The following Management's Discussion and Analysis ("MD&A") of the unaudited operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the third quarter of 2014 should be read in conjunction with the MD&A for the year ended December 31, 2013, the Company's annual audited financial statements, the notes relating thereto, and the quarterly unaudited financial statements and notes contained in this report, as well as the Company's MD&A and unaudited interim financial statements for the quarters of 2013 and the previous quarters of 2014. The unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Chartered Professional Accountants of Canada. Unless otherwise noted, both the condensed consolidated financial statements and this MD&A are expressed in Canadian dollars.

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

Financial Analysis

Overview

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Shareholders' net income	**$ 24.1**	$ 32.5	**$ 80.5**	$ 83.4

Empire Life reported third quarter shareholders' net income of $24.1 million for 2014, compared to $32.5 million for 2013.

Net income was lower relative to the third quarter of 2013 primarily due to lower Individual Insurance product line net income. This product line's lower result was primarily due to the unfavourable impact of long-term interest rate movements experienced in 2014, compared to favourable movements in 2013. This was partly offset by a strong improvement in Wealth Management product line net income. This product line's improved result was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit (GMWB) products. This improvement in fee income was primarily due to the positive impact of favourable stock market conditions on management fees earned, strong segregated fund sales and higher GMWB prices.

Year to date shareholders' net income was $80.5 million compared to $83.4 million in 2013.
Net income was lower relative to the first nine months of 2013 primarily due to lower Individual Insurance product line net income, as described above. This was partly offset by higher Wealth Management product line net income, as described above.

Empire Life has three major product lines (Wealth Management, Employee Benefits and Individual Insurance) and maintains distinct accounts for Capital and Surplus. A discussion of each product line's 2014 net income compared to 2013 is shown in the Product Line Results sections later in this report.

This interim report contains references to annualized premium sales. This term does not have any standardized meaning according to generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies. Annualized premium sales is used as a method of measuring sales volume. It is equal to the premium expected to be received in the first 12 months for all new Individual Insurance and Employee Benefit policies sold during the period. Empire Life believes that this measure provides information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

Management's assessment of industry dynamics, risks and risk management, critical accounting estimates, strategy and outlook remains consistent with the disclosure in the 2013 Annual Management's Discussion and Analysis.

On March 5, 2014 the Chairman of the Board of Directors of Empire Life announced that Leslie C. Herr would be leaving his position as President and Chief Executive Officer of Empire Life effective May 30, 2014, would continue to provide advice to the Board and the new President and CEO following his departure in May, and would step down from his role as Chairman of the Board for Empire Life Investments Inc., a subsidiary of Empire Life, effective May 30, 2014. On May 13, 2014 the Chairman of the Board of Directors of Empire Life announced the appointment of Mark Sylvia as President and Chief Executive Officer of Empire Life and Chairman of the Board for Empire Life Investments Inc. effective June 2, 2014.

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

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
For the three months ended September 30	**Q3 2014**	Q3 2013	**Q3 2014**	Q3 2013	**Q3 2014**	Q3 2013	**Q3 2014**	Q3 2013	**Q3 2014**	Q3 2013
Revenue										
Net premium income	**$ 41**	$ 34	**$ 79**	$ 77	**$ 88**	$ 92	**$ —**	$ —	**$ 209**	$ 203
Fee and other income	**46**	36	**2**	2	**—**	—	**—**	—	**48**	38
Investment income	**11**	15	**1**	1	**39**	35	**10**	12	**61**	63
Realized gain on FVTPL investments	**3**	3	**—**	—	**6**	13	**—**	—	**9**	16
Realized gain on available for sale investments including impairment write downs	**(1)**	1	**—**	—	**—**	—	**3**	(3)	**2**	(2)
Fair value change in FVTPL investments	**(1)**	(12)	**1**	(1)	**52**	(70)	**—**	—	**52**	(83)
	99	77	**83**	79	**185**	70	**13**	9	**381**	235
Expenses										
Benefits and expenses	**85**	65	**79**	74	**179**	46	**3**	6	**346**	191
Income and other taxes	**2**	3	**3**	3	**3**	7	**3**	—	**11**	13
	87	68	**82**	77	**182**	53	**6**	6	**357**	204
Net income after tax	**$ 12**	$ 9	**$ 1**	$ 2	**$ 3**	$ 17	**$ 7**	$ 3	**$ 24**	$ 31
Policyholders' portion									**(1)**	(1)
Shareholders' net income									**$ 25**	$ 32
Assets under management										
General fund assets	**$ 1,080**	$ 1,103							**$ 6,513**	$ 6,026
Segregated fund assets	**$ 6,631**	$ 5,414			**$ 22**	$ 21			**$ 6,653**	$ 5,435
Mutual fund assets	**$ 84**	$ 27							**$ 84**	$ 27
Annualized premium sales			**$ 10**	$ 14	**$ 14**	$ 14				

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
For the nine months ended September 30	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Revenue										
Net premium income	**$ 141**	$ 115	**$ 239**	$ 229	**$ 271**	$ 263	**$ —**	$ —	**$ 652**	$ 607
Fee and other income	**131**	102	**6**	6	**1**	1	**—**	1	**138**	110
Investment income	**37**	40	**3**	3	**111**	103	**32**	30	**183**	176
Realized gain on FVTPL investments	**6**	7	**—**	—	**55**	27	**—**	—	**61**	34
Realized gain on available for sale investments including impairment write downs	**—**	1	**—**	—	**—**	—	**12**	(1)	**12**	—
Fair value change in FVTPL investments	**13**	(33)	**4**	(6)	**322**	(303)	**—**	—	**339**	(342)
	328	232	**252**	232	**760**	91	**44**	30	**1,385**	585
Expenses										
Benefits and expenses	**290**	211	**237**	216	**728**	25	**14**	14	**1,269**	466
Income and other taxes	**8**	4	**8**	8	**12**	21	**8**	3	**36**	36
	298	215	**245**	224	**740**	46	**22**	17	**1,305**	502
Net income after tax	**$ 30**	$ 17	**$ 7**	$ 8	**$ 20**	$ 45	**$ 22**	$ 13	**$ 80**	$ 83
Policyholders' portion									**(1)**	—
Shareholders' net income									**$ 81**	$ 83
Assets under management										
General fund assets	**$ 1,080**	$ 1,103							**$ 6,513**	$ 6,026
Segregated fund assets	**$ 6,631**	$ 5,414			**$ 22**	$ 21			**$ 6,653**	$ 5,435
Mutual fund assets	**$ 84**	$ 27							**$ 84**	$ 27
Annualized premium sales			**$ 33**	$ 40	**$ 45**	$ 37				

Total Revenue

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Revenue				
Net premium income	**$ 208**	$ 203	**$ 652**	$ 607
Investment income	**61**	63	**183**	176
Fair value change in FVTPL investments including realized amounts	**61**	(67)	**400**	(308)
Realized gain (loss) on AFS investments including impairment write downs	**2**	(3)	**12**	—
Fee and other income	**48**	38	**138**	110
Total	**$ 380**	$ 234	**$ 1,385**	$ 585

For the quarter, total revenue at Empire Life increased by 62% to $380 million compared to $234 million in 2013. On a year to date basis, total revenue increased by 137% to $1.385 billion compared to $585 million in 2013. Revenue volatility was primarily driven by the impact of market interest rate movements on Fair value change in fair value through profit and loss “FVTPL” investments. Major revenue items are discussed below.

Net premium income for the quarter and year to date increased in 2014 relative to 2013. The increase for the quarter and year to date primarily related to higher fixed interest annuity premiums in the Wealth Management product line.

Fair value change in FVTPL investments including realized amounts often causes large revenue volatility. These assets experienced a net gain in 2014 compared to a net loss in 2013. In 2014 the large gain was primarily from an increase in bond prices (due to a decrease in market interest rates). In 2013 the loss was primarily from a decrease in bond prices (due to an increase in market interest rates). The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities (discussed in the Total Benefits and Expenses section below).

Realized gain (loss) on available for sale investments including impairment write downs was a gain in 2014 versus losses in 2013. The increased revenue was due to gains from the sale of AFS equities and bonds in 2014, compared to losses primarily from the sale of AFS bonds in 2013. These gains and losses impact net income and are considered in the net income investment experience comments for each of the impacted product lines (see Product Line Results sections later in this report). The assets sold primarily backed capital and surplus.

Fee and other income for the quarter and year to date increased in 2014 relative to 2013 primarily due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. The growth in these fees was primarily due to favourable stock market conditions, strong segregated fund product sales in the fourth quarter of 2013 and the first three quarters of 2014 and GMWB price increases. The favourable stock market conditions had a positive impact on average assets under management and management fees earned, as stock markets were higher on average during the third quarter and year to date of 2014 than they were during the corresponding periods of 2013.

Total Benefits and Expenses

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Benefits and expenses				
Net benefits and claims	**$ 150**	$ 132	**$ 477**	$ 415
Net change in insurance contract liabilities	**104**	(22)	**512**	(203)
Change in investment contracts provision	**1**	—	**2**	1
Policy dividends	**6**	5	**17**	16
Operating expenses	**35**	31	**107**	103
Net commissions	**48**	39	**142**	121
Interest expense	**2**	6	**12**	13
Total	**$ 346**	$ 191	**$ 1,269**	$ 466

Total benefits and expenses at Empire Life for the quarter increased by 81% to $346 million compared to $191 million in 2013. On a year to date basis, total benefits and expenses increased by 172% to $1.269 billion compared to $466 million in 2013. Expense volatility was primarily driven by the impact of market interest rate movements on Net change in insurance contract liabilities. Major benefit and expense items are discussed below.

Net benefits and claims variability is dependent on the claims incurred. Generally, claims rise year over year due to growth of the insurance blocks, which was the case for the quarter and year to date for all lines of business except Individual Insurance, which declined slightly year to date. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released can be larger or smaller than the claims incurred depending on whether claims experience has been favourable or unfavourable. Claims experience is the combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities. Year over year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the quarter and year to date, the main reason for the large change from 2013 for this item was the change in insurance contract liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the net change in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of operations.

Net commissions for the quarter and year to date increased in 2014 relative to 2013 due to the increase in Wealth Management product sales.

Interest expense for the quarter and year to date decreased in 2014 relative to 2013 due to the redemption of $200 million 6.73% subordinated debentures on May 20, 2014.

Product Line Results - Wealth Management

	As at September 30	
(millions of dollars)	**2014**	2013
Assets under management		
General fund annuities	**$ 1,080**	$ 1,103
Segregated funds	**6,631**	5,414
Mutual funds	**84**	27

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Selected financial information				
Fixed interest annuity premiums	**$ 41**	$ 35	**$ 141**	$ 116
Segregated fund gross sales	**283**	193	**908**	707
Segregated fund net sales	**100**	21	**295**	124
Segregated fund fee income	**45**	35	**129**	102
Mutual fund gross sales	**19**	6	**46**	12
Mutual fund net sales	**18**	6	**43**	10
Mutual fund fee income	**—**	—	**1**	—
Net income after tax fixed income annuity portion	**$ 3**	$ 2	**$ 4**	$ 4
Net income after tax segregated fund portion	**10**	8	**28**	15
Net loss after tax mutual fund portion	**(1)**	(1)	**(2)**	(2)
Net income after tax	**$ 12**	$ 9	**$ 30**	$ 17

Assets in Empire Life general fund annuities decreased by 2%, while segregated fund assets increased by 22% during the last 12 months. The increase over the last 12 months for segregated funds was attributable to positive investment returns, due to the stock market increase since September 30, 2013, and strong net sales (gross sales net of withdrawals) described below.

Premium income for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund and mutual fund products. For the quarter and year to date, fixed interest annuity premiums were up 16% and 22% respectively compared to 2013. The increase was primarily due to increased sales of fixed interest deferred annuities.

For the quarter and year to date, segregated fund gross sales were up 47% and 28% respectively compared to 2013. This product line's gross sales increase for the quarter and year to date is primarily attributable to 75% maturity guarantee products which increased 82% and 49% respectively.

Segregated fund net sales for the quarter and year to date were up 374% and 138% respectively compared to 2013 due to the above mentioned gross sales result.

For the quarter and year to date, segregated fund fee income increased by 27% in 2014 relative to 2013. The increase was due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. The growth in these fees was primarily due to favourable stock market conditions, strong segregated fund product sales in the fourth quarter of 2013 and the first three quarters of 2014 and GMWB price increases. The favourable stock market conditions had a positive impact on average assets under management and management fees earned, as stock markets were higher on average during the third quarter and year to date of 2014 than they were during the corresponding periods of 2013.

Empire Life launched its new mutual fund business during the first quarter in 2012. Therefore, Empire Life's mutual fund business is still in its early stages of development and represents a small portion of the Wealth Management product line. For the quarter and year to date, mutual fund gross sales were up 208% and 287% respectively in 2014 compared to 2013. Mutual fund gross sales continued to steadily improve during 2014 as sales for the third quarter came in at $19 million compared to $13 million, $14 million, $10 million and $6 million for the previous four quarters respectively. In January 2014 a new mutual fund was added, the Empire Life Emblem Diversified Income Portfolio. With a target asset mix of 80% fixed income and 20% equities, it is designed for conservative investors seeking predictable and diversified income. This new fund is aimed at providing income solutions for the growing number of Canadians in retirement.

During the third quarter and year to date earnings from this product line increased relative to 2013. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Third quarter	Year to date
Wealth Management Net Income Analysis		
Net income after tax 2014	**$ 12**	**$ 30**
Net income after tax 2013	**9**	**17**
Increase net income after tax	**$ 3**	**$ 13**
Components of increase		
Increase in inforce profit margins	**$ 3**	**$ 15**
Improved annuitant mortality experience	**1**	**1**
Worsened investment experience	**—**	**(1)**
Higher new business strain	**(1)**	**(2)**
Total	**$ 3**	**$ 13**

Higher net income on inforce business in 2014 was primarily due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. The growth in these fees was primarily due to favourable stock market conditions, strong segregated fund product sales in the fourth quarter of 2013 and the first three quarters of 2014 and GMWB price increases. The favourable stock market conditions had a positive impact on average assets under management and management fees earned, as stock markets were higher on average during the third quarter and year to date of 2014 than they were during the corresponding periods of 2013.

Lower net income from higher new business strain caused a year over year decrease in net income. Higher new business strain primarily resulted from higher segregated fund sales.

In the fourth quarter, Empire Life is planning to make significant changes to its segregated funds product line. Empire Life is closing its existing segregated funds products to new policies effective October 31, 2014. In addition, on November 3, 2014 Empire Life is launching a new suite of investment products including a new segregated funds family called Empire Life Guaranteed Investment Funds, as well as a stand-alone Guaranteed Interest Contract (GIC) and new version of its GMWB product. Fees charged to the customer on the new product line are higher than the existing product line. The new product line's pricing and features are Empire Life's response to the economic, regulatory and competitive landscape in the life insurance industry.

Product Line Results - Employee Benefits

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Selected financial information				
Annualized premium sales	**$ 10**	$ 14	**$ 33**	$ 40
Premium income	**79**	77	**239**	228
Net income after tax	**$ 1**	$ 2	**$ 7**	$ 8

For the quarter and year to date, sales in this product line decreased by 26% and 15% respectively in 2014 relative to 2013. However, the 2014 level of sales while below last year were relatively strong due to stable economic conditions. This product line's quarterly and year to date premium income increased by 3% and 5% respectively relative to 2013 due to continuing growth of the inforce block.

During the third quarter and year to date earnings from this product line decreased relative to 2013. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Third quarter**	**Year to date**
Employee Benefits Net Income Analysis		
Net income after tax 2014	**$ 1**	**$ 7**
Net income after tax 2013	**2**	**8**
Decrease in net income after tax	**$ (1)**	**$ (1)**
Components of decrease		
Worsened claims experience	**$ (2)**	**$ (3)**
Increase in inforce profit margins	**1**	**2**
Total	**$ (1)**	**$ (1)**

In 2014 worsened claims experience primarily relates to unfavourable health claims results.

Higher net income on inforce business in 2014 was due to growth of the inforce block of business.

Product Line Results - Individual Insurance

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Selected financial information				
Annualized premium sales	**$ 14**	$ 14	**$ 45**	$ 37
Premium income	**88**	91	**271**	263
Net income (loss) after tax				
Net income after tax shareholders' portion	**$ 4**	$ 19	**$ 26**	$ 47
Net loss after tax policyholders' portion	**(1)**	(2)	**(6)**	(2)
Net income after tax	**$ 3**	$ 17	**$ 20**	$ 45

For the quarter and year to date, annualized premium sales in this product line decreased by 3% and increased by 20% respectively compared to 2013, and premium income decreased by 3% and increased by 3% respectively compared to 2013. This product line's third quarter sales result is attributable primarily to decreased sales of universal life. This product line's year to date sales result is attributable primarily to increased sales of universal life and term life products. The variability of universal life sales primarily related to deposits to investment accounts connected to universal life policies. Empire Life has been increasing prices on long-term products, including universal life, due to the low long-term interest rate environment.

During the third quarter and year to date earnings from this product line decreased relative to 2013. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	**Third quarter**	**Year to date**
Individual Insurance Net Income Analysis		
Net income after tax 2014	**$ 3**	**$ 20**
Net income after tax 2013	**17**	**45**
Decrease in net income after tax	**$ (14)**	**$ (25)**
Components of income decrease		
Worsened investment experience	**$ (15)**	**$ (43)**
Lower new business strain	**—**	**2**
Favourable legal settlement	**—**	**6**
Improved mortality, surrender and other experience	**1**	**10**
Total	**$ (14)**	**$ (25)**

For the quarter and year to date, investment experience weakened significantly year over year primarily due to the unfavourable impact from long-term interest rate movements in 2014, compared to favourable movements in 2013. These interest rates decreased significantly in 2014 compared to significant increases in 2013 (as shown in the following table).

	Third quarter		Year to date	
	2014	2013	**2014**	2013
Interest rate movement				
30 year Canadian federal government bond yield				
End of period	**2.67 %**	3.07%	**2.67 %**	3.07%
Beginning of period	**2.78 %**	2.93%	**3.24 %**	2.37%
Change during period	**(0.11)%**	0.14%	**(0.57)%**	0.70%

While the impact of bond asset market value changes on net income is largely reduced due to a corresponding change in insurance contract liabilities, net income is impacted as it is not possible to perfectly match future liability cash flows with future asset cash flows.

Higher net income from lower new business strain caused a year over year improvement in net income. Lower new business strain resulted from higher prices on long-term products and a product mix shift toward lower strain products such as term life.

During the second quarter a favourable settlement on a lawsuit resulted in a $5.5 million gain after tax for Empire Life.

For the quarter and year to date, mortality and surrender experience returned to more typical levels in 2014 compared to the less favourable results experienced last year.

In May 2014, the Actuarial Standards Board ("ASB") released the final revisions to the Canadian actuarial standards of practice with respect to economic reinvestment assumptions used in the valuation of insurance contract liabilities. The changes relate to assumed future interest rates, credit spreads and the use of non-fixed income assets to match insurance contract liabilities. Empire Life is in the process of evaluating the impacts of implementing this revised standard, which takes effect on October 15, 2014. However, based on the work completed to date, we estimate that implementation of this revised standard will have a favourable impact on our 2014 fourth quarter net income. Empire Life will provide full disclosure of the impact of the revised standard after completion of our year-end assumption update in the fourth quarter of 2014.

Results - Capital and Surplus

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Net income after tax				
Net income after tax shareholders' portion	**$ 6**	$ 2	**$ 17**	$ 11
Net income after tax policyholders' portion	**1**	1	**5**	2
Net income after tax	**$ 7**	$ 3	**$ 22**	$ 13

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Shareholders' Capital and Surplus and to Policyholders' Surplus. During the third quarter and year to date Capital and Surplus earnings increased relative to 2013. The following table provides a breakdown of the components of this year over year change in net income.

(millions of dollars)	Third quarter	Year to date
Capital and Surplus Net Income Analysis		
Net income after tax 2014	**$ 7**	**$ 22**
Net income after tax 2013	**3**	**13**
Increase in net income after tax	**$ 4**	**$ 9**
Components of increase		
Increased net income from sale of investments	**$ 3**	**$ 8**
Lower interest expense	**3**	**1**
Lower investment and other income	**(2)**	**—**
Total	**$ 4**	**$ 9**

Increased net income from sale of investments was due to gains from the sale of AFS equities and bonds in 2014, compared to losses primarily from the sale of AFS bonds in 2013.

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

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

Total Cash Flow

	Year to date	
(millions of dollars)	**2014**	2013
Cash Flow provided from (used for)		
Operating Activities	**$ 83**	$ 128
Investing Activities	**104**	(542)
Financing Activities	**(245)**	267
Net change in cash and cash equivalents	**$ (58)**	$ (147)

The decrease in cash provided by operating activities in 2014 relative to 2013 was primarily due to increased cash outflows related to annuity business in 2014 and higher cash outflows related to income taxes in 2014.

The decrease in cash used for investing activities during 2014 relative to 2013 was primarily driven by financing activities. In 2013 cash used for investing activities included the investment of proceeds from the May 31, 2013 issuance of $300 million of subordinated debentures (described below). In addition, 2013 cash used for investing activities included the completion of asset mix changes that began late in 2012. A sale of equity assets backing Capital and Surplus was completed in 2012, and proceeds were partially re-invested in fixed income assets backing Capital and Surplus in 2012. The remainder of the re-investment into fixed income assets occurred in the first quarter of 2013. In 2014 cash provided from investing activities included the sale of investments to fund Empire Life's May 20, 2014 redemption of $200 million of subordinated debentures (described below).

The decrease in cash provided from financing activities during 2014 relative to 2013 was primarily driven by debt issuance and redemption activities. In 2013 Empire Life issued $300 million of subordinated debentures on May 31, 2013. The Debentures will mature on May 31, 2023 and bear interest at a fixed annual rate of 2.870% for the first five years, payable semi-annually, and a variable annual rate equal to the 3-month Bankers' Acceptance Rate plus 1.05% for the last five years, payable quarterly. In 2014 Empire Life redeemed its $200 million 6.73% subordinated debentures at par on May 20, 2014. In addition Empire Life paid $34 million of dividends to common shareholders during 2014 compared to $24 million during 2013.

Capital Resources

	Sept 30 2014	June 30 2014	Mar 31 2014	Dec 31 2013	Sept 30 2013
MCCSR Ratio	**231%**	231%	250%	267%	265%

Empire Life continues to maintain a strong balance sheet and capital position. The A (Excellent) rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength. Empire Life's risk-based regulatory capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements (MCCSR), of 231% as at September 30, 2014 continued to be well above requirements, and above minimum internal targets.

The MCCSR ratio was unchanged from the previous quarter. This result was due to increases in required regulatory capital offset by increases in available regulatory capital, as shown in the table below.

(millions of dollars)		**Sept 30 2014**		June 30 2014		Mar 31 2014		Dec 31 2013		Sept 30 2013
Available regulatory capital										
Tier 1	**$**	**856**	$	839	$	808	$	831	$	785
Tier 2		**436**		430		529		533		523
Total	**$**	**1,292**	$	1,269	$	1,337	$	1,364	$	1,308
Required regulatory capital	**$**	**560**	$	549	$	535	$	511	$	493

The increase in Tier 1 available regulatory capital from the previous quarter and on a year to date basis was primarily due to net income. On a year to date basis, this was partly offset by the payment of a common share dividend of $34 million during the first quarter (the dividend decreased Empire Life's MCCSR ratio by 10 points).

Tier 2 available regulatory capital did not change significantly from the previous quarter. The decrease in Tier 2 available regulatory capital on a year to date basis was primarily due to Empire Life's redemption of $200 million 6.73% subordinated debentures at par on May 20, 2014 (the redemption decreased Empire Life's MCCSR ratio by 19 points).

Regulatory capital requirements increased from the previous quarter and on a year to date basis. The increase for both periods was primarily due to lower interest rates which increased required regulatory capital related to lapse risk. In addition required regulatory capital increased from the impact of higher investment exposures which were caused primarily by increased investment in bonds.

Comprehensive Income

	Third quarter		Year to date	
(millions of dollars)	**2014**	2013	**2014**	2013
Comprehensive income				
Shareholders' net income	**$ 24.1**	$ 32.5	**$ 80.5**	$ 83.4
Other comprehensive income (loss)				
Unrealized fair value increase (decrease) on AFS investments	**0.7**	(1.6)	**27.7**	(20.1)
Realized loss (gain) on AFS investments reclassification to net income	**(1.6)**	2.0	**(8.3)**	0.3
	(0.9)	0.4	**19.4**	(19.8)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	**—**	0.1	**0.2**	0.4
Items that will not be reclassified to net income:				
Remeasurements of defined benefit plans	**(1.7)**	5.5	**(7.5)**	13.0
	(2.6)	6.0	**12.1**	(6.4)
Less: Participating Policyholders	**0.5**	(1.8)	**0.9**	(1.2)
Other comprehensive income (loss), attributable to shareholders	**(2.1)**	4.2	**13.0**	(7.6)
Comprehensive income, attributable to shareholders	**$ 22.0**	$ 36.7	**$ 93.5**	$ 75.8

During the third quarter of 2014, Empire Life incurred an other comprehensive loss of $2.6 million primarily due to the remeasurement of post-employment defined benefit (“DB”) plans. During the third quarter of 2013 Empire Life earned other comprehensive income of $6.0 million primarily due to the remeasurement of DB plans.

Year to date 2014, Empire Life earned other comprehensive income of $12.1 million primarily due to unrealized fair value increases relating to AFS bonds and stocks. Year to date 2013 Empire Life incurred an other comprehensive loss of $6.4 million primarily due to unrealized investment losses relating to AFS bonds.

For the third quarter and year to date of 2014 Empire Life experienced a $1.7 million and $7.5 million loss after tax respectively on its DB plans. These losses were primarily due to the impact of lower interest rates on DB plan liabilities.

For the third quarter and year to date of 2013 Empire Life experienced a $5.5 million and $13.0 million gain after tax respectively on its DB plans. The gain for the third quarter was primarily due to the impact of higher stock markets on DB plan assets. The gain for the year to date was primarily due to the impact of higher interest rates on DB plan liabilities.

Unrealized fair value increases and decreases on AFS bonds in other comprehensive income do not impact MCCSR. Remeasurement of DB plans do not immediately impact MCCSR as each quarter’s remeasurement gain or loss is amortized over 12 quarters for MCCSR purposes.

Risk Management

Empire Life's MCCSR ratio, among other things, is sensitive to stock market volatility, primarily due to liability and capital requirements related to segregated fund guarantees. As of September 30, 2014 Empire Life had $6.6 billion of segregated fund assets and liabilities. Of this amount, approximately $6.4 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Sept 30 2014	Dec 31 2013
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 100% death benefit guarantee	**54.7%**	57.4%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.3%**	5.2%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**40.0%**	37.4%

All Empire Life segregated fund guarantees are policy based (not deposit-based), thereby lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. For segregated fund guarantee insurance contract liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end stock markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end stock markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. Based on stock market levels at September 30 for 2014 and December 31 for 2013, the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

$ millions	**10% Increase**	**10% Decrease**	**20% Increase**	**20% Decrease**
Sensitivity To Segregated Fund Guarantees:				
2014 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2013 Shareholders' net income	$ nil	$ nil	$ nil	$ nil

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

	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Sensitivity To Stock Markets:				
September 30, 2014 MCCSR Ratio	**(1.6)%**	**1.7%**	**(3.2)%**	**3.4%**
December 31, 2013 MCCSR Ratio	(1.2)%	1.2%	(2.3)%	2.5%

The use of common share assets to match longer term liabilities causes the sensitivity of Empire Life's MCCSR ratio to stock market increases to be reduced or slightly negative. Increased stock markets cause a gain on common share assets partly offset by a loss due to higher policy liabilities for a net increase in available capital. However, increased stock markets also cause an increase in required capital, as the required capital related to common share assets increases. As of September 30, 2014 and December 31, 2013, under a 10% and 20% stock market increase scenario, the increase in required capital slightly outweighs the increase in available capital resulting in a slightly negative impact on Empire Life's MCCSR ratio.

Similarly, the above mentioned increased use of common equities to match longer term liabilities has caused the sensitivity of Empire Life's MCCSR ratio to stock market decreases to be slightly positive. As of September 30, 2014 and December 31, 2013, under a 10% and 20% stock market decrease scenario, the decrease in required capital slightly outweighs the decrease in available capital resulting in a slightly positive impact on Empire Life's MCCSR ratio.

Empire Life has not historically hedged its segregated fund guarantee risk. Given the current segregated fund product mix and level of sensitivity to stock markets, Empire Life has not hedged its segregated fund guarantee risk as of September 30, 2014 or December 31, 2013 (except for the reinsurance agreement described below).

Empire Life has a reinsurance agreement to cede a portion of Empire Life's segregated fund death benefit exposure. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement. Empire Life does not reinsure any other insurer's segregated fund products.

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

Segregated Funds	**Guarantee > Fund Value**		**Death Benefit > Fund Value**		**GMWB Top-up**	**Actuarial**	**MCCSR**
(millions of dollars)	**Fund Value**	**Amount At Risk**	**Fund Value**	**Amount At Risk**	**Amount At Risk**	**Liabilities**	**Required Capital**
September 30, 2014	**$ 51**	**$ 2**	**$ 452**	**$ 12**	**$ 307**	**$ nil**	**$ nil**
December 31, 2013	$ 29	$ 3	$ 264	$ 18	$ 328	$ nil	$ nil

The first four columns of the above table show all segregated fund policies where the future maturity guarantee, or future death benefit guarantee, is greater than the fund value. The amount at risk represents the excess of the future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The fifth column of the above table shows GMWB top-up exposure. The GMWB top-up amount at risk represents the amount that could be paid by Empire Life to GMWB policyholders if the net return on each GMWB policyholder's assets is zero for the remainder of each GMWB policyholder's life, based on life expectancy. For these three categories of risk, the amount at risk is not currently payable. Payment is contingent on future outcomes including fund performance, deaths, deposits, withdrawals and maturity dates. The level of actuarial liabilities and required regulatory capital is calculated based on the probability that Empire Life will ultimately have to make payment to the segregated fund policyholders for any fund value deficiency that may exist upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders, or upon the occurrence of future top-up payments to GMWB policyholders. The amounts at risk in September 2014 decreased from the December 2013 levels for maturity guarantee, death benefit guarantee and GMWB top-up exposure primarily due to the increase in many global stock markets.

In addition, Empire Life's MCCSR ratio is sensitive to changes in market interest rates. The impact of an immediate 1% decrease in interest rates, and a 1% decrease in assumed initial reinvestment rate (IRR) for nonparticipating insurance business, would result in a decrease to Empire Life's MCCSR ratio of 30 points as of September 30, 2014 (35 points as of December 31, 2013). This assumes no change in the ultimate reinvestment rate (URR). The impact above excludes the impact of market value changes in available for sale (AFS) bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. If the AFS bonds were sold to realize the gains from a 1% decrease in interest rates, the above impact would be reduced to 22 points as of September 30, 2014 (23 points as of December 31, 2013). The reduced sensitivity as of September 30, 2014 is primarily due to changes made by Empire Life to its capital structure during the second quarter (redemption of $200 million 6.73% subordinated debentures at par on May 20, 2014). The MCCSR calculation has limits on the amount of subordinated debentures allowed to be included as available regulatory capital. This limit is 50% of tier 1 regulatory available capital (tier 1). The above interest rate sensitivity calculation causes a drop in tier 1 and lowers the limit on subordinated debentures. After the above mentioned redemption, Empire Life's remaining $300 million of subordinated debentures is well below this subordinated debenture limit resulting in reduced MCCSR interest rate sensitivity as of September 30, 2014.

Quarterly Results

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

(millions of dollars)	**Sept 30 2014**	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sept 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012
Revenue	**$ 381**	$ 480	$ 524	$ 322	$ 235	$ 61	$ 289	$ 299
Shareholders' Net income	**$ 24**	$ 38	$ 18	$ 30	$ 32	$ 40	$ 11	$ 25

Revenue for the three months ended September 30, 2014 increased to $381 million (2013 $235 million). The increase was primarily due to a net gain on FVTPL investments in 2014 compared to a net loss in 2013. These FVTPL net gains and losses were primarily due to long-term interest rate movements (see Total Revenue section earlier in this report).