

# INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)  
UNAUDITED

As at	June 30, 2014	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 200,673	\$ 217,350
Investments		
Short-term investments (Note 3)	21,689	25,448
Bonds (Note 3)	4,599,829	4,333,512
Common and preferred shares (Note 3)	980,343	1,009,608
Mortgages (Note 3)	321,078	299,353
Loans on policies (Note 3)	47,188	44,855
Policy contract loans (Note 3)	87,606	90,275
<b>Total investments</b>	<b>6,057,733</b>	<b>5,803,051</b>
Accrued investment income	23,901	24,058
Insurance receivables	36,627	41,014
Deferred income taxes	4,424	2,400
Other assets	50,427	11,669
Property and equipment	20,333	22,043
Intangible assets	4,708	4,317
Segregated fund assets (Note 4)	6,544,858	5,954,508
<b>Total Assets</b>	<b>\$ 12,943,684</b>	<b>\$ 12,080,410</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 83,535	\$ 55,833
Insurance payables	76,629	78,940
Current income taxes payable	11,232	9,306
Reinsurance liabilities	307,192	284,627
Insurance contract liabilities	4,560,609	4,175,238
Investment contract liabilities	12,042	12,687
Policyholders' funds on deposit	31,194	30,937
Provision for profits to policyholders	24,781	23,893
Subordinated debt (Note 12)	298,611	498,343
Segregated fund policy liabilities	6,544,858	5,954,508
	<b>11,950,683</b>	<b>11,124,312</b>
<b>Equity</b>		
Capital stock	985	985
Contributed surplus	19,387	19,387
Retained earnings	967,838	945,692
Accumulated other comprehensive income (loss)	4,791	(9,966)
	<b>993,001</b>	<b>956,098</b>
<b>Total Liabilities and Equity</b>	<b>\$ 12,943,684</b>	<b>\$ 12,080,410</b>

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 June 30		For the six months ended June 30	
	2014	2013	2014	2013
<b>Revenue</b>				
Gross premiums	\$ 240,122	\$ 221,013	\$ 493,792	\$ 450,257
Premiums ceded to reinsurers	(26,271)	(24,420)	(50,586)	(46,603)
Net premiums (Note 5)	213,851	196,593	443,206	403,654
Investment income	61,443	58,455	122,485	113,502
Fair value change in fair value through profit or loss assets	113,899	(235,591)	287,357	(259,194)
Realized gain (loss) on fair value through profit or loss assets sold	37,634	2,580	52,168	17,892
Realized gain (loss) on available for sale assets including impairment write downs	6,463	1,839	9,534	2,396
Fee income	47,226	37,308	89,758	71,965
Total revenue	480,516	61,184	1,004,508	350,215
<b>Benefits and Expenses</b>				
Gross benefits and claims paid (Note 6)	165,598	151,132	365,150	304,763
Claims recovery from reinsurers (Note 6)	(21,034)	(9,794)	(38,449)	(21,843)
Gross change in insurance contract liabilities (Note 6)	176,353	(211,036)	385,371	(173,482)
Change in insurance contract liabilities ceded (Note 6)	8,246	(12,533)	22,565	(7,607)
Change in investment contracts provision	622	197	1,176	420
Policy dividends	6,085	5,713	11,469	10,660
Operating expenses	36,374	36,546	72,424	72,653
Commissions	48,557	39,872	95,446	83,547
Commission recovery from reinsurers	(629)	(626)	(1,195)	(1,175)
Interest expense	4,073	4,176	9,663	7,557
Total benefits and expenses	424,245	3,647	923,620	275,493
Premium tax	3,654	3,376	7,180	6,796
Investment and capital tax	825	825	1,650	1,825
<b>Net Income Before Income Taxes</b>	<b>51,792</b>	<b>53,336</b>	<b>72,058</b>	<b>66,101</b>
Income taxes	12,342	12,320	15,928	14,362
<b>Net Income</b>	<b>\$ 39,450</b>	<b>\$ 41,016</b>	<b>\$ 56,130</b>	<b>\$ 51,739</b>
<b>Net Income (Loss) Attributable to:</b>				
Participating Policyholders	817	395	(285)	864
Shareholders	38,633	40,621	56,415	50,875
<b>Total</b>	<b>\$ 39,450</b>	<b>\$ 41,016</b>	<b>\$ 56,130</b>	<b>\$ 51,739</b>
Earnings per share - basic and diluted (2,000,000 shares authorized; 985,076 shares outstanding)	\$ 39.22	\$ 41.24	\$ 57.27	\$ 51.65

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 June 30		For the six months ended June 30	
	2014	2013	2014	2013
<b>Net Income</b>	\$ 39,450	\$ 41,016	\$ 56,130	\$ 51,739
<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)	10,242	(23,742)	26,972	(18,437)
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 8)	(4,623)	(1,347)	(6,660)	(1,702)
Net unrealized fair value increase	5,619	(25,089)	20,312	(20,139)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income (Note 8)	83	142	232	281
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 8)	(3,722)	6,056	(5,787)	7,509
Total other comprehensive income	1,980	(18,891)	14,757	(12,349)
<b>Comprehensive Income</b>	\$ 41,430	\$ 22,125	\$ 70,887	\$ 39,390
<b>Comprehensive income attributable to:</b>				
Participating Policyholders	\$ (1,036)	\$ (875)	\$ (641)	\$ 268
Shareholders	42,466	23,000	71,528	39,122
Total	\$ 41,430	\$ 22,125	\$ 70,887	\$ 39,390

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 six months ended June 30, 2014			For the six months ended June 30, 2013		
	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	901,821	43,871	945,692	812,642	47,114	859,756
Net income (loss)	56,415	(285)	56,130	50,875	864	51,739
Dividends to common shareholders	(33,984)	—	(33,984)	—	—	—
Retained earnings - end of period	924,252	43,586	967,838	863,517	47,978	911,495
<b>Accumulated other comprehensive income (loss)</b>						
Accumulated other comprehensive income (loss) - beginning of year	(16,917)	6,951	(9,966)	(10,344)	3,864	(6,480)
Other comprehensive income (loss)	15,113	(356)	14,757	(11,753)	(596)	(12,349)
Accumulated other comprehensive income (loss) - end of period	(1,804)	6,595	4,791	(22,097)	3,268	(18,829)
<b>Total equity</b>	\$ 942,820	\$ 50,181	\$ 993,001	\$ 861,792	\$ 51,246	\$ 913,038
<b>Composition of accumulated other comprehensive income (loss) - end of period</b>						
Unrealized gain (loss) on available for sale financial assets	\$ 15,198	\$ 8,335	\$ 23,533	\$ (4,569)	\$ 4,646	\$ 77
Unamortized gain (loss) on cash flow hedges	—	—	—	(526)	—	(526)
Remeasurements of post-employment benefit liabilities	(17,835)	(907)	(18,742)	(17,466)	(914)	(18,380)
Shareholder portion of policyholders' accumulated other comprehensive income	833	(833)	—	464	(464)	—
Total accumulated other comprehensive income (loss)	\$ (1,804)	\$ 6,595	\$ 4,791	\$ (22,097)	\$ 3,268	\$ (18,829)

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 six months ended June 30

	2014	2013
<b>Operating Activities</b>		
Net income	\$ 56,130	\$ 51,739
Non-cash items affecting net income		
Change in contract liabilities	386,547	(173,062)
Change in reinsurance liability	22,565	(7,607)
Fair value change in fair value through profit or loss assets	(287,357)	259,194
Realized (gain) loss on assets including impairment write downs on available for sale assets	(61,702)	(20,288)
Amortization related to invested assets	(35,272)	(34,710)
Amortization related to capital assets	633	2,161
Deferred income taxes	63	(1,077)
Other items	(14,983)	(10,213)
Cash provided from (used for) operating activities	66,624	66,137
<b>Investing Activities</b>		
Portfolio investments		
Purchases and advances	(801,658)	(1,445,343)
Sales and maturities	952,718	989,637
Loans on policies		
Advances	(4,970)	(5,511)
Repayments	12,798	5,388
Decrease (increase) in short-term investments	3,759	(2,544)
Net purchase of capital assets	(929)	(3,803)
Cash provided from (used for) investing activities	161,718	(462,176)
<b>Financing Activities</b>		
Dividends to common shareholders (Note 9)	(33,984)	—
Interest paid on subordinated debt	(11,035)	(6,730)
Debt issue (Note 12)	—	298,268
Debt Redemption (Note 12)	(200,000)	—
Cash provided from (used for) financing activities	(245,019)	291,538
<b>Net Change in Cash and Cash Equivalents</b>	<b>(16,677)</b>	<b>(104,501)</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>217,350</b>	<b>248,382</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 200,673</b>	<b>\$ 143,881</b>
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 20,901	\$ 15,725
Interest income received	73,203	50,954
Dividend income received	16,493	15,409

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 July 31, 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 June 30, 2014

Asset category	Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Cash and cash equivalents	\$ 200,673	\$ —	\$ —	\$ 200,673	200,673
Short-term investments					
Canadian federal government	5,547	—	—	5,547	5,547
Corporate	16,142	—	—	16,142	16,142
Total short-term investments	21,689	—	—	21,689	21,689
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	65,764	182,209	—	247,973	247,973
Canadian provincial and municipal governments	2,233,573	260,373	—	2,493,946	2,493,946
Total government bonds issued or guaranteed	2,299,337	442,582	—	2,741,919	2,741,919
Canadian corporate bonds by industry sector:					
Financial services	522,765	427,743	—	950,508	950,508
Infrastructure	230,412	24,232	—	254,644	254,644
Utilities	235,269	31,461	—	266,730	266,730
Communications	1,819	29,715	—	31,534	31,534
Energy	51,867	63,425	—	115,292	115,292
Consumer staples	65,415	44,292	—	109,707	109,707
Industrials	45,423	1,531	—	46,954	46,954
Health care	58,380	13,843	—	72,223	72,223
Materials	10,318	—	—	10,318	10,318
Total Canadian corporate bonds	1,221,668	636,242	—	1,857,910	1,857,910
Total bonds	3,521,005	1,078,824	—	4,599,829	4,599,829
Preferred shares					
Canadian	207,228	23,224	—	230,452	230,452
Total preferred shares	207,228	23,224	—	230,452	230,452
Common shares					
Canadian					
Common shares	512,478	58,768	—	571,246	571,246
Real estate limited partnership units	45,323	—	—	45,323	45,323
U.S.	119,854	—	—	119,854	119,854
Other	13,468	—	—	13,468	13,468
Total common shares	691,123	58,768	—	749,891	749,891
Mortgages	—	—	321,078	321,078	334,435
Loans on policies	—	—	47,188	47,188	47,188
Policy contract loans	—	—	87,606	87,606	87,606
<b>Total</b>	<b>\$ 4,641,718</b>	<b>\$ 1,160,816</b>	<b>\$ 455,872</b>	<b>\$ 6,258,406</b>	<b>6,271,763</b>



# 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
<b>Total</b>	<b>\$ 4,374,901</b>	<b>\$ 1,211,017</b>	<b>\$ 434,483</b>	<b>\$ 6,020,401</b>	<b>\$ 6,025,182</b>

# 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 second quarter of 2014, the Company reclassified a pre-tax loss of \$nil due to write-downs of impaired available for sale common and preferred shares (second quarter 2013 \$100). On a year to date basis the pre-tax write-downs are \$86 (year to date 2013 \$139). 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 June 30, 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:

<b>As at June 30, 2014</b>					
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Cash and cash equivalents	\$	<b>138,356</b>	\$ <b>62,317</b>	\$ —	<b>200,673</b>
Fair value through profit or loss:					
Bonds		—	<b>3,521,005</b>	—	<b>3,521,005</b>
Common shares		<b>645,800</b>	<b>45,323</b>	—	<b>691,123</b>
Preferred shares		<b>207,228</b>	—	—	<b>207,228</b>
Short-term investments		—	<b>21,689</b>	—	<b>21,689</b>
Available for sale:					
Bonds		—	<b>1,078,824</b>	—	<b>1,078,824</b>
Common shares		<b>58,768</b>	—	—	<b>58,768</b>
Preferred shares		<b>23,224</b>	—	—	<b>23,224</b>
<b>Total</b>	<b>\$</b>	<b>1,073,376</b>	<b>\$ 4,729,158</b>	<b>\$ —</b>	<b>5,802,534</b>

<b>As at December 31, 2013</b>					
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
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
<b>Total</b>	<b>\$</b>	<b>1,021,921</b>	<b>\$ 4,563,997</b>	<b>\$ —</b>	<b>5,585,918</b>

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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 June 30, 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	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 161,003	\$ 81,079
Short-term investments	148,851	171,903
Bonds	1,469,173	1,347,287
Common and preferred shares	4,785,734	4,414,766
Net other assets (liabilities)	3,827	27,885
	<b>6,568,588</b>	<b>6,042,920</b>
Less segregated funds held within general fund investments	<b>(23,730)</b>	<b>(88,412)</b>
<b>Total</b>	<b>\$ 6,544,858</b>	<b>\$ 5,954,508</b>

(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 June 30, 2014				Total
	Level 1	Level 2	Level 3		
Cash and cash equivalents	\$ 161,003	\$ —	\$ —	\$ —	161,003
Common and preferred shares	4,785,734	—	—	—	4,785,734
Bonds	—	1,469,173	—	—	1,469,173
Short-term investments	—	148,851	—	—	148,851
<b>Total</b>	<b>\$ 4,946,737</b>	<b>\$ 1,618,024</b>	<b>\$ —</b>	<b>\$ —</b>	<b>6,564,761</b>

	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
<b>Total</b>	<b>\$ 4,476,270</b>	<b>\$ 1,538,765</b>	<b>\$ —</b>	<b>\$ —</b>	<b>6,015,035</b>

# 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 June 30		For the six months ended June 30	
	2014	2013	2014	2013
Segregated funds - beginning of period	\$ 6,287,651	\$ 5,241,373	\$ 5,954,508	\$ 5,014,392
Additions to segregated funds:				
Amount received from policyholders	347,287	305,669	798,011	699,409
Interest	13,790	13,525	27,317	25,990
Dividends	32,247	28,861	63,485	55,201
Other income	7,324	5,887	14,148	11,267
Net realized gains on sale of investments	127,074	22,660	273,213	140,151
Net unrealized increase in fair value of investments	39,666	—	119,946	—
	<b>567,388</b>	<b>376,602</b>	<b>1,296,120</b>	<b>932,018</b>
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders	329,292	267,129	673,835	598,279
Net unrealized decrease in fair value of investments	—	64,970	—	16,651
Management fees and other operating costs	49,645	40,090	96,617	80,747
	<b>378,937</b>	<b>372,189</b>	<b>770,452</b>	<b>695,677</b>
Net change in segregated funds held within general fund investments	<b>68,756</b>	<b>(2,076)</b>	<b>64,682</b>	<b>(7,023)</b>
Segregated funds - end of period	\$ 6,544,858	\$ 5,243,710	\$ 6,544,858	\$ 5,243,710

(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 three months ended June 30, 2014			For the three months ended June 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	\$ 117,296	\$ (19,902)	\$ 97,394	\$ 106,109	\$ (18,700)	\$ 87,409
Health premiums	83,785	(6,304)	77,481	79,154	(5,613)	73,541
Total life and health premiums	<b>201,081</b>	<b>(26,206)</b>	<b>174,875</b>	185,263	(24,313)	160,950
Annuity premiums	39,041	(65)	38,976	35,750	(107)	35,643
Total insurance premiums	\$ <b>240,122</b>	\$ <b>(26,271)</b>	\$ <b>213,851</b>	\$ 221,013	\$ (24,420)	\$ 196,593

# 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 six months ended June 30, 2014			For the six months ended June 30, 2013		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
Life premiums	\$ 226,082	\$ (38,119)	\$ 187,963	\$ 212,171	\$ (35,416)	\$ 176,755
Health premiums	166,791	(12,326)	154,465	157,265	(10,947)	146,318
Total life and health premiums	392,873	(50,445)	342,428	369,436	(46,363)	323,073
Annuity premiums	100,919	(141)	100,778	80,821	(240)	80,581
Total insurance premiums	\$ 493,792	\$ (50,586)	\$ 443,206	\$ 450,257	\$ (46,603)	\$ 403,654

## 6. BENEFITS AND EXPENSES

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

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
Life claims	\$ 41,368	\$ (15,683)	\$ 25,685	\$ 38,648	\$ (6,475)	\$ 32,173
Health claims	63,931	(4,242)	59,689	57,336	(2,690)	54,646
Total life and health claims	105,299	(19,925)	85,374	95,984	(9,165)	86,819
Annuity benefits	60,299	(1,109)	59,190	55,148	(629)	54,519
Total benefits and claims	\$ 165,598	\$ (21,034)	\$ 144,564	\$ 151,132	\$ (9,794)	\$ 141,338

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
Life claims	\$ 85,376	\$ (29,237)	\$ 56,139	\$ 76,768	\$ (15,322)	\$ 61,446
Health claims	124,118	(7,602)	116,516	110,731	(5,314)	105,417
Total life and health claims	209,494	(36,839)	172,655	187,499	(20,636)	166,863
Annuity benefits	155,656	(1,610)	154,046	117,264	(1,207)	116,057
Total benefits and claims	\$ 365,150	\$ (38,449)	\$ 326,701	\$ 304,763	\$ (21,843)	\$ 282,920

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited, in thousands of Canadian dollars except for per share amounts and where otherwise stated)

(b) Change in Insurance Contract Liabilities and Reinsurance Ceded

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Gross	Reinsurance		Gross	Reinsurance	
		Ceded	Net		Ceded	Net
Life	\$ 176,251	\$ 9,303	\$ 185,554	\$ (169,457)	\$ (14,958)	\$ (184,415)
Health	6,190	(1,119)	5,071	(8,990)	1,999	(6,991)
Total life and health	182,441	8,184	190,625	(178,447)	(12,959)	(191,406)
Annuity	(6,088)	62	(6,026)	(32,589)	426	(32,163)
Total change in insurance contract liabilities	\$ 176,353	\$ 8,246	\$ 184,599	\$ (211,036)	\$ (12,533)	\$ (223,569)
Change attributable to:						
Normal changes - New Business	36,442	(530)	35,912	10,089	5,951	16,040
- In-Force Business	139,911	8,776	148,687	(221,125)	(18,484)	(239,609)
Total change in insurance contract liabilities	\$ 176,353	\$ 8,246	\$ 184,599	\$ (211,036)	\$ (12,533)	\$ (223,569)

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Gross	Reinsurance		Gross	Reinsurance	
		Ceded	Net		Ceded	Net
Life	\$ 392,703	\$ 22,790	\$ 415,493	\$ (128,500)	\$ (12,118)	\$ (140,618)
Health	14,671	(1,013)	13,658	(7,895)	2,856	(5,039)
Total life and health	407,374	21,777	429,151	(136,395)	(9,262)	(145,657)
Annuity	(22,003)	788	(21,215)	(37,087)	1,655	(35,432)
Total change in insurance contract liabilities	\$ 385,371	\$ 22,565	\$ 407,936	\$ (173,482)	\$ (7,607)	\$ (181,089)
Change attributable to:						
Normal changes - New Business	89,628	(1,476)	88,152	39,499	4,381	43,880
- In-Force Business	295,743	24,041	319,784	(212,981)	(11,988)	(224,969)
Total change in insurance contract liabilities	\$ 385,371	\$ 22,565	\$ 407,936	\$ (173,482)	\$ (7,607)	\$ (181,089)

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, 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.

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:

# 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 three months ended June 30, 2014

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 38,975	\$ 79,768	\$ 95,108	\$ —	\$ 213,851
Interest income	9,903	1,502	31,887	9,756	53,048
Total investment income	13,157	1,016	36,887	10,383	61,443
Fair value change in fair value through profit or loss assets	3,547	1,059	109,293	—	113,899
Realized gain (loss) on fair value through profit or loss assets	2,495	209	34,930	—	37,634
Realized gain (loss) on available for sale assets including impairment write downs	38	47	38	6,340	6,463
Fee income from external customers	44,747	2,177	243	59	47,226
Net benefits and claims	59,190	61,402	23,972	—	144,564
Net change in insurance contract liabilities	(6,025)	(910)	191,534	—	184,599
Change in investment contract provision	622	—	—	—	622
Policy dividends	—	—	6,085	—	6,085
Amortization of capital assets	450	319	373	—	1,142
Total operating expenses	14,825	10,592	10,617	340	36,374
Net commission expense	20,587	7,690	19,651	—	47,928
Interest expense	—	—	—	4,073	4,073
Premium tax	—	1,723	1,931	—	3,654
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	2,976	983	5,080	3,303	12,342
Net income (loss) after tax	10,785	2,796	16,803	9,066	39,450



# 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 three months ended June 30, 2013

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 35,642	\$ 76,143	\$ 84,808	\$ —	\$ 196,593
Interest income	10,410	1,403	30,774	8,148	50,735
Total investment income	13,303	1,139	34,829	9,184	58,455
Fair value change in fair value through profit or loss assets	(23,943)	(2,147)	(209,501)	—	(235,591)
Realized gain (loss) on fair value through profit or loss assets	2,032	122	426	—	2,580
Realized gain (loss) on available for sale assets including impairment write downs	91	110	87	1,551	1,839
Fee income from external customers	34,718	1,845	233	512	37,308
Net benefits and claims	54,522	56,095	30,721	—	141,338
Net change in insurance contract liabilities	(32,165)	(4,516)	(186,888)	—	(223,569)
Change in investment contract provision	197	—	—	—	197
Policy dividends	—	—	5,713	—	5,713
Amortization of capital assets	469	358	423	—	1,250
Total operating expenses	14,617	11,034	10,531	364	36,546
Net commission expense	16,260	7,423	15,563	—	39,246
Interest expense	—	—	—	4,176	4,176
Premium tax	—	1,639	1,737	—	3,376
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	1,535	1,162	8,132	1,491	12,320
Net income (loss) after tax	6,877	4,375	24,548	5,216	41,016

# 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 six months ended June 30, 2014

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 100,778	\$ 159,546	\$ 182,882	\$ —	\$ 443,206
Interest income	19,897	3,004	63,028	20,071	106,000
Total investment income	26,396	2,106	72,376	21,607	122,485
Fair value change in fair value through profit or loss assets	14,246	3,271	269,840	—	287,357
Realized gain (loss) on fair value through profit or loss assets	3,095	470	48,603	—	52,168
Realized gain (loss) on available for sale assets including impairment write downs	39	48	37	9,410	9,534
Fee income from external customers	84,910	4,215	522	111	89,758
Net benefits and claims	154,046	120,984	51,671	—	326,701
Net change in insurance contract liabilities	(21,214)	485	428,665	—	407,936
Change in investment contract provision	1,176	—	—	—	1,176
Policy dividends	—	—	11,469	—	11,469
Amortization of capital assets	888	616	745	—	2,249
Total operating expenses	29,097	21,227	21,406	694	72,424
Net commission expense	43,555	15,428	35,268	—	94,251
Interest expense	—	—	—	9,663	9,663
Premium tax	—	3,446	3,734	—	7,180
Investment and capital tax	—	—	1,650	—	1,650
Income tax expense (recovery)	4,580	2,033	3,836	5,479	15,928
Net income (loss) after tax	18,224	6,053	16,561	15,292	56,130

# 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 six months ended June 30, 2013

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 80,580	\$ 151,664	\$ 171,410	\$ —	\$ 403,654
Interest income	20,707	2,669	59,511	15,864	98,751
Total investment income	26,379	2,012	67,179	17,932	113,502
Fair value change in fair value through profit or loss assets	(21,837)	(4,654)	(232,703)	—	(259,194)
Realized gain (loss) on fair value through profit or loss assets	3,398	272	14,222	—	17,892
Realized gain (loss) on available for sale assets including impairment write downs	91	110	87	2,108	2,396
Fee income from external customers	66,832	3,640	567	926	71,965
Net benefits and claims	116,056	109,184	57,680	—	282,920
Net change in insurance contract liabilities	(35,435)	(2,955)	(142,699)	—	(181,089)
Change in investment contract provision	420	—	—	—	420
Policy dividends	—	—	10,660	—	10,660
Amortization of capital assets	813	616	733	—	2,162
Total operating expenses	29,384	21,227	21,320	722	72,653
Net commission expense	35,471	14,610	32,291	—	82,372
Interest expense	—	—	—	7,557	7,557
Premium tax	—	3,270	3,526	—	6,796
Investment and capital tax	—	—	1,825	—	1,825
Income tax expense (recovery)	1,254	1,968	8,282	2,858	14,362
Net income (loss) after tax	8,293	5,740	27,877	9,829	51,739

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

As at June 30, 2014

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 1,092,921	\$ 155,450	\$ 3,801,961	\$ 1,348,494	\$ 6,398,826
Segregated funds	6,522,298	—	22,560	—	6,544,858
<b>Total assets</b>	<b>\$ 7,615,219</b>	<b>\$ 155,450</b>	<b>\$ 3,824,521</b>	<b>\$ 1,348,494</b>	<b>\$ 12,943,684</b>

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
<b>Total assets</b>	<b>\$ 7,037,600</b>	<b>\$ 154,470</b>	<b>\$ 3,381,044</b>	<b>\$ 1,507,296</b>	<b>\$ 12,080,410</b>

# 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 three months ended June 30, 2014			For the three months ended June 30, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 13,936	\$ 3,694	\$ 10,242	\$ (32,283)	\$ (8,541)	\$ (23,742)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(6,461)	(1,838)	(4,623)	(1,838)	(491)	(1,347)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	123	40	83	210	68	142
Remeasurements of post-employment benefit liabilities	(5,064)	(1,342)	(3,722)	8,239	2,183	6,056
<b>Total other comprehensive income (loss)</b>	<b>\$ 2,534</b>	<b>\$ 554</b>	<b>\$ 1,980</b>	<b>\$ (25,672)</b>	<b>\$ (6,781)</b>	<b>\$ (18,891)</b>

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 36,702	\$ 9,730	\$ 26,972	\$ (25,075)	\$ (6,638)	\$ (18,437)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(9,533)	(2,873)	(6,660)	(2,396)	(694)	(1,702)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	344	112	232	416	135	281
Remeasurements of post-employment benefit liabilities	(7,874)	(2,087)	(5,787)	10,213	2,704	7,509
<b>Total other comprehensive income (loss)</b>	<b>\$ 19,639</b>	<b>\$ 4,882</b>	<b>\$ 14,757</b>	<b>\$ (16,842)</b>	<b>\$ (4,493)</b>	<b>\$ (12,349)</b>

# 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 three months ended June 30, 2014			For the three months ended June 30, 2013		
	Before	Tax	After	Before	Tax	After
	Tax	Provision (Recovery)	Tax	Tax	Provision (Recovery)	Tax
Unrealized fair value change on available for sale investments	\$ 11,453	\$ 3,036	\$ 8,417	\$ (29,953)	\$ (7,925)	\$ (22,028)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,268)	(338)	(930)	(1,860)	(521)	(1,339)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	123	40	83	210	68	142
Remeasurements of post-employment benefit liabilities	(4,832)	(1,281)	(3,551)	7,859	2,082	5,777
Shareholder portion of policyholder other comprehensive income (loss)	(271)	(84)	(187)	(231)	(58)	(173)
<b>Total other comprehensive income (loss)</b>	<b>\$ 5,205</b>	<b>\$ 1,373</b>	<b>\$ 3,832</b>	<b>\$ (23,975)</b>	<b>\$ (6,354)</b>	<b>\$ (17,621)</b>

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Before	Tax	After	Before	Tax	After
	Tax	Provision (Recovery)	Tax	Tax	Provision (Recovery)	Tax
Unrealized fair value change on available for sale investments	\$ 31,132	\$ 8,253	\$ 22,879	\$ (24,518)	\$ (6,490)	\$ (18,028)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(3,631)	(1,165)	(2,466)	(1,510)	(446)	(1,064)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	344	112	232	416	135	281
Remeasurements of post-employment benefit liabilities	(7,514)	(1,992)	(5,522)	9,742	2,579	7,163
Shareholder portion of policyholder other comprehensive income (loss)	(33)	(23)	(10)	(144)	(39)	(105)
<b>Total other comprehensive income (loss)</b>	<b>\$ 20,298</b>	<b>\$ 5,185</b>	<b>\$ 15,113</b>	<b>\$ (16,014)</b>	<b>\$ (4,261)</b>	<b>\$ (11,753)</b>

# 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 policyholders' OCI:

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 2,483	\$ 658	\$ 1,825	\$ (2,330)	\$ (616)	\$ (1,714)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,193)	(1,500)	(3,693)	22	30	(8)
Remeasurements of post-employment benefit liabilities	(232)	(61)	(171)	380	101	279
Shareholder portion of policyholder other comprehensive (income) loss	271	84	187	231	58	173
<b>Total other comprehensive income (loss)</b>	<b>\$ (2,671)</b>	<b>\$ (819)</b>	<b>\$ (1,852)</b>	<b>\$ (1,697)</b>	<b>\$ (427)</b>	<b>\$ (1,270)</b>

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	\$ 5,570	\$ 1,477	\$ 4,093	\$ (557)	\$ (148)	\$ (409)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,902)	(1,708)	(4,194)	(886)	(248)	(638)
Remeasurements of post-employment benefit liabilities	(360)	(95)	(265)	471	125	346
Shareholder portion of policyholder other comprehensive (income) loss	33	23	10	144	39	105
<b>Total other comprehensive income (loss)</b>	<b>\$ (659)</b>	<b>\$ (303)</b>	<b>\$ (356)</b>	<b>\$ (828)</b>	<b>\$ (232)</b>	<b>\$ (596)</b>

# 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 June 30, 2014 and December 31, 2013 the Company was in compliance with these ratios.

As at	June 30, 2014	December 31, 2013
Tier 1 Regulatory Capital	\$ 838,749	\$ 830,538
Tier 2 Regulatory Capital	429,613	532,961
Total Regulatory Capital	\$ 1,268,362	\$ 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 June 30, 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 12 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 redeemed these debentures on May 20, 2014 at par.

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 the debentures is \$304,365 as of June 30, 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.

The Company is exposed to financial risks arising from its investing activities and its insurance operations and to



# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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 June 30, 2014

	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	\$ 15,658	\$ (15,658)	\$ 31,337	\$ (31,337)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,057	\$ (2,057)	\$ 4,114	\$ (4,114)
Policyholders' other comprehensive income	\$ 2,262	\$ (2,262)	\$ 4,524	\$ (4,524)
Segregated fund guarantee policy liabilities	\$ nil	\$ nil	\$ nil	\$ nil

#### As at June 30, 2013

	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	\$ 13,676	\$ (13,676)	\$ 27,386	\$ (27,386)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 1,582	\$ (1,582)	\$ 3,164	\$ (3,164)
Policyholders' other comprehensive income	\$ 2,487	\$ (2,487)	\$ 4,974	\$ (4,974)
Segregated fund guarantee policy liabilities	\$ nil	\$ nil	\$ nil	\$ nil

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

As at	June 30, 2014	December 31, 2013
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 276,983	\$ 260,775
Percentage of total cash and investments	4.4%	4.3%
Exposure to the largest single issuer of common equities	\$ 45,323	\$ 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 June 30, 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	\$ (37,458)	\$ 47,435	\$ (64,947)	\$ 104,855
Policyholders' other comprehensive income	\$ (2,076)	\$ 2,332	\$ (3,901)	\$ 4,924

### As at June 30, 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	\$ (36,939)	\$ 46,198	\$ (64,622)	\$ 101,659
Policyholders' other comprehensive income	\$ (2,196)	\$ 2,498	\$ (4,088)	\$ 5,294

## 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 \$nil (2013 \$1,263) on net income, \$nil (2013 \$nil) on shareholders' OCI and \$nil (2013 \$nil) on policyholders' OCI. The Company has no significant foreign currency exposure in its financial liabilities.

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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## (b) Credit Risk

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

As at	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 200,673	\$ 217,350
Short-term investments	21,689	25,448
Bonds	4,599,829	4,333,512
Preferred shares	230,452	294,218
Mortgages	321,078	299,353
Loans on policies	47,188	44,855
Policy contract loans	87,606	90,275
Accrued investment income	23,901	24,058
Insurance receivables	36,627	41,014
Trade accounts receivable	45,759	8,397
<b>Total</b>	<b>\$ 5,614,802</b>	<b>\$ 5,378,480</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	June 30, 2014		December 31, 2013	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	\$ 279,170	6%	\$ 290,418	7%
AA	1,255,076	27%	1,190,826	27%
A	2,389,272	52%	2,257,568	52%
BBB	675,604	15%	594,134	14%
BB	707	—%	566	—%
<b>Total</b>	<b>\$ 4,599,829</b>	<b>100%</b>	<b>\$ 4,333,512</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	June 30, 2014	December 31, 2013
Provincial bond holdings	\$ 2,367,076	\$ 2,167,988
Percentage of total bond holdings	51%	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	June 30, 2014		December 31, 2013	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
1 year or less	\$ 38,287	1%	\$ 61,367	1%
1 - 5 years	726,811	16%	658,374	15%
5 - 10 years	448,648	10%	492,778	11%
Over 10 years	3,386,083	73%	3,120,993	73%
<b>Total</b>	<b>\$ 4,599,829</b>	<b>100%</b>	<b>\$ 4,333,512</b>	<b>100%</b>

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	June 30, 2014	December 31, 2013
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 2,944,415	\$ 2,803,115
Percentage of total cash and investments	47%	47%
Exposure to the largest single issuer of corporate bonds	\$ 119,916	\$ 130,849
Percentage of total cash and investments	1.9%	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 12% (December 31, 2013 33%) of these investments rated as P1 and the remaining 88% (December 31, 2013 67%) rated as P2.

## (3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$319,262 or 99% (December 31, 2013 \$296,025 or 99%) of the total mortgage portfolio.

## 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.