This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the years ended December 31, 2014 and 2013. This MD&A should be read in conjunction with the Company's December 31, 2014 consolidated financial statements, which form part of The Empire Life Insurance Company 2014 Annual Report dated February 27, 2015. The 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 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

	Fourth quarter		Year	
(millions of dollars)	**2014**	2013	**2014**	2013
Shareholders' net income	**$ 18.2**	$ 29.9	**$ 98.7**	$ 113.3

Empire Life reported full year shareholders' net income of $98.7 million for 2014, compared to $113.3 million for 2013.

For the year shareholders' net income was lower relative to 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, strong segregated fund product sales in 2014 and GMWB price increases.

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 report contains references to annualized premium sales. This term does not have any standardized meaning according to GAAP 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 twelve 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.

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

For the twelve months ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(millions of dollars)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Revenue										
Net premium income	**$ 186**	$ 159	**$ 319**	$ 307	**$ 362**	$ 356	**$ —**	$ —	**$ 867**	$ 822
Fee and other income	**178**	140	**9**	8	**1**	1	**—**	2	**188**	151
Investment income	**49**	54	**4**	4	**151**	140	**42**	42	**246**	240
Realized gain on FVTPL investments	**9**	7	**—**	—	**65**	38	**—**	—	**74**	45
Realized gain (loss) on available for sale investments including impairment write downs	**—**	1	**—**	—	**—**	—	**13**	(3)	**13**	(2)
Fair value change in FVTPL investments	**20**	(36)	**4**	(7)	**514**	(306)	**—**	—	**538**	(349)
	442	325	**336**	312	**1,093**	229	**55**	41	**1,926**	907
Expenses										
Benefits and expenses	**388**	302	**317**	294	**1,049**	132	**16**	21	**1,770**	749
Income and other taxes	**12**	4	**10**	9	**17**	31	**10**	4	**49**	48
	400	306	**327**	303	**1,066**	163	**26**	25	**1,819**	797
Net income after tax	**$ 42**	$ 19	**$ 9**	$ 9	**$ 27**	$ 66	**$ 29**	$ 16	**$ 107**	$ 110
Policyholders' portion									**9**	(3)
Shareholders' net income									**$ 98**	$ 113
Assets under management										
General fund assets	**$ 1,063**	$ 1,105							**$ 6,779**	$ 6,126
Segregated fund assets	**$ 6,926**	$ 5,932			**$ 22**	$ 22			**$ 6,948**	$ 5,954
Mutual fund assets	**$ 109**	$ 38							**$ 109**	$ 38
Annualized premium sales			**$ 42**	$ 52	**$ 59**	$ 55				

Total Revenue

	Fourth quarter		Year	
(millions of dollars)	**2014**	2013	**2014**	2013
Revenue				
Net premium income	**$ 215**	$ 215	**$ 867**	$ 822
Investment income	**63**	64	**246**	240
Fair value change in FVTPL investments including realized amounts	**212**	5	**612**	(304)
Realized gain (loss) on AFS investments including impairment write downs	**1**	(2)	**13**	(2)
Fee and other income	**50**	40	**188**	150
Total	**$ 541**	$ 322	**$ 1,926**	$ 906

For the year, total revenue at Empire Life increased by 113% to $1.93 billion compared to $906 million in 2013. Revenue volatility was primarily driven by the impact of market interest rate movements on Fair value change in FVTPL investments. Major revenue items are discussed below.

Net premium income for the year increased in 2014 relative to 2013. The increase related primarily to 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 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 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 2014 than they were during 2013.

Total Benefits and Expenses

	Fourth quarter		Year	
(millions of dollars)	**2014**	2013	**2014**	2013
Benefits and expenses				
Net benefits and claims	**$ 168**	$ 145	**$ 645**	$ 560
Net change in insurance contract liabilities	**232**	43	**745**	(160)
Change in investment contracts provision	**1**	—	**2**	1
Policy dividends	**7**	6	**24**	22
Operating expenses	**40**	36	**147**	139
Net commissions	**51**	47	**193**	168
Interest expense	**2**	6	**14**	19
Total	**$ 501**	$ 283	**$ 1,770**	$ 749

Total benefits and expenses at Empire Life for the year increased by 136% to $1.77 billion compared to $749 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. 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 increased year over year due to the increase in Wealth Management product sales.

Interest expense 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 December 31,	
(millions of dollars)	**2014**	2013
Assets under management		
General fund annuities	**$ 1,063**	$ 1,105
Segregated funds	**6,926**	5,932
Mutual funds	**109**	38

	Fourth quarter		Year	
(millions of dollars)	**2014**	2013	**2014**	2013
Selected financial information				
Fixed interest annuity premiums	**$ 45**	$ 44	**$ 186**	$ 159
Segregated fund gross sales	**404**	302	**1,312**	1,009
Segregated fund net sales	**184**	107	**479**	231
Segregated fund fee income	**46**	37	**175**	139
Mutual fund gross sales	**23**	10	**68**	22
Mutual fund net sales	**19**	10	**62**	20
Mutual fund fee income	**—**	—	**1**	—
Net income (loss) after tax fixed income annuity portion	**$ 4**	$ (4)	**$ 8**	—
Net income after tax segregated fund portion	**9**	7	**37**	22
Net loss after tax mutual fund portion	**(1)**	(1)	**(3)**	(3)
Net income (loss) after tax	**$ 12**	$ 2	**$ 42**	$ 19

Assets in Empire Life general fund annuities decreased by 4%, while segregated fund assets increased by 17% 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 December 31, 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 year, fixed interest annuity premiums were up 17% compared to 2013. The increase was primarily due to increased sales of fixed interest deferred annuities.

For the year, segregated fund gross sales were up $303 million, a 30% increase from 2013. $205 million of this increase was from 75% maturity guarantee products, which increased 49%. GMWB and 100% maturity guarantee product sales also increased, growing by $69 million and $29 million respectively.

Segregated fund net sales for the year were up 108% compared to 2013 due to the above mentioned gross sales result.

For the year, segregated fund fee income increased by 26% 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 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 2014 than they were during 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 year, mutual fund gross sales were up 209% in 2014 compared to 2013. Mutual fund gross sales continued to steadily improve during 2014 as sales for the fourth quarter came in at $23 million compared to $19 million, $13 million, $14 million and $10 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 fourth quarter and for the year 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)	Fourth quarter	Year
Wealth Management Net Income Analysis		
Net income after tax 2014	$ 12	$ 42
Net income after tax 2013	2	19
Increase net income after tax	$ 10	$ 23
Components of increase		
2013 loss from update of policy liability assumptions	$ 2	$ 2
2014 loss from update of policy liability assumptions	(2)	(2)
Increase in inforce profit margins	3	17
Improved annuitant mortality experience	3	4
Improved investment experience	5	5
Higher new business strain	(1)	(3)
Total	$ 10	$ 23

In both 2013 and 2014, the update of policy liability assumptions was unfavourable by $2 million. In both years the updates for general fund annuities related primarily to annuitant mortality assumptions.

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 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 2014 than they were during 2013.

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

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

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 made significant changes to its segregated funds product line. Empire Life has closed its existing segregated funds products to new policies effective October 31, 2014. In addition, on November 3, 2014 Empire Life launched a new suite of investment products including a new segregated funds family called Empire Life Guaranteed Investment Funds, 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

(millions of dollars)	Fourth quarter 2014	Fourth quarter 2013	Year 2014	Year 2013
Selected financial information				
Annualized premium sales	**$ 9**	$ 12	**$ 42**	$ 52
Premium income	**80**	78	**319**	307
Net income after tax	**$ 2**	$ 1	**$ 9**	$ 9

For the year, sales in this product line decreased by 19% in 2014 relative to 2013. However, the 2014 level of sales while below last year were relatively strong due to relatively stable economic conditions. This product line's premium income increased by 4% relative to 2013 due to continuing growth of the inforce block.

During the fourth quarter and for the year 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)	Fourth quarter	Year
Employee Benefits Net Income Analysis		
Net income after tax 2014	**$ 2**	**$ 9**
Net income after tax 2013	**1**	**9**
Increase in net income after tax	**$ 1**	**—**
Components of increase		
2014 gain from update of policy liability assumptions	**$ 3**	**$ 3**
Increase in inforce profit margins	**—**	**2**
Worsened claims experience	**(2)**	**(5)**
Total	**$ 1**	**—**

In 2014, the favourable update of policy liability assumptions was primarily due to updated waiver of premium methods and assumptions for group life products.

Higher net income on inforce business in 2014 was due to growth of the inforce block of business.
In 2014 worsened claims experience relates to unfavourable health claims and long-term disability results.

Product Line Results - Individual Insurance

(millions of dollars)	Fourth quarter 2014	Fourth quarter 2013	Year 2014	Year 2013
Selected financial information				
Annualized premium sales	**$ 14**	$ 18	**$ 59**	$ 55
Premium income	**91**	93	**362**	356
Net income (loss) after tax				
Net income (loss) after tax shareholders' portion	**$ (1)**	$ 25	**$ 25**	$ 72
Net income (loss) after tax policyholders' portion	**8**	(4)	**2**	(6)
Net income after tax	**$ 7**	$ 21	**$ 27**	$ 66

For the year, annualized premium sales in this product line increased by 7% compared to 2013, and premium income increased by 2% compared to 2013. This product line's full year sales result is attributable primarily to increased sales of term life products. Empire Life has been shifting its product mix toward shorter term products such as term life, while increasing prices on long-term products, due to the low long-term interest rate environment.

During the fourth quarter and for the year, 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)	Fourth quarter	Year
Individual Insurance Net Income Analysis		
Net income after tax 2014	**$ 7**	**$ 27**
Net income after tax 2013	**21**	**66**
Decrease in net income after tax	**$ (14)**	**$ (39)**
Components of income decrease		
2013 gain from update of policy liability assumptions	**$ (2)**	**$ (2)**
2014 gain from update of policy liability assumptions	**5**	**5**
Worsened investment experience	**—**	**(43)**
Quebec premium tax increase	**(5)**	**(5)**
Worsened mortality, surrender and other experience	**(12)**	**(2)**
Lower new business strain	**—**	**2**
Favourable legal settlement	**—**	**6**
Total	**$ (14)**	**$ (39)**

In 2013, the update of policy liability assumptions was favourable by $2 million.

In 2014, the update of policy liability assumptions was favourable by $5 million. The following table provides a breakdown of the components of this amount:

Components of income increase from update of policy liability assumptions	**Year**
Net re-investment assumptions (primarily related to changes in methods)	**$ 70**
Mortality	**27**
Lapse (primarily related to changes in methods)	**(87)**
Other	**(5)**
Total 2014 gain from update of policy liability assumptions	**$ 5**

In May 2014, final revisions to the Canadian actuarial standards of practice with respect to economic reinvestment assumptions used in the valuation of insurance contract liabilities were released. The changes relate to assumed future interest rates, credit spreads and the use of non-fixed income assets to match insurance contract liabilities. This revised standard, which took effect on October 15, 2014 was used to calculate the above mentioned $70 million after tax reserve release resulting from investment return assumption updates. Management estimates that the impact of implementing this revised standard at the beginning of 2014 would have been a reserve release of approximately $60 million after tax. Accordingly management estimates that a reserve release of approximately $10 million after tax ($70 million minus $60 million) relates to all other investment return assumption updates and changes in methods for 2014.

Empire Life uses an ultimate reinvestment rate ("URR") assumption of 4.0% (3.0% for 2013). Empire Life uses a best estimate return assumption for equities used to match long-term liabilities of 7.5% (7.7% for 2013). This equity return assumption is then reduced by margins to determine the net return used in the valuation. Additional information regarding investment return assumptions can be found in note 27(b)i)(2) to the consolidated financial statements.

The refinements of lapse rate assumptions for 2014 was primarily related to emerging lapse rate experience for certain cost of insurance structures offered within universal life products and for critical illness products as well as regular updates for other individual life products.

For the year, 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).

	Fourth quarter		Year	
	2014	2013	**2014**	2013
Interest rate movement				
30 year Canadian federal government bond yield				
End of period	**2.36 %**	3.24%	**2.36 %**	3.24%
Beginning of period	**2.67 %**	3.07%	**3.24 %**	2.37%
Change during period	**(0.31)%**	0.17%	**(0.88)%**	0.87%

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.

During the fourth quarter, the province of Quebec increased premium tax rates on both inforce policies and new policies sold. Some inforce policies allow for an adjustment to prices or charges to cover the cost of the additional tax. However, some inforce policies are fully guaranteed and cannot be adjusted, resulting in a strengthening of reserves of $5 million after tax.

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.

Results - Capital and Surplus

	Fourth quarter		Year	
(millions of dollars)	**2014**	2013	**2014**	2013
Net income after tax				
Net income after tax shareholders' portion	**$ 6**	$ 2	**$ 22**	$ 14
Net income after tax policyholders' portion	**1**	1	**7**	2
Net income after tax	**$ 7**	$ 3	**$ 29**	$ 16

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 fourth quarter and for the year 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)	Fourth quarter	Year
Capital and Surplus Net Income Analysis		
Net income after tax 2014	**$ 7**	**$ 29**
Net income after tax 2013	**3**	**16**
Increase in net income after tax	**$ 4**	**$ 13**
Components of increase		
Increased net income from sale of investments	**$ 3**	**$ 11**
Lower interest expense	**3**	**4**
Lower investment and other income	**(2)**	**(2)**
Total	**$ 4**	**$ 13**

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 and other income was primarily due to a decrease in investment management service fee income from a former related company.

Total Cash Flow

	Year	
(millions of dollars)	**2014**	2013
Cash Flow provided from (used for)		
Operating Activities	**$ 152**	$ 222
Investing Activities	**119**	(509)
Financing Activities	**(249)**	256
Net change in cash and cash equivalents	**$ 22**	$ (31)

The decrease in cash provided from 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

	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013
MCCSR Ratio	**197%**	231%	231%	250%	267%

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 197% as at December 31, 2014 continued to be above requirements, and above minimum internal targets.

The MCCSR ratio decreased by 34 points from the previous quarter and by 70 points on a full year basis. The change was primarily due to increases in required regulatory capital, as shown in the table below.

(millions of dollars)	**Dec 31 2014**	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013
Available regulatory capital					
Tier 1	**$ 872**	$ 856	$ 839	$ 808	$ 831
Tier 2	**452**	436	430	529	533
Total	**$ 1,324**	$ 1,292	$ 1,269	$ 1,337	$ 1,364
Required regulatory capital	**$ 671**	$ 560	$ 549	$ 535	$ 511

The increase in Tier 1 available regulatory capital from the previous quarter and on a full year basis was primarily due to net income. For the quarter, this was partly offset by an increase in negative reserves which decrease Tier 1 (but increase Tier 2 as described below). On a full year basis, the Tier 1 increase 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 increased from the previous quarter primarily due to an increase in negative reserves which increase Tier 2 (but decrease Tier 1 as described above). The decrease in Tier 2 available regulatory capital on a full year 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 significantly from the previous quarter and on a full year basis. $102 million of the increase for both periods was due to a comprehensive review and update of the methods and assumptions used in Empire's stochastic model for determining required regulatory capital and policy liabilities for Empire's segregated fund product guarantees. In addition, for the quarter and the year required regulatory capital increased from the impact of higher investment exposures which were caused by increased investment in bonds and stocks. For the year required regulatory capital also increased from the impact of lower interest rates which increased required regulatory capital related to lapse risk.

Comprehensive Income

(millions of dollars)	Fourth quarter 2014	Fourth quarter 2013	Year 2014	Year 2013
Comprehensive income				
Shareholders' net income	**$ 18.2**	$ 29.9	**$ 98.7**	$ 113.3
Other comprehensive income (loss)				
Unrealized fair value increase (decrease) on AFS investments	**10.6**	1.2	**38.3**	(18.9)
Realized loss (gain) on AFS investments reclassification to net income	**(0.7)**	1.6	**(9)**	1.9
	9.9	2.8	**29.3**	(17)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	**—**	0.2	**0.2**	0.6
Items that will not be reclassified to net income:				
Remeasurements of defined benefit plans	**10.7**	(0.1)	**3.2**	12.9
	20.6	2.9	**32.7**	(3.5)
Less: Participating Policyholders	**(1.4)**	(1.9)	**(0.5)**	(3.1)
Other comprehensive income (loss), attributable to shareholders	**19.2**	1.0	**32.2**	(6.6)
Comprehensive income, attributable to shareholders	**$ 37.4**	$ 30.9	**$ 130.9**	$ 106.7

For the year 2014, Empire Life earned other comprehensive income of $32.7 million primarily due to unrealized fair value increases relating to AFS bonds and stocks. For the year 2013, Empire Life incurred an other comprehensive loss of $3.5 million primarily due to unrealized investment losses relating to AFS bonds.

For the year 2014, Empire Life experienced a $3.2 million gain after tax on the remeasurement of post-employment defined benefit ("DB") plans. This gain was primarily due to the impact of higher stock markets on DB plan assets, partly offset by a loss on DB plan liabilities. The loss on DB plan liabilities resulted from lower market interest rates partly offset by gains related to updated plan membership experience data and mortality assumption updates.

For the year 2013, Empire Life experienced a $12.9 million gain after tax on its DB plans. The gain for the year was primarily due to the impact of higher equity markets on DB plan assets. DB plan liabilities also experienced a net gain due to higher interest rates partly offset by losses due primarily to updated mortality.

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.

Industry Dynamics and Management's Strategy

Empire Life's operations are organized by product line with each line of business having responsibility for product development, marketing, distribution and customer service within their particular markets. This structure recognizes that there are distinct marketplace dynamics in each of the three major product lines. Management believes this structure enables each line of business to develop strategies to achieve the enterprise-wide objectives of business growth and expense management while recognizing the unique business environment in which each operates. The lines of business are supported by corporate units that provide product pricing, administrative and technology services to the lines of business, manage invested assets, and oversee enterprise risk management policies.

Based on general fund and segregated fund assets, Empire Life is among the ten largest life insurance companies in Canada. Empire Life has less than six per cent market share in all three of its product lines. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to continue to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on achieving profitable growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management is expecting to grow market share through this long-term performance along with broadened distribution reach and the addition of new funds and fund products such as the new segregated funds family called Empire Life Guaranteed Investment Funds launched in the fourth quarter of 2014. Empire Life achieved strong growth in assets under management from its segregated fund business in 2014. However, Empire Life has taken several steps to limit GMWB risk exposure. The above mentioned fourth quarter product launch by Empire included a new version of its GMWB product. The new version commands a higher price and reduces the amount of risk Empire Life is taking on, while still offering a competitive guaranteed income solution to customers. Empire Life will continue to monitor the competitive landscape for this product.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group market comprised of employers with fewer than 200 employees. This niche strategy coupled with an ongoing focus on balancing growth and profit has enabled Empire Life to be cost competitive within this market segment and is expected to enable this product line to grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create new business strain that has a negative impact on short-term earnings. Low long-term interest rates continue to have an unfavourable impact on this product line. In the past few years industry prices for longer term life insurance products have increased. Empire Life has also increased prices for these products and has focused its growth efforts on shorter term products, such as 10 year term life. Mortality trends continue to be favourable for life insurance products. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to have a cost structure that allows us to compete while generating an acceptable long-term financial contribution. Empire Life has been reviewing its Individual Insurance products to improve profitability, reduce interest rate risk, reduce required regulatory capital, develop web based products and processes, and improve the customer and advisor experience.

Risk Management

Empire Life's MCCSR ratio, among other things, is sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2014 Empire Life had $6.9 billion of segregated fund assets and liabilities. Of this amount, approximately $6.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec 31 2014	Dec 31 2013
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 100% death benefit guarantee	**53.2%**	57.4%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.4%**	5.2%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**41.4%**	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 December 31 for 2014 and 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:				
December 31, 2014 MCCSR Ratio	**8.8 %**	**(11.2)%**	**14.9 %**	**(24.4)%**
December 31, 2013 MCCSR Ratio	**(1.2)%**	**1.2 %**	**(2.3)%**	**2.5 %**

The 2014 amounts in the above tables include the effect of Empire's equity risk hedging program (described below). Sensitivity to equities is larger in 2014 than 2013 primarily due to the comprehensive review and update of the methods and assumptions used in Empire's stochastic model for determining required regulatory capital and policy liabilities for Empire's segregated fund product guarantees.

Prior to the fourth quarter of 2014, Empire Life has not hedged its segregated fund guarantee risk (except for the reinsurance agreement described below). Empire has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. During the fourth quarter of 2014, Empire initiated a semi-static hedging program. The objective of the hedging program is to partially protect Empire from possible future MCCSR ratio declines that might result from adverse stock market price changes. The hedging program presently employs put options and short positions on key equity indices. Empire intends to protect 10% to 20% of overall income and MCCSR equity risk exposure by expanding the hedging program during 2015 and subsequent years.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire has required capital for MCCSR purposes related to segregated fund guarantees, but does not have policy liabilities related to these guarantees on its balance sheet. Therefore a by-product of hedging MCCSR exposure is income statement volatility, as the gains or losses from hedging instruments are not offset by changes in policy liabilities related to segregated fund guarantees on the income statement. During the fourth quarter of 2014 Empire Life experienced a small loss of $0.4 million after tax on its hedging program. During 2015 and subsequent years, Empire Life expects to expand its hedging program and expects an increase in income statement volatility as a result.

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

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees and the resulting actuarial liabilities and 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**
December 31, 2014	**$ 49**	**$ 2**	**$ 360**	**$ 10**	**$ 380**	**$ nil**	**$ 102**
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 December 2014 decreased from the December 2013 levels for maturity guarantee, and death benefit guarantee exposure due primarily to the increase in many global stock markets. The amount at risk in December 2014 increased from the December 2013 levels for GMWB top-up exposure, due primarily to strong GMWB sales in 2014. The MCCSR required capital increased due to the comprehensive review and update of the methods and assumptions used in Empire's stochastic model for determining required regulatory capital and policy liabilities for Empire's segregated fund product guarantees.

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 and segregated fund guarantees, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR). The first column below excludes the impact of market value changes in available for sale (AFS) bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. The second column below shows the impact if the AFS bonds were sold to realize the gains from a 1% decrease in interest rates.

	Before The Sale of AFS Assets	**After The Sale of AFS Assets**
	1% Decrease	**1% Decrease**
Sensitivity To Market Interest Rates:		
December 31, 2014 MCCSR Ratio	**(32)%**	**(25)%**
December 31, 2013 MCCSR Ratio	**(35)%**	**(23)%**

In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact Empire Life is included in the Annual Information Form of Empire Life's parent company, E-L Financial Corporation Limited, which is available at www.sedar.com. Additional disclosures of Empire Life's sensitivity to risks are included in note 27 to the consolidated financial statements.

Critical Accounting Estimates

Empire Life's significant accounting policies are described in note 2 to the Consolidated Financial Statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these accounting estimates for Empire Life are the valuation of policy liabilities, financial instrument classification, pension and other employee future benefits and the determination of allowances for impaired investments.

Policy Liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life's sensitivity to risks related to policy liabilities are included in note 27 to the consolidated financial statements.

Financial instrument classification

Management judgement is used to classify financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables. Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. Most financial assets supporting capital and surplus and participating accounts are classified as AFS. Loans and receivables support both contract liabilities and capital and surplus. The designation of a financial instrument as FVTPL or AFS dictates whether unrealized fair value changes are reported in net income or other comprehensive income. Additional information regarding financial instrument classification is included in notes 2d, 3a, 3e, and 10c.

Pension and other employee future benefits

Pension and other employee future benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made affect the pension and other employee future benefits expense included in net income. If actual experience differs from the assumptions used, the resulting experience gain or loss is recorded in OCI. Additional information regarding pension and other employee future benefits is included in notes 2j, and 12.

Provision for Impaired Investments

Empire Life maintains a prudent policy in setting the provision for impaired investments. When there is no longer reasonable assurance of full collection of loan principal and loan interest related to a mortgage or policy contract loan, management establishes a specific provision for loan impairment and charges the corresponding reduction in carrying value to income in the period the impairment is identified. In determining the estimated realizable value of the investment, management considers a number of events and conditions. These include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. Changes in these circumstances may cause subsequent changes in the estimated realizable amount of the investment and changes in the specific provision for impairment.

Available for sale securities are subject to a regular review for losses that are significant or prolonged. Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

Outlook

In 2014 Canada's economy remained stable, but experienced relatively weak growth. 2014 headlines in Canada were filled with economic concerns about commodity prices, over-valued housing markets and high consumer debt levels. Global concerns in 2014 about European sovereign debt eased in 2014, and the US economy improved significantly, improving consumer confidence. As a result, global credit and stock markets have improved significantly from the economic turmoil of 2008 and early 2009. Canadian long-term interest rates decreased significantly in 2014 after increasing significantly in 2013, and have now been lower than typical levels for 4 years. Global stock markets remained volatile, but most significant markets rose in 2014. This was particularly the case in the U.S., where stock markets provided investors with strong returns in 2014. Canada's main stock market rose in 2014, but was much weaker than the US due to the steep drop in world oil prices and other commodities. Stock market conditions mainly impact inforce profit margin results and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line. Looking forward, consumers continue to be somewhat cautious about stock market exposure and Empire Life is well positioned with segregated fund, mutual fund and fixed interest annuity product offerings to satisfy demand for lower risk investments.

While Canada fared well during the financial crisis compared to many other countries, Canada's economy is growing slowly and there continues to be uncertainty resulting in mixed economic indicators. Growth rates in western Canada are expected to slow down due to the large drop in world oil prices. Lower gas prices and a weaker Canadian dollar are expected to improve growth in Ontario and Quebec. However, the auto sector in Ontario is very uncertain given GM's unclear future intentions regarding manufacturing in Ontario. As a result businesses across Canada remain cautious and this could cause pressure in the near term on growth prospects for the Employee Benefits product line.

A key issue for the Individual Insurance product line since 2011 has been the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases for individual insurance products by Empire Life and many of our competitors. While market long-term interest rates recovered somewhat in 2013 they decreased significantly during 2014. Empire Life has also decreased its emphasis on long-term products in favour of shorter term products, such as 10 year term life. Long-term interest rates, product mix and product pricing are expected to continue to be issues for Empire Life's Individual Insurance product line in 2015.

Regulatory change related to segregated fund guarantees continues to evolve. OSFI continues to review the overall approach for determining capital requirements for segregated fund risks.

Longer term accounting standard changes are expected by 2018 or later regarding International Financial Reporting Standards (IFRS) for Insurance Contracts. In a parallel process, capital adequacy standards are also becoming more aligned with international frameworks. Both of these changes aim at consistent measurement. For Insurance Contracts accounting the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. For capital adequacy standards the goal is consistent treatment of risk within insurance companies from a capital adequacy perspective regardless of the type of business. These two items could have a material impact on Empire Life's future net income and capital ratios, however, much remains unknown.

In 2011 OSFI implemented substantial regulatory changes for Canadian banks related to Basel III capital standards. These new banking regulations provide a transition plan for banks to move towards more restrictive capital requirements, including tighter restrictions on bank issued financial instruments. New financial instruments issued by banks must comply with these new regulations in order to be included in the banks' capital ratios. We are not aware of any plans by OSFI to make similar changes for life insurance companies.

OSFI's Corporate Governance Guideline (compliance required January 31, 2014) includes requirements related to board responsibilities, the independence of oversight functions, enhancing risk reporting and commissioning third party reviews of board and oversight function effectiveness. OSFI's Regulatory Compliance Management Guideline (compliance required by May 1, 2015) establishes requirements for managing regulatory compliance risk inherent in an insurers business activities. OSFI's Own Risk Solvency Assessment Guideline (effective January 1, 2014) requires insurers to complete a self-assessment process that aims to link an insurer's risk profile to its capital needs.

The Canadian Securities Administrators (CSA) is increasing disclosure requirements for mutual fund companies, including point of sale requirements (effective mid-2014) and customer relationship model initiatives (staggered implementation with full effectiveness mid-2016). Mutual fund fees continue to be an area of interest for Canadian securities regulators. The CSA has commissioned independent third party research that will assess the impact of commissions and embedded (trailer) fees on mutual fund flows. This research will support CSA policy decisions concerning Canada's current mutual fund fee structure. We continue to watch these developments as they may also impact the insurance industry at some future date.

Regulatory change is also occurring for Managing General Agents (MGAs). Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013 the Canadian Life and Health Insurance Association (CLHIA) has developed a new Insurer-MGA Relationship guideline (effective January 1, 2015). The Guideline describes desired outcomes and related practices in five general areas, stating that insurers should: perform due diligence prior to entering into a contract with an MGA, clearly set out roles and responsibilities in the contract, commit to a culture of treating customers fairly, monitor the performance of the MGA and retain ultimate responsibility.

Quarterly Results

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

(millions of dollars)	**Dec 31 2014**	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013
Revenue	**$ 541**	$ 381	$ 480	$ 524	$ 322	$ 235	$ 61	$ 289
Shareholders' Net income	**$ 18**	$ 24	$ 38	$ 18	$ 30	$ 32	$ 40	$ 11

For the fourth quarter of 2014, total revenue at Empire Life increased by 68% to $541 million compared to $322 million in the fourth quarter of 2013. The increase was due primarily to an increase in FVTPL investments in 2014 resulting from an increase in bond prices in 2014 compared to losses on FVTPL investments in 2013 resulting from a decrease in bond prices in 2013 (see Total Revenue section earlier in this report).

For the fourth quarter net income was lower relative to last year due primarily to worsened lapse and mortality experience relating to the Individual Insurance product line in 2014. See Product Line Results sections earlier in this report for further information on quarterly results.