

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)
UNAUDITED

As at	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents (Note 3)	\$ 159,029	\$ 217,350
Investments		
Short-term investments (Note 3)	62,208	25,448
Bonds (Note 3)	4,738,562	4,333,512
Common and preferred shares (Note 3)	939,041	1,009,608
Mortgages (Note 3)	324,233	299,353
Loans on policies (Note 3)	45,624	44,855
Policy contract loans (Note 3)	87,615	90,275
Total investments	6,197,283	5,803,051
Accrued investment income	36,903	24,058
Insurance receivables	37,752	41,014
Deferred income taxes	5,033	2,400
Other assets	51,900	11,669
Property and equipment	20,830	22,043
Intangible assets	4,711	4,317
Segregated fund assets (Note 4)	6,653,033	5,954,508
Total Assets	\$ 13,166,474	\$ 12,080,410
Liabilities		
Accounts payable and other liabilities	\$ 83,409	\$ 55,833
Insurance payables	65,130	78,940
Current income taxes payable	12,023	9,306
Reinsurance liabilities	307,956	284,627
Insurance contract liabilities	4,663,899	4,175,238
Investment contract liabilities	11,802	12,687
Policyholders' funds on deposit	31,286	30,937
Provision for profits to policyholders	25,194	23,893
Subordinated debt (Note 12)	298,677	498,343
Segregated fund policy liabilities	6,653,033	5,954,508
	12,152,409	11,124,312
Equity		
Capital stock	985	985
Contributed surplus	19,387	19,387
Retained earnings	991,514	945,692
Accumulated other comprehensive income (loss)	2,179	(9,966)
	1,014,065	956,098
Total Liabilities and Equity	\$ 13,166,474	\$ 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 September 30		For the nine months ended September 30	
	2014	2013	2014	2013
Revenue				
Gross premiums	\$ 233,886	\$ 227,289	\$ 727,678	\$ 677,546
Premiums ceded to reinsurers	(25,523)	(24,086)	(76,109)	(70,689)
Net premiums (Note 5)	208,363	203,203	651,569	606,857
Investment income	60,517	62,298	183,002	175,800
Fair value change in fair value through profit or loss assets	51,512	(82,603)	338,869	(341,797)
Realized gain (loss) on fair value through profit or loss assets sold	9,387	15,846	61,555	33,738
Realized gain (loss) on available for sale assets including impairment write downs	2,281	(2,709)	11,815	(313)
Fee income	47,855	38,341	137,613	110,306
Total revenue	379,915	234,376	1,384,423	584,591
Benefits and Expenses				
Gross benefits and claims paid (Note 6)	173,630	145,728	538,780	450,491
Claims recovery from reinsurers (Note 6)	(23,489)	(13,303)	(61,938)	(35,146)
Gross change in insurance contract liabilities (Note 6)	103,291	(16,728)	488,662	(190,210)
Change in insurance contract liabilities ceded (Note 6)	764	(5,948)	23,329	(13,555)
Change in investment contracts provision	552	208	1,728	628
Policy dividends	5,661	5,241	17,130	15,901
Operating expenses	34,694	30,670	107,118	103,323
Commissions	48,166	39,431	143,612	122,978
Commission recovery from reinsurers	(606)	(453)	(1,801)	(1,628)
Interest expense	2,261	5,709	11,924	13,266
Total benefits and expenses	344,924	190,555	1,268,544	466,048
Premium tax	3,636	3,549	10,816	10,345
Investment and capital tax	825	1,000	2,475	2,825
Net Income Before Income Taxes	30,530	39,272	102,588	105,373
Income taxes	6,854	8,240	22,782	22,602
Net Income	\$ 23,676	\$ 31,032	\$ 79,806	\$ 82,771
Net Income (Loss) Attributable to:				
Participating Policyholders	(450)	(1,458)	(735)	(594)
Shareholders	24,126	32,490	80,541	83,365
Total	\$ 23,676	\$ 31,032	\$ 79,806	\$ 82,771
Earnings per share - basic and diluted (2,000,000 shares authorized; 985,076 shares outstanding)	\$ 24.49	\$ 32.98	\$ 81.76	\$ 84.63

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 September 30		For the nine months ended September 30	
	2014	2013	2014	2013
Net Income	\$ 23,676	\$ 31,032	\$ 79,806	\$ 82,771
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)	740	(1,617)	27,712	(20,054)
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 8)	(1,624)	1,986	(8,284)	284
Net unrealized fair value increase	(884)	369	19,428	(19,770)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income (Note 8)	—	144	232	425
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 8)	(1,728)	5,490	(7,515)	12,999
Total other comprehensive income	(2,612)	6,003	12,145	(6,346)
Comprehensive Income	\$ 21,064	\$ 37,035	\$ 91,951	\$ 76,425
Comprehensive income attributable to:				
Participating Policyholders	\$ (941)	\$ 357	\$ (1,582)	\$ 625
Shareholders	22,005	36,678	93,533	75,800
Total	\$ 21,064	\$ 37,035	\$ 91,951	\$ 76,425

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 nine months ended September 30, 2014			For the nine months ended September 30, 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)	80,541	(735)	79,806	83,365	(594)	82,771
Dividends to common shareholders	(33,984)	—	(33,984)	(24,100)	—	(24,100)
Retained earnings - end of period	948,378	43,136	991,514	871,907	46,520	918,427
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)	12,992	(847)	12,145	(7,565)	1,219	(6,346)
Accumulated other comprehensive income (loss) - end of period	(3,925)	6,104	2,179	(17,909)	5,083	(12,826)
Total equity	\$ 964,825	\$ 49,240	\$ 1,014,065	\$ 874,370	\$ 51,603	\$ 925,973
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 14,772	\$ 7,877	\$ 22,649	\$ (5,935)	\$ 6,381	\$ 446
Unamortized gain (loss) on cash flow hedges	—	—	—	(382)	—	(382)
Remeasurements of post-employment benefit liabilities	(19,484)	(986)	(20,470)	(12,230)	(660)	(12,890)
Shareholder portion of policyholders' accumulated other comprehensive income	787	(787)	—	638	(638)	—
Total accumulated other comprehensive income (loss)	\$ (3,925)	\$ 6,104	\$ 2,179	\$ (17,909)	\$ 5,083	\$ (12,826)

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 nine months ended September 30

	2014	2013
Operating Activities		
Net income	\$ 79,806	\$ 82,771
Non-cash items affecting net income		
Change in contract liabilities	490,390	(189,582)
Change in reinsurance liability	23,329	(13,555)
Fair value change in fair value through profit or loss assets	(338,869)	341,797
Realized (gain) loss on assets including impairment write downs on available for sale assets	(73,370)	(33,425)
Amortization related to invested assets	(53,582)	(53,097)
Amortization related to capital assets	3,550	3,246
Deferred income taxes	79	251
Other items	(48,896)	(10,559)
Cash provided from (used for) operating activities	82,437	127,847
Investing Activities		
Portfolio investments		
Purchases and advances	(1,185,806)	(1,760,312)
Sales and maturities	1,320,166	1,259,887
Loans on policies		
Advances	(8,562)	(12,140)
Repayments	17,954	16,759
Decrease (increase) in short-term investments	(36,760)	(40,825)
Net purchase of capital assets	(2,731)	(5,332)
Cash provided from (used for) investing activities	104,261	(541,963)
Financing Activities		
Dividends to common shareholders (Note 9)	(33,984)	(24,100)
Interest paid on subordinated debt	(11,035)	(6,730)
Debt issue (Note 12)	—	298,268
Debt repayment (Note 12)	(200,000)	—
Cash provided from (used for) financing activities	(245,019)	267,438
Net Change in Cash and Cash Equivalents	(58,321)	(146,678)
Cash and Cash Equivalents - Beginning of Period	217,350	248,382
Cash and Cash Equivalents - End of Period	\$ 159,029	\$ 101,704
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 26,487	\$ 20,447
Interest income received	96,416	87,632
Dividend income received	23,913	23,870

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 October 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.

(c) Future Accounting Changes

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

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 September 30, 2014						
Asset category	Designated Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value	
Cash and cash equivalents	\$ 159,029	\$ —	\$ —	\$ 159,029	\$ 159,029	
Short-term investments						
Canadian federal government	5,323	54,885	—	60,208	60,208	
Canadian provincial governments	—	—	—	—	—	
Corporate	2,000	—	—	2,000	2,000	
Total short-term investments	7,323	54,885	—	62,208	62,208	
Bonds						
Bonds issued or guaranteed by:						
Canadian federal government	67,978	169,841	—	237,819	237,819	
Canadian provincial and municipal governments	2,319,274	269,563	—	2,588,837	2,588,837	
Total government bonds issued or guaranteed	2,387,252	439,404	—	2,826,656	2,826,656	
Canadian corporate bonds by industry sector:						
Financial services	541,789	436,248	—	978,037	978,037	
Infrastructure	232,514	25,173	—	257,687	257,687	
Utilities	237,441	25,258	—	262,699	262,699	
Communications	2,055	30,967	—	33,022	33,022	
Energy	52,284	60,909	—	113,193	113,193	
Consumer staples	71,283	54,722	—	126,005	126,005	
Industrials	46,331	1,518	—	47,849	47,849	
Health care	69,113	13,886	—	82,999	82,999	
Materials	10,415	—	—	10,415	10,415	
Total Canadian corporate bonds	1,263,225	648,681	—	1,911,906	1,911,906	
Total bonds	3,650,477	1,088,085	—	4,738,562	4,738,562	
Preferred shares						
Canadian	171,293	9,593	—	180,886	180,886	
Total preferred shares	171,293	9,593	—	180,886	180,886	
Common shares						
Canadian						
Common shares	513,611	59,617	—	573,228	573,228	
Real estate limited partnership units	46,674	—	—	46,674	46,674	
U.S.	127,141	—	—	127,141	127,141	
Other	11,112	—	—	11,112	11,112	
Total common shares	698,538	59,617	—	758,155	758,155	
Mortgages	—	—	324,233	324,233	333,390	
Loans on policies	—	—	45,624	45,624	45,624	
Policy contract loans	—	—	87,615	87,615	87,615	
Total	\$ 4,686,660	\$ 1,212,180	\$ 457,472	\$ 6,356,312	\$ 6,365,469	

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	Designated 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
Canadian provincial governments	—	—	—	—	—
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 third quarter of 2014, the Company reclassified a pre-tax loss of \$29 due to write-downs of impaired AFS common and preferred shares (third quarter 2013 \$56). On a year to date basis the pre-tax write-downs are \$115 (year to date 2013 \$195). 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 September 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:

	As at September 30, 2014			As at December 31, 2013		
	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Cash and cash equivalents	\$ 26,394	\$ 132,635	\$ 159,029	\$ 53,394	\$ 163,956	\$ 217,350
Fair value through profit or loss:						
Bonds	—	3,650,477	3,650,477	—	3,258,178	3,258,178
Common shares	651,864	46,674	698,538	608,531	41,081	649,612
Preferred shares	171,293	—	171,293	224,313	—	224,313
Short-term investments	—	7,323	7,323	—	25,448	25,448
Available for sale:						
Bonds	—	1,088,085	1,088,085	—	1,075,334	1,075,334
Common shares	59,617	—	59,617	65,778	—	65,778
Preferred shares	9,593	—	9,593	69,905	—	69,905
Short-term investments	—	54,885	54,885	—	—	—
Total	\$ 918,761	\$ 4,980,079	\$ 5,898,840	\$ 1,021,921	\$ 4,563,997	\$ 5,585,918

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 September 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.

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

4. SEGREGATED FUNDS

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

As at	September 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 252,243	\$ 81,079
Short-term investments	149,538	171,903
Bonds	1,520,186	1,347,287
Common and preferred shares	4,747,357	4,414,766
Net other assets (liabilities)	7,885	27,885
	6,677,209	6,042,920
Less segregated funds held within general fund investments	(24,176)	(88,412)
Total	\$ 6,653,033	\$ 5,954,508

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

	As at September 30, 2014			As at December 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 62,683	\$ 189,560	\$ 252,243	\$ 61,504	\$ 19,575	\$ 81,079
Common and preferred shares	4,747,357	—	4,747,357	4,414,766	—	4,414,766
Bonds	—	1,520,186	1,520,186	—	1,347,287	1,347,287
Short-term investments	—	149,538	149,538	—	171,903	171,903
Total	\$ 4,810,040	\$ 1,859,284	\$ 6,669,324	\$ 4,476,270	\$ 1,538,765	\$ 6,015,035

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

	For the three months ended September 30		For the nine months ended September 30	
	2014	2013	2014	2013
Segregated funds - beginning of period	\$ 6,544,858	\$ 5,243,710	\$ 5,954,508	\$ 5,014,392
Additions to segregated funds:				
Amount received from policyholders	347,865	297,654	1,145,876	997,063
Interest	14,420	13,276	41,737	39,266
Dividends	28,910	30,219	92,395	85,420
Other income	7,713	6,203	21,861	17,470
Net realized gains on sale of investments	130,493	55,180	403,706	195,331
Net unrealized increase in fair value of investments	—	111,206	—	94,555
	529,401	513,738	1,705,575	1,429,105
Deductions from segregated funds:				
Amounts withdrawn or transferred by policyholders	248,208	278,926	922,043	877,205
Net realized losses on sale of investments	—	—	—	—
Net unrealized decrease in fair value of investments	120,659	—	713	—
Management fees and other operating costs	51,913	42,229	148,530	122,976
	420,780	321,155	1,071,286	1,000,181
Net change in segregated funds held within general fund investments	(446)	(1,957)	64,236	(8,980)
Segregated funds - end of period	\$ 6,653,033	\$ 5,434,336	\$ 6,653,033	\$ 5,434,336

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(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 September 30, 2014			For the three months ended September 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	\$ 109,055	\$ (19,054)	\$ 90,001	\$ 111,541	\$ (18,100)	\$ 93,441
Health premiums	84,119	(6,408)	77,711	80,459	(5,875)	74,584
Total life and health premiums	193,174	(25,462)	167,712	192,000	(23,975)	168,025
Annuity premiums	40,712	(61)	40,651	35,289	(111)	35,178
Total insurance premiums	\$ 233,886	\$ (25,523)	\$ 208,363	\$ 227,289	\$ (24,086)	\$ 203,203

	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	\$ 335,137	\$ (57,173)	\$ 277,964	\$ 323,713	\$ (53,516)	\$ 270,197
Health premiums	250,910	(18,734)	232,176	237,724	(16,822)	220,902
Total life and health premiums	586,047	(75,907)	510,140	561,437	(70,338)	491,099
Annuity premiums	141,631	(202)	141,429	116,109	(351)	115,758
Total insurance premiums	\$ 727,678	\$ (76,109)	\$ 651,569	\$ 677,546	\$ (70,689)	\$ 606,857

6. BENEFITS AND EXPENSES

(a) Insurance Contract Benefits and Claims Paid

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	\$ 57,926	\$ (19,230)	\$ 38,696	\$ 42,659	\$ (9,394)	\$ 33,265
Health claims	56,433	(3,240)	53,193	51,460	(2,949)	48,511
Total life and health claims	114,359	(22,470)	91,889	94,119	(12,343)	81,776
Annuity benefits	59,271	(1,019)	58,252	51,609	(960)	50,649
Total benefits and claims	\$ 173,630	\$ (23,489)	\$ 150,141	\$ 145,728	\$ (13,303)	\$ 132,425

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 nine months ended September 30, 2014			For the nine months ended September 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	\$ 143,302	\$ (48,467)	\$ 94,835	\$ 119,428	\$ (24,716)	\$ 94,712
Health claims	180,551	(10,842)	169,709	162,191	(8,263)	153,928
Total life and health claims	323,853	(59,309)	264,544	281,619	(32,979)	248,640
Annuity benefits	214,927	(2,629)	212,298	168,872	(2,167)	166,705
Total benefits and claims	\$ 538,780	\$ (61,938)	\$ 476,842	\$ 450,491	\$ (35,146)	\$ 415,345

(b) Change in Insurance Contract Liabilities and Reinsurance Ceded

	For the three months ended September 30, 2014			For the three months ended September 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	\$ 103,314	\$ 3,897	\$ 107,211	\$ (10,765)	\$ (4,634)	\$ (15,399)
Health	11,767	(3,237)	8,530	6,396	(1,388)	5,008
Total life and health	115,081	660	115,741	(4,369)	(6,022)	(10,391)
Annuity	(11,790)	104	(11,686)	(12,359)	74	(12,285)
Total change in insurance in contract liabilities	\$ 103,291	\$ 764	\$ 104,055	\$ (16,728)	\$ (5,948)	\$ (22,676)
Change attributable to:						
Normal changes - New Business	\$ 39,118	\$ (559)	\$ 38,559	\$ 25,324	\$ (946)	\$ 24,378
- In-Force Business	64,173	1,323	65,496	(42,052)	(5,002)	(47,054)
Total change in insurance contract liabilities	\$ 103,291	\$ 764	\$ 104,055	\$ (16,728)	\$ (5,948)	\$ (22,676)

	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	\$ 496,017	\$ 26,687	\$ 522,704	\$ (139,262)	\$ (16,752)	\$ (156,014)
Health	26,438	(4,250)	22,188	(1,499)	1,468	(31)
Total life and health	522,455	22,437	544,892	(140,761)	(15,284)	(156,045)
Annuity	(33,793)	892	(32,901)	(49,449)	1,729	(47,720)
Total change in insurance contract liabilities	\$ 488,662	\$ 23,329	\$ 511,991	\$ (190,210)	\$ (13,555)	\$ (203,765)
Change attributable to:						
Normal changes - New Business	\$ 128,746	\$ (2,035)	\$ 126,711	\$ 74,331	\$ (3,909)	\$ 70,422
- In-Force Business	359,916	25,364	385,280	(264,541)	(9,646)	(274,187)
Total change in insurance contract liabilities	\$ 488,662	\$ 23,329	\$ 511,991	\$ (190,210)	\$ (13,555)	\$ (203,765)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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:

	For the three months ended September 30, 2014				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 40,651	\$ 79,497	\$ 88,215	\$ —	\$ 208,363
Interest income	9,894	1,595	33,544	9,370	54,403
Total investment income	11,476	1,018	38,129	9,894	60,517
Fair value change in fair value through profit or loss assets	(838)	466	51,884	—	51,512
Realized gain (loss) on fair value through profit or loss assets	2,176	19	7,192	—	9,387
Realized gain (loss) on available for sale assets including impairment write downs	—	—	(29)	2,310	2,281
Fee income from external customers	45,391	2,131	264	69	47,855
Net benefits and claims	58,252	55,017	36,872	—	150,141
Net change in insurance contract liabilities	(11,687)	7,094	108,648	—	104,055
Change in investment contract provision	552	—	—	—	552
Policy dividends	—	—	5,661	—	5,661
Amortization of capital assets	539	301	457	—	1,297
Total operating expenses	14,185	9,687	10,514	308	34,694
Net commission expense	22,112	7,834	17,614	—	47,560
Interest expense	—	—	—	2,261	2,261
Premium tax	—	1,830	1,806	—	3,636
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	3,593	385	340	2,536	6,854
Net income (loss) after tax	11,849	1,284	3,374	7,169	23,676

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 September 30, 2013

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 35,178	\$ 76,824	\$ 91,201	\$ —	\$ 203,203
Interest income	10,512	1,496	31,562	10,759	54,329
Total investment income	13,240	1,205	35,893	11,960	62,298
Fair value change in fair value through profit or loss assets	(11,074)	(1,139)	(70,390)	—	(82,603)
Realized gain (loss) on fair value through profit or loss assets	3,237	18	12,591	—	15,846
Realized gain (loss) on available for sale assets including impairment write downs	114	137	51	(3,011)	(2,709)
Fee income from external customers	35,625	1,858	329	529	38,341
Net benefits and claims	50,649	50,800	30,976	—	132,425
Net change in insurance contract liabilities	(12,285)	5,537	(15,928)	—	(22,676)
Change in investment contract provision	208	—	—	—	208
Policy dividends	—	—	5,241	—	5,241
Amortization of capital assets	425	291	369	—	1,085
Total operating expenses	11,498	9,754	9,073	345	30,670
Net commission expense	15,173	7,624	16,181	—	38,978
Interest expense	—	—	—	5,709	5,709
Premium tax	—	1,665	1,884	—	3,549
Investment and capital tax	—	—	1,000	—	1,000
Income tax expense (recovery)	2,159	851	4,604	626	8,240
Net income (loss) after tax	8,918	2,672	16,644	2,798	31,032

For the nine months ended September 30, 2014

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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For the nine months ended September 30, 2013

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 115,758	\$ 228,488	\$ 262,611	\$ —	\$ 606,857
Interest income	31,219	4,165	91,073	26,623	153,080
Total investment income	39,619	3,217	103,072	29,892	175,800
Fair value change in fair value through profit or loss assets	(32,911)	(5,793)	(303,093)	—	(341,797)
Realized gain (loss) on fair value through profit or loss assets	6,635	290	26,813	—	33,738
Realized gain (loss) on available for sale assets including impairment write downs	205	247	138	(903)	(313)
Fee income from external customers	102,457	5,498	896	1,455	110,306
Net benefits and claims	166,705	159,984	88,656	—	415,345
Net change in insurance contract liabilities	(47,720)	2,582	(158,627)	—	(203,765)
Change in investment contract provision	628	—	—	—	628
Policy dividends	—	—	15,901	—	15,901
Amortization of capital assets	1,238	907	1,102	—	3,247
Total operating expenses	40,882	30,981	30,393	1,067	103,323
Net commission expense	50,644	22,234	48,472	—	121,350
Interest expense	—	—	—	13,266	13,266
Premium tax	—	4,935	5,410	—	10,345
Investment and capital tax	—	—	2,825	—	2,825
Income tax expense (recovery)	3,413	2,819	12,886	3,484	22,602
Net income (loss) after tax	17,211	8,412	44,521	12,627	82,771

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

As at September 30, 2014

	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 1,080,099	\$ 162,564	\$ 3,900,990	\$ 1,369,788	\$ 6,513,441
Segregated funds	6,630,951	—	22,082	—	6,653,033
Total assets	\$ 7,711,050	\$ 162,564	\$ 3,923,072	\$ 1,369,788	\$ 13,166,474

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

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.

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

8. INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME (LOSS)

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

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

	For the three months ended September 30, 2014			For the three months ended September 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	\$ 1,011	\$ 271	\$ 740	\$ (2,197)	\$ (580)	\$ (1,617)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(2,283)	(659)	(1,624)	2,709	723	1,986
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	—	—	—	214	70	144
Remeasurements of post-employment benefit liabilities	(2,352)	(624)	(1,728)	7,465	1,975	5,490
Total other comprehensive income (loss)	\$ (3,624)	\$ (1,012)	\$ (2,612)	\$ 8,191	\$ 2,188	\$ 6,003

	For the nine months ended September 30, 2014			For the nine months ended September 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	\$ 37,713	\$ 10,001	\$ 27,712	\$ (27,272)	\$ (7,218)	\$ (20,054)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(11,816)	(3,532)	(8,284)	313	29	284
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	344	112	232	630	205	425
Remeasurements of post-employment benefit liabilities	(10,226)	(2,711)	(7,515)	17,678	4,679	12,999
Total other comprehensive income (loss)	\$ 16,015	\$ 3,870	\$ 12,145	\$ (8,651)	\$ (2,305)	\$ (6,346)

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

	For the three months ended September 30, 2014			For the three months ended September 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	\$ 1,135	\$ 304	\$ 831	\$ (4,576)	\$ (1,211)	\$ (3,365)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(1,764)	(507)	(1,257)	2,734	735	1,999
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	—	—	—	214	70	144
Remeasurements of post-employment benefit liabilities	(2,245)	(596)	(1,649)	7,120	1,884	5,236
Shareholder portion of policyholder other comprehensive income (loss)	(64)	(18)	(46)	235	61	174
Total other comprehensive income (loss)	\$ (2,938)	\$ (817)	\$ (2,121)	\$ 5,727	\$ 1,539	\$ 4,188

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 nine months ended September 30, 2014			For the nine months ended September 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	\$ 32,267	\$ 8,557	\$ 23,710	\$ (29,094)	\$ (7,701)	\$ (21,393)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,395)	(1,672)	(3,723)	1,224	289	935
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	344	112	232	630	205	425
Remeasurements of post-employment benefit liabilities	(9,759)	(2,588)	(7,171)	16,862	4,463	12,399
Shareholder portion of policyholder other comprehensive income (loss)	(97)	(41)	(56)	91	22	69
Total other comprehensive income (loss)	\$ 17,360	\$ 4,368	\$ 12,992	\$ (10,287)	\$ (2,722)	\$ (7,565)

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

	For the three months ended September 30, 2014			For the three months ended September 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	\$ (124)	\$ (33)	\$ (91)	\$ 2,379	\$ 631	\$ 1,748
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(519)	(152)	(367)	(25)	(12)	(13)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	—	—	—	—	—	—
Remeasurements of post-employment benefit liabilities	(107)	(28)	(79)	345	91	254
Shareholder portion of policyholder other comprehensive income (loss)	64	18	46	(235)	(61)	(174)
Total other comprehensive income (loss)	\$ (686)	\$ (195)	\$ (491)	\$ 2,464	\$ 649	\$ 1,815

	For the nine months ended September 30, 2014			For the nine months ended September 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	\$ 5,446	\$ 1,444	\$ 4,002	\$ 1,822	\$ 483	\$ 1,339
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(6,421)	(1,860)	(4,561)	(911)	(260)	(651)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	—	—	—	—	—	—
Remeasurements of post-employment benefit liabilities	(467)	(123)	(344)	816	216	600
Shareholder portion of policyholder other comprehensive income (loss)	97	41	56	(91)	(22)	(69)
Total other comprehensive income (loss)	\$ (1,345)	\$ (498)	\$ (847)	\$ 1,636	\$ 417	\$ 1,219

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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9. DIVIDENDS

The Company approved and paid a dividend of \$33,984 (2013 \$24,100) (\$34.4985 per share (2013 \$24.4652)) year to date in 2014.

10. CAPITAL MANAGEMENT

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at September 30, 2014 and December 31, 2013 the Company was in compliance with these ratios.

As at	September 30, 2014	December 31, 2013
Tier 1 Regulatory Capital	\$ 856,006	\$ 830,538
Tier 2 Regulatory Capital	436,247	532,961
Total Regulatory Capital	\$ 1,292,253	\$ 1,363,499

11. INVESTMENT COMMITMENTS

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements. At September 30, 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 8 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 \$303,510 as of September 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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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 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 September 30, 2014

	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	\$ 15,886	\$ (15,886)	\$ 31,793	\$ (31,793)
Policyholders' net income	nil	nil	nil	nil
Shareholders' other comprehensive income	\$ 2,073	\$ (2,073)	\$ 4,146	\$ (4,146)
Policyholders' other comprehensive income	\$ 2,308	\$ (2,308)	\$ 4,616	\$ (4,616)
Segregated fund guarantee policy liabilities	nil	nil	nil	nil

As at September 30, 2013

	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	\$ 14,855	\$ (14,855)	\$ 29,732	\$ (29,732)
Policyholders' net income	nil	nil	nil	nil
Shareholders' other comprehensive income	\$ 1,667	\$ (1,667)	\$ 3,334	\$ (3,334)
Policyholders' other comprehensive income	\$ 2,789	\$ (2,789)	\$ 5,578	\$ (5,578)
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	September 30, 2014	December 31, 2013
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 280,801	\$ 260,775
Percentage of total cash and investments	4.4%	4.3%
Exposure to the largest single issuer of common equities	\$ 46,674	\$ 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 September 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	\$ (37,587)	\$ 47,648	\$ (65,068)	\$ 105,312
Policyholders' other comprehensive income	\$ (1,984)	\$ 2,231	\$ (3,721)	\$ 4,710

As at September 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	\$ (35,177)	\$ 44,087	\$ (61,464)	\$ 97,105
Policyholders' other comprehensive income	\$ (2,266)	\$ 2,568	\$ (4,231)	\$ 5,437

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 \$1,181) on net income, \$nil (2013 \$nil) on shareholders' OCI and \$nil (2013 \$nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

(b) Credit Risk

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

As at	September 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 159,029	\$ 217,350
Short-term investments	62,208	25,448
Bonds	4,738,562	4,333,512
Preferred shares	180,886	294,218
Mortgages	324,233	299,353
Loans on policies	45,624	44,855
Policy contract loans	87,615	90,275
Accrued investment income	36,903	24,058
Insurance receivables	37,752	41,014
Trade accounts receivable	48,245	8,397
Total	\$ 5,721,057	\$ 5,378,480

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Concentration of Credit Risk

(1) Bonds and Debentures

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

As at	September 30, 2014		December 31, 2013	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	\$ 268,782	6%	\$ 290,418	7%
AA	1,319,868	28%	1,190,826	27%
A	2,439,920	51%	2,257,568	52%
BBB	709,231	15%	594,134	14%
BB	761	0%	566	0%
Total	\$ 4,738,562	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	September 30, 2014	December 31, 2013
Provincial bond holdings	\$ 2,459,891	\$ 2,167,988
Percentage of total bond holdings	51.9%	50.0%

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

As at	September 30, 2014		December 31, 2013	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
1 year or less	\$ 52,775	1%	\$ 61,367	1%
1 - 5 years	731,572	15%	658,374	15%
5 - 10 years	465,420	10%	492,778	11%
Over 10 years	3,488,795	74%	3,120,993	73%
Total	\$ 4,738,562	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	September 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	\$ 3,020,259	\$ 2,803,115
Percentage of total cash and investments	47.5%	46.6%
Exposure to the largest single issuer of corporate bonds	\$ 119,941	\$ 130,849
Percentage of total cash and investments	1.9%	2.2%

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(2) Preferred Shares

The Company's preferred share investments are all issued by Canadian companies, with 11% (December 31, 2013 33%) of these investments rated as P1 and the remaining 89% (December 31, 2013 67%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$321,289 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.

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.