from 3.4% for 2012 to 3.2% for 2013. If long-term interest rates remain at current levels for the next year, then the URR is estimated to decrease to 3.1% for 2014. 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. Empire Life uses an URR of 3.0% (3.1% for 2012) 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 $9,700 ($13,200 for 2012).

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

For the life insurance business, Empire Life's policy is to also use equity investments to cover estimated insurance liability cash flows of non-participating life and universal life products beyond the 20-year rolling period. The value of liabilities supported by these equities depends on assumptions about the future level of equity markets. The best estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.2% (9.2% for 2012). Empire Life uses an assumption of 7.7% (8.1% for 2012) 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 25 – Investment risk management. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $68,300 (2012 – $68,700).

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

(c) Policy termination (lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of Empire Life's own internal termination studies (conducted annually) and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that an increase in lapses will occur at each renewal point, and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

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

For non-participating insurance and annuity business a 10% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing shareholders' net income by approximately $80,100 (2012 – $83,000). For products where fewer terminations would be financially adverse to Empire Life, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to Empire Life, the change is applied as an increase to the lapse assumption.

(d) Expenses

Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses, and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $4,500 (2012 – $5,000).

(e) Morbidity

Empire Life carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent CIA industry experience.

For individual critical illness business the incidence rates (or rates of accident or sickness) are the key assumption related to morbidity. An increase in incidence rates would result in an increase in the number of claims which increases expenditures and reduces shareholders' profits. For group long-term disability business the termination rates (or rates of recovery) are the key assumption related to morbidity. A decrease in termination rates would result in disability claims persisting longer which increases expenditures.

For non-participating insurance business where the morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $4,100 (2012 – $4,100).

Product design and pricing risk

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

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

Empire Life manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described below. Empire Life has established policy liabilities in accordance with standards set forth by the CIA. Experience studies (both company-specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities , as well as product design and pricing, take into account emerging experience. Empire Life has established an active capital management process that includes a Capital Management policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts Dynamic Capital Adequacy Testing and reports annually to Empire Life's Audit Committee on Empire Life's financial condition, outlining the impact on capital levels should future experience be adverse. Empire Life has also developed a Product Design and Pricing Policy for each of its major product lines. This policy, which is established by management and approved by Empire Life's Board of Directors, defines Empire Life's product design and pricing risk management philosophy. The policy sets out product design and pricing approval authorities, product concentration limits, and required product development and monitoring processes and controls.

Underwriting and claims risk

Empire Life is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of Empire Life's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

In addition to the risk management controls described above under Product Design and Pricing Risk, Empire Life also manages underwriting and claims risk through its Underwriting and Liability Management Policy for each of its major product lines. This policy is established by management and approved by Empire Life's Board of Directors. Together, these policies define Empire Life's underwriting and risk management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. Empire Life uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines in the underwriting and liability management policy and the Board approves changes to these retention limits.

Reinsurance risk

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

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Empire Life's net exposure to claims, as a result of reinsurance coverage, is outlined in Note 19 – Reinsurance.

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

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

The Dominion

The Dominion operates in a mature insurance market with products that are standard in nature and are very price sensitive. The Dominion underwrites general insurance products that are concentrated by product and by geographic region as follows:

Gross Premiums Written		2012	
By product:			
Automobile	$	782,747	62%
Personal Property		271,405	21%
Commercial Property & Casualty		219,371	17%
	$	1,273,523	100%
By geographic region:			
Ontario	$	958,303	75%
Western Canada		199,594	16%
Atlantic Canada		115,626	9%
Total	$	1,273,523	100%

During 2012 and for the period from January 1, 2013 until November 1, 2013 (the date of sale), The Company was exposed to The Dominion's pricing risk, underwriting and claims risk, and reinsurance risk arising from its insurance operations.

Pricing risk

The Dominion's insurance products are exposed to pricing risk, which is the risk that the price charged for the insurance coverage provided is, or becomes, insufficient to produce an adequate return for the shareholder. This risk may result from inadequate estimates of claims, competitive pressures, price regulation and other decisions made by regulators, as well as legislative changes to products that could result in claims costs that exceed pricing assumptions. To mitigate these risks, for personal lines and some commercial products, The Dominion sets premium rates based on actuarial analysis and consideration of competitive market forces. Personal automobile and some commercial automobile premium rates are subject to provincial regulatory approval which in most provinces involves varying degrees of review of supporting assumptions. Some commercial products are priced by individual underwriters, based on their experience and underwriting guidance, as part of the underwriting process. Mitigation of the foregoing insurance risks is dependent on an accurate understanding of claims costs and trends, in order to set appropriate prices and change insurance products.

Government regulation of automobile insurance

A significant portion of The Dominion's premiums are generated from underwriting automobile products which are impacted by the regulation of certain automobile premium rates by the governments of Alberta, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

Provincial government rate regulatory approval processes can result in the prescription of premium rates other than those The Dominion deems appropriate for the risks to be underwritten. The Dominion's exposure to such prescribed rates is increased in the provinces of Ontario, Alberta and Newfoundland where The Dominion is required to provide coverage for substantially all risks presented to it, commonly referred to as “take all comers” rules.

In addition, the automobile product is changed frequently by the provincial governments, which impacts on The Dominion’s ability to estimate claims and determine appropriate pricing assumptions.

The Dominion is also required by regulation to assume a share of automobile insurance underwritten through the Facility Association, which operates insurance pools in several provinces. Such pools are designed to insure higher risk drivers that might otherwise be unable to obtain insurance. The Dominion’s share of pool premiums and costs are generally determined in relation to its share of total automobile premiums written by all insurers in each relevant province. Pool premium rates are regulated by provincial governments.

For the year ending December 31, 2012, The Dominion’s net written automobile insurance premiums are $769,471, the majority of which are subject to rate regulation. The extent to which net premiums written would have differed in the absence of regulation is not determinable.

Amounts related to premiums subject to rate regulation are accounted for in these consolidated financial statements in the same manner as amounts related to other premiums.

The Dominion’s claims costs are influenced by provincial governments to the extent they pass legislation or regulations that specify the nature and extent of benefits and other requirements that impact claims costs and the settlement process.

Underwriting and claims risk

The Dominion is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Underwriting risk is mitigated through training, documented rules and guidelines, and internal quality control reviews. Underwriting rules and guidelines are amended based on knowledge gained through analysis of claims experience.

Claims risk is the exposure to loss caused by claims experience that is less favourable than expected. Actual claims experience and ultimate claims costs inevitably will vary from current estimates, possibly by material amounts. Many factors contribute to ultimate claims costs such as claims frequency and severity, claims payment trends, inflation and interest rates, changes in legislation and in the interpretation of liability by the courts and catastrophic events. Unexpected results could arise from, but are not limited to, such causes as an unforeseen large loss (e.g. a large commercial property fire loss), from an accumulation of many losses under a catastrophic event (e.g. property claims from an earthquake or forest fire) or due to significant trends of increasing claims frequency or severity that may be difficult to detect or to adequately price (e.g. underlying changes in trends for automobile bodily injury claims or weather patterns, that are masked by annual volatility). Catastrophes can be caused by hurricanes, windstorms, hailstorms and other types of severe weather, and by earthquakes, forest fires, explosions, crashes or derailments. Exposure to large losses and large accumulations from single events mainly is mitigated through the purchase of reinsurance. The Dominion remains fully exposed to adverse claims experience from the exposure it retains, net of reinsurance coverage. An inherent component of claims risk is the risk of misestimating claims provisions by a material amount. It is particularly challenging to understand and project changes in underlying claims trends, especially in claim categories that experience annual volatility that can mask underlying trends such as automobile bodily injury and accidents benefit claims. The degree of difficulty in estimating claims provisions also depends on the length of time between when an insured event occurs and when the resulting claim is ultimately settled. Short-tail claims, such as claims for property and automobile damage, are easier to estimate. Longer-tail claims, such as claims for automobile bodily injury and accident benefits, are more challenging to estimate, making the underlying claims trends difficult to identify on a timely basis. Provisions for bodily injury claims of prior years were increased in 2012, reflecting the fact that a higher than expected number of claims were opened relating to accidents that occurred in 2010, as well as a higher than expected frequency and severity of large losses for more recent accident years. The causes of this recent increase in claims frequency are difficult to objectively identify which contributes to the risk of misestimating claims provisions. The Dominion regularly conducts actuarial analysis, reviews trends arising in its claims settlement processes and monitors industry claims experience, in order to identify and respond to adverse trends. To mitigate future claims risk, The Dominion monitors and may change insurance coverage on future policies (where permitted by law), adjust prices or modify its claims settlement procedures.

Sensitivity to claims misestimation risk

Claims estimates are based upon a multitude of factors but are particularly sensitive to assumptions about claims frequency and severity, claims payment trends, inflation and interest rates and changes in legislation and in the interpretation of liability by the courts.

Significant correlations exist between assumptions that underlie claims estimates. A change in one assumption will usually have a non-linear impact on the claims estimates, partly due to the fact that a change in one assumption may cause changes in other correlated assumptions. As such, it is not meaningful to disclose the quantitative impact on The Dominion's financial results of a change in an individual assumption (except for the discount rate selection – please refer to the market risk section of Note 25 – Investment risk management for a discount rate sensitivity analysis). To demonstrate overall sensitivity of claims estimates, a 5% variation in the net unpaid and unreported claims carrying value is a reasonably likely net change that could result from changes in the assumptions that underlie claims estimates. A 5% increase (decrease) in the net unpaid and unreported claims carrying value (holding all other variables constant) at December 31, 2012 would result in an increase (decrease) in claims of $89,520 and a decrease (increase) in net income of $65,761, net of tax.

Reinsurance risk

The Dominion purchases reinsurance to protect capital and surplus from claims risk caused by large losses or by a large accumulation of losses relating to single events, such as catastrophes. Reinsurance treaties provide coverage in layers in which multiple reinsurers provide agreed upon portions of each layer's coverage. Treaties typically renew annually. The Dominion's reinsurance coverage is mainly in the form of excess of loss treaties that provide coverage above a deductible ("retention") up to the treaty limits, per claim or, in the case of the catastrophe treaty, for the aggregate loss of series of claims arising from a single event up to a specified limit. Management selects the catastrophe treaty limit based on analysis using several catastrophe models. The Dominion's net exposure to claims, as a result of reinsurance coverage, and its catastrophe limit are outlined in Note 19 – Reinsurance.

Reinsurance does not relieve The Dominion of its primary liability as the originating insurer and The Dominion is exposed to potential default by reinsurers for any ceded Reinsurance recoverable on claims incurred by The Dominion. The cost of reinsurance coverage fluctuates in a cyclical fashion based on global reinsurance results and competitive factors and as a result, some coverage may not be available for all risks and increased reinsurance prices may reduce The Dominion's operating margin. There is also the risk that an insurer's reinsurance program is not adequately designed to provide the protection intended.

To mitigate reinsurance risk, the terms and conditions of reinsurance treaties and reinsurer participations are reviewed and approved by a Reinsurance Committee established by management and are reported to The Dominion's Board. To mitigate credit risk, management reviews the financial performance and condition of reinsurers annually and only reinsurers that have a credit rating of "A-" or better are accepted in our reinsurance program as it renews each year.

The Dominion writes personal and commercial property business in British Columbia and, accordingly, is exposed to loss from a major earthquake. In addition to carrying appropriate reinsurance coverage, management mitigates earthquake exposure through underwriting guidelines, effective use of deductibles, adequate pricing and management of the earthquake exposure capacity allocated to each broker.

27. Guarantees and other contingencies

The Company's by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to The Company. The broad general nature of these indemnifications does not permit a reasonable estimate of the maximum potential amount of any liability.

In connection with its operations, The Company is from time to time named as a defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, The Company does not believe that it will incur any material loss or expense in connection with such actions.

The Company's subsidiary, Empire Life, operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the subsidiary. In certain cases, 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.

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

28. Related party transactions

The Company's investments in related parties includes investments in associates of $288,884 (2012 – $230,994) and investments in other related parties within investments – corporate of $733,990 (2012 – $553,478). The ultimate controlling party of the Company and of its related parties, is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

During the year, the Company invested $nil (2012 – $2,103) in its associates and $nil (2012 – $6,000) in other related parties in investments – corporate. These transactions were conducted in the ordinary course of operations are recorded at their exchange amount, representing the amount of consideration paid (or received) as established and agreed by the related parties.

The Company received administrative service fees of $292 (2012 – $1,107) from related parties during the year.

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

Compensation of key management personnel

Key management personnel are comprised of the directors of the Company and their remuneration is as follows:

	2013	2012
Salaries and other short-term benefits	$ 1,245	$ 1,127
Post-employment benefits	140	108
Balance at the end of the year	$ 1,385	$ 1,235

29. Subsidiaries

The principal subsidiaries are:

i) E-L Financial Services Limited (81.0% owned), whose operating subsidiary is The Empire Life Insurance Company (“Empire” or “Empire Life”) (98.3%). Empire underwrites life and health insurance policies and provides segregated funds, and annuity products. Empire Life’s mutual fund subsidiary, Empire Life Investments Inc. (wholly-owned) is a registered Investment Funds Manager.

ii) United Corporations Limited (“United”) (51.5% owned) which is a closed-end investment company traded on the Toronto Stock Exchange under the symbol “UNC”. United is an investment vehicle for long-term growth through investments in common equities. United has a reporting date of March 31, therefore, certain adjustments have been made for the purpose of inclusion in the Company’s consolidated financial statements.

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

	Empire Life		**United**	
	2013	2012	**2013**	2012
NCI percentage	**20.4%**	20.4%	**48.5%**	49.7%
Cash and cash equivalents	**$ 217,350**	$ 248,382	**$ 13,999**	$ 10,982
Investments	**5,803,051**	5,562,917	**1,206,090**	934,245
Segregated funds	**5,954,508**	5,014,392	**-**	-
Other	**105,501**	90,107	**3,995**	1,811
Total assets	**12,080,410**	10,915,798	**1,224,084**	947,038
Insurance and investment contract liabilities	**(4,187,925)**	(4,390,032)	**-**	-
Reinsurance liabilities	**(284,627)**	(244,808)	**-**	-
Deferred tax	**-**	-	**(46,921)**	(15,777)
Subordinated debt	**(498,343)**	(199,642)	**-**	-
Segregated funds	**(5,954,508)**	(5,014,392)	**-**	-
Other	**(198,909)**	(193,276)	**(719)**	(10,945)
Total liabilities	**(11,124,312)**	(10,042,150)	**(47,640)**	(26,722)
Net assets	**956,098**	873,648	**1,176,444**	920,316
Less: Participating policyholders' interests	**(50,822)**	(50,978)	**-**	-
Preferred shareholders' interest	**-**	-	**(7,747)**	(7,747)
Net assets available to common shareholders	**$ 905,276**	$ 822,670	**$ 1,168,697**	$ 912,569
NCI - common shareholders	**$ 184,128**	$ 167,313	**$ 567,302**	$ 453,683
NCI - preferred shareholders	**-**	-	**7,747**	7,747
Total NCI	**$ 184,128**	$ 167,313	**$ 575,049**	$ 461,430

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

During the year, the Company invested $9,051 (2012 - $9,297) in United. The following table summarizes the statements of income and comprehensive income:

	Empire Life		United
For the year ended	**2013**	2012	**2013**
Revenue	**$ 906,212**	$ 1,260,255	**$ 324,152**
Net income	**$ 110,036**	$ 73,553	**$ 273,945**
Other comprehensive income	**(3,486)**	(19,863)	**-**
Total comprehensive income	**$ 106,550**	$ 53,690	**$ 273,945**
Total comprehensive income allocated to NCI	**$ 21,722**	$ (6,646)	**$ 132,976**
Dividends paid to NCI	**$ 4,907**	$ -	**$ 8,648**

The following table summarizes the cash flows:

	Empire Life		United	
Summarized cash flows	**2013**	2012	**2013**	
Cash flows from operating activities	**$ 221,746**	$ 228,956	**$ (2,074)**	$ -
Cash flows from investing activities	**$ (509,168)**	$ (122,673)	**$ 22,908**	$ 10,982
Cash flows from financing activities	**$ 256,390**	$ (13,460)	**$ (17,817)**	$ -

Empire Life is registered under the *Insurance Companies Act*, Canada and is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Any dividends paid by Empire Life must comply with regulatory requirements.

Shareholders' entitlement to $4,554 (2012 – $4,624) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

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

30. Acquisition of United

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

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

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

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

31. Capital management

The Company's capital management process is designed to protect capital and build shareholder value over the long-term. Effective capital management includes maintaining sufficient liquidity to be able to pay dividends to the Company's preferred shareholders, satisfy issuer credit ratings requirements, as well as providing flexibility to pursue strategic opportunities. Total capital on a consolidated basis at December 31, 2013, consisted of E-L Financial shareholders' equity of $3,752,880 (2012 - $3,245,697), non-controlling interests in subsidiaries of $759,177 (2012 - $628,743) and participating policyholders' interests of $50,822 (2012 – $50,978).

Empire Life manages its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act, Canada as established by OSFI. Under the guidelines established by OSFI, Empire Life's regulatory capital consists of two tiers. Empire Life's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, subordinated debt, and negative reserves on policy liabilities. OSFI's supervisory target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2013 and December 31, 2012, Empire Life exceeded both of these requirements.

Glossary of Terms (Unaudited)

Accumulated Other Comprehensive Income ("AOCI")

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

Active Market

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

Available For Sale ("AFS") Financial Assets

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

Canadian Asset Liability Method ("CALM")

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

Canadian Institute of Actuaries ("CIA")

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

Chartered Professional Accountants of Canada ("CPA Canada")

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

Canadian Life and Health Insurance Association ("CLHIA")

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

Effective Interest Method

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

Fair Value Through Profit or Loss (“FVTPL”)

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

International Financial Reporting Standards (“IFRS”)

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

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.

Net Premiums Earned

Net premiums earned reflects the earning of net premiums written (gross premiums written less reinsurance ceded) on a straight-line basis over the terms of the individual insurance policies.

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. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

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

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

Participating Policies

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

Value in Use

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

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

Summary of Consolidated Results (unaudited)

	IFRS				Previous Canadian GAAP
	2013	2012 *	2011 *	2010 *	2009 *
Premium income	$ 821,544	$ 2,022,797	$ 1,972,790	$ 2,006,855	$ 1,925,902
Share of income (loss) from investments in associates	59,178	83,945	(27,298)	31,837	6,744
Fair value change in fair value through profit or loss investments	294,558	201,326	335,458	289,551	140,190
Realized gain (loss) on available for sale investments including impairment write downs	10,339	68,081	59,249	15,459	(317,860)
Investment and other income	459,277	491,710	465,348	439,650	398,530
Excess of fair value of net assets acquired over purchase price	-	142,241	-	-	-
Total revenues	1,644,896	3,010,100	2,805,547	2,783,352	2,153,506
Policy benefits	422,196	1,711,065	2,125,855	1,900,569	1,784,877
Operating expenditures including commissions and premium taxes	358,839	753,532	718,609	674,965	564,795
Income (recovery) taxes	114,515	56,190	(1,609)	25,968	(33,334)
	749,346	489,313	(37,308)	181,850	(162,832)
Policyholders' and non-controlling interest portion of income	152,793	9,709	7,415	(851)	22,076
Net income (loss) before undernoted items	596,553	479,604	(44,723)	182,701	(184,908)
Net income from discontinued operatons, including gain on sale	311,126	-	-	-	-
Total net income	$ 907,679	$ 479,604	$ (44,723)	$ 182,701	$ (184,908)
Net income (loss) per share - basic	$ 227.18	$ 118.41	$ (13.93)	$ 43.80	$ (58.75)
Assets					
Cash and cash equivalents	$ 319,749	$ 393,998	$ 248,838	$ 339,892	$ 327,529
Investments in associates	288,884	230,994	419,784	449,363	400,949
Investments - corporate	3,381,417	2,026,644	872,889	961,188	747,555
Investments - insurance operations	5,803,051	8,222,486	7,859,822	6,964,620	6,402,741
Reinsurance recoverable	-	77,361	74,311	87,799	101,522
Premiums receivable	20,849	330,476	316,539	309,999	301,547
Other assets	117,034	358,330	392,082	354,040	309,797
	9,930,984	11,640,289	10,184,265	9,466,901	8,591,640
Segregated funds	5,954,508	5,014,392	4,415,318	4,620,899	4,310,401
	$ 15,885,492	$ 16,654,681	$ 14,599,583	$ 14,087,800	$ 12,902,041
Liabilities					
Insurance contract liabilities	$ 4,214,272	$ 6,849,328	$ 6,557,459	$ 5,928,096	$ 5,395,886
Other liabilities	1,153,833	865,543	691,597	531,857	531,265
Policyholders' and non-controlling interest	809,999	679,721	215,816	216,409	213,546
	6,178,104	8,394,592	7,464,872	6,676,362	6,140,697
Capital stock	372,388	372,388	272,388	272,388	272,388
Retained earnings	3,342,064	2,764,971	2,304,961	2,363,078	2,065,921
Accumulated other comprehensive income	38,428	108,338	142,044	155,073	112,634
	3,752,880	3,245,697	2,719,393	2,790,539	2,450,943
	9,930,984	11,640,289	10,184,265	9,466,901	8,591,640
Segregated funds	5,954,508	5,014,392	4,415,318	4,620,899	4,310,401
	$ 15,885,492	$ 16,654,681	$ 14,599,583	$ 14,087,800	$ 12,902,041

* including discontinued operations

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

Summary of The Dominion (unaudited)

	IFRS				Previous Canadian GAAP
	2013*	2012	2011	2010	2009
Premium income	$ 972,284	$ 1,209,265	$ 1,214,336	$ 1,190,329	$ 1,086,026
Other income	12,514	15,165	15,141	15,038	13,827
Claims	(764,048)	(883,958)	(926,114)	(849,272)	(903,431)
Operating expenditures including commissions and premium taxes	(352,301)	(400,772)	(388,425)	(366,036)	(340,959)
Underwriting loss	(131,551)	(60,300)	(85,062)	(9,941)	(144,537)
Realized gain (loss) on available for sale investments including impairment write downs	122,441	34,555	27,414	12,387	(159,913)
Fair value change in fair value through profit or loss investments	(2,185)	554	238	1,867	-
Investment and other income	70,046	86,021	90,390	85,618	87,226
Income (loss) before taxes	58,751	60,830	32,980	89,931	(217,224)
Income taxes (recovery)	13,993	13,555	7,738	19,704	(65,247)
Net income (loss)	$ 44,758	$ 47,275	$ 25,242	$ 70,227	$ (151,977)
Claims ratio	80.0%	73.1%	76.3%	71.3%	83.2%
Expense ratio	36.2%	33.9%	32.0%	30.8%	31.4%
Combined ratio	116.2%	107.0%	108.3%	102.1%	114.6%
Gross premiums written					
Automobile	$ 685,667	$ 782,747	$ 779,625	$ 788,965	$ 726,486
Property	240,862	394,614	396,527	389,142	361,100
Casualty	183,560	96,162	95,984	94,300	92,288
	$ 1,110,089	$ 1,273,523	$ 1,272,136	$ 1,272,407	$ 1,179,874
Assets	$ -	$ 3,402,642	$ 3,256,023	$ 3,120,173	$ 2,981,268

* 10 month reporting period

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

Summary of Empire Life (unaudited)

	IFRS				Previous Canadian GAAP
	2013	2012	2011	2010	2009
		(Restated)			
Premium income	$ 821,544	$ 813,532	$ 758,454	$ 816,526	$ 839,876
Fair value change in fair value through profit or loss investments	(349,037)	1,397	394,512	213,646	106,699
Realized gain on fair value through profit or loss investments	45,445	54,349	41,324	8,047	30,641
Realized gain (loss) on available for sale investments including impairment write downs	(2,488)	28,405	25,846	7,496	(34,409)
Investment and other income	390,748	362,572	337,025	317,442	279,417
Total revenues	906,212	1,260,255	1,557,161	1,363,157	1,222,224
Policy benefits	422,196	827,107	1,199,741	1,051,297	881,446
Operating expenditures including commissions and premium taxes	340,695	342,157	324,136	302,655	259,694
Income and capital taxes	33,285	17,438	139	(5,742)	16,158
	110,036	73,553	33,145	14,947	64,926
Profits allocated to policyholders	(3,243)	(6,610)	838	(4,890)	11,124
Profits allocated to non-policyholders	23,060	16,319	6,577	4,039	10,952
Net contribution to E-L	$ 90,219	$ 63,844	$ 25,730	$ 15,798	$ 42,850
Premium income by line					
Individual:					
Insurance	$ 336,184	$ 332,160	$ 321,073	$ 299,390	$ 281,751
Annuities	155,197	173,087	132,681	231,534	292,200
Health	19,493	16,091	17,629	16,799	15,902
	510,874	521,338	471,383	547,723	589,853
Group:					
Insurance	29,594	27,368	25,929	23,623	23,121
Annuities	4,087	2,685	8,765	7,145	8,106
Health	276,989	262,141	252,377	238,035	218,796
	310,670	292,194	287,071	268,803	250,023
Total premiums	$ 821,544	$ 813,532	$ 758,454	$ 816,526	$ 839,876
Assets including segregated funds	$ 12,080,410	$ 10,915,798	$ 10,014,822	$ 9,530,926	$ 8,712,454

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

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Net Common Shareholders' Equity	Net Income (Loss)	Net Income (Loss) Per Share
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ 0.58
1970	178,204	48,024	57,637	24,656	2,607	0.75
1971	192,863	52,386	62,985	27,007	2,504	0.72
1972	212,319	57,570	69,404	30,824	4,352	1.25
1973	234,926	67,732	81,221	34,707	4,278	1.22
1974	257,732	76,487	92,117	37,155	2,118	0.60
1975	282,000	88,314	105,793	39,741	2,990	0.85
1976	323,131	111,484	131,560	45,824	6,375	1.82
1977	376,428	134,419	158,446	55,047	9,970	2.86
1978	450,606	150,607	179,995	70,323	7,252	2.08
1979	487,206	147,330	181,869	82,604	13,084	3.26
1980	536,926	164,708	204,357	97,422	11,300	2.81
1981	585,110	195,967	242,631	92,162	(1,860)	(0.46)
1982	630,645	218,042	273,265	100,691	8,662	2.15
1983	706,425	219,067	281,979	129,134	28,464	7.08
1984	777,270	230,445	300,345	150,766	26,954	6.71
1985	1,118,141	356,232	441,180	140,111	(9,671)	(2.41)
1986	1,400,171	435,795	537,969	154,593	18,436	4.59
1987	1,545,769	480,742	602,617	187,455	21,846	5.44
1988	1,666,086	477,787	610,928	222,944	36,097	8.98
1989	1,832,250	547,353	696,924	256,575	40,258	10.01
1990	1,928,160	568,217	727,841	255,463	7,208	1.80
1991	2,341,396	667,477	820,109	276,464	31,725	7.89
1992	2,783,297	737,292	933,083	322,706	18,700	4.65
1993	2,944,319	706,822	914,718	362,925	41,619	10.36
1994	3,029,425	637,915	812,062	402,734	41,055	10.21
1995	3,052,601	723,330	900,179	443,953	43,555	10.83
1996	3,598,443	766,606	964,533	498,320	57,814	14.38
1997	5,130,087	805,187	1,135,463	667,634	166,386	41.39
1998	5,522,285	822,513	1,109,457	951,114	57,165	14.22
1999	5,756,343	875,594	1,185,846	1,001,548	52,599	13.09
2000	6,253,408	918,065	1,267,189	1,139,691	73,389	18.26
2001	6,385,555	966,826	1,306,988	1,250,974	77,480	19.27
2002	6,433,194	1,107,295	1,380,163	1,267,385	51,512	12.81
2003	7,308,559	1,358,119	1,652,951	1,375,394	46,870	11.66
2004	8,279,929	1,543,086	1,893,119	1,582,143	129,886	31.91
2005	9,830,984	1,600,708	2,201,191	1,815,670	293,703	86.68
2006	11,206,412	1,628,870	2,320,794	2,197,721	372,520	109.97

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

1985 - The Canadian Indemnity Company was acquired

1986 - Montreal Life Insurance Company was acquired

1991 - Canadian operations of SAFECO Corporation were acquired

1997 - Colonia Life Insurance Company was acquired - Investment in National Trustco Inc. was sold

1998 - E-L Financial's Corporate Investments were recorded at market value versus cost basis

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

(Continued)

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

Summary of Financial Progress Since the Company's Inception

(Unaudited)

Year ending December	Total Assets	Net Premiums	Total Revenues	Net Common Shareholders' Equity	Shareholders' Comprehensive Income (Loss)	Comprehensive Income (Loss) Per Share
2007	$ 12,835,288	$ 1,630,208	$ 2,162,946	$ 2,500,446	$ 81,860	$ 21.58
2008	10,912,997	1,709,435	1,600,148	2,015,202	(470,235)	(144.42)
2009	12,902,041	1,925,902	2,153,506	2,250,943	249,876	72.28
2010	13,974,077	2,008,040	2,725,184	2,433,377	195,293	55.94
2011	14,599,583	1,972,790	2,805,547	2,519,393	(57,752)	(17.24)
2012	16,662,339	2,022,797	3,010,100	2,981,573	481,774	118.96
2013	15,885,492	821,544	1,644,896	3,752,880	907,679	217.99

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

2007 - All investments are carried at fair value except for those which do not have a quoted price in an active market. The change in fair value of certain investments are reflected in net income ('held for trading' investments) with the remainder in other comprehensive income ('available for sale' investments). Comprehensive income consists of net income and other comprehensive income.

2011 - Conversion to International Financial Reporting Standards ("IFRS")

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

2013 - The Dominion of Canada General Insurance Company was sold

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TRANSFER AGENT AND REGISTRAR	Computershare Investor Services Inc. 100 University Avenue, 9th Floor Toronto, Ontario M5J 2Y1 Telephone: 416-981-9633 Toll Free: 1-800-564-6253 www.computershare.com/service

STOCK EXCHANGE LISTINGS

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

REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

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

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

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