

# The Empire Life Insurance Company

## **Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2015**

**Unaudited**

**Issue Date: November 10, 2015**

### **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The Company's external auditors have not performed a review of these condensed interim unaudited consolidated financial statements of The Empire Life Insurance Company.



**This page has been left blank intentionally.**

# Table of Contents

---

Management Discussion and Analysis	2
Interim Consolidated Financial Statements	20
Condensed Notes to the Interim Consolidated Financial Statements	25
Glossary of Terms	42

# Management's Discussion and Analysis

This MD&A is dated as of November 10, 2015.

The following Management's Discussion and Analysis ("MD&A") of the unaudited operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the third quarter of 2015 should be read in conjunction with the MD&A for the year ended December 31, 2014, the Company's annual audited financial statements, the notes relating thereto, and the quarterly unaudited financial statements and notes contained in this report, as well as the Company's MD&A and unaudited interim financial statements for the quarters of 2014 and the previous quarters of 2015. The unaudited condensed 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 condensed consolidated financial statements and this MD&A are expressed in Canadian dollars.

MD&A contains forward-looking information and involves numerous risks and uncertainties, including but not limited to, those described in the "Risk Factors" section of the long form prospectus which is available at [www.sedar.com](http://www.sedar.com). No assurance can be given that results, performance or achievement expressed in, or implied by, any of the forward-looking information will occur, or if they do, that any benefits may be derived from them. Actual results may differ materially from those expressed or implied by such forward-looking information. See Forward-Looking Statements and Information section in this report.

The financial statements of the Company is prepared in compliance with IFRS, which is generally accepted accounting principles ("GAAP") as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-GAAP measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. See Non-GAAP Measures section in this report.

## Financial Analysis Overview

(millions of dollars except per share amounts)	Third quarter		Year to date	
	2015	2014	2015	2014
Shareholders' net income	\$ 22.2	\$ 24.1	\$ 92.4	\$ 80.5
Earnings per share - basic and diluted	\$ 22.49	\$ 24.49	\$ 93.79	\$ 81.76
Return on shareholders' equity (annualized) (ROE)	8.2%	10.1%	11.7%	11.6%

Empire Life reported third quarter shareholders' net income of \$22.2 million for 2015, compared to \$24.1 million for 2014. Year to date shareholders' net income was \$92.4 million compared to \$80.5 million in 2014.

The following table provides a breakdown of the sources of earnings<sup>1</sup> for the third quarter and year to date.

Sources of Earnings (millions of dollars)	Third quarter		Year to date	
	2015	2014	2015	2014
Expected profit on in-force business	\$ 39.7	\$ 34.0	\$ 116.1	\$ 98.8
Impact of new business	(7.2)	(8.4)	(21.6)	(28.3)
Experience gains (losses)	(20.8)	(2.7)	(17.6)	3.7
Management actions and changes in assumptions	—	—	—	8.0
Earnings on operations before income taxes	11.7	22.9	76.9	82.2
Earnings on surplus	17.4	8.8	43.1	22.9
Income before income tax	\$ 29.1	\$ 31.7	\$ 120.0	\$ 105.1
Income taxes	6.9	7.6	27.6	24.6
Shareholders' net income	\$ 22.2	\$ 24.1	\$ 92.4	\$ 80.5

<sup>1</sup> See Non-GAAP Measures

# Management's Discussion and Analysis

Shareholders' net income and ROE were lower relative to 2014 for the third quarter due to lower profit from the Individual Insurance product line. The decreased profit from this product line primarily resulted from experience losses including a \$5.7 million loss from strengthening asset default reserves due to a ratings agency downgrade of Province of Ontario issued debt.

Shareholders' net income and ROE were higher relative to 2014 for the year to date primarily due to growing profit on in-force Wealth Management business and increased earnings on surplus.

The Wealth Management product line's improved result was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit (GMWB) products. Despite the recent drop in stock markets, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to the first nine months of 2014 was primarily due to positive segregated fund net sales in the last 12 months, product price increases and the positive impact of the above mentioned segregated fund performance. Earnings on surplus improved primarily due to increased gains on the sale of bonds.

The impact of new business improved, relative to 2014 primarily due to lower third quarter and year to date segregated fund sales and lower Wealth Management expenses. Experience losses occurred in 2015 primarily related to unfavourable surrender and lapse experience, investment experience and mortality experience, which negatively affected the Individual Insurance product line. In 2014 experience gains and losses netted to low amounts as gains from surrender and lapse experience were offset by losses from downward movement of interest rates which affected the Individual Insurance product line.

The gain from management actions in 2014 resulted from a favourable settlement on a lawsuit which resulted in a gain for Empire Life.

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 2015 net income compared to 2014 is shown in the Product Line Results sections later in this report.

On August 5, 2015 Empire Life filed a final long form non-offering prospectus with the securities regulatory authority in the province of Ontario. The purpose of filing the non-offering prospectus was to qualify Empire Life to raise regulatory capital in the form of preferred shares and subordinated debt, as well as other debt securities. There is no guarantee Empire Life will proceed with an offering.

Management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2014 Annual Management's Discussion and Analysis.

# Management's Discussion and Analysis

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

For the three months ended September 30 (millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Revenue</b>										
Net premium income	\$ 35	\$ 41	\$ 82	\$ 79	\$ 91	\$ 88	\$ —	\$ —	\$ 208	\$ 208
Fee and other income	52	46	2	2	—	—	—	—	54	48
Investment income	10	11	1	1	43	39	10	10	64	61
Realized gain (loss) on FVTPL investments	1	3	—	—	(8)	6	3	—	(4)	9
Realized gain (loss) on available for sale investments including impairment write downs	1	(1)	—	—	(1)	—	4	3	4	2
Fair value change in FVTPL investments	(26)	(1)	(3)	1	(88)	52	3	—	(114)	52
Total Revenue	73	99	82	83	37	185	20	13	212	380
<b>Expenses</b>										
Benefits and expenses	45	85	78	79	55	179	4	3	182	346
Income and other taxes	9	2	2	3	(4)	3	3	3	10	11
Total Expense	54	87	80	82	51	182	7	6	192	357
<b>Net income (loss) after tax</b>	\$ 19	\$ 12	\$ 2	\$ 1	\$ (14)	\$ 3	\$ 13	\$ 7	\$ 19	\$ 24
Participating policyholders' portion									(3)	—
Shareholders' net income									\$ 22	\$ 24
Assets under management <sup>2</sup>										
General fund assets	\$ 969	\$ 1,080							\$ 6,894	\$ 6,513
Segregated fund assets	\$ 7,087	\$ 6,631			\$ 20	\$ 22			\$ 7,107	\$ 6,653
Mutual fund assets	\$ 160	\$ 84							\$ 160	\$ 84
Annualized premium sales <sup>2</sup>			\$ 9	\$ 10	\$ 13	\$ 14				

For the nine months ended September 30 (millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Revenue</b>										
Net premium income	\$ 112	\$ 141	\$ 243	\$ 239	\$ 274	\$ 271	\$ —	\$ —	\$ 629	\$ 652
Fee and other income	153	131	7	6	1	1	—	—	161	138
Investment income	32	37	3	3	127	111	30	32	192	183
Realized gain on FVTPL investments	1	6	1	—	30	55	2	—	34	61
Realized gain on available for sale investments including impairment write downs	1	—	—	—	—	—	19	12	20	12
Fair value change in FVTPL investments	(35)	13	(2)	4	(105)	322	2	—	(140)	339
Total Revenue	264	328	252	252	327	760	53	44	896	1,385
<b>Expenses</b>										
Benefits and expenses	198	290	236	237	329	728	9	14	772	1,269
Income and other taxes	17	8	8	8	1	12	11	8	37	36
Total Expense	215	298	244	245	330	740	20	22	809	1,305
<b>Net income (loss) after tax</b>	\$ 49	\$ 30	\$ 8	\$ 7	\$ (3)	\$ 20	\$ 33	\$ 22	\$ 87	\$ 80
Participating policyholders' portion									(5)	—
Shareholders' net income									\$ 92	\$ 80
Assets under management <sup>3</sup>										
General fund assets	\$ 969	\$ 1,080							\$ 6,894	\$ 6,513
Segregated fund assets	\$ 7,087	\$ 6,631			\$ 20	\$ 22			\$ 7,107	\$ 6,653
Mutual fund assets	\$ 160	\$ 84							\$ 160	\$ 84
Annualized premium sales <sup>3</sup>			\$ 32	\$ 33	\$ 39	\$ 45				

<sup>2,3</sup> See Non-GAAP Measures

# Management's Discussion and Analysis

## Total Revenue

(millions of dollars)	Third quarter		Year to date	
	2015	2014	2015	2014
<b>Revenue</b>				
Net premium income	\$ 208	\$ 208	\$ 629	652
Investment income	65	61	192	183
Fair value change in FVTPL investments including realized amounts	(118)	61	(106)	400
Realized gain (loss) on AFS investments including impairment write downs	3	2	20	12
Fee and other income	54	48	161	138
Total Revenue	\$ 212	\$ 380	\$ 896	1,385

For the quarter, total revenue at Empire Life decreased by 44% to \$212 million compared to \$380 million in 2014. On a year to date basis, total revenue decreased by 35% to \$896 million compared to \$1.385 billion in 2014. Revenue volatility was primarily driven by the impact of market interest rate and stock market movements on Fair value change in FVTPL investments. Major revenue items are discussed below.

Net premium revenue for the quarter was flat and for year to date decreased in 2015 relative to 2014. The decrease related primarily to the fixed interest deferred annuities portion of the Wealth Management product line, which experienced weak demand due to the low interest rate environment.

Fair value change in FVTPL investments including realized amounts often causes large revenue volatility. These assets experienced a net loss for the third quarter and year to date of 2015 compared to a net gain for the same periods in 2014. In 2015 the loss was from a decrease in stock prices and bond prices (due to an increase in market interest rates). In 2014 the gain was primarily from an increase in bond prices (due to a decrease in market interest rates). For the third quarter and year to date, 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 gain in both 2015 and 2014. In the third quarter and year to date 2015 the gain was primarily due to the sale of AFS bonds, while the gain in comparable periods in 2014 was due to both the sale of AFS equities and bonds. 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 primarily backed capital and surplus.

Fee and other income increased in 2015 relative to 2014 primarily due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products (see the Product Line Results - Wealth Management section later in this report).

# Management's Discussion and Analysis

## Total Benefits and Expenses

(millions of dollars)	Third quarter		Year to date	
	2015	2014	2015	2014
<b>Benefits and expenses</b>				
Net benefits and claims	\$ 151	\$ 150	\$ 480	\$ 477
Net change in insurance contract liabilities	(58)	104	16	512
Change in investment contracts provision	—	1	1	2
Policy dividends	6	6	19	17
Operating expenses	37	35	108	107
Net commissions	45	48	141	142
Interest expense	2	2	7	12
Total benefits and expenses	\$ 183	\$ 346	\$ 772	\$ 1,269

Total benefits and expenses at Empire Life for the quarter decreased to \$183 million compared to \$346 million in 2014. On a year to date basis, total benefits and expenses decreased to \$772 million compared to \$1.269 billion in 2014. Expense volatility was primarily driven by the impact of market interest rate and stock market movements on net change in insurance contract liabilities. 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, which was the case for the quarter and year to date for all lines of business except Wealth Management, which declined due to lower fixed interest deferred annuity withdrawals and Individual Insurance, which had a small decline for the quarter. 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 quarter and year to date, the main reason for the large change from 2014 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 operations.

For the quarter and year to date net commissions decreased year over year primarily due to the decrease in Individual Insurance and Wealth Management product sales.

Interest expense decreased in for the year to date in 2015 relative to 2014 due to the redemption of \$200 million 6.73% subordinated debentures on May 20, 2014.



# Management's Discussion and Analysis

## Product Line Results - Wealth Management

		As at September 30			
(millions of dollars)		2015	2014		
<b>Assets under management<sup>4</sup></b>					
General fund annuities	\$	969	\$ 1,080		
Segregated funds		7,087	6,631		
Mutual funds		160	84		
		Third quarter	Year to date		
(millions of dollars)		2015	2014	2015	2014
<b>Selected financial information</b>					
Net fixed interest annuity premiums	\$	35	\$ 41	\$ 112	\$ 141
Segregated fund gross sales <sup>4</sup>		242	283	841	908
Segregated fund net sales <sup>4</sup>		61	100	208	295
Segregated fund fee income		51	45	150	129
Mutual fund gross sales <sup>4</sup>		17	19	66	46
Mutual fund net sales <sup>4</sup>		11	18	54	43
Mutual fund fee income		1	—	2	1
<b>Net income after tax</b>	\$	19	\$ 12	\$ 49	\$ 30

Assets in Empire Life general fund annuities decreased by 10%, while segregated fund assets increased by 7% during the last 12 months. The decrease in the last 12 months for general fund annuities is related primarily to weak demand for fixed interest deferred annuities due to the low interest rate environment. The increase over the last 12 months for segregated funds was attributable primarily to strong net sales (gross sales net of withdrawals) described below.

Premium revenue for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund and mutual fund products. For the third quarter and year to date, fixed interest annuity premiums were down 13% and 21% respectively compared to 2014. For the quarter and year to date the decrease was primarily due to decreased sales of fixed interest deferred annuities.

For the third quarter and year to date, segregated fund gross sales were down 15% and 7% respectively compared to 2014. For the third quarter, this decrease was primarily due to lower 75% maturity guarantee product sales and lower GMWB sales which decreased by \$26 million and \$25 million respectively. For the year to date this decrease was primarily due to lower GMWB sales which decreased by \$112 million compared to 2014. These decreases were partly offset by increased sales of 100% maturity guarantee products, which increased by \$11 million and \$42 million in the third quarter and year to date respectively compared to 2014. In the fourth quarter of 2014, Empire Life made significant changes to its segregated funds product line. Empire Life closed its existing segregated funds products to new policies effective October 31, 2014. In addition, on November 3, 2014 Empire Life launched a new suite of investment products including a new segregated funds family called Empire Life Guaranteed Investment Funds (GIF), as well as a stand-alone Guaranteed Interest Contract (GIC) and a new version of its GMWB product. Fees charged to the customer on the new product line are higher than the former product line. The new product line's pricing and features are Empire Life's response to the economic, regulatory and competitive landscape in the segregated fund product marketplace. On April 20, 2015, Empire Life added to this new family of products by launching a new series of Empire Life GIFs and a new segregated fund, Empire Life Monthly Income GIF. While sales are down slightly from last year (as described above), the launch of these new segregated fund products has gone well so far this year, achieving gross sales of \$196 million for the third quarter and \$617 million for the year to date which represented 81% and 73% of segregated fund gross sales respectively.

<sup>4</sup> See Non-GAAP Measures

# Management's Discussion and Analysis

Segregated fund net sales for the quarter and year to date were down 39% and 30% respectively compared to 2014 primarily due to the above mentioned gross sales result.

Mutual fund sales improved on a year to date basis, but are still a small component of our Wealth Management assets under management. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the quarter and year to date, segregated fund fee income increased by 13% and 16% respectively in 2015 relative to 2014. The increase was due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. Despite the recent drop in stock markets, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to the first nine months of 2014 was primarily due to positive segregated fund net sales in the last 12 months, product price increases and the positive impact of the above mentioned segregated fund performance. The strong net sales and performance had a positive impact on average assets under management and management fees earned.

During the third quarter and year to date earnings from this product line increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Third quarter		Year to date	
<b>Components of increase</b>				
Increase in inforce profit margins	\$	5	\$	16
Lower new business strain		1		1
Improved annuitant mortality experience		1		1
Improved investment experience		—		1
<b>Total</b>	<b>\$</b>	<b>7</b>	<b>\$</b>	<b>19</b>

Higher net income on inforce business in 2015 was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related GMWB products (as described above).

Higher net income from lower new business strain was primarily due to the decrease in segregated fund gross sales.

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

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

## Product Line Results - Employee Benefits

(millions of dollars)	Third quarter		Year to date	
	2015	2014	2015	2014
<b>Selected financial information</b>				
Annualized premium sales <sup>5</sup>	\$ 10	\$ 10	\$ 32	\$ 33
Net premium revenue	82	79	243	239
<b>Net income after tax</b>	<b>\$ 2</b>	<b>\$ 1</b>	<b>\$ 8</b>	<b>\$ 7</b>

For the quarter and year to date, sales in this product line decreased by 6% and 3% respectively in 2015 relative to 2014. The 2015 level of sales is a strong achievement particularly given the weak economic conditions in Canada. The economic weakness also contributed to this product line's slow inforce premium revenue growth.

<sup>5</sup> See Non-GAAP Measures

# Management's Discussion and Analysis

During the third quarter and year to date earnings from this product line increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Third quarter		Year to date	
<b>Components of increase</b>				
Improved (worsened) claims experience	\$	1	\$	—
Lower new business strain		—		1
<b>Total</b>	<b>\$</b>	<b>1</b>	<b>\$</b>	<b>1</b>

In the third quarter of 2015 improved claims experience related to life and long-term disability results.

Higher net income from lower new business strain in 2015 was due to lower sales and expenses.

## Product Line Results - Individual Insurance

(millions of dollars)	Third quarter		Year to date	
	2015	2014	2015	2014
<b>Selected financial information</b>				
Annualized premium sales <sup>6</sup>	\$ 13	\$ 14	\$ 39	\$ 45
Net premium revenue	91	88	274	271
<b>Net income (loss) after tax</b>				
Net income (loss) after tax shareholders' portion	\$ (11)	\$ 4	\$ 4	\$ 26
Net loss after tax policyholders' portion	(3)	(1)	(7)	(6)
Net income (loss) after tax	\$ (14)	\$ 3	\$ (3)	\$ 20

For the third quarter and year to date, annualized premium sales in this product line decreased by 3% and 12% respectively compared to 2014. This product line's third quarter sales result is attributable primarily to decreased sales of term products. The year to date sales result is attributable primarily to decreased sales of universal life and term products. The decrease in universal life sales primarily related to the investment fund component within these products as opposed to insurance annualized premium sales. This decline in sales was partly offset by increased sales of participating products. Our recently launched EstateMax participating product contributed to this increase in participating product sales. EstateMax is distributed through professional financial advisors aimed at providing simple estate planning solutions to Canadian baby boomers. Empire Life believes that the market response has been favourable based on sales achieved and applications received in 2015. In recent years (beginning in 2011), Empire Life has been shifting its product mix toward shorter term products such as term life, while increasing prices on long-term products, due to the low long-term interest rate environment.

During the third quarter and year to date earnings from this product line decreased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Third quarter		Year to date	
<b>Components of decrease</b>				
2014 favourable legal settlement	\$	—	\$	(6)
Worsened mortality, surrender, lapse and other experience		(13)		(28)
Improved (worsened) investment experience		(4)		11
<b>Total</b>	<b>\$</b>	<b>(17)</b>	<b>\$</b>	<b>(23)</b>

<sup>6</sup> See Non-GAAP Measures

# Management's Discussion and Analysis

During the second quarter of 2014 a favourable settlement on a lawsuit resulted in a \$6 million gain after tax for Empire Life.

For the third quarter and year to date, mortality experience and surrender and lapse experience were unfavourable compared to favourable results in the comparable periods in 2014.

There was a loss from investment experience in the third quarter of both 2015 and 2014, but the loss worsened in 2015 compared to 2014. In the third quarter of 2015 the loss was primarily due to weak stock markets and a ratings agency downgrade of Province of Ontario issued debt. The loss from the downgrade, which caused a \$5.7 million decrease to net income in 2015, was due to an increase in asset default reserves. In the third quarter of 2014 the investment experience loss was primarily due to unfavourable interest rate movements in 2014.

There was a loss from investment experience for the year to date for both 2015 and 2014, but the loss was lower in 2015 compared to 2014. For year to date 2015 the loss was primarily from weak stock markets and a ratings agency downgrade of Province of Ontario bonds as described above. While 30 year Canadian federal bond yields decreased in 2015 (as shown in the following table), there was an increase in interest rate spreads on provincial and corporate bonds during 2015 which had a favourable impact on 2015 net income offsetting the rate decline shown in the table below. For year to date 2014 the loss was primarily from unfavourable interest rate movements in 2014 (as demonstrated using 30 year bond yields in the following table).

	Third quarter		Year to date	
	2015	2014	2015	2014
<b>Interest rate movement</b>				
30 year Canadian federal government bond yield				
End of period	<b>2.20 %</b>	2.67 %	<b>2.20 %</b>	2.67 %
Beginning of period	<b>2.30 %</b>	2.78 %	<b>2.36 %</b>	3.24 %
Change during period	<b>(0.10)%</b>	(0.11)%	<b>(0.16)%</b>	(0.57)%

Interest rate movements impact both bond asset fair value and insurance contract liabilities. In 2014 the decrease in interest rates caused higher bond prices which results in a bond asset fair value gain. However these gains were more than offset by increased insurance contract liabilities resulting from these decreases in market interest rates. 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.

## Results - Capital and Surplus

	Third quarter		Year to date	
(millions of dollars)	2015	2014	2015	2014
<b>Net income after tax</b>				
Net income after tax shareholders' portion	\$ 13	\$ 6	\$ 31	17
Net income after tax policyholders' portion	—	1	2	5
Net income after tax	\$ 13	\$ 7	\$ 33	22

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.

# Management's Discussion and Analysis

During the third quarter and year to date earnings from this product line increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Third quarter	Year to date
<b>Components of increase</b>		
Increased net income from sale of investments	\$ 1	\$ 5
Lower interest expense	—	4
Lower investment income	—	(1)
Gain on hedging instruments	5	3
<b>Total</b>	<b>\$ 6</b>	<b>\$ 11</b>

Increased net income from sale of investments was primarily due to gains from the sale of AFS bonds in 2015.

Lower interest expense was due to the redemption of \$200 million 6.73% subordinated debentures on May 20, 2014.

Lower investment income was primarily due to a decrease in invested assets resulting from the investments sold to fund the above mentioned redemption of subordinated debentures.

During the year to date of 2015 Empire Life experienced a gain of \$3 million after tax on its hedging program (discussed in the Risk Management section later in this report).

## Total Cash Flow

(millions of dollars)	Year to date	
	2015	2014
<b>Cash Flow provided from (used for)</b>		
Operating Activities	\$ 100	\$ 83
Investing Activities	(214)	104
Financing Activities	(4)	(245)
<b>Net change in cash and cash equivalents</b>	<b>\$ (118)</b>	<b>\$ (58)</b>

The increase in cash provided from operating activities in 2015 relative to 2014 was primarily due to changes in working capital levels.

The decrease in cash provided from investing activities during 2015 relative to 2014 was primarily driven by financing activities and the timing of portfolio investment transactions. In 2014 cash provided from investing activities included the sale of investments to fund Empire Life's May 20, 2014 redemption of \$200 million of subordinated debentures (described below).

The decrease in cash used for financing activities during 2015 relative to 2014 was primarily due to Empire Life's 2014 redemption of its \$200 million 6.73% subordinated debentures at par on May 20, 2014. In addition there was payment of \$34 million of dividends to common shareholders by Empire Life in 2014 which did not recur in 2015. The Board of Directors takes a number of factors into consideration in determining the amount of the dividends, if any, including the financial performance of Empire Life, regulatory solvency requirements, capital ratios and growth opportunities. Based on the assessment of these factors, Empire Life has not paid a dividend to common shareholders so far in 2015.

For an analysis of liquidity for Empire Life, see note 10e) and note 27(a)(2)ii) to the 2014 consolidated financial statements.

# Management's Discussion and Analysis

## Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of Empire Life. Empire Life's investment strategy also includes the use of publicly-listed "large cap" common stocks to support the liabilities under its insurance policies. Cash flows arising from these financial instruments are intended to match the liquidity requirements of Empire Life's policies, within the limits prescribed by Empire Life. Empire Life is subject to market risk on these financial instruments.

Empire Life is also subject to credit risk on these financial instruments which could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages. Empire Life manages market risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix. Empire Life has a semi-static hedging program as part of its approach to managing this risk. Empire Life manages credit risk by applying its investment guidelines established by the Investment Committee of the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of Empire Life's Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed, with total credit exposure limited to \$100 million. Additional information regarding financial instruments is included in Notes 2(d), 3, 10(c), and 27 to the audited consolidated financial statements for the year ended December 31, 2014 and Notes 3, and 13 to the consolidated financial statements for the six-months ended September 30, 2015.

## Capital Resources

	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
	2015	2015	2015	2014	2014
<b>MCCSR Ratio</b>	<b>202%</b>	202%	190%	197%	231%

Empire Life continues to maintain a strong balance sheet and capital position. The 2013 Debentures are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best"). On May 21, 2015, DBRS confirmed its ratings of Empire Life including its issuer rating of "A" (sixth highest of 20 categories), its subordinated debt rating of "A (low)" (seventh highest of 20 categories) and its claims paying rating of "IC-2" (second highest of five categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's smaller scale, full suite of products, participation in niche markets that reward company strengths and improving levels of profitability and fixed charge coverage.

On May 19, 2015, A.M. Best confirmed its ratings of Empire Life including its issuer rating of "a" (sixth highest of 22 categories), its subordinated debt rating of "bbb+" (eighth highest of 22 categories) and its financial strength rating of "A (Excellent)" (third highest of 16 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's favourable risk-adjusted capital position, continued earnings growth and sustainable market presence in Canada with multiple lines of business.

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 202% as at September 30, 2015 continued to be above requirements, and above minimum internal targets.

# Management's Discussion and Analysis

The MCCR ratio was unchanged from the previous quarter and increased by 5 points for the year to date. The change was due to increases in available regulatory capital offset by increases in required regulatory capital for the quarter and increases in available regulatory capital partly offset by increases in required regulatory capital for the year to date, as shown in the table below.

(millions of dollars)	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014
<b>Available regulatory capital</b>					
Tier 1	\$ 935	\$ 929	\$ 883	\$ 872	856
Tier 2	476	464	466	452	436
<b>Total</b>	<b>\$ 1,411</b>	<b>\$ 1,393</b>	<b>\$ 1,349</b>	<b>\$ 1,324</b>	<b>1,292</b>
<b>Required regulatory capital</b>	<b>\$ 699</b>	<b>\$ 691</b>	<b>\$ 709</b>	<b>\$ 671</b>	<b>560</b>

The increase in Tier 1 available regulatory capital from the previous quarter and for the year to date was primarily due to net income. This was partly offset by an increase in negative reserves which decrease Tier 1 (but increase Tier 2 as described below).

Tier 2 available regulatory capital increased from the previous quarter and for the year to date primarily due to an increase in negative reserves which increase Tier 2 (but decrease Tier 1 as described above).

Regulatory capital requirements increased from the previous quarter and for the year to date primarily due to increased requirements related to segregated fund guarantees.

## Other Comprehensive Income

(millions of dollars)	Third quarter 2015	2014	Year to date 2015	2014
Other comprehensive income (loss)	\$ (12.8)	(2.6)	(16.0)	12.1
Less: Participating Policyholders	0.8	0.5	1.6	0.9
Other comprehensive income (loss), attributable to shareholders	\$ (12.0)	(2.1)	(14.4)	13.0

Other comprehensive income (OCI) decreased in the third quarter and year to date of 2015 relative to the comparable periods of 2014. For the third quarter this was primarily due to unrealized fair value decreases relating to AFS bonds in 2015. For the year to date this was primarily due to the realized gains reclassified to net income in 2015. OCI includes the remeasurement of post-employment defined benefit ("DB") plans which had a loss for the third quarter and year to date in both 2015 and 2014. The 2015 result for DB plans was primarily due to losses on both DB plan assets and liabilities. The 2014 result for DB plans was primarily due to losses on DB plan liabilities partly offset by gains on DB plan assets.

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



# Management's Discussion and Analysis

## Risk Management

Empire Life's MCCR ratio, among other things, is sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of September 30, 2015 Empire Life had \$7.1 billion of segregated fund assets and liabilities. Of this amount, approximately \$6.8 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Sep 30 2015	Dec 31 2014
<b>Percentage of segregated fund liabilities with:</b>		
75% maturity guarantee and a 75% death benefit guarantee	0.2%	—%
75% maturity guarantee and a 100% death benefit guarantee	52.0%	53.2%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	5.8%	5.4%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	42.0%	41.4%

All Empire Life segregated fund guarantees are policy based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all of the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignores all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, generally policy based guarantees pay less than deposit based guarantees. For segregated fund guarantee insurance contract liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end stock markets are high relative to market levels at the time that segregated fund policies 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. The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e. negative amounts are not permitted so zero is used instead as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. In the first table below, Empire Life discloses the sensitivity of net income to changes in segregated fund guarantee insurance contract liabilities. There is a net loss resulting from a 20% decrease at September 30, 2015, but otherwise the amounts shown in the table are nil. These liabilities (present value of future benefits and expenses minus the present value of future fee revenue) are calculated using stochastic modeling techniques based on a range of future economic scenarios. The liabilities are the greater of: (i) the average of the amounts determined in the worst 20% of the scenarios; and (ii) zero. For the nil amounts shown in this table, the liability for Empire Life was negative. Therefore, the alternative level of zero is applied in these tests (zero floor) resulting in a net income impact of nil. Based on stock market levels at September 30 for 2015 and December 31 for 2014, the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

\$ millions	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Sensitivity To Segregated Fund Guarantees:</b>				
September 30, 2015 Shareholders' net income	\$ nil	\$ nil	\$ nil	(46)
December 31, 2014 Shareholders' net income	\$ nil	\$ nil	\$ nil	nil

The impact of stock market changes is not linear. Based on stock market levels at September 30, 2015 the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from a 20% decrease in stock markets is a net loss of \$46 million as illustrated in the table above. At a 30% decrease in stock markets the net loss at September 30, 2015 would be \$139 million. At September 30, 2015 a 20% and 30% decrease in stock markets would result in an increase in net income by \$34 million to a net loss of \$12 million and by \$56 million to a net loss of \$83 million respectively from gains on equity hedging instruments. Based on stock market levels at December 31, 2014 the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from a 20% decrease in stock markets is nil as illustrated in the table above. At December 31, 2014, a decrease in stock markets of 20.2% or more would result in a net loss greater than nil. At December 31, 2014 a 30% decrease in stock markets would result in a net loss of \$76 million. At December 31, 2014 a 20.2% and 30% decrease in stock markets would result in an increase in net income by \$9 million to \$9 million and by \$17 million to a net loss of \$59 million respectively from gains on equity hedging instruments.



# Management's Discussion and Analysis

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has been considering implementing a partial economic hedging program for some time. In the fourth quarter of 2014, Empire Life strengthened its stochastic model, which impacted its base capital position as well as its capital position under sensitivity tests. This encouraged Empire Life to begin implementation of the hedging program in November 2014. Therefore, during the fourth quarter of 2014, Empire initiated a semi-static hedging program, and expanded this program during the first half of 2015. The objective of the hedging program is to partially protect Empire Life from possible future MCCR ratio declines that might result from adverse stock market price changes. The hedging program presently employs put options and short positions on key equity indices. Empire Life intends to protect 10% to 20% of overall income and MCCR equity risk exposure by expanding the hedging program during 2015 and subsequent years.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for MCCR purposes related to segregated fund guarantees, but does not have policy liabilities related to these guarantees on its balance sheet. Therefore a by-product of hedging MCCR exposure is income statement volatility, as the gains or losses from hedging instruments are not offset by changes in policy liabilities related to segregated fund guarantees on the income statement. During the first nine months of 2015 Empire Life experienced a gain of \$3 million after tax on its hedging program. During 2015 and subsequent years, Empire Life expects to expand its hedging program and expects an increase in income statement volatility as a result.

Based on stock market levels on the dates indicated below the sensitivity of Empire Life's MCCR ratio to stock market increases and decreases for all Empire Life stock market exposures, including segregated fund guarantees, is as follows (excluding the effect of Empire Life's equity risk hedging program):

Excluding Equity Risk Hedge	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Sensitivity To Stock Markets:</b>				
September 30, 2015 MCCR Ratio	0.4%	(15.3)%	—%	(23.7)%
December 31, 2014 MCCR Ratio	9.0%	(11.6)%	15.3%	(25.5)%

The September 30, 2015 and December 31, 2014 amounts in the following table include the effect of Empire Life's equity risk hedging program (described below):

Including Equity Risk Hedge	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Sensitivity To Stock Markets:</b>				
September 30, 2015 MCCR Ratio	(2.4)%	(11.7)%	(4.8)%	(16.1)%
December 31, 2014 MCCR Ratio	8.8 %	(11.2)%	14.9 %	(24.4)%

As of December 2014, the equity hedging program was only partially implemented. It provided \$4 million of relief in the 10% stock market decrease scenario and \$9 million of relief in the 20% stock market decrease scenario. As at September 30, 2015, it provided \$14 million of relief in the 10% stock market decrease scenario and \$34 million of relief in the 20% stock market decrease scenario. The full program provides roughly 2.5 times the December 2014 level of protection.

Based on stock market levels as at September 30, 2015 and December 31, 2014, the sensitivity of shareholders' net income (excluding changes in segregated fund guarantee insurance contract liabilities) resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Excluding Equity Risk Hedge</b>				
September 30, 2015 Shareholders' net income*	\$ 16	\$ (16)	\$ 33	\$ (33)
December 31, 2014 Shareholders' net income*	\$ 17	\$ (17)	\$ 33	\$ (33)

\*Includes the estimated impact on fee revenue net of trailer commissions after tax for a three month period.

# Management's Discussion and Analysis

The September 30, 2015 and December 31, 2014 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
<b>Including Equity Risk Hedge</b>				
September 30, 2015 Shareholders' net income*	\$ 7	\$ (2)	\$ 16	\$ 1
December 31, 2014 Shareholders' net income*	\$ 14	\$ (13)	\$ 29	\$ (24)

\*Includes the estimated impact on fee revenue net of trailer commissions after tax for a three month period.

Empire Life also has 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. 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 MCCR required capital for Empire Life segregated funds is as follows:

Segregated Funds (millions of dollars)	Guarantee > Fund Value		Death Benefit > Fund Value		GMWB Top-up	Actuarial	MCCR
	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Amount At Risk	Liabilities	Required Capital
September 30, 2015	\$ 166	\$ 8	\$ 1,768	\$ 63	\$ 487	nil	125
December 31, 2014	\$ 49	\$ 2	\$ 360	\$ 10	\$ 380	nil	102

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. As at September 30, 2015, the aggregate amount at risk was \$558 million, an increase from the aggregate amount at risk of \$392 million as at December 31, 2014.

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 in the above table is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist 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 September 2015 increased from the December 2014 levels for fund value guarantee exposure, death benefit guarantee exposure, and GMWB top-up exposure due primarily to the recent decrease in many global stock markets. The quarterly update of segregated fund policy data on our stochastic model resulted in an increase in required regulatory capital.

In addition, Empire Life's MCCR ratio is sensitive to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates, and a 50 basis point decrease in assumed initial reinvestment rate (IRR) for nonparticipating insurance business and segregated fund guarantees, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR). The first column below excludes the impact of market value changes in available for sale (AFS) bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. The second column below shows the impact if the AFS bonds were sold to realize the gains from a 50 basis point decrease in interest rates.

# Management's Discussion and Analysis

	Before The Sale of AFS Assets	After The Sale of AFS Assets
	50 bps Decrease	50 bps Decrease
<b>Sensitivity To Market Interest Rates:</b>		
September 30, 2015 MCCSR Ratio	(20)%	(15)%
December 31, 2014 MCCSR Ratio	(24)%	(21)%

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in Empire Life's final long form non-offering prospectus available at [www.sedar.com](http://www.sedar.com). Additional disclosures of Empire Life's sensitivity to risks are included in note 27 to the 2014 consolidated financial statements.

## Quarterly Results

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

	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013
<b>Revenue</b>	\$ 212	\$ 41	\$ 643	\$ 541	\$ 381	\$ 480	\$ 524	\$ 322
<b>Shareholders' Net income</b>	\$ 22	\$ 44	\$ 26	\$ 18	\$ 24	\$ 38	\$ 18	\$ 30
<b>Earnings per share - basic and diluted</b>	\$ 22.49	\$ 45.34	\$ 25.97	\$ 18.44	\$ 24.49	\$ 39.22	\$ 18.05	\$ 30.97

For the third quarter of 2015, total revenue at Empire Life decreased by 44% to \$212 million compared to \$381 million in the third quarter of 2014. The decrease was primarily due to a fair value decrease in FVTPL investments in 2015 compared to an increase for this item in the third quarter of 2014. In the third quarter of 2015 the decrease was primarily due to the decline of major stock markets. In the third quarter of 2014 interest rates decreased resulting in an increase in bond prices (see Total Revenue section earlier in this report). Revenue volatility during the most recent eight quarters was primarily driven by the impact of market interest rate movements on Fair value change in FVTPL investments. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities.

For the third quarter of 2015, net income was lower relative to the third quarter of 2014 primarily due to experience losses on its Individual Insurance business in 2015. See Product Line Results sections earlier in this report for further information on quarterly results.

Net income variability during the most recent eight quarters was primarily driven by long-term interest rate movements. Long-term interest rates decreased resulting in unfavourable net income in the individual insurance product line during the quarter ending March 31, 2015 and all 2014 quarters. Long-term interest rates increased, resulting in favourable net income in the individual insurance product line during the third quarter of 2015 and the two 2013 quarters shown in the above table. During all 2015 quarters and all 2014 quarters, Empire Life achieved strong year over year growth in the Wealth Management product line net income. This product line's strong result was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. Strong fee income was primarily due to the positive impact of favourable stock market conditions on management fees earned, strong segregated fund sales and higher GMWB prices.

## Forward-looking Statements and Information

Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their

# Management's Discussion and Analysis

nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, investment risks, market risks, market price fluctuations, interest rate risks, foreign currency risks, liquidity risks, credit risks, hedging risks, counterparty risks, insurance risks, experience risks, product design and pricing risks, underwriting and claims risks, reinsurance risks, risks with respect to competition, risks with respect to financial strength, capital adequacy risks, operational risks, risks with respect to regulatory matters, risks with respect to distribution channels, reliance on key personnel, ability to attract employees, pension risks, risks with respect to changes to applicable income tax legislation, risks with respect to litigation, risks with respect to reputation, risks with respect to modelling, risks with respect to risk management policies, risks with respect to intellectual property, risks with respect to significant ownership of common shares, risks with respect to market value, risks with respect to regulatory constraints and liquidity and price risks. Please see the section titled "Risk Factors" in Empire Life's final non-offering prospectus dated August 5, 2015 available at [www.sedar.com](http://www.sedar.com) for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable; assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on the Company's forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors, assumptions and other uncertainties and potential events. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or the date indicated, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise after the date of this document, except as required by law.

## Non-GAAP Measures

The Company uses non-GAAP measures including source of earnings, annualized premium sales, assets under management, mutual fund gross and net sales and segregated fund gross and net sales to provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. The Company's management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

Sources of earnings breaks down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from inforce business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The source of earnings components are reconciled to net income, see Overview section earlier in this report.

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. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

# Management's Discussion and Analysis

Assets under management is a non-GAAP measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. They represent the total assets of Empire Life and the assets its customers invest in. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

The following table provides a reconciliation of assets under management to total assets in Empire Life's financial statements.

## Reconciliation of Assets Under Management

(in millions of dollars)	As at September 30		As at December 31	
	2015	2014		2014
<b>Assets under management</b>				
General fund assets	\$ 6,894	\$ 6,513	\$	6,779
Segregated fund assets	7,107	6,653		6,948
Total assets per financial statements	14,001	13,166		13,727
Mutual fund assets	160	84		109
Assets under management	\$ 14,161	\$ 13,250	\$	13,836

The above table includes the following amounts held by Empire Life's DB plans.

(in millions of dollars)	As at September 30		As at December 31	
	2015	2014		2014
<b>DB Plan Assets</b>				
Segregated fund assets	\$ 178	\$ 172	\$	175
Mutual fund assets	10	10		10

# Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at	September 30, 2015	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 121,552	\$ 239,102
Investments		
Short-term investments (Note 3)	34,882	26,892
Bonds (Note 3)	5,153,539	4,958,086
Common and preferred shares (Note 3)	974,068	985,694
Mortgages (Note 3)	302,480	323,117
Loans on policies (Note 3)	46,836	46,434
Policy contract loans (Note 3)	84,907	86,698
Total investments	6,596,712	6,426,921
Accrued investment income	38,918	25,048
Insurance receivables	43,989	41,743
Other assets	62,961	19,957
Property and equipment	22,838	21,125
Intangible assets	7,108	4,832
Segregated fund assets (Note 4)	7,107,113	6,948,475
<b>Total Assets</b>	<b>\$ 14,001,191</b>	<b>\$ 13,727,203</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 86,873	\$ 56,021
Insurance payables	77,833	73,710
Current income taxes payable	2,220	7,804
Reinsurance liabilities	498,925	490,575
Insurance contract liabilities	4,721,088	4,713,462
Investment contract liabilities	11,325	11,626
Policyholders' funds on deposit	32,474	31,332
Provision for profits to policyholders	26,380	24,913
Deferred income taxes	4,178	8,243
Subordinated debt (Note 12)	299,024	298,763
Segregated fund policy liabilities	7,107,113	6,948,475
	12,867,433	12,664,924
<b>Equity</b>		
Capital stock	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,106,586	1,019,084
Accumulated other comprehensive income	6,800	22,823
	1,133,758	1,062,279
<b>Total Liabilities and Equity</b>	<b>\$ 14,001,191</b>	<b>\$ 13,727,203</b>



**Duncan N. R. Jackman**  
Chairman of the Board



**Mark Sylvia**  
President and Chief Executive Officer

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

# Interim Consolidated Statements of Operations

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

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Revenue</b>				
Gross premiums (Note 5)	\$ 236,337	\$ 233,886	\$ 710,573	\$ 727,678
Premiums ceded to reinsurers ( Note 5)	(27,923)	(25,523)	(81,610)	(76,109)
Net premiums (Note 5)	208,414	208,363	628,963	651,569
Investment income	64,641	60,517	192,339	183,002
Fair value change in fair value through profit or loss assets	(113,522)	51,512	(139,658)	338,869
Realized gain (loss) on fair value through profit or loss assets sold	(4,311)	9,387	34,045	61,555
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	2,908	2,281	19,603	11,815
Fee income	54,221	47,855	160,781	137,613
Total revenue	212,351	379,915	896,073	1,384,423
<b>Benefits and Expenses</b>				
Gross benefits and claims paid (Note 6)	175,377	173,630	543,247	538,780
Claims recovery from reinsurers (Note 6)	(24,500)	(23,489)	(62,515)	(61,938)
Gross change in insurance contract liabilities (Note 6)	(56,839)	103,291	7,627	488,662
Change in insurance contract liabilities ceded (Note 6)	(1,603)	764	8,350	23,329
Change in investment contracts provision	118	552	937	1,728
Policy dividends	6,232	5,661	18,645	17,130
Operating expenses	37,008	34,694	108,374	107,118
Commissions	45,862	48,166	142,344	143,612
Commission recovery from reinsurers	(624)	(606)	(1,770)	(1,801)
Interest expense	2,258	2,261	6,700	11,924
Total benefits and expenses	183,289	344,924	771,939	1,268,544
Premium tax	3,495	3,636	10,488	10,816
Investment and capital tax	825	825	2,475	2,475
<b>Net Income Before Income Taxes</b>	<b>24,742</b>	<b>30,530</b>	<b>111,171</b>	<b>102,588</b>
Income taxes	5,127	6,854	23,669	22,782
<b>Net Income</b>	<b>\$ 19,615</b>	<b>\$ 23,676</b>	<b>\$ 87,502</b>	<b>\$ 79,806</b>
<b>Net Income (Loss) Attributable to:</b>				
Participating Policyholders	(2,541)	(450)	(4,892)	(735)
Shareholders	22,156	24,126	92,394	80,541
<b>Total</b>	<b>\$ 19,615</b>	<b>\$ 23,676</b>	<b>\$ 87,502</b>	<b>\$ 79,806</b>
Earnings per share - basic and diluted (Note 14)	\$ 22.49	\$ 24.49	\$ 93.79	\$ 81.76

(2,000,000 shares authorized; 985,076 shares outstanding)

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

# Interim Consolidated Statements of Comprehensive Income

(unaudited, in thousands of Canadian dollars)

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Net Income</b>	<b>\$ 19,615</b>	<b>\$ 23,676</b>	<b>\$ 87,502</b>	<b>\$ 79,806</b>
<b>Other comprehensive income (loss), net of income taxes:</b>				
Items that may be reclassified subsequently to net income:				
Unrealized fair value change on available for sale investments (Note 8)	(7,704)	740	1,681	27,712
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 8)	(2,115)	(1,624)	(14,218)	(8,284)
Net unrealized fair value increase	(9,819)	(884)	(12,537)	19,428
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income (Note 8)	—	—	—	232
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 8)	(3,026)	(1,728)	(3,486)	(7,515)
Total other comprehensive income	(12,845)	(2,612)	(16,023)	12,145
<b>Comprehensive Income</b>	<b>\$ 6,770</b>	<b>\$ 21,064</b>	<b>\$ 71,479</b>	<b>\$ 91,951</b>
<b>Comprehensive income (loss) attributable to:</b>				
Participating Policyholders	\$ (3,364)	\$ (941)	\$ (6,506)	(1,582)
Shareholders	10,134	22,005	77,985	93,533
Total	\$ 6,770	\$ 21,064	\$ 71,479	\$ 91,951

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



# Interim Consolidated Statements of Changes in Equity

(unaudited, in thousands of Canadian dollars)

For the nine months ended	September 30, 2015			September 30, 2014		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
<b>Capital stock</b>	\$ 985	\$ —	\$ 985	\$ 985	\$ —	\$ 985
<b>Contributed surplus</b>	19,387	—	19,387	19,387	—	19,387
<b>Retained earnings</b>						
Retained earnings - beginning of year	966,543	52,541	1,019,084	901,821	43,871	945,692
Net income (loss)	92,394	(4,892)	87,502	80,541	(735)	79,806
Dividends to common shareholders	—	—	—	(33,984)	—	(33,984)
Retained earnings - end of period	1,058,937	47,649	1,106,586	948,378	43,136	991,514
<b>Accumulated other comprehensive income (loss)</b>						
Accumulated other comprehensive income (loss) - beginning of year	15,324	7,499	22,823	(16,917)	6,951	(9,966)
Other comprehensive income (loss)	(14,409)	(1,614)	(16,023)	12,992	(847)	12,145
Accumulated other comprehensive income (loss) - end of period	915	5,885	6,800	(3,925)	6,104	2,179
<b>Total equity</b>	\$ 1,080,224	\$ 53,534	\$ 1,133,758	\$ 964,825	\$ 49,240	\$ 1,014,065
<b>Composition of accumulated other comprehensive income (loss) - end of period</b>						
Unrealized gain (loss) on available for sale financial assets	\$ 12,972	\$ 7,087	\$ 20,059	\$ 14,772	\$ 7,877	\$ 22,649
Remeasurements of post-employment benefit liabilities	(12,616)	(643)	(13,259)	(19,484)	(986)	(20,470)
Shareholder portion of policyholders' accumulated other comprehensive income	559	(559)	—	787	(787)	—
Total accumulated other comprehensive income (loss)	\$ 915	\$ 5,885	\$ 6,800	\$ (3,925)	\$ 6,104	\$ 2,179

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

# Interim Consolidated Statements of Cash Flows

(unaudited, in thousands of Canadian dollars)

For the nine months ended	September 30, 2015	September 30, 2014
<b>Operating Activities</b>		
Net income	\$ 87,502	\$ 79,806
Non-cash items affecting net income		
Change in contract liabilities	8,564	490,390
Change in reinsurance liability	8,350	23,329
Fair value change in fair value through profit or loss assets	139,658	(338,869)
Realized (gain) loss on assets including impairment write downs on available for sale assets	(53,648)	(73,370)
Amortization related to invested assets	(54,906)	(53,582)
Amortization related to capital assets	3,292	3,550
Deferred income taxes	(2,801)	79
Other items	(35,800)	(48,896)
Cash provided from (used for) operating activities	100,211	82,437
<b>Investing Activities</b>		
Portfolio investments		
Purchases and advances	(1,684,686)	(1,185,806)
Sales and maturities	1,485,088	1,320,166
Loans on policies		
Advances	(5,560)	(8,562)
Repayments	6,973	17,954
Decrease (increase) in short-term investments	(7,990)	(36,760)
Net purchase of capital assets	(7,281)	(2,731)
Cash provided from (used for) investing activities	(213,456)	104,261
<b>Financing Activities</b>		
Dividends to common shareholders (Note 9)	—	(33,984)
Interest paid on subordinated debt	(4,305)	(11,035)
Debt repayment (Note 12)	—	(200,000)
Cash provided from (used for) financing activities	(4,305)	(245,019)
<b>Net Change in Cash and Cash Equivalents</b>	<b>(117,550)</b>	<b>(58,321)</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>239,102</b>	<b>217,350</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 121,552</b>	<b>\$ 159,029</b>
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 26,913	\$ 26,487
Interest income received	97,613	96,416
Dividend income received	28,847	23,913

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

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 1. Description of Company and Summary of Operations

The Empire Life Insurance Company (the "Company" or "Empire Life") was founded in 1923 when it was organized under a provincial charter in Toronto. Authorization to continue as a federal corporation was obtained in 1987. The Company underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products for individuals and groups across Canada. The Company is a subsidiary of E-L Financial Corporation Limited (the "Parent" or "E-L"). The head office, principal address and registered office of the Company are located at 259 King Street East, Kingston, Ontario, K7L 3A8. Empire Life is a Federally Regulated Financial Institution, regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). The Company established a mutual fund subsidiary in 2011, Empire Life Investments Inc. (ELII). ELII became a registered Investment Funds Manager on January 5, 2012. The head office for ELII is located at 165 University Avenue, 9th Floor, Toronto, Ontario, M5H 3B8.

These interim consolidated financial statements were approved by the Company's Board of Directors on October 29, 2015.

## 2. Significant Accounting Policies

### (a) Basis of Preparation

These unaudited condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies and methods of computation as the most recent annual financial statements. These condensed interim consolidated financial statements do not include all of the disclosures required under International Financial Reporting Standards ("IFRS") for annual financial statements and should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2014.

### (b) Basis of Consolidation

The Company's consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company and its wholly-owned and controlled subsidiary, Empire Life Investments Inc. The Company owns 100% of the voting shares and maintains control of its subsidiary. Control is defined as the power to govern the financial and operating activities of an entity so as to obtain the benefits from its activities. The financial statements of its subsidiary are included in the Company's results from the day control was established, the commencement of operations, and will be deconsolidated should control cease. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

### (c) Future Accounting Changes

#### IFRS 15 *Revenue from Contracts with Customers*

In May 2014 the IASB published IFRS 15 which introduces a single model for recognizing revenue from contracts with customers. IFRS 15 excludes insurance contracts from its scope and is primarily applicable to the Company's non-insurance revenue. The standard is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

#### IFRS 9 *Financial Instruments*

In July 2014 the IASB published the complete version of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 3. Financial Instruments

### (a) Summary of Cash and Investments

The carrying values of cash and investments are as follows:

As at	September 30, 2015			December 31, 2014		
Asset category	Designated Fair Value Through Profit or Loss	Available for Sale	Total Carrying Value	Designated Fair Value Through Profit or Loss	Available for Sale	Total Carrying Value
Cash and cash equivalents	\$ 121,552	\$ —	\$ 121,552	\$ 239,102	\$ —	\$ 239,102
Short-term investments						
Canadian federal government	3,288	5,990	9,278	3,310	4,961	8,271
Canadian provincial governments	5,984	—	5,984	1,782	—	1,782
Corporate	19,620	—	19,620	16,839	—	16,839
Total short-term investments	28,892	5,990	34,882	21,931	4,961	26,892
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	76,292	237,396	313,688	72,626	165,921	238,547
Canadian provincial and municipal governments	2,501,991	379,088	2,881,079	2,479,365	284,502	2,763,867
Total government bonds issued or guaranteed	2,578,283	616,484	3,194,767	2,551,991	450,423	3,002,414
Canadian corporate bonds by industry sector:						
Financial services	504,065	433,796	937,861	545,554	437,673	983,227
Infrastructure	278,387	22,225	300,612	241,371	20,079	261,450
Utilities	252,277	25,586	277,863	246,080	30,881	276,961
Communications	1,363	19,576	20,939	1,608	28,007	29,615
Energy	48,368	47,198	95,566	52,759	60,643	113,402
Consumer staples	94,840	68,153	162,993	78,546	68,319	146,865
Industrials	61,308	6,558	67,866	47,240	1,564	48,804
Health care	71,376	12,897	84,273	70,683	14,050	84,733
Materials	10,799	—	10,799	10,615	—	10,615
Total Canadian corporate bonds	1,322,783	635,989	1,958,772	1,294,456	661,216	1,955,672
Total bonds	3,901,066	1,252,473	5,153,539	3,846,447	1,111,639	4,958,086
Preferred shares						
Canadian	184,672	7,977	192,649	186,856	9,323	196,179
Total preferred shares	184,672	7,977	192,649	186,856	9,323	196,179
Common shares						
Canadian						
Common shares	500,046	60,820	560,866	526,613	61,481	588,094
Real estate limited partnership units	59,480	—	59,480	47,512	—	47,512
U.S.	143,275	—	143,275	139,988	—	139,988
Other	17,798	—	17,798	13,921	—	13,921
Total common shares	720,599	60,820	781,419	728,034	61,481	789,515
Loans and Receivables						
Mortgages	—	—	302,480	—	—	323,117
Loans on policies	—	—	46,836	—	—	46,434
Policy contract loans	—	—	84,907	—	—	86,698
Total	\$ 4,956,781	\$ 1,327,260	\$ 6,718,264	\$ 5,022,370	\$ 1,187,404	\$ 6,666,023

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

As at	September 30, 2015			December 31, 2014		
	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Cash and cash equivalents	\$ 45,670	\$ 75,882	\$ 121,552	\$ 42,594	\$ 196,508	\$ 239,102
Fair value through profit or loss:						
Bonds	—	3,901,066	3,901,066	—	3,846,447	3,846,447
Common shares	661,119	59,480	720,599	680,522	47,512	728,034
Preferred shares	184,672	—	184,672	186,856	—	186,856
Short-term investments	—	28,892	28,892	—	21,931	21,931
Available for sale:						
Bonds	—	1,252,473	1,252,473	—	1,111,639	1,111,639
Common shares	60,820	—	60,820	61,481	—	61,481
Preferred shares	7,977	—	7,977	9,323	—	9,323
Short-term investments	—	5,990	5,990	—	4,961	4,961
Loans and Receivables						
Mortgages	—	317,788	317,788	—	338,160	338,160
Loans on policies	—	46,836	46,836	—	46,434	46,434
Policy contract loans	—	84,907	84,907	—	86,698	86,698
<b>Total</b>	<b>\$ 960,258</b>	<b>\$ 5,773,314</b>	<b>\$ 6,733,572</b>	<b>\$ 980,776</b>	<b>\$ 5,700,290</b>	<b>\$ 6,681,066</b>

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 there were no Level 3 investments during the period ended September 30, 2015 or during the year ended December 31, 2014.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Note 13 Risk Management.

## (b) Impairments

In the first three quarters of 2015, the Company reclassified a pre-tax loss of \$1,321 from OCI to Net income due to write downs of impaired AFS common and preferred shares (first three quarters of 2014 \$115). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3 a). For analysis of the Company's risks arising from financial instruments, refer to Note 13 Risk Management.

As at September 30, 2015 loans and receivables past due but not impaired are \$ nil (December 31 2014 \$ nil).

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (c) Derivative Financial Instruments

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

As at	September 30, 2015			December 31, 2014		
	Notional Principal	Fair Value Assets	Fair Value Liabilities	Notional Principal	Fair Value Assets	Fair Value Liabilities
Exchange-traded						
Equity index futures	\$ 95,641	\$ 998	\$ 1,425	\$ 51,773	\$ 869	1,201
Equity options	301,154	12,130	9	119,990	1,922	—
Over-the-counter						
Foreign currency forwards	161,303	218	283	151,731	584	137
Total	\$ 558,098	\$ 13,346	\$ 1,717	\$ 323,494	\$ 3,375	1,338

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

For analysis of the Company's risks arising from financial instruments, refer to Note 13 Risk Management.

## 4. Segregated Funds

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

As at	September 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 301,492	\$ 162,646
Short-term investments	171,617	152,395
Bonds	1,563,951	1,567,578
Common and preferred shares	5,064,201	5,067,181
Net other assets (liabilities)	39,354	24,977
	7,140,615	6,974,777
Less segregated funds held within general fund investments	(33,502)	(26,302)
Total	\$ 7,107,113	\$ 6,948,475

(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:

As at	September 30, 2015			December 31, 2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 197,299	\$ 104,193	\$ 301,492	\$ 26,829	\$ 135,817	\$ 162,646
Common and preferred shares	5,064,201	—	5,064,201	5,067,181	—	5,067,181
Bonds	—	1,563,951	1,563,951	—	1,567,578	1,567,578
Short-term investments	—	171,617	171,617	—	152,395	152,395
Total	\$ 5,261,500	\$ 1,839,761	\$ 7,101,261	\$ 5,094,010	\$ 1,855,790	\$ 6,949,800

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the period ended September 30, 2015 or during the year ended December 31, 2014.

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Segregated funds - beginning of period	\$ 7,192,128	\$ 6,544,858	\$ 6,948,475	\$ 5,954,508
Additions to segregated funds:				
Amount received from policyholders	366,174	347,865	1,145,068	1,145,876
Interest	13,791	14,420	43,059	41,737
Dividends	31,623	28,910	99,714	92,395
Other income	7,857	7,713	23,975	21,861
Net realized gains on sale of investments	30,514	130,493	370,749	403,706
	449,959	529,401	1,682,565	1,705,575
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders	302,214	248,208	933,150	922,043
Net unrealized decrease in fair value of investments	173,224	120,659	415,949	713
Management fees and other operating costs	55,892	51,913	167,628	148,530
	531,330	420,780	1,516,727	1,071,286
Net change in segregated funds held within general fund investments	(3,644)	(446)	(7,200)	64,236
Segregated Funds - End of period	\$ 7,107,113	\$ 6,653,033	\$ 7,107,113	\$ 6,653,033

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

Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees. The impact of market price fluctuations in segregated funds on the shareholders' net income is disclosed in the Risk Management Note 13 a(i).

## 5. Insurance Premiums

	For the three months ended			September 30, 2014		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	\$ 115,136	\$ (21,195)	\$ 93,941	\$ 109,055	\$ (19,054)	\$ 90,001
Health premiums	85,873	(6,668)	79,205	84,119	(6,408)	77,711
Total life and health premiums	201,009	(27,863)	173,146	193,174	(25,462)	167,712
Annuity premiums	35,328	(60)	35,268	40,712	(61)	40,651
Total Insurance Premiums	\$ 236,337	\$ (27,923)	\$ 208,414	\$ 233,886	\$ (25,523)	\$ 208,363

	For the nine months ended			September 30, 2014		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	\$ 342,496	\$ (61,898)	\$ 280,598	\$ 335,137	\$ (57,173)	\$ 277,964
Health premiums	256,064	(19,541)	236,523	250,910	(18,734)	232,176
Total life and health premiums	598,560	(81,439)	517,121	586,047	(75,907)	510,140
Annuity premiums	112,013	(171)	111,842	141,631	(202)	141,429
Total Insurance Premiums	\$ 710,573	\$ (81,610)	\$ 628,963	\$ 727,678	\$ (76,109)	\$ 651,569

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 6. Benefits and Expenses

### (a) Insurance Contract Benefits and Claims Paid

For the three months ended		September 30, 2015			September 30, 2014		
		Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	\$	56,416	\$ (20,138)	\$ 36,278	\$ 57,926	\$ (19,230)	\$ 38,696
Health claims		60,528	(3,470)	57,058	56,433	(3,240)	53,193
Total life and health claims		116,944	(23,608)	93,336	114,359	(22,470)	91,889
Annuity benefits		58,433	(892)	57,541	59,271	(1,019)	58,252
Benefits and Claims Paid	\$	175,377	\$ (24,500)	\$ 150,877	\$ 173,630	\$ (23,489)	\$ 150,141

For the nine months ended		September 30, 2015			September 30, 2014		
		Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	\$	151,688	\$ (48,958)	\$ 102,730	\$ 143,302	\$ (48,467)	\$ 94,835
Health claims		190,916	(11,243)	179,673	180,551	(10,842)	169,709
Total life and health claims		342,604	(60,201)	282,403	323,853	(59,309)	264,544
Annuity benefits		200,643	(2,314)	198,329	214,927	(2,629)	212,298
Benefits and Claims Paid	\$	543,247	\$ (62,515)	\$ 480,732	\$ 538,780	\$ (61,938)	\$ 476,842

### (b) Change in Insurance Contract Liabilities and Reinsurance Ceded

For the three months ended		September 30, 2015			September 30, 2014		
		Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	\$	(13,309)	\$ (2,472)	\$ (15,781)	\$ 103,314	\$ 3,897	\$ 107,211
Health		(399)	704	305	11,767	(3,237)	8,530
Total life and health		(13,708)	(1,768)	(15,476)	115,081	660	115,741
Annuity		(43,131)	165	(42,966)	(11,790)	104	(11,686)
Change in Insurance Contract Liabilities	\$	(56,839)	\$ (1,603)	\$ (58,442)	\$ 103,291	\$ 764	\$ 104,055

Change attributable to:

Normal changes - New Business	\$	50,228	\$ 854	\$ 51,082	\$ 39,118	\$ (559)	\$ 38,559
- In-Force Business		(107,067)	(2,457)	(109,524)	64,173	1,323	65,496
Change in Insurance Contract Liabilities	\$	(56,839)	\$ (1,603)	\$ (58,442)	\$ 103,291	\$ 764	\$ 104,055

For the nine months ended		September 30, 2015			September 30, 2014		
		Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	\$	113,957	\$ 3,807	\$ 117,764	\$ 496,017	\$ 26,687	\$ 522,704
Health		(2,166)	4,102	1,936	26,438	(4,250)	22,188
Total life and health		111,791	7,909	119,700	522,455	22,437	544,892
Annuity		(104,164)	441	(103,723)	(33,793)	892	(32,901)
Change in Insurance Contract Liabilities	\$	7,627	\$ 8,350	\$ 15,977	\$ 488,662	\$ 23,329	\$ 511,991

Change attributable to:

Normal changes - New Business	\$	61,396	\$ 1,457	\$ 62,853	\$ 128,746	\$ (2,035)	\$ 126,711
- In-Force Business		(53,769)	6,893	(46,876)	359,916	25,364	385,280
Change in Insurance Contract Liabilities	\$	7,627	\$ 8,350	\$ 15,977	\$ 488,662	\$ 23,329	\$ 511,991



# Condensed Notes to the Interim Consolidated Financial Statements

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

## 7. Segmented Information

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

- The Wealth Management product line includes segregated funds, mutual funds, guaranteed interest rate annuities and annuities providing income for life.
- The Employee Benefits product line offers group benefit plans to employers for medical, dental, disability, and life insurance coverage of their employees.
- The Individual Insurance product line includes both non-participating and participating individual life and health insurance products.
- Capital and Surplus is made up of assets held in the shareholders' and participating policyholders' equity accounts and other corporate items not allocated to other segments.

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

For the three months ended September 30, 2015					
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 35,268	\$ 81,767	\$ 91,379	\$ —	\$ 208,414
Interest income	8,865	1,491	36,199	9,874	56,429
Total investment income	10,745	1,058	42,483	10,355	64,641
Fair value change in fair value through profit or loss assets	(26,223)	(2,832)	(87,821)	3,354	(113,522)
Realized gain (loss) on fair value through profit or loss assets	(25)	—	(7,085)	2,799	(4,311)
Realized gain (loss) on available for sale assets including impairment write downs	(132)	(111)	(119)	3,270	2,908
Fee income from external customers	51,838	1,920	400	63	54,221
Net benefits and claims	57,543	59,913	33,421	—	150,877
Net change in insurance contract liabilities	(42,966)	(1,758)	(13,718)	—	(58,442)
Change in investment contract provision	118	—	—	—	118
Policy dividends	—	—	6,232	—	6,232
Amortization of capital assets	300	280	527	—	1,107
Total operating expenses	12,224	10,971	13,633	180	37,008
Net commission expense	19,860	8,329	17,049	—	45,238
Interest expense	—	—	—	2,258	2,258
Premium tax	—	1,742	1,753	—	3,495
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	7,761	703	(6,260)	2,923	5,127
Net income (loss) after tax	16,933	1,902	(13,067)	13,847	19,615

# Condensed Notes to the Interim Consolidated Financial Statements

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

## For the three months ended September 30, 2014

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 40,651	\$ 79,497	\$ 88,215	\$ —	208,363
Interest income	9,894	1,595	33,544	9,370	54,403
Total investment income	11,476	1,018	38,129	9,894	60,517
Fair value change in fair value through profit or loss assets	(838)	466	51,884	—	51,512
Realized gain (loss) on fair value through profit or loss assets	2,176	19	7,192	—	9,387
Realized gain (loss) on available for sale assets including impairment write downs	—	—	(29)	2,310	2,281
Fee income from external customers	45,391	2,131	264	69	47,855
Net benefits and claims	58,252	55,017	36,872	—	150,141
Net change in insurance contract liabilities	(11,687)	7,094	108,648	—	104,055
Change in investment contract provision	552	—	—	—	552
Policy dividends	—	—	5,661	—	5,661
Amortization of capital assets	539	301	457	—	1,297
Total operating expenses	14,185	9,687	10,514	308	34,694
Net commission expense	22,112	7,834	17,614	—	47,560
Interest expense	—	—	—	2,261	2,261
Premium tax	—	1,830	1,806	—	3,636
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	3,593	385	340	2,536	6,854
Net income (loss) after tax	11,849	1,284	3,374	7,169	23,676

## For the nine months ended September 30, 2015

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 111,842	\$ 243,205	\$ 273,916	\$ —	628,963
Interest income	27,243	4,460	104,564	28,520	164,787
Total investment income	32,788	2,644	126,982	29,925	192,339
Fair value change in fair value through profit or loss assets	(34,995)	(2,012)	(104,870)	2,219	(139,658)
Realized gain (loss) on fair value through profit or loss assets	894	1,141	30,458	1,552	34,045
Realized gain (loss) on available for sale assets including impairment write downs	63	170	482	18,888	19,603
Fee income from external customers	152,693	6,896	990	202	160,781
Net benefits and claims	198,332	187,753	94,647	—	480,732
Net change in insurance contract liabilities	(103,723)	(6,753)	126,453	—	15,977
Change in investment contract provision	937	—	—	—	937
Policy dividends	—	—	18,645	—	18,645
Amortization of capital assets	1,346	755	1,191	—	3,292
Total operating expenses	38,991	30,711	38,006	666	108,374
Net commission expense	64,460	24,285	51,829	—	140,574
Interest expense	—	—	—	6,700	6,700
Premium tax	—	5,213	5,275	—	10,488
Investment and capital tax	—	—	2,475	—	2,475
Income tax expense (recovery)	16,766	2,909	(6,875)	10,869	23,669
Net income (loss) after tax	47,523	7,926	(2,498)	34,551	87,502

# Condensed Notes to the Interim Consolidated Financial Statements

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

For the nine months ended September 30, 2014					
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 141,429	\$ 239,043	\$ 271,097	\$ —	\$ 651,569
Interest income	29,791	4,599	96,572	29,441	160,403
Total investment income	37,872	3,124	110,505	31,501	183,002
Fair value change in fair value through profit or loss assets	13,408	3,737	321,724	—	338,869
Realized gain (loss) on fair value through profit or loss assets	5,271	489	55,795	—	61,555
Realized gain (loss) on available for sale assets including impairment write downs	39	48	8	11,720	11,815
Fee income from external customers	130,301	6,346	786	180	137,613
Net benefits and claims	212,298	176,001	88,543	—	476,842
Net change in insurance contract liabilities	(32,901)	7,579	537,313	—	511,991
Change in investment contract provision	1,728	—	—	—	1,728
Policy dividends	—	—	17,130	—	17,130
Amortization of capital assets	1,427	917	1,202	—	3,546
Total operating expenses	43,282	30,914	31,920	1,002	107,118
Net commission expense	65,667	23,262	52,882	—	141,811
Interest expense	—	—	—	11,924	11,924
Premium tax	—	5,276	5,540	—	10,816
Investment and capital tax	—	—	2,475	—	2,475
Income tax expense (recovery)	8,173	2,418	4,176	8,015	22,782
Net income (loss) after tax	30,073	7,337	19,935	22,461	79,806

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

September 30, 2015					
As at	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 968,855	\$ 155,948	\$ 4,286,038	\$ 1,483,237	\$ 6,894,078
Segregated funds	7,087,130	—	19,983	—	7,107,113
<b>Total assets</b>	<b>\$ 8,055,985</b>	<b>\$ 155,948</b>	<b>\$ 4,306,021</b>	<b>\$ 1,483,237</b>	<b>\$ 14,001,191</b>

December 31, 2014					
As at	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 1,062,818	\$ 160,465	\$ 4,156,329	\$ 1,399,116	\$ 6,778,728
Segregated funds	6,926,322	—	22,153	—	6,948,475
<b>Total assets</b>	<b>\$ 7,989,140</b>	<b>\$ 160,465</b>	<b>\$ 4,178,482</b>	<b>\$ 1,399,116</b>	<b>\$ 13,727,203</b>

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

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 8. Income Taxes included in Other Comprehensive Income (Loss)

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

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

For the three months ended	September 30, 2015			September 30, 2014		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ (10,482)	\$ (2,778)	\$ (7,704)	1,011 \$	271 \$	740
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(2,908)	(793)	(2,115)	(2,283)	(659)	(1,624)
Remeasurements of post-employment benefit liabilities	(4,124)	(1,098)	(3,026)	(2,352)	(624)	(1,728)
Total other comprehensive income (loss)	\$ (17,514)	\$ (4,669)	\$ (12,845)	(3,624) \$	(1,012) \$	(2,612)

For the nine months ended	September 30, 2015			September 30, 2014		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 2,290	\$ 609	\$ 1,681	37,713 \$	10,001 \$	27,712
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(19,603)	(5,385)	(14,218)	(11,816)	(3,532)	(8,284)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	—	—	—	344	112	232
Remeasurements of post-employment benefit liabilities	(4,750)	(1,264)	(3,486)	(10,226)	(2,711)	(7,515)
Total other comprehensive income (loss)	\$ (22,063)	\$ (6,040)	\$ (16,023)	16,015 \$	3,870 \$	12,145

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

For the three months ended	September 30, 2015			September 30, 2014		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ (9,094)	\$ (2,409)	\$ (6,685)	1,135 \$	304 \$	831
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(3,275)	(885)	(2,390)	(1,764)	(507)	(1,257)
Remeasurements of post-employment benefit liabilities	(3,936)	(1,048)	(2,888)	(2,245)	(596)	(1,649)
Shareholder portion of policyholder other comprehensive income (loss)	(80)	(21)	(59)	(64)	(18)	(46)
<b>Total other comprehensive income (loss)</b>	<b>\$ (16,385)</b>	<b>\$ (4,363)</b>	<b>\$ (12,022)</b>	<b>(2,938) \$</b>	<b>(817) \$</b>	<b>(2,121)</b>

  

For the nine months ended	September 30, 2015			September 30, 2014		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 2,835	\$ 754	\$ 2,081	32,267 \$	8,557 \$	23,710
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(17,888)	(4,890)	(12,998)	(5,395)	(1,672)	(3,723)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	—	—	—	344	112	232
Remeasurements of post-employment benefit liabilities	(4,536)	(1,207)	(3,329)	(9,759)	(2,588)	(7,171)
Shareholder portion of policyholder other comprehensive income (loss)	(227)	(64)	(163)	(97)	(41)	(56)
<b>Total other comprehensive income (loss)</b>	<b>\$ (19,816)</b>	<b>\$ (5,407)</b>	<b>\$ (14,409)</b>	<b>17,360 \$</b>	<b>4,368 \$</b>	<b>12,992</b>

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

For the three months ended	September 30, 2015			September 30, 2014		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ (1,388)	\$ (369)	\$ (1,019)	(124)	(33)	(91)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	367	92	275	(519)	(152)	(367)
Remeasurements of post-employment benefit liabilities	(188)	(50)	(138)	(107)	(28)	(79)
Shareholder portion of policyholder other comprehensive income (loss)	80	21	59	64	18	46
Total other comprehensive income (loss)	\$ (1,129)	\$ (306)	\$ (823)	(686)	(195)	(491)

For the nine months ended	September 30, 2015			September 30, 2014		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ (545)	(145)	(400)	5,446	1,444	4,002
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,715)	(495)	(1,220)	(6,421)	(1,860)	(4,561)
Remeasurements of post-employment benefit liabilities	(214)	(57)	(157)	(467)	(123)	(344)
Shareholder portion of policyholder other comprehensive income (loss)	227	64	163	97	41	56
Total other comprehensive income (loss)	\$ (2,247)	\$ (633)	\$ (1,614)	(1,345)	(498)	(847)

## 9. Dividends

Shareholder dividends paid in the first three quarters of 2015 and 2014 were \$ nil and \$33,984, respectively. This represents a dividend pay out rate of \$ nil per share in 2015 and \$34.4985 per share in 2014.

## 10. Capital Management

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at September 30, 2015 and December 31, 2014 the Company was in compliance with these ratios.

As at	September 30, 2015		December 31, 2014	
Tier 1 Regulatory Capital	\$	935,495	\$	872,275
Tier 2 Regulatory Capital		476,076		452,203
Total Regulatory Capital	\$	1,411,571	\$	1,324,478

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 11. Investment Commitments

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements. At September 30, 2015 there were \$ nil (December 31, 2014 \$8,942) of outstanding commitments to purchase units in a real estate limited partnership. On July 9, 2015 this commitment was settled with the purchase of additional units for \$8,942.

## 12. Subordinated Debt

On May 31, 2013, the Company 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 2.870%, 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. The Company 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. The debentures are subordinated in right of payment to all policy contract liabilities of the Company and all other senior indebtedness of the Company.

On May 20, 2009, the Company issued \$200,000 principal amount of unsecured subordinated debentures with a maturity date of May 20, 2019. The interest rate from May 20, 2009 until May 20, 2014 was 6.73%. The Company redeemed these debentures on May 20, 2014 at par.

The fair value of the subordinated debt is \$308,250 as of September 30, 2015 (December 31, 2014 \$305,199), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

## 13. Risk Management

The Company is subject to a number of risks relating to its business, including investment risks and insurance risks. The goal of the Company's risk management process is to ensure that the operations of the Company that expose it to risk are consistent with the Company's objectives and risk philosophy while maintaining an appropriate risk/reward balance and enhancing stakeholder value. Management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. The Company has a Management Risk Committee with Board reporting responsibility. The Company's risk management framework is based on the former Office of the Superintendent of Financial Institutions (OSFI) Standards of Sound Business Practices and is tailored to the Company's circumstances and business risks, capturing its risk philosophy and risk appetite. Risk management policy development is centralized under the leadership of the Vice-President Risk Management and applies to all business units. On February 27, 2015 the Board approved the establishment of a Risk and Capital Committee and a Chief Risk Officer position. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers. There is executive representation and oversight on various interdisciplinary risk control committees, and the Company follows the same reporting and disclosure discipline as its public company parent, E-L Financial. The Company formally establishes and documents its values and risk tolerances through several company-wide policies including a Code of Ethics, Corporate Disclosure principles, risk management, capital management and whistleblower policies. The Company's strategic risk management policies (such as product design and pricing, investment policies and capital management) are also approved by its Board, or one of its subcommittees.

# Condensed Notes to the Interim Consolidated Financial Statements

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

The Company is exposed to investment and insurance risks arising from its investing activities and its insurance operations and to general reputation risk associated with these activities and its ability to manage specific risks. Financial risks arising from its investing activities are updated on a quarterly basis and disclosed below. Financial risks arising from insurance operations are disclosed annually and are located in Note 27 (b) of the Annual Report.

## (a) Investment Risk

The disclosures in Note 3 provide the breakdown of investments by type and by geographic region. The fair values of these investments are inherently volatile and frequently change in value as a result of factors beyond the Company's control, including general economic and capital market conditions.

### i) Market Risk

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

#### (1) Market Price Fluctuations

The following table summarizes the potential impact on the Company of a change in global equity markets. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantee represent the impact on shareholders' net income. The impact of a change in future equity return assumptions can be found in Note 27 b) (i) (2) under the Insurance Risk Investment Returns section of the Annual Report.

September 30, 2015					
	10% Increase	10% Decrease	20% Increase	20% Decrease	
Shareholders' net income (excludes segregated fund guarantee)	\$ 6,739	\$ (1,949)	\$ 16,498	\$ 1,024	
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	
Shareholders' other comprehensive income	\$ 2,089	\$ (2,089)	\$ 4,178	\$ (4,178)	
Policyholders' other comprehensive income	\$ 2,369	\$ (2,369)	\$ 4,738	\$ (4,738)	
Segregated fund guarantee impact on shareholders' net income	\$ nil	\$ nil	\$ nil	\$ (46,082)	

September 30, 2014					
	10% Increase	10% Decrease	20% Increase	20% Decrease	
Shareholders' net income (excludes segregated fund guarantee)	\$ 15,886	\$ (15,886)	\$ 31,793	\$ (31,793)	
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	
Shareholders' other comprehensive income	\$ 2,073	\$ (2,073)	\$ 4,146	\$ (4,146)	
Policyholders' other comprehensive income	\$ 2,308	\$ (2,308)	\$ 4,616	\$ (4,616)	
Segregated fund guarantee impact on shareholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	



# Condensed Notes to the Interim Consolidated Financial Statements

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

The following table identifies the concentration of the Company's common equity holdings in Empire Life's investment portfolios:

As at	September 30, 2015	December 31, 2014
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 279,872	\$ 279,662
Percentage of total cash and investments	4%	4%
Exposure to the largest single issuer of common equities	\$ 59,480	\$ 47,487
Percentage of total cash and investments	1%	1%

## (2) Interest Rate Risk

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

	September 30, 2015			
	50bps Increase	50bps Decrease	100bps Increase	100bps Decrease
Shareholders' net income	\$ 8,003	\$ (8,962)	\$ 15,161	\$ (19,015)
Policyholders' net income	\$ 514	\$ (564)	\$ 984	\$ (1,183)
Shareholders' other comprehensive income	\$ (29,997)	\$ 34,481	\$ (55,509)	\$ 73,446
Policyholders' other comprehensive income	\$ (1,337)	\$ 1,422	\$ (2,589)	\$ 2,928

	September 30, 2014			
	50bps Increase	50bps Decrease	100bps Increase	100bps Decrease
Shareholders' net income	\$ 7,501	\$ (8,421)	\$ 14,193	\$ (17,891)
Policyholders' net income	\$ 493	\$ (541)	\$ 942	\$ (1,137)
Shareholders' other comprehensive income	\$ (20,042)	\$ 22,558	\$ (37,587)	\$ 47,648
Policyholders' other comprehensive income	\$ (1,023)	\$ 1,085	\$ (1,984)	\$ 2,231

## (3) Foreign Currency Risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately \$ nil (2014 \$ nil) on net income, \$ nil (2014 \$ nil) on shareholders' OCI and \$ nil (2014 \$ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (b) Credit Risk

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

As at	September 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 121,552	\$ 239,102
Short-term investments	34,882	26,892
Bonds	5,153,539	4,958,086
Preferred shares	192,649	196,179
Mortgages	302,480	323,117
Reinsurance	95,023	99,707
Loans on policies	46,836	46,434
Policy contract loans	84,907	86,698
Accrued investment income	38,918	25,048
Insurance receivables	43,989	41,743
Trade accounts receivable	58,226	15,331
<b>Total</b>	<b>\$ 6,173,001</b>	<b>\$ 6,058,337</b>

## Concentration of Credit Risk

### (1) Bonds and Debentures

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

As at	September 30, 2015		December 31, 2014	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	\$ 339,296	7%	\$ 269,223	5%
AA	481,342	9%	1,395,341	28%
A	3,625,121	70%	2,578,045	53%
BBB	700,377	14%	714,717	14%
BB (and lower ratings)	7,403	—%	760	—%
<b>Total</b>	<b>\$ 5,153,539</b>	<b>100%</b>	<b>\$ 4,958,086</b>	<b>100%</b>

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

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

As at	September 30, 2015	December 31, 2014
Provincial bond holdings	\$ 2,758,018	\$ 2,630,620
Percentage of total bond holdings	54%	53%

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

As at	September 30, 2015		December 31, 2014	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
1 year or less	\$ 78,498	2%	\$ 106,297	2%
1 - 5 years	596,870	12%	671,657	14%
5 - 10 years	567,339	11%	489,124	10%
Over 10 years	3,910,832	75%	3,691,008	74%
Total	\$ 5,153,539	100%	\$ 4,958,086	100%

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

As at	September 30, 2015	December 31, 2014
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 3,224,534	\$ 3,242,685
Percentage of total cash and investments	48%	49%
Exposure to the largest single issuer of corporate bonds	\$ 124,746	\$ 123,415
Percentage of total cash and investments	2%	2%

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

## (2) Preferred Shares

The Company's preferred share investments are all issued by Canadian companies, with 9% (December 31, 2014 10%) of these investments rated as P1 and the remaining 91% (December 31, 2014 90%) rated as P2.

## (3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$300,497 or 99% (December 31, 2014 \$320,262 or 99%) of the total mortgage portfolio.

## 14. Earnings Per Share

Details of the calculation of the net income and the weighted average number of shares used in the earnings per share computations are as follows:

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Basic and Diluted EPS				
Common shareholders' net income	\$ 22,156	\$ 24,126	\$ 92,394	\$ 80,541
Weighted average number of common shares outstanding	985,076	985,076	985,076	985,076
Basic and Diluted EPS	\$ 22.49	\$ 24.49	\$ 93.79	\$ 81.76

# 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 remeasurement of post-employment benefit liabilities. 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 anytime and prices are available to the public.

## Available For Sale (AFS) Financial Assets

Non-derivative financial assets that are designated as AFS or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as AFS.

## Canadian Asset Liability Method (CALM)

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

## Canadian Institute of Actuaries (CIA)

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

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

## Earnings on Surplus

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

## Effective Interest Method

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

## Expected Profit from In-Force Business

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

# Glossary of Terms

(unaudited)

## Experience Gains and Losses

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

## Fair Value Through Profit or Loss (FVTPL)

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as FVTPL.

## Impact of New Business

Writing new business typically adds economic value to a life insurance company. At the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

## International Financial Reporting Standards (IFRS)

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

## Management Actions and Changes in Assumptions

This source of earnings component includes earnings generated by management actions during the year (e.g. acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

## Minimum Continuing Capital and Surplus Requirements (MCCSR)

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

## Other Comprehensive Income (OCI)

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. 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 the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account.

## Return on Shareholders' Equity (ROE)

A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

**This page has been left blank intentionally.**

**This page has been left blank intentionally.**

# EMPIRE LIFE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

<sup>1</sup>The Globe and Mail Report on Business Magazine, June 2015, based on revenue

<sup>2</sup>As at May 19, 2015

## 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. John Brierley  
The Empire Life Insurance Company  
259 King Street East  
Kingston, ON, K7L 3A8  
Email: [jfbrierley@sympatico.ca](mailto:jfbrierley@sympatico.ca)  
Phone: 905-338-7290

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 and auditing matters.

® Registered trademark of **The Empire Life Insurance Company**.

™ Trademark of The Empire Life Insurance Company.

Policies are issued by The Empire Life Insurance Company.

Investments · Insurance · Group solutions  
[www.empire.ca](http://www.empire.ca) [info@empire.ca](mailto:info@empire.ca)

A-0004-ENG-08/15

