

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)
UNAUDITED

As at	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents (Note 3)	\$ 168,270	\$ 217,350
Investments		
Short-term investments (Note 3)	43,781	25,448
Bonds (Note 3)	4,521,531	4,333,512
Common and preferred shares (Note 3)	1,035,432	1,009,608
Mortgages (Note 3)	309,157	299,353
Loans on policies (Note 3)	46,507	44,855
Policy contract loans (Note 3)	89,423	90,275
Total investments	6,045,831	5,803,051
Accrued investment income	38,206	24,058
Insurance receivables	26,256	41,014
Deferred income taxes	3,375	2,400
Other assets	18,871	11,669
Property and equipment	20,911	22,043
Intangible assets	4,136	4,317
Segregated fund assets (Note 4)	6,287,651	5,954,508
Total Assets	\$ 12,613,507	\$ 12,080,410
Liabilities		
Accounts payable and other liabilities	\$ 61,649	\$ 55,833
Insurance payables	58,968	78,940
Current income taxes payable	4,080	9,306
Reinsurance liabilities	298,946	284,627
Insurance contract liabilities	4,384,256	4,175,238
Investment contract liabilities	12,508	12,687
Policyholders' funds on deposit	31,062	30,937
Provision for profits to policyholders	24,324	23,893
Subordinated debt (Note 12 & Note 14)	498,491	498,343
Segregated fund policy liabilities	6,287,651	5,954,508
	11,661,935	11,124,312
Equity		
Capital stock	985	985
Contributed surplus	19,387	19,387
Retained earnings	928,388	945,692
Accumulated other comprehensive income (loss)	2,812	(9,966)
	951,572	956,098
Total Liabilities and Equity	\$ 12,613,507	\$ 12,080,410

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

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

For the three months ended March 31

	2014	2013
Revenue		
Gross premiums	\$ 253,670	\$ 229,244
Premiums ceded to reinsurers	(24,315)	(22,183)
Net premiums (Note 5)	229,355	207,061
Investment income	61,042	55,047
Fair value change in fair value through profit or loss assets	173,458	(23,603)
Realized gain (loss) on fair value through profit or loss assets sold	14,534	15,312
Realized gain (loss) on available for sale assets including impairment write downs	3,071	557
Fee income	42,532	34,657
Total revenue	523,992	289,031
Benefits and Expenses		
Gross benefits and claims paid (Note 6)	199,552	153,631
Claims recovery from reinsurers (Note 6)	(17,415)	(12,049)
Gross change in insurance contract liabilities (Note 6)	209,018	37,554
Change in insurance contract liabilities ceded (Note 6)	14,319	4,926
Change in investment contracts provision	554	223
Policy dividends	5,384	4,947
Operating expenses	36,050	36,107
Commissions	46,889	43,675
Commission recovery from reinsurers	(566)	(549)
Interest expense	5,590	3,381
Total benefits and expenses	499,375	271,846
Premium tax	3,526	3,420
Investment and capital tax	825	1,000
Net Income Before Income Taxes	20,266	12,765
Income taxes	3,586	2,042
Net Income	\$ 16,680	\$ 10,723
Net Income (Loss) Attributable to:		
Participating Policyholders	\$ (1,102)	\$ 469
Shareholders	17,782	10,254
Total	\$ 16,680	\$ 10,723
Earnings per share - basic and diluted (2,000,000 shares authorized; 985,076 shares outstanding)	\$ 18.05	\$ 10.41

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)
UNAUDITED

For the three months ended March 31

	2014	2013
Net Income	\$ 16,680	\$ 10,723
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net income:		
Unrealized fair value change on available for sale investments (Note 8)	16,730	5,305
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 8)	(2,036)	(355)
Net unrealized fair value increase	14,694	4,950
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income (Note 8)	149	139
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 8)	(2,065)	1,453
Total other comprehensive income	12,778	6,542
Comprehensive Income	\$ 29,458	\$ 17,265
Comprehensive income attributable to:		
Participating Policyholders	\$ 395	\$ 1,143
Shareholders	29,063	16,122
Total	\$ 29,458	\$ 17,265

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)
UNAUDITED

	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Capital stock	\$ 985	\$ —	\$ 985	\$ 985	\$ —	\$ 985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	901,821	43,871	945,692	812,642	47,114	859,756
Net income (loss)	17,782	(1,102)	16,680	10,254	469	10,723
Dividends to common shareholders	(33,984)	—	(33,984)	—	—	—
Retained earnings - end of period	885,619	42,769	928,388	822,896	47,583	870,479
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	(16,917)	6,951	(9,966)	(10,344)	3,864	(6,480)
Other comprehensive income (loss)	11,281	1,497	12,778	5,868	674	6,542
Accumulated other comprehensive income (loss) - end of period	(5,636)	8,448	2,812	(4,476)	4,538	62
Total equity	\$ 900,355	\$ 51,217	\$ 951,572	\$ 838,792	\$ 52,121	\$ 890,913
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 7,712	\$ 10,204	\$ 17,916	\$ 18,798	\$ 6,368	\$ 25,166
Unamortized gain (loss) on cash flow hedges	(84)	—	(84)	(668)	—	(668)
Remeasurements of post-employment benefit liabilities	(14,284)	(736)	(15,020)	(23,243)	(1,193)	(24,436)
Shareholder portion of policyholders' accumulated other comprehensive income	1,020	(1,020)	—	637	(637)	—
Total accumulated other comprehensive income (loss)	\$ (5,636)	\$ 8,448	\$ 2,812	\$ (4,476)	\$ 4,538	\$ 62

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)
UNAUDITED

For the three months ended March 31

	2014	2013
Operating Activities		
Net income	\$ 16,680	\$ 10,723
Non-cash items affecting net income		
Change in contract liabilities	209,572	37,777
Change in reinsurance liability	14,319	4,926
Fair value change in fair value through profit or loss assets	(173,458)	23,603
Realized (gain) loss on assets including impairment write downs on available for sale assets	(17,605)	(15,869)
Amortization related to invested assets	(17,476)	(16,969)
Amortization related to capital assets	316	911
Deferred income taxes	(230)	(4,378)
Other items	(35,403)	1,054
Cash provided from (used for) operating activities	(3,285)	41,778
Investing Activities		
Portfolio investments		
Purchases and advances	(362,184)	(540,981)
Sales and maturities	369,324	397,257
Loans on policies		
Advances	(2,835)	(1,749)
Repayments	2,026	2,510
Decrease (increase) in short-term investments	(18,333)	1,947
Net purchase of capital assets	191	(1,085)
Cash provided from (used for) investing activities	(11,811)	(142,101)
Financing Activities		
Dividends to common shareholders (Note 9)	(33,984)	—
Interest paid on subordinated debt	—	—
Cash provided from (used for) financing activities	(33,984)	—
Net Change in Cash and Cash Equivalents	(49,080)	(100,323)
Cash and Cash Equivalents - Beginning of Period	217,350	248,382
Cash and Cash Equivalents - End of Period	\$ 168,270	\$ 148,059
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 14,120	\$ 10,993
Interest income received	22,526	17,956
Dividend income received	8,343	7,568

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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's wholly owned subsidiary, Empire Life Investments Inc. ("ELII"), is a registered Investment Funds Manager. 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 April 30, 2014.

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, 2013.

(b) Basis of Consolidation

The Company's condensed interim 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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Future Accounting Changes

New standards and amendments that have been issued by the IASB and not yet effective for the fiscal year beginning January 1, 2014 are summarized in the Company's annual financial statements for the year ended December 31, 2013.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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 and fair values of cash and investments are as follows:

As at March 31, 2014

Asset category	Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Cash and cash equivalents	\$ 168,270	\$ —	\$ —	\$ 168,270	168,270
Short-term investments					
Canadian federal government	5,555	—	—	5,555	5,555
Canadian provincial governments	—	19,973	—	19,973	19,973
Corporate	18,253	—	—	18,253	18,253
Total short-term investments	23,808	19,973	—	43,781	43,781
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	64,174	181,077	—	245,251	245,251
Canadian provincial and municipal governments	2,135,347	258,447	—	2,393,794	2,393,794
Total government bonds issued or guaranteed	2,199,521	439,524	—	2,639,045	2,639,045
Canadian corporate bonds by industry sector:					
Financial services	516,259	486,857	—	1,003,116	1,003,116
Infrastructure	229,867	24,517	—	254,384	254,384
Utilities	235,844	32,482	—	268,326	268,326
Communications	2,133	26,988	—	29,121	29,121
Energy	50,652	46,016	—	96,668	96,668
Consumer staples	70,869	26,115	—	96,984	96,984
Industrials	44,913	8,027	—	52,940	52,940
Health care	57,207	13,643	—	70,850	70,850
Materials	10,097	—	—	10,097	10,097
Total Canadian corporate bonds	1,217,841	664,645	—	1,882,486	1,882,486
Total bonds	3,417,362	1,104,169	—	4,521,531	4,521,531
Preferred shares					
Canadian	242,709	46,626	—	289,335	289,335
Total preferred shares	242,709	46,626	—	289,335	289,335
Common shares					
Canadian					
Common shares	495,499	71,328	—	566,827	566,827
Real estate limited partnership units	44,538	—	—	44,538	44,538
U.S.	122,316	—	—	122,316	122,316
Other	12,416	—	—	12,416	12,416
Total common shares	674,769	71,328	—	746,097	746,097
Mortgages	—	—	309,157	309,157	315,494
Loans on policies	—	—	46,507	46,507	46,507
Policy contract loans	—	—	89,423	89,423	89,423
Total	\$ 4,526,918	\$ 1,242,096	\$ 445,087	\$ 6,214,101	6,220,438

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

As at December 31, 2013

Asset category	Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Cash and cash equivalents	\$ 217,350	\$ —	\$ —	\$ 217,350	\$ 217,350
Short-term investments					
Canadian federal government	7,325	—	—	7,325	7,325
Corporate	18,123	—	—	18,123	18,123
Total short-term investments	25,448	—	—	25,448	25,448
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	59,870	197,160	—	257,030	257,030
Canadian provincial and municipal governments	2,034,681	252,445	—	2,287,126	2,287,126
Total government bonds issued or guaranteed	2,094,551	449,605	—	2,544,156	2,544,156
Canadian corporate bonds by industry sector:					
Financial services	495,906	472,359	—	968,265	968,265
Infrastructure	219,882	24,241	—	244,123	244,123
Utilities	224,452	34,962	—	259,414	259,414
Communications	2,194	37,014	—	39,208	39,208
Energy	49,294	35,535	—	84,829	84,829
Consumer staples	67,223	9,903	—	77,126	77,126
Industrials	40,343	6,469	—	46,812	46,812
Health care	54,621	5,246	—	59,867	59,867
Materials	9,712	—	—	9,712	9,712
Total Canadian corporate bonds	1,163,627	625,729	—	1,789,356	1,789,356
Total bonds	3,258,178	1,075,334	—	4,333,512	4,333,512
Preferred shares					
Canadian	224,313	69,905	—	294,218	294,218
Total preferred shares	224,313	69,905	—	294,218	294,218
Common shares					
Canadian					
Common shares	476,742	65,778	—	542,520	542,520
Real estate limited partnership units	41,081	—	—	41,081	41,081
U.S.	116,699	—	—	116,699	116,699
Other	15,090	—	—	15,090	15,090
Total common shares	649,612	65,778	—	715,390	715,390
Mortgages	—	—	299,353	299,353	304,134
Loans on policies	—	—	44,855	44,855	44,855
Policy contract loans	—	—	90,275	90,275	90,275
Total	\$ 4,374,901	\$ 1,211,017	\$ 434,483	\$ 6,020,401	\$ 6,025,182

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Impairments

Management regularly reviews securities classified as available for sale (AFS) for evidence of impairment. Changes in the fair value of AFS assets are recorded in unrealized fair value change on available for sale investments in Other comprehensive income (OCI). Where there is objective evidence of a decline in fair value, the loss accumulated in Accumulated other comprehensive income (AOCI) is reclassified to realized gain (loss) on available for sale assets including impairment write-downs on the Statement of operations. In the first quarter of 2014, the Company reclassified a pre-tax loss of \$86 due to write-downs of impaired available for sale common and preferred shares (first quarter 2013 \$39). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost or the extent or nature of the loss.

As at March 31, 2014, financial assets past due, but not impaired were \$nil (December 31, 2013 \$nil).

(c) Fair Value of Financial Instruments

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

As at March 31, 2014					
		Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$	47,839	\$ 120,431	\$ —	\$ 168,270
Fair value through profit or loss:					
Bonds		—	3,417,362	—	3,417,362
Common shares		630,231	44,538	—	674,769
Preferred shares		242,709	—	—	242,709
Short-term investments		—	23,808	—	23,808
Available for sale:					
Bonds		—	1,104,169	—	1,104,169
Common shares		71,328	—	—	71,328
Preferred shares		46,626	—	—	46,626
Short-term investments		—	19,973	—	19,973
Total	\$	1,038,733	\$ 4,730,281	\$ —	\$ 5,769,014

As at December 31, 2013					
		Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$	53,394	\$ 163,956	\$ —	\$ 217,350
Fair value through profit or loss:					
Bonds		—	3,258,178	—	3,258,178
Common shares		608,531	41,081	—	649,612
Preferred shares		224,313	—	—	224,313
Short-term investments		—	25,448	—	25,448
Available for sale:					
Bonds		—	1,075,334	—	1,075,334
Common shares		65,778	—	—	65,778
Preferred shares		69,905	—	—	69,905
Total	\$	1,021,921	\$ 4,563,997	\$ —	\$ 5,585,918

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1, Level 2 and Level 3 during the period ended March 31, 2014 or during the year ended December 31, 2013.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Notes 3 a) and 13.

4. SEGREGATED FUNDS

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

As at	March 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 172,106	\$ 81,079
Short-term investments	147,573	171,903
Bonds	1,409,541	1,347,287
Common and preferred shares	4,614,145	4,414,766
Net other assets (liabilities)	36,772	27,885
	6,380,137	6,042,920
Less segregated funds held within general fund investments	(92,486)	(88,412)
Total	\$ 6,287,651	\$ 5,954,508

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

	As at March 31, 2014				Total
	Level 1	Level 2	Level 3		
Cash and cash equivalents	\$ 158,658	\$ 13,448	\$ —	\$ —	172,106
Common and preferred shares	4,614,145	—	—	—	4,614,145
Bonds	—	1,409,541	—	—	1,409,541
Short-term investments	—	147,573	—	—	147,573
Total	\$ 4,772,803	\$ 1,570,562	\$ —	\$ —	6,343,365

	As at December 31, 2013				Total
	Level 1	Level 2	Level 3		
Cash and cash equivalents	\$ 61,504	\$ 19,575	\$ —	\$ —	81,079
Common and preferred shares	4,414,766	—	—	—	4,414,766
Bonds	—	1,347,287	—	—	1,347,287
Short-term investments	—	171,903	—	—	171,903
Total	\$ 4,476,270	\$ 1,538,765	\$ —	\$ —	6,015,035

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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 March 31	2014	2013
Segregated funds - beginning of year	\$ 5,954,508	\$ 5,014,392
Additions to segregated funds:		
Amount received from policyholders	450,724	393,740
Interest	13,527	12,465
Dividends	31,238	26,340
Other income	6,824	5,380
Net realized gains on sale of investments	146,139	117,491
Net unrealized increase in fair value of investments	80,280	48,319
	728,732	603,735
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	344,543	331,150
Net realized losses on sale of investments	—	—
Management fees and other operating costs	46,972	40,657
	391,515	371,807
Net change in segregated funds held within general fund investments	(4,074)	(4,947)
Segregated funds - end of period	\$ 6,287,651	\$ 5,241,373

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

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

5. INSURANCE PREMIUMS

	For the 3 months ended March 31, 2014			For the 3 months ended March 31, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	\$ 108,786	\$ (18,217)	\$ 90,569	\$ 106,062	\$ (16,716)	\$ 89,346
Health premiums	83,006	(6,022)	76,984	78,111	(5,334)	72,777
Total life and health premiums	191,792	(24,239)	167,553	184,173	(22,050)	162,123
Annuity premiums	61,878	(76)	61,802	45,071	(133)	44,938
Total insurance premiums	\$ 253,670	\$ (24,315)	\$ 229,355	\$ 229,244	\$ (22,183)	\$ 207,061

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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 3 months ended March 31, 2014			For the 3 months ended March 31, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	\$ 44,008	\$ (13,554)	\$ 30,454	\$ 38,120	\$ (8,847)	\$ 29,273
Health claims	60,187	(3,360)	56,827	53,395	(2,624)	50,771
Total life and health claims	104,195	(16,914)	87,281	91,515	(11,471)	80,044
Annuity benefits	95,357	(501)	94,856	62,116	(578)	61,538
Total benefits and claims	\$ 199,552	\$ (17,415)	\$ 182,137	\$ 153,631	\$ (12,049)	\$ 141,582

(b) Change in Insurance Contract Liabilities and Reinsurance Ceded

	For the 3 months ended March 31, 2014			For the 3 months ended March 31, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	\$ 216,452	\$ 13,487	\$ 229,939	\$ 40,957	\$ 2,840	\$ 43,797
Health	8,481	106	8,587	1,095	857	1,952
Total life and health	224,933	13,593	238,526	42,052	3,697	45,749
Annuity	(15,915)	726	(15,189)	(4,498)	1,229	(3,269)
Total change in insurance contract liabilities	\$ 209,018	\$ 14,319	\$ 223,337	\$ 37,554	\$ 4,926	\$ 42,480
Change attributable to:						
Normal changes - New Business	53,186	(946)	52,240	29,410	(1,570)	27,840
Normal changes - In-Force Business	155,832	15,265	171,097	8,144	6,496	14,640
Total change in insurance contract liabilities	\$ 209,018	\$ 14,319	\$ 223,337	\$ 37,554	\$ 4,926	\$ 42,480

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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

	For the 3 months ended March 31, 2014				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 61,802	\$ 79,778	\$ 87,775	\$ —	\$ 229,355
Interest income	9,994	1,502	31,141	10,315	52,952
Total investment income	13,239	1,090	35,489	11,224	61,042
Fair value change in fair value through profit or loss assets	10,699	2,212	160,547	—	173,458
Realized gain (loss) on fair value through profit or loss assets	600	261	13,673	—	14,534
Realized gain (loss) on available for sale assets including impairment write downs	1	1	(1)	3,070	3,071
Fee income from external customers	40,163	2,038	279	52	42,532
Net benefits and claims	94,856	59,582	27,699	—	182,137
Net change in insurance contract liabilities	(15,189)	1,395	237,131	—	223,337
Change in investment contract provision	554	—	—	—	554
Policy dividends	—	—	5,384	—	5,384
Amortization of capital assets	438	297	372	—	1,107
Total operating expenses	14,272	10,635	10,789	354	36,050
Net commission expense	22,968	7,738	15,617	—	46,323
Interest expense	—	—	—	5,590	5,590
Premium tax	—	1,723	1,803	—	3,526
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	1,604	1,050	(1,244)	2,176	3,586
Net income (loss) after tax	7,439	3,257	(242)	6,226	16,680

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

For the 3 months ended March 31, 2013

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 44,938	\$ 75,521	\$ 86,602	\$ —	\$ 207,061
Interest income	10,297	1,266	28,737	7,716	48,016
Total investment income	13,076	873	32,350	8,748	55,047
Fair value change in fair value through profit or loss assets	2,106	(2,507)	(23,202)	—	(23,603)
Realized gain (loss) on fair value through profit or loss assets	1,366	150	13,796	—	15,312
Realized gain (loss) on available for sale assets including impairment write downs	—	—	—	557	557
Fee income from external customers	32,114	1,795	334	414	34,657
Net benefits and claims	61,534	53,089	26,959	—	141,582
Net change in insurance contract liabilities	(3,270)	1,561	44,189	—	42,480
Change in investment contract provision	223	—	—	—	223
Policy dividends	—	—	4,947	—	4,947
Amortization of capital assets	344	258	310	—	912
Total operating expenses	14,767	10,193	10,789	358	36,107
Net commission expense	19,211	7,187	16,728	—	43,126
Interest expense	—	—	—	3,381	3,381
Premium tax	—	1,631	1,789	—	3,420
Investment and capital tax	—	—	1,000	—	1,000
Income tax expense (recovery)	(281)	806	150	1,367	2,042
Net income (loss) after tax	1,416	1,365	3,329	4,613	10,723

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

As at March 31, 2014

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 1,095,184	\$ 156,225	\$ 3,601,977	\$ 1,472,470	\$ 6,325,856
Segregated funds	6,265,331	—	22,320	—	6,287,651
Total assets	\$ 7,360,515	\$ 156,225	\$ 3,624,297	\$ 1,472,470	\$ 12,613,507

As at December 31, 2013

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 1,104,876	\$ 154,470	\$ 3,359,260	\$ 1,507,296	\$ 6,125,902
Segregated funds	5,932,724	—	21,784	—	5,954,508
Total assets	\$ 7,037,600	\$ 154,470	\$ 3,381,044	\$ 1,507,296	\$ 12,080,410

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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 3 months ended March 31, 2014			For the 3 months ended March 31, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 22,766	\$ 6,036	\$ 16,730	\$ 7,208	\$ 1,903	\$ 5,305
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(3,072)	(1,036)	(2,036)	(558)	(203)	(355)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	221	72	149	206	67	139
Remeasurements of post-employment benefit liabilities	(2,810)	(745)	(2,065)	1,974	521	1,453
Total other comprehensive income (loss)	\$ 17,105	\$ 4,327	\$ 12,778	\$ 8,830	\$ 2,288	\$ 6,542

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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 3 months ended March 31, 2014			For the 3 months ended March 31, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 19,679	\$ 5,217	\$ 14,462	\$ 5,435	\$ 1,435	\$ 4,000
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(2,363)	(827)	(1,536)	350	75	275
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	221	72	149	206	67	139
Remeasurements of post-employment benefit liabilities	(2,682)	(711)	(1,971)	1,883	497	1,386
Shareholder portion of policyholder other comprehensive income (loss)	238	61	177	87	19	68
Total other comprehensive income (loss)	\$ 15,093	\$ 3,812	\$ 11,281	\$ 7,961	\$ 2,093	\$ 5,868

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

	For the 3 months ended March 31, 2014			For the 3 months ended March 31, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 3,087	\$ 819	\$ 2,268	\$ 1,773	\$ 468	\$ 1,305
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(709)	(209)	(500)	(908)	(278)	(630)
Remeasurements of post-employment benefit liabilities	(128)	(34)	(94)	91	24	67
Shareholder portion of policyholder other comprehensive (income) loss	(238)	(61)	(177)	(87)	(19)	(68)
Total other comprehensive income (loss)	\$ 2,012	\$ 515	\$ 1,497	\$ 869	\$ 195	\$ 674

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

9. DIVIDENDS

The Company approved and paid a dividend of \$33,984 (2013 \$nil) (\$34.4985 per share (2013 \$nil)) in the first quarter of 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 March 31, 2014 and December 31, 2013 the Company was in compliance with these ratios.

As at	March 31, 2014	December 31, 2013
Tier 1 Regulatory Capital	\$ 807,645	\$ 830,538
Tier 2 Regulatory Capital	528,705	532,961
Total Regulatory Capital	\$ 1,336,350	\$ 1,363,499

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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 March 31, 2014 there were \$8,942 (December 31, 2013 \$11,430) of outstanding commitments to purchase units in a real estate limited partnership. These commitments are payable on demand and mature within 2 months.

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.

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

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

The fair value of these debentures is \$503,591 as of March 31, 2014 (December 31, 2013 \$500,609), 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 objective of the Company's risk management process is to ensure that the operations of the Company that expose it to risk are consistent with the Company's objectives and risk philosophy while maintaining an appropriate risk/reward balance. In support of this, the Company has created a Risk Management Policy. Oversight and management of this policy falls under the responsibility of the Management Risk Committee, a multi-disciplinary management committee with representation from all functional areas of the Company, chaired by the Chief Actuary and reporting directly to the Board. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment and are presented to the Board on an annual basis.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

(a) Market Risk

i) 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 policy liabilities represent the impact on shareholders' net income.

As at March 31, 2014

	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	\$ 15,265	\$ (15,265)	\$ 30,518	\$ (30,518)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,098	\$ (2,098)	\$ 4,196	\$ (4,196)
Policyholders' other comprehensive income	\$ 3,144	\$ (3,144)	\$ 6,288	\$ (6,288)
Segregated fund guarantee policy liabilities	\$ nil	\$ nil	\$ nil	\$ nil

As at March 31, 2013

	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	\$ 13,704	\$ (13,704)	\$ 27,428	\$ (27,428)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 1,582	\$ (1,582)	\$ 3,164	\$ (3,164)
Policyholders' other comprehensive income	\$ 2,527	\$ (2,527)	\$ 5,054	\$ (5,054)
Segregated fund guarantee policy liabilities	\$ nil	\$ nil	\$ nil	\$ nil

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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	March 31, 2014	December 31, 2013
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 259,636	\$ 260,775
Percentage of total cash and investments	4.2%	4.3%
Exposure to the largest single issuer of common equities	\$ 44,538	\$ 41,081
Percentage of total cash and investments	0.7%	0.7%

ii) Interest Rate Risk

The following tables summarize the immediate financial impact on Net income and Other comprehensive income as a result of a change in interest rates.

As at March 31, 2014

	100bps Increase	100bps Decrease	200bps Increase	200bps Decrease
Shareholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ (36,407)	\$ 45,761	\$ (63,466)	\$ 100,884
Policyholders' other comprehensive income	\$ (2,218)	\$ 2,508	\$ (4,151)	\$ 5,309

As at March 31, 2013

	100bps Increase	100bps Decrease	200bps Increase	200bps Decrease
Shareholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ (31,934)	\$ 39,664	\$ (56,096)	\$ 87,017
Policyholders' other comprehensive income	\$ (2,296)	\$ 2,616	\$ (4,273)	\$ 5,555

iii) 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 \$1,249 (2013 \$1,233) on net income, \$nil (2013 \$nil) on shareholders' OCI and \$nil (2013 \$34) on policyholders' OCI. The Company has no significant foreign currency exposure in its financial liabilities.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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	March 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 168,270	\$ 217,350
Short-term investments	43,781	25,448
Bonds	4,521,531	4,333,512
Preferred shares	289,335	294,218
Mortgages	309,157	299,353
Loans on policies	46,507	44,855
Policy contract loans	89,423	90,275
Accrued investment income	38,206	24,058
Insurance receivables	26,256	41,014
Trade accounts receivable	14,659	8,397
Total	\$ 5,547,125	\$ 5,378,480

Concentration of Credit Risk

(1) Bonds and Debentures

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

As at	March 31, 2014		December 31, 2013	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	\$ 280,258	6%	\$ 290,418	7%
AA	1,233,728	27%	1,190,826	27%
A	2,369,245	53%	2,257,568	52%
BBB	637,765	14%	594,134	14%
BB	535	—%	566	—%
Total	\$ 4,521,531	100%	\$ 4,333,512	100%

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

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

As at	March 31, 2014	December 31, 2013
Provincial bond holdings	\$ 2,270,275	\$ 2,167,988
Percentage of total bond holdings	50%	50%

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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	March 31, 2014		December 31, 2013	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
1 year or less	\$ 60,934	1%	\$ 61,367	1%
1 - 5 years	695,701	15%	658,374	15%
5 - 10 years	487,279	11%	492,778	11%
Over 10 years	3,277,617	73%	3,120,993	73%
Total	\$ 4,521,531	100%	\$ 4,333,512	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	March 31, 2014	December 31, 2013
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 2,904,765	\$ 2,803,115
Percentage of total cash and investments	47%	47%
Exposure to the largest single issuer of corporate bonds	\$ 127,080	\$ 130,849
Percentage of total cash and investments	2.1%	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 15% (December 31, 2013 33%) of these investments rated as P1 and the remaining 85% (December 31, 2013 67%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$307,777 or 99% (December 31, 2013 \$296,025 or 99%) of the total mortgage portfolio.

14. SUBSEQUENT EVENT

On April 17, 2014 Empire Life obtained OSFI approval and notified investors that Empire Life will be redeeming \$200 million 6.73% subordinated debentures at par on May 20, 2014.

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.

Available For Sale (AFS) Financial Assets

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

Canadian Asset Liability Method (CALM)

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

Canadian Institute of Actuaries (CIA)

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

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 dependants. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

Fair Value Through Profit or Loss (FVTPL)

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

International Financial Reporting Standards (IFRS)

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

Minimum Continuing Capital and Surplus Requirements (MCCSR)

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

Other Comprehensive Income (OCI)

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

GLOSSARY OF TERMS (unaudited)

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.