

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(excerpted from **Annual Report 2010**)



Empire Life®

# Management's Discussion and Analysis

This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the years ended December 31, 2010 and 2009. This MD&A should be read in conjunction with the Company's December 31, 2010 financial statements, which form part of The Empire Life Insurance Company 2010 Annual Report dated February 24, 2011. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and unless otherwise noted, the reporting currency for the Company is the Canadian dollar, and all amounts in the financial statements and this MD&A are expressed in Canadian dollars.

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

## Use of Non-GAAP Measures

MD&A 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. The Company believes that this measure provides information useful to its shareholders and policyholders in evaluating the Company's underlying financial results.

## Financial Analysis

### Overview

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Shareholders' net income</b>	<b>\$ 5.9</b>	<b>\$ 4.0</b>	<b>\$ 30.2</b>	<b>\$ 53.8</b>

Empire Life reported full year shareholders' net income of \$30.2 million for 2010, compared to \$53.8 million in 2009.

The primary contributors to the overall decrease in 2010 full year earnings were the low long-term interest rate environment and its impact on Individual Insurance line profitability and last year's favourable impact of amendments to the Income Tax Act related to Financial Instruments (described below) that mainly benefited the Individual Insurance line in 2009. These decreases were partly offset by increased net income in 2010 from sale of investments and lower impairments primarily resulting from write-downs of certain available for sale equity investments in 2009.

For the fourth quarter net income was higher relative to last year primarily due to higher Capital and Surplus net income. This improvement resulted from lower impairment write-downs in 2010.

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 2010 net income compared to 2009 is shown in the Product Line Results sections later in this report.

Last year, on March 4, 2009, the above mentioned amendments to the Income Tax Act related to Financial Instruments passed fourth reading and became substantively enacted. The impact of these amendments, which were recorded in the first quarter of 2009, was a non-recurring after-tax gain of \$22.2 million for shareholders, and a non-recurring after-tax gain of \$13.6 million for policyholders.

# Management's Discussion and Analysis

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

For the year ended December 31

(in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Revenue</b>										
Premium income	\$ 240	\$ 300	\$ 262	\$ 242	\$ 317	\$ 297	\$ –	\$ –	\$ 819	\$ 839
Fee and other income	105	87	6	6	1	1	1	1	113	95
Investment income	58	55	6	7	104	93	37	29	205	184
Realized gain on held for trading investments	4	4	–	3	4	23	–	1	8	31
Realized gain (loss) on available for sale investments including impairment write-downs	(1)	–	–	–	6	(12)	10	(22)	15	(34)
Fair value change in assets	10	43	8	–	180	64	–	–	198	107
	<b>416</b>	<b>489</b>	<b>282</b>	<b>258</b>	<b>612</b>	<b>466</b>	<b>48</b>	<b>9</b>	<b>1,358</b>	<b>1,222</b>
<b>Expenses</b>										
Benefits and expenses	409	463	258	237	638	429	15	12	1,320	1,141
Income and other taxes	(3)	4	11	11	(4)	11	9	(10)	13	16
	<b>406</b>	<b>467</b>	<b>269</b>	<b>248</b>	<b>634</b>	<b>440</b>	<b>24</b>	<b>2</b>	<b>1,333</b>	<b>1,157</b>
<b>Net income (loss) after tax</b>	<b>\$ 10</b>	<b>\$ 22</b>	<b>\$ 13</b>	<b>\$ 10</b>	<b>\$ (22)</b>	<b>\$ 26</b>	<b>\$ 24</b>	<b>\$ 7</b>	<b>\$ 25</b>	<b>\$ 65</b>
Policyholders' portion									(5)	11
<b>Shareholders' net income</b>									<b>\$ 30</b>	<b>\$ 54</b>
<b>Assets under management</b>										
General fund assets	\$ 1,141	\$ 1,060							\$ 4,900	\$ 4,402
Segregated fund assets	\$ 4,707	\$ 4,310							\$ 4,707	\$ 4,310
<b>Annualized premium sales</b>			<b>\$ 43</b>	<b>\$ 36</b>	<b>\$ 68</b>	<b>\$ 61</b>				

## Total Revenue

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Revenue</b>				
Premium income	\$ 199	\$ 193	\$ 819	\$ 839
Fee and other income	30	27	113	95
Investment income	55	49	205	184
Fair value change in HFT investments including realized amounts	(45)	(56)	206	138
Realized gain (loss) on available for sale investments including impairment write-downs	2	(15)	15	(34)
<b>Total</b>	<b>\$ 241</b>	<b>\$ 198</b>	<b>\$ 1,358</b>	<b>\$ 1,222</b>

For the year, total revenue at Empire Life increased by 11% to \$1.4 billion compared to \$1.2 billion in 2009. Major revenue items are discussed below.

Premium income for the year decreased in 2010 relative to 2009. The decrease primarily related to fixed interest annuity premiums which declined from 2009's exceptionally strong levels.

# Management's Discussion and Analysis

Fee and other income grew strongly in 2010 relative to 2009 as management fees earned on segregated funds recovered strongly due to the impact of rising stock markets and positive net segregated fund sales on average assets under management during 2010.

Fair value change in held for trading (HFT) investments including realized amounts often causes large revenue volatility. On a full year basis, these assets experienced a net gain in both 2010 and 2009. The gains in both 2010 and 2009 resulted primarily from 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 policy liabilities (discussed in the Total Benefits and Expenses section below).

Realized gain (loss) on available for sale investments was a gain for the year in 2010 versus a loss in 2009. 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 gains and losses in 2010 primarily resulted from the sale of certain available for sale equity investments. The losses in 2009 primarily related to impairment write-downs of certain available for sale equity investments. Most of the assets sold or written down backed capital and surplus, while the balance sold or written down primarily matched Individual Insurance long duration liabilities.

## Total Benefits and Expenses

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Benefits and expenses</b>				
Insurance benefits	\$ 75	\$ 67	\$ 307	\$ 279
Policy dividends	5	5	19	18
Annuity benefits	66	60	230	199
Increase in policy liabilities	11	(6)	476	385
Operating expenses	33	28	117	104
Commissions	42	40	157	145
Interest expense	3	3	14	11
<b>Total</b>	<b>\$ 235</b>	<b>\$ 197</b>	<b>\$ 1,320</b>	<b>\$ 1,141</b>

Total benefits and expenses at Empire Life for the year increased by 16% to \$1.3 billion compared to \$1.1 billion in 2009. Major benefit and expense items are discussed below.

Insurance benefits experience variability is dependent on the claims incurred. Generally, claims rise year-over-year due to growth of the insurance blocks. Variability in claims amounts does not, in isolation, impact net income as policy liabilities are released when claims occur. The policy 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 policy liabilities. Year-over-year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

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

Annuity benefits increased as the annuity block has grown over recent years resulting in larger annuity benefit payments. Variability in annuity benefit amounts does not, in isolation, impact net income as policy liabilities are released when annuity payments occur. The policy liabilities released can be larger or smaller than the annuity payments depending on whether the annuity block investment and mortality experience has been favourable or unfavourable.

# Management's Discussion and Analysis

Increase in policy 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 policy liabilities. The main reason for the large change from 2009 for this item was the change in policy liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the increase in policy liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the income statement.

Operating expenses and commission expenses increased year-over-year due to growth in annualized premium sales and business in-force growth.

Interest expense increased from 2009 levels due to the May 2009 subordinated debt issue that fully impacted 2010 interest expense.

## Product Line Results - Wealth Management

(in millions of dollars)	As at Dec. 31			
	2010		2009	
<b>Assets under management</b>				
General fund annuities	\$	1,141	\$	1,060
Segregated funds		4,707		4,310

  

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Selected financial information</b>				
Fixed interest annuity premiums	\$	51	\$	70
Segregated fund gross sales		226		204
Segregated fund net sales		14		55
Segregated fund fee income		28		24
Net income after tax fixed income annuity portion	\$	3	\$	4
Net income after tax segregated fund portion		3		6
Net income after tax	\$	6	\$	10

Assets in Empire Life general fund annuities and segregated funds increased by 8% and 9% respectively during the last twelve months. The increase for general fund annuities was primarily due to fixed interest annuity premium income received during the last twelve months. The increase for segregated funds was attributable to positive investment returns, due to the stock market recovery that began in the fourth quarter of 2009, and positive 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 20% compared to 2009 due to decreased sales of fixed interest deferred annuities. However, 2009 was an exceptionally strong year for fixed interest annuity sales. 2010 fixed interest annuity premiums, while lower than 2009, continued to be strong as many customers continued to select fixed interest products over segregated funds due to continuing stock market uncertainty.

For the year, segregated fund gross sales were up 12% from 2009 despite continuing stock market volatility. However, net sales, while positive in three of the last four quarters, were lower than 2009 due to increased withdrawals.

For the year, segregated fund fee income increased by 20% in 2010 relative to 2009 as management fees earned on segregated funds recovered strongly. This recovery was due to growth in average assets under management resulting from the favourable impact of rising stock markets and positive net segregated fund sales. During the fourth quarter of 2010 a significant milestone was reached as segregated fund fee income for the quarter returned to pre-financial crisis levels by surpassing the level of fee income earned in the second quarter of 2008 (just before the financial crisis severely depressed markets).

# Management's Discussion and Analysis

During the fourth quarter and for the year, earnings from this product line decreased relative to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

(in millions of dollars)	Q4		Year	
<b>Wealth Management Net Income Analysis</b>				
Net income after tax 2010	\$	6	\$	10
Net income after tax 2009		10		22
Increase (decrease) net income after tax	\$	(4)	\$	(12)
<b>Components of increase (decrease)</b>				
Non-recurring 2009 gain from tax law changes	\$	–	\$	(2)
Higher (reduced) investment experience gains		1		(10)
Release of segregated fund guarantee policy liabilities in 2009		–		(4)
Higher new business strain		–		(1)
Increase in in-force profit margins		–		6
Improved segregated fund death benefit guarantee and mortality results		–		4
Update of policy liability assumptions		(5)		(5)
Total	\$	(4)	\$	(12)

The 2009 non-recurring tax law change resulted from amendments to the Income Tax Act primarily related to Financial Instruments. Investment experience gains were exceptionally strong in 2009 due to the favourable impact 2009 fixed interest investing activities had on policy liabilities. This 2009 investing activity locked in favourable future investment returns resulting in a release of policy liabilities in 2009. Fixed interest investing opportunities diminished in 2010 as corporate bond and preferred share market yields have dropped significantly. The release of segregated fund guarantee policy liabilities in 2009 was primarily due to the rise in stock markets in the second quarter of 2009. Higher new business strain resulted from rising sales and differing product mix. Higher net income on in-force business in 2010 was due to the increase in segregated funds under management relative to 2009. Improved segregated fund death benefit guarantee and mortality results compared to 2009 was primarily due to the recovery of stock markets. The update of policy liability assumptions was unfavourable in 2010 relative to 2009. The updates for general fund annuities primarily related to the unfavourable impact of annuitant mortality assumptions. In addition, the 2010 update of policy liabilities related to segregated funds was less favourable than 2009.

## Product Line Results - Employee Benefits

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Selected financial information</b>				
Annualized premium sales	\$ 10	\$ 13	\$ 43	\$ 36
Premium income	66	43	262	242
<b>Net income after tax</b>	<b>\$ 1</b>	<b>\$ 2</b>	<b>\$ 13</b>	<b>\$ 10</b>

For the year, sales in this product line increased by 20% relative to 2009. The sales result is a strong recovery from recessionary lows and may signal a return to more typical sales levels. This product line's quarterly and annual premium income increased significantly in 2010, however 2009 premiums were depressed by a non-recurring transaction that terminated a reinsurance assumed agreement. After removing the impact of this non-recurring item, premium levels were flat compared to the corresponding period of 2009. This slow premium income growth resulted from this product line's in-force block of business being negatively impacted by the severity of the economic downturn, particularly in Ontario.

# Management's Discussion and Analysis

During the fourth quarter earnings from this product line decreased relative to 2009. However, for the year, 2010 earnings from this product line increased compared to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

(in millions of dollars)	Q4		Year	
<b>Employee Benefits Net Income Analysis</b>				
Net income after tax 2010	\$	1	\$	13
Net income after tax 2009		2		10
Increase (decrease) net income after tax	\$	(1)	\$	3
<b>Components of increase (decrease)</b>				
Improved (worsened) claims experience	\$	(1)	\$	5
Decrease in in-force profit margins		-		(2)
Total	\$	(1)	\$	3

Improved claims experience related to group life, group long-term disability and group health claims results. The decrease in profit margins resulted from the in-force block of business being negatively impacted by the severity of the economic downturn.

## Product Line Results - Individual Insurance

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Selected financial information</b>				
Annualized premium sales	\$ 19	\$ 18	\$ 68	\$ 61
Premium income	84	79	317	297
<b>Net income (loss) after tax</b>				
Net income (loss) after tax shareholders' portion	\$ (6)	\$ (5)	\$ (14)	\$ 15
Net income (loss) after tax policyholders' portion	(2)	(6)	(8)	11
Net income (loss) after tax	\$ (8)	\$ (11)	\$ (22)	\$ 26

For the year, annualized premium sales in this product line increased by 12% compared to 2009, and premium income increased by 6% compared to 2009.

During the fourth quarter earnings from this product line increased relative to 2009. However, for the year, earnings from this product line decreased compared to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

# Management's Discussion and Analysis

(in millions of dollars)	Q4		Year	
<b>Individual Insurance Net Income Analysis</b>				
Net income (loss) after tax 2010	\$	(8)	\$	(22)
Net income (loss) after tax 2009		(11)		26
Increase (decrease) net income after tax	\$	3	\$	(48)
<b>Components of increase (decrease)</b>				
Non-recurring 2009 gain from tax law changes	\$	–	\$	(26)
Reduced loss from tax rate changes		2		2
Improved (reduced) investment experience		8		(9)
Higher new business strain		(2)		(13)
Change in mortality and surrender experience		(2)		(1)
Increase in in-force profit margins		–		2
Update of policy liability assumptions		(3)		(3)
Total	\$	3	\$	(48)

The 2009 non-recurring tax law change resulted from amendments to the Income Tax Act primarily related to Financial Instruments. Investment experience gains were exceptionally strong in 2009 due to the favourable impact 2009 fixed interest investing activities had on policy liabilities. This 2009 investing activity locked in favourable future investment returns resulting in a release of policy liabilities in 2009. Fixed interest investing opportunities diminished in 2010 as corporate bond and preferred share market yields have dropped significantly. Higher new business strain resulted from the rise in sales and lower long-term interest rates. The update of policy liability assumptions was unfavourable in 2010 relative to 2009. The updates primarily related to the unfavourable impact of decreases in investment return assumptions, partly offset by the favourable impact of improving mortality assumptions and updates to policyholder dividend assumptions.

## Results - Capital and Surplus

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Net income (loss) after tax</b>				
Net income (loss) after tax shareholders' portion	\$ 5	\$ (1)	\$ 21	\$ 6
Net income after tax policyholders' portion	1	–	3	1
Net income (loss) after tax	\$ 6	\$ (1)	\$ 24	\$ 7

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders' Capital and Surplus and to Policyholders' Surplus. During the fourth quarter and the full year Capital and Surplus earnings increased relative to 2009. The following table provides a breakdown of the components of this year-over-year change in net income.

# Management's Discussion and Analysis

(in millions of dollars)	Q4		Year	
<b>Capital and Surplus Net Income Analysis</b>				
Net income after tax 2010	\$	6	\$	24
Net income (loss) after tax 2009		(1)		7
Increase (decrease) net income after tax	\$	7	\$	17
<b>Components of increase (decrease)</b>				
Non-recurring 2009 gain from tax law changes	\$	–	\$	(7)
Reduced loss from tax rate changes		1		–
Increased net income from sale of investments and lower impairments		5		20
Increased investment income		1		6
Increased interest expense on subordinated debt		–		(2)
Total	\$	7	\$	17

The 2009 non-recurring tax law change resulted from amendments to the Income Tax Act primarily related to Financial Instruments. Increased net income from sale of investments and lower impairments primarily resulted from write-downs of certain available for sale equity investments in the third and fourth quarters of 2009 and gains from the sale of certain available for sale equity investments in the first quarter of 2010. The increase in investment income resulted from a larger fixed interest portfolio due to asset mix changes and investment of the proceeds from the May 2009 subordinated debt issue. Increased interest expense primarily resulted from a larger amount of subordinated debt during 2010 relative to 2009.

## Total Cash Flow

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Cash Flow provided from (used for)</b>				
Operating Activities	\$ 36	\$ 66	\$ 170	\$ 328
Investing Activities	(25)	(70)	(153)	(425)
Financing Activities	\$ –	\$ –	\$ (15)	\$ 74
Net change in cash and cash equivalents	\$ 11	\$ (4)	\$ 2	\$ (23)

The decrease in cash provided by operating activities during the year in 2010 relative to 2009 was primarily due to decreased cash inflows related to annuity business, the payment of income taxes, and increased commission expenses due to higher life insurance, employee benefits and segregated fund sales.

The decrease in cash used for investment activities during the year in 2010 relative to 2009 was primarily due to investment of the higher amount of cash provided by operations in 2009 and the investment of proceeds of the net increase of \$74 million of subordinated debt in 2009 described below. In addition, there were higher net investment purchases in 2009 to take advantage of favourable investment yields, and reduced sales of portfolio investments in 2009 due to stock market conditions.

The cash used for financing activities during the full year 2010 was due to Empire Life's decision to pay a dividend to common shareholders in the first quarter of 2010. The cash provided during the full year 2009 of \$74 million was the issuance of \$200 million principal amount of subordinated debt in the second quarter of 2009 and the repayment in 2009 of \$125 million of subordinated debt issued to E-L Financial Corporation Limited.

# Management's Discussion and Analysis

## Capital Resources

	Dec 31 2010	Sept 30 2010	June 30 2010	Mar 31 2010	Dec 31 2009
<b>MCCSR Ratio</b>	<b>243%</b>	244%	251%	258%	266%

Empire Life continues to maintain a strong balance sheet and capital position. Empire Life's risk-based capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements (MCCSR), at 243% as of December 31, 2010 continued to be well above requirements and above minimum internal targets. The A (Excellent) rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength.

## Other Comprehensive Income

(in millions of dollars)	Quarterly results		Year	
	Q4 2010	Q4 2009	2010	2009
<b>Other comprehensive income (OCI)</b>				
Shareholders' OCI	\$ 18	\$ 21	\$ 25	\$ 94
Policyholders' OCI	2	1	2	8

Unrealized gains and losses on Capital and Surplus financial assets and on certain financial assets matching policy liabilities are recorded as Other Comprehensive Income (OCI) or Other Comprehensive Loss (OCL). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. A gain reclassified to net income lowers OCI. A loss reclassified to net income increases OCI.

During the full year 2010 OCI decreased relative to 2009 due to a stronger rise in Canadian stock markets in 2009 and the reclassification to net income of a realized gain in 2010 versus a realized loss in 2009.

## Industry Dynamics and Management's Strategy

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

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

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The Wealth Management product line at Empire Life is comprised of segregated fund products and guaranteed interest products. 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 mutual funds.

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

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

## Risk Management

Empire Life's MCCR ratio is sensitive to stock market volatility, primarily due to liability and capital requirements related to segregated fund guarantees. As of December 31, 2010 Empire Life had \$4.7 billion of segregated fund assets. Of this amount, approximately \$4.4 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec 31 2010	Dec 31 2009
<b>Percentage of segregated fund assets with:</b>		
75% maturity guarantee and a 100% death benefit guarantee	<b>83.2%</b>	88.6%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	<b>5.5%</b>	5.0%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	<b>11.3%</b>	6.4%

All Empire Life segregated fund guarantees are policy-based (not deposit-based), thereby lowering Empire Life's stock market sensitivity. For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end 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 on December 31 for 2010 and December 31 for 2009, the sensitivity of Empire Life's shareholders' net income to changes in segregated fund guarantee policy liabilities resulting from stock market increases and decreases is as follows:

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(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Sensitivity To Segregated Fund Guarantees:</b>				
<b>2010 Shareholders' net income</b>	\$ nil	\$ nil	\$ nil	\$ nil
2009 Shareholders' net income	\$ nil	\$ nil	\$ nil	\$ nil

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

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Sensitivity To Stock Markets:</b>				
<b>December 31, 2010 MCCSR Ratio</b>	3.7%	-3.8%	7.2%	-8.5%
December 31, 2009 MCCSR Ratio	2.5%	-7.4%	4.9%	-36.5%

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

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

Segregated Funds (in millions of dollars)	Guarantee > Fund Value		Death Benefit > Fund Value		Actuarial Liabilities	MCCSR Required Capital
	Fund Value	Amount At Risk	Fund Value	Amount At Risk		
<b>December 31, 2010</b>	\$ 113	\$ 12	\$ 1,422	\$ 137	\$ nil	\$ nil
December 31, 2009	\$ 186	\$ 22	\$ 2,046	\$ 316	\$ nil	\$ nil

The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value on all segregated fund policies where the future maturity guarantee or future death benefit guarantee is greater than the fund value. The amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates. The level of actuarial liabilities and required capital is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist upon either future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The amounts at risk decreased in December 2010 from December 2009 levels primarily due to the rise of global stock markets.

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form of Empire Life's parent company, E-L Financial Corporation Limited, which is available at [www.sedar.com](http://www.sedar.com). Additional disclosures of Empire Life's sensitivity to risks are included in Note 22 to the financial statements.

## Critical Accounting Estimates

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

# Management's Discussion and Analysis

## Policy Liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in Note 22 to the Financial Statements.

## Provision for Impaired Investments

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

Available for sale securities are subject to a regular review for losses that are other than temporary. If a security is assessed to have a loss that is other than temporary, the security is written down to fair value in the statement of general fund operations. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

## Quarterly Results

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

	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
(in millions of dollars)	2010	2010	2010	2010	2009	2009	2009	2009
<b>Revenue</b>	<b>\$ 241</b>	\$ 409	\$ 341	\$ 367	\$ 197	\$ 390	\$ 396	\$ 239
<b>Shareholders' net income (loss)</b>	<b>\$ 6</b>	\$ 5	\$ 4	\$ 15	\$ 4	\$ (1)	\$ 14	\$ 37

Revenue for the three months ended December 31, 2010 increased to \$241 million (2009 \$197 million) primarily due to losses in 2009 related to impairment write-downs of certain available for sale equity investments (see Total Revenue section earlier in this report).

For the fourth quarter net income was higher relative to last year primarily due to higher Capital and Surplus net income. This improvement resulted from lower impairment write-downs in 2010. See Product Line Results sections earlier in this report for further information on quarterly results.

# Management's Discussion and Analysis

## Conversion to International Financial Reporting Standards (IFRS)

All amounts are expressed in thousands of dollars in this section. IFRS will replace Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. Empire Life, as a federally regulated financial institution, is considered a publicly accountable enterprise. Empire Life will begin to report its financial results, including comparative information, in accordance with IFRS in its quarterly regulatory filing starting with the March 31, 2011 quarter end. Empire Life's first annual financial results on an IFRS basis will be for the December 31, 2011 reporting year.

A steering committee comprised of senior management has overseen the IFRS conversion project. Over the course of the last two years, both steering committee members and project staff have developed an in-depth technical understanding of IFRS and its application to the Company's financial reporting. In addition, Audit Committee members have gained sufficient knowledge about the impact of the conversion to IFRS on the Company through quarterly status reporting from the steering committee and the review of key IFRS project deliverables throughout the transition period. Training sessions for staff, where appropriate, and the distribution of educational materials will continue throughout the first quarter of 2011.

The accounting standards to be in effect for the 2011 financial reporting year have stabilized. Regulatory and capital requirements have been amended to reflect the adoption of IFRS-based financial reporting. The project team has assessed the impact of the changes to regulatory and capital requirements and there are no material impacts on the Company's regulatory and capital requirements as a result of the accounting policy choices and transition elections currently selected by Empire Life.

At this time, draft financial statement presentation and note disclosures have been prepared on an IFRS basis, and based on the results, no significant impacts have been identified from the transition to IFRS on Empire Life's information systems, business processes and other business activities, including debt covenants, treasury activities and executive compensation. Additionally, Empire Life has not identified any significant impacts on internal controls over financial reporting and disclosure controls and procedures.

At this time, the International Accounting Standards Board (IASB) is planning to complete a number of projects during 2011 that will impact Empire Life (including Phase 2 of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments), which will have implementation dates of 2013 or later. Empire Life plans to assess the impact of these new standards beginning in 2011.

Empire Life has completed its draft IFRS opening statement of financial position as at January 1, 2010, as well as detailed reconciliations of its 2010 comparative financial statements from a Canadian GAAP basis to an IFRS basis. These reconciliations will be used for the preparation of Empire Life's interim financial information and annual financial reporting under IFRS in 2011. IFRS 1 "First-Time Adoption of International Financial Reporting Standards" provides a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRSs. Details of Empire Life's planned elections under IFRS 1 and relevant mandatory exceptions are provided below.

### IFRS Exemption Options

- 1. Business combinations** - IFRS 1 provides the option not to apply IFRS 3 "Business Combinations", retrospectively. The Company plans to take this election with respect to business combinations that occurred prior to its transition date and therefore such business combinations will not be restated.
- 2. Employee benefits** - IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19 "Employee Benefits" for the recognition of actuarial gains and losses or recognize all cumulative gains and losses deferred under Canadian GAAP in opening Retained earnings at the date of transition. The Company plans to elect to recognize all cumulative unamortized actuarial gains and losses that existed at the transition date in opening Retained earnings for all defined benefit pension and other post-employment benefit plans, as it would be impracticable to restate each plan from its inception date under IAS 19. The Company also intends to elect under IFRS 1 to disclose the present value of its defined benefit obligations, fair value of plan assets, surplus or deficit positions and experience adjustments prospectively from the date of transition.
- 3. Fair value or revaluation as deemed cost** - IFRS 1 allows an entity to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as deemed cost if, at the date of the revaluation, the revaluation was broadly comparable to fair value, cost or depreciated cost in accordance with IFRS. The Company plans to elect to use a previous GAAP revaluation as deemed cost at the transition date for land and building since this value is expected to be broadly comparable to fair value at the date of the revaluation. The property, which was presented as a

# Management's Discussion and Analysis

real estate investment under Canadian GAAP, was last valued as of September 22, 2009. The Company will not apply this election to any other items of property and equipment in its opening statement of financial position.

**4. Designation of previously recognized Financial instruments** - IFRS 1 permits the redesignation of previously recognized financial assets at the date of transition as available for sale (AFS) or, provided the asset meets the criteria specified in IAS 39 "Financial Instruments: Recognition and Measurement", fair value through profit or loss (FVTPL). The Company plans to elect to redesignate \$151,047 of financial assets held in support of insurance operations as FVTPL and maintain financial assets held in support of shareholders' equity as AFS. The assets to be redesignated are currently classified as AFS and are valued at fair value under both designations.

## IFRS Mandatory Exceptions

- 1. Estimates** - IFRS 1 requires that an entity's estimates under IFRS at the date of transition be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's estimates under IFRS at January 1, 2010 will be consistent with the estimates made under Canadian GAAP.
- 2. Hedge accounting** - Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 "Financial Instruments: Recognition and Measurement" at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. As a result, only hedging relationships that satisfy the hedge accounting criteria as of the Company's transition date will be reflected as hedges in the Company's results under IFRS. At January 1, 2010 the Company will reclassify amounts from Accumulated other comprehensive income to Retained earnings relating to hedging relationships under Canadian GAAP that will no longer be designated as hedging relationships under IFRS.

## IFRS Reconciliations

The following reconciliations provide details of the quantitative impact that the transition to IFRS is expected to have on the Company's opening statement of financial position at January 1, 2010, including the above-noted elections that the Company plans to make under IFRS 1 and other transitional adjustments resulting from accounting policy differences between Canadian GAAP and IFRS. The first reconciliation shows the estimated impact to each component of equity and the second reconciliation provides the Company's fully reconciled Canadian GAAP balance sheet to an IFRS basis at January 1, 2010. Explanations for each transitional adjustment are provided below.

These estimates and current policy choices may be subject to change until the issuance of our 2011 annual financial statements.

### Draft Reconciliation of Shareholders' equity at January 1, 2010

(in thousands of dollars)	Reference	Share capital	Contributed surplus	Retained earnings	AOCI	Shareholders' equity
As reported under Canadian GAAP - December 31, 2009		\$ 985	\$ 19,387	\$ 697,212	\$ 33,470	\$ 751,054
Differences increasing (decreasing) reported amount:						
1. Financial instruments	a	—	—	8,976	(8,940)	36
2. Employee benefits	b	—	—	3,430	—	3,430
3. Impairment of financial assets	f	—	—	(647)	647	—
4. Contract classification	c	—	—	1,190	—	1,190
5. Investment property	d	—	—	18	—	18
6. Income taxes	e	—	—	(461)	461	—
<b>Total equity under IFRS - as at January 1, 2010</b>		<b>\$ 985</b>	<b>\$ 19,387</b>	<b>\$ 709,718</b>	<b>\$ 25,638</b>	<b>\$ 755,728</b>

# Management's Discussion and Analysis

## Draft opening Statement of financial position at January 1, 2010

Canadian GAAP Accounts	Reference	Canadian GAAP	Effects of Transition to IFRS	IFRS	IFRS Accounts
<b>Assets</b>					
<b>General Funds</b>					
Cash and cash equivalents		\$ 149,141	\$ –	\$ 149,141	Cash and cash equivalents
–					Investments
Short-term investments		37,080	–	37,080	Short-term investments
Bonds		2,795,896	–	2,795,896	Bonds
Common and preferred shares	a	949,742	36	949,778	Common and preferred shares
Mortgages		223,642	–	223,642	Mortgages
Real Estate	d	15,601	(15,601)	–	–
Loans on policies		38,728	–	38,728	Loans on policies
Policy contract loans		137,764	–	137,764	Policy contract loans
–	i	–	2,493	2,493	Derivative Assets
–		4,198,453	(13,072)	4,185,381	Total investments
Accrued investment income		17,827	–	17,827	Accrued investment income
Premiums receivable	i	3,914	13,746	17,660	Insurance receivables
Current income taxes receivable		–	–	–	Current income taxes receivable
–	a,h	–	32,693	32,693	Reinsurance asset
Other assets	b,i	29,315	(12,260)	17,055	Other assets
–	d,i	–	19,973	19,973	Property and equipment
–	i	–	3,688	3,688	Intangible Assets
–	g	–	4,186,585	4,186,585	Segregated fund assets
<b>Total General Fund Assets</b>		<b>\$ 4,398,650</b>	<b>\$ 4,231,353</b>	<b>\$ 8,630,003</b>	<b>Total Assets</b>
<b>Total Segregated Fund Assets</b>		<b>\$ 4,310,401</b>	<b>\$ (4,310,401)</b>	<b>\$ –</b>	<b>–</b>
<b>Liabilities</b>					
<b>General Funds</b>					
Accounts payable and other liabilities	b,d,j	\$ 82,769	\$ (37,626)	\$ 45,143	Accounts payable and other liabilities
–	ij	–	52,648	52,648	Insurance payables
–	h,j	–	5,260	5,260	Due to reinsurance companies
Current income taxes payable		30,065	–	30,065	Current income taxes payable
Policy liabilities	a,c,h	3,192,988	33,157	3,226,145	Insurance contract liabilities
–	c	–	17,566	17,566	Investment contract liabilities
Policyholders' funds on deposit		29,702	–	29,702	Policyholders' funds on deposit
Provision for unpaid and unreported claims	h	32,606	(32,606)	–	–
Provision for profits to policyholders		18,558	–	18,558	Provision for profits to policyholders
Future income taxes	a,b	1,116	1,695	2,811	Deferred income taxes
Subordinated debt		198,980	–	198,980	Subordinated debt
–	g	–	4,186,585	4,186,585	Segregated fund policy liabilities
		<b>3,586,784</b>	<b>4,226,679</b>	<b>7,813,463</b>	
<b>Shareholders' &amp; Policyholders' Equity</b>					
<u>Shareholders' equity</u>					
Capital stock		985	–	985	Capital stock
Contributed surplus		19,387	–	19,387	Contributed surplus
Retained earnings	a,b,c,d,e,f	697,212	12,506	709,718	Retained earnings
Accumulated other comprehensive income	a,e,f	33,470	(7,832)	25,638	Accumulated other comprehensive income
		<b>751,054</b>	<b>4,674</b>	<b>755,728</b>	
<u>Policyholders' equity</u>					
Retained earnings	a,e	57,839	(196)	57,643	Retained earnings
Accumulated other comprehensive income	a,e	2,973	196	3,169	Accumulated other comprehensive income
		<b>60,812</b>	<b>–</b>	<b>60,812</b>	
		<b>811,866</b>	<b>4,674</b>	<b>816,540</b>	
<b>Total General Fund Liabilities and Equity</b>		<b>\$ 4,398,650</b>	<b>\$ 4,231,353</b>	<b>\$ 8,630,003</b>	<b>Total Liabilities and Equity</b>
<b>Segregated Fund Liabilities</b>	g	<b>\$ 4,310,401</b>	<b>\$ (4,310,401)</b>	<b>\$ –</b>	<b>–</b>

# Management's Discussion and Analysis

## Notes to the IFRS reconciliations

The following narratives explain the significant differences between Canadian GAAP and IFRS impacting the Company's draft IFRS opening statement of financial position. The letter references correspond to the adjustments in the above reconciliations.

### Transitional adjustments

#### a. Financial Instruments

As noted in the "IFRS Exemption Options" section, \$151,047 of financial assets supporting insurance liabilities previously designated as AFS under Canadian GAAP will be re-designated as fair value through profit or loss (FVTPL) under IFRS. Any accumulated unrealized gains and losses on the redesignated investments currently recorded at fair value on the Balance Sheet will be reclassified from Accumulated other comprehensive income to opening Retained earnings as at January 1, 2010. Subsequent unrealized gains and losses will be recorded in the Statement of Operations.

The effect of this re-designation and a change in the accounting treatment of certain derivative investments previously accounted for using hedge accounting, will be an increase in Retained earnings of \$8,976 and a decrease in Accumulated other comprehensive income (AOCI) of \$8,940. In addition, Common and preferred shares will increase by \$36. The impact on Policyholders' equity will be a decrease to Retained earnings and an increase to Accumulated other comprehensive income of \$133.

#### b. Employee Benefits

As noted in the "IFRS Exemption Options" section, the Company plans to elect under IFRS 1 to recognize all cumulative unamortized actuarial gains and losses related to its defined benefit plans in opening Retained earnings at the date of transition. The Company will also recognize unamortized transitional amounts that exist at the date of transition. The recognition of these two unamortized amounts will result in the following adjustments to the Company's draft statement of financial position at January 1, 2010: a decrease in Other liabilities of \$348, an increase in Other assets of \$4,263, an increase in Deferred income taxes of \$1,181, and an increase in Retained earnings of \$3,430.

The Company plans to apply the corridor method available under IAS 19 to recognize actuarial gains and losses on defined benefit plans subsequent to the date of transition to IFRS.

#### c. Contract Classification

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

# Management's Discussion and Analysis

## d. Property and Equipment

The Company's office properties that were classified as real estate investments under Canadian GAAP do not meet the definition of investment property under IFRS. As a result, they will be accounted for as property and equipment under IAS 16 "Property, Plant and Equipment" and will be reclassified accordingly on the Company's draft statement of financial position. The effect on the Company's draft opening statement of financial position will be a decrease in Real estate investments of \$15,601 and an increase of the same amount to Property and equipment, a decrease in other liabilities of \$18, and an increase of \$18 to Retained earnings.

The Company plans to elect to use a previous GAAP revaluation as deemed cost at the transition date for land and buildings and to apply the cost model available under IAS 16 for the measurement of all Property and equipment subsequent to the date of transition to IFRS.

## e. Income Taxes

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

## f. Impairment of AFS Assets

IAS 39 "Financial Instruments: Recognition and Measurement" requires the recognition of an impairment loss on a financial asset or group of financial assets when there is objective evidence that the financial assets are impaired. Under Canadian GAAP, an impairment loss is recognized when there is objective evidence of impairment and the decline in fair value is other than temporary. The Company plans to recognize additional impairment on certain preferred share equity investments at January 1, 2010 as a result of the impairment review conducted in accordance with IAS 39. The impact of this adjustment on the Company's draft statement of financial position at January 1, 2010 will be a decrease in Retained earnings of \$647 and an increase to Accumulated other comprehensive income of \$647.

## Presentation reclassifications

Certain amounts on the statement of financial position will be reclassified to conform to the presentation adopted under IFRS. The following presentation differences between Canadian GAAP and IFRS have been reflected in the draft opening statement of financial position and have no impact on total equity.

## g. Segregated Funds

Under Canadian GAAP, segregated fund assets and liabilities were presented separately from general funds on the face of the statement of financial position. Under IFRS total segregated fund assets will be presented as a separate line item and included in total assets. Segregated fund policy liabilities will also be presented as a separate line item and included in total liabilities. Segregated fund assets and Segregated fund liabilities will decrease by \$123,816 to eliminate Empire Life's investment in Segregated Funds.

## h. Presentation of Reinsurance

Under Canadian GAAP reinsurance ceded to third parties was netted against insurance contract liabilities, insurance premiums, annuity premiums, insurance benefits and annuity benefits. IFRS will require these items to be presented on a gross basis with no effect on comprehensive income or equity.

# Management's Discussion and Analysis

## **i. Disaggregation of Other Assets**

IFRS requires that insurance related assets, intangible assets and property and equipment be presented separately on the face of the statement of financial position. These line items will be reclassified from Other Assets and Real Estate Investments, where they were presented under Canadian GAAP.

## **j. Disaggregation of Other Liabilities**

IFRS requires that insurance related liabilities and amounts due to reinsurers be presented separately on the face of the statement of financial position. These line items will be reclassified from Accounts payable and other liabilities, where they were presented under Canadian GAAP.

## **Impact on 2010**

The redesignation of assets held in support of insurance operations from AFS to FVTPL is an accounting policy change which is recognized in the transitional statement of financial position. In the first quarter of 2010 Empire Life has updated the method for setting the investment return on policy liability valuations to be consistent with the new accounting policy for assets. This change in policy liability estimate results in an initial reduction to Shareholders' net income of \$6,086 in the first quarter of 2010.

The preparation of Empire Life's Canadian GAAP to IFRS reconciliations for the comparative year ended December 31, 2010 has confirmed that the two most significant changes that impact equity are: a decrease in Shareholders' net income resulting from the initial change in policy liability valuations described above; and a decrease in Shareholders' OCI resulting from the redesignation of \$151,047 of financial assets held in support of insurance operations from AFS to FVTPL. Other adjustments do not have a significant impact on equity.

IFRS prescribes certain presentation changes. The most significant presentation changes include the grossing up of reinsurance balances and the inclusion of Segregated fund assets and liabilities with General fund assets and liabilities. While these changes are significant to particular line items in the financial statements, they do not have an impact on income or equity.

# Annual Report 2010

The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security. We manage investments and funds for our customers following a conservative, value-oriented philosophy that helps grow and preserve wealth.

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

<sup>1</sup> Financial Post Magazine, June 2010, based on revenue

<sup>2</sup> As at June 10, 2010

[www.empire.ca](http://www.empire.ca)



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