# E-L Financial Corporation Limited

## Annual Report

2014

# The Year at a Glance

| *(Thousands of dollars)* | 2014 | 2013 |
|---|---|---|
| **Net Premiums** [1] | **$ 867,493** | $ 821,544 |
| **Total Revenues** [1] | **$ 2,391,237** | $ 1,644,896 |
| | | |
| **Shareholders' Net Operating Income** [1] [2] | **$ 127,112** | $ 140,591 |
| **Shareholders' Net Income** | **$ 394,530** | $ 907,679 |
| **Shareholders' Comprehensive Income** | **$ 428,032** | $ 871,577 |
| | | |
| **Changes in E-L Financial Shareholders' Equity:** | | |
| Beginning of the year | **$ 3,752,880** | $ 3,245,697 |
| Comprehensive income: | | |
| Net income | **394,530** | 907,679 |
| Other comprehensive income (loss) | **33,502** | (36,102) |
| | **428,032** | 871,577 |
| Dividends | **(17,560)** | (319,016) |
| Reclassification of AOCI from discontinued operations | **—** | (46,816) |
| Other | **2,876** | 1,438 |
| End of the year | **$ 4,166,228** | $ 3,752,880 |
| | | |
| **Per Share Information:** [3] | | |
| Net Operating Income [1] [2] | **$ 28.41** | $ 31.84 |
| Net Income | **$ 96.51** | $ 227.18 |
| Comprehensive Income | **$ 105.04** | $ 217.99 |
| Net Equity Value [2] | **$ 970.65** | $ 872.45 |

[1] Continuing operations

[2] See Management's Discussion and Analysis for use of non-GAAP measures.

[3] All earnings per share figures are net of dividends paid on First Preference shares.

**ANNUAL MEETING OF SHAREHOLDERS**

The Annual Meeting of Shareholders will be held at 11:30 a.m. on Tuesday May 12, 2015, 4th floor meeting room, 165 University Avenue, Toronto. All shareholders are invited to attend.

## Board of Directors

J. Christopher Barron,
Corporate Director

James F. Billett,
President, J.F. Billett Holdings Ltd.

Michael J. Cooper,
President and Chief Executive Officer, Dream Unlimited Corporation

William J. Corcoran, LL.B.,
Vice-Chairman, Jarislowsky Fraser Limited

Duncan N.R. Jackman,
Chairman, President and Chief Executive Officer, E-L Financial Corporation Limited

The Honourable Henry N.R. Jackman,
Honorary Chairman, The Empire Life Insurance Company

R.B. Matthews,
Chairman, Longview Asset Management Ltd.

Clive P. Rowe,
Partner, Oskie Capital

Mark M. Taylor,
Executive Vice-President and Chief Financial Officer, E-L Financial Corporation Limited

## Honorary Director

The Right Honourable John N. Turner

## Officers

*Chairman, President and Chief Executive Officer*
Duncan N.R. Jackman

*Executive Vice-President*
Mark M. Taylor

*Vice-President, General Counsel and Corporate Secretary*
Richard B. Carty

*Treasurer*
Susan C. Clifford

## REPORT ON E-L FINANCIAL CORPORATION LIMITED

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for the years ended December 31, 2014 and 2013 for E-L Financial Corporation Limited ("E-L Financial" or the "Company"). This MD&A should be read in conjunction with the December 31, 2014 year end consolidated financial statements and the notes, which form part of the E-L Financial Corporation Limited 2014 Annual Report dated March 5, 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.

On November 1, 2013, the Company completed the sale of its formerly wholly-owned subsidiary, The Dominion of Canada General Insurance Company ("The Dominion") to The Travelers Companies, Inc. for gross proceeds of $1.08 billion. The financial performance and cash flows of The Dominion have been presented as a discontinued operation in the Company's consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows for 2013.

This MD&A contains 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.

Unless otherwise stated, all per share amounts are based on the average number of Common Shares and Series A Convertible Preference Shares outstanding for the period, adjusted for the Company's proportionate interest in its own common shares held indirectly through investments in associates ("Adjusted Common Shares").

Additional information relating to the Company, including its Annual Information Form, may be found at www.sedar.com.

### Use of non-GAAP measures

The MD&A contains reference to net operating income, net operating income per share and net equity value per share. These terms do not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

The Company believes that these measures provide information useful to its shareholders in evaluating the Company's financial results. Net operating income is net income excluding realized gain (loss) on available for sale investments ("AFS") including impairment write downs, the Company's share of income (loss) from associates and the fair value change in fair value through profit or loss ("FVTPL") investments in the E-L Corporate portfolio. Net operating income per share is net operating income less preferred dividends divided by the average number of Adjusted Common Shares outstanding. Net equity value per share is described and reconciled to shareholders' equity on page 6.

## The Company

E-L Financial operates as an investment and insurance holding company. The Empire Life Insurance Company ("Empire" or "Empire Life") (80.5% owned) underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products. Empire Life is consolidated into E-L Financial for financial reporting purposes. The Dominion (100% owned prior to the sale on November 1, 2013) has been reported as discontinued operations.

The Company also owns investments in stocks and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies ("E-L Corporate"). Included within E-L Corporate are the Company's significant investments in United Corporations Limited ("United"), Economic Investment Trust Limited ("Economic") and Algoma Central Corporation ("Algoma"). Economic and United are both closed-end investment companies and Algoma is a shipping company. Economic and Algoma are reported as investments in associates and are accounted for using the equity method. United (51% owned) is consolidated into E-L Financial for financial reporting purposes.

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend income from its investments. E-L Financial oversees its investments through representation on the boards of directors of the subsidiaries and the other companies in which the Company has significant shareholdings.

## Review of results attributable to shareholders of E-L Financial

The following tables summarize the results of the Company's business segments (all figures are net of tax):

| | **December 31, 2014** | | |
|---|---|---|---|
| *(thousands of dollars)* | **E-L Corporate** | **Empire Life** | **Total** |
| Net operating income | **$ 51,109** | **$ 76,003** | **$ 127,112** |
| Realized gain on available for sale investments including impairment write downs | **13,518** | **3,455** | **16,973** |
| Share of income of associates | **20,665** | **—** | **20,665** |
| E-L Corporate's fair value change in fair value through profit or loss investments | **229,780** | | **229,780** |
| Net income | **315,072** | **79,458** | **394,530** |
| Other comprehensive income ("OCI") | **7,548** | **25,954** | **33,502** |
| Comprehensive income | **$ 322,620** | **$ 105,412** | **$ 428,032** |

| | December 31, 2013 | | |
|---|---|---|---|
| *(thousands of dollars)* | E-L Corporate | Empire Life | Total |
| Net operating income | $ 47,913 | $ 92,678 | $ 140,591 |
| Realized gain (loss) on available for sale investments including impairment write downs | 11,061 | (2,459) | 8,602 |
| Share of income of associates | 51,337 | — | 51,337 |
| E-L Corporate's fair value change in fair value through profit or loss investments | 396,023 | | 396,023 |
| Net income from continuing operations | 506,334 | 90,219 | 596,553 |
| Net income from discontinued operations | — | — | 311,126 |
| Net income | 506,334 | 90,219 | 907,679 |
| OCI (OCL) from continuing operations | 32,834 | (5,235) | 27,599 |
| OCL from discontinued operations | — | — | (63,701) |
| Total OCI (OCL) | 32,834 | (5,235) | (36,102) |
| Comprehensive income | $ 539,168 | $ 84,984 | $ 871,577 |

Net operating income from continuing operations

E-L Financial earned consolidated net operating income from continuing operations of $127.1 million or $28.41 per share compared with $140.6 million or $31.84 per share in 2013. The $13.5 million decrease in net operating income in 2014 versus 2013 is principally due to the unfavourable impact of long-term interest rate movements relating to Empire Life's Individual Insurance product line in 2014 compared to the favourable movements in 2013. The decline in operating income was partially offset by a $3.2 million increase in E-L Corporate's operating income, resulting from increased dividend income from the deployment of $650 million into equities from the proceeds on the sale of The Dominion in 2013.

Net income

E-L Financial earned consolidated net income from continuing operations of $394.5 million in 2014 compared with $596.6 million in 2013. The $202.1 million decline in net income is primarily attributed to a decline in E-L Corporate's income from FVTPL investments which decreased from $396.0 million in 2013 to $229.8 million in 2014, reflecting the more favourable impact of global stock market movements in the prior year.

On November 1, 2013, the Company completed the sale of its formerly wholly-owned subsidiary, The Dominion, to The Travelers Companies, Inc. for gross proceeds of $1.08 billion, resulting in an after-tax gain of $266.4 million. This gain combined with The Dominion's ten month earnings for 2013 of $44.7 million resulted in $311.1 million earned from discontinued operations.

Net income from continuing and discontinued operations resulted in E-L Financial earning total consolidated net income of $394.5 million or $96.51 per share compared with $907.7 million or $227.18 per share in 2013.

Comprehensive income

E-L Financial earned consolidated comprehensive income of $428.0 million or $105.04 per share compared to $871.6 million or $217.99 per share in 2013. Consolidated other comprehensive income ("OCI") was $33.5 million compared with other comprehensive loss ("OCL") of $36.1 million in 2013. The loss in 2013 is mainly due to the reclassification of significant gains relating to The Dominion's liquidation of its common share portfolio.

### Net equity value per share

Under IFRS, investments in associates are accounted for using the equity method and are not carried at fair value. Therefore, to provide an indication of the accumulated shareholder value, the following table adjusts shareholders' equity to reflect investments in associates at fair value:

| *(thousands of dollars)* | **2014** | 2013 |
|---|---|---|
| E-L Financial shareholders' equity | **$ 4,166,228** | $ 3,752,880 |
| Less: First preference shares | **(300,000)** | (300,000) |
| | **3,866,228** | 3,452,880 |
| Adjustments for E-L Corporate not carried at fair value: | | |
| Investments in associates | | |
| Carrying value | **(301,228)** | (288,884) |
| Fair value [1] | **342,121** | 351,241 |
| | **40,893** | 62,357 |
| Deferred income tax | **(5,418)** | (8,262) |
| | **35,475** | 54,095 |
| Net equity value | **$ 3,901,703** | $ 3,506,975 |
| Common Shares [2] outstanding at period end | **4,019,667** | 4,019,667 |
| Net equity value per Common Share [2] | **$ 970.65** | $ 872.45 |

[1] net of non-controlling interest

[2] Common Shares includes Series A Convertible Preference Shares.

### Growth in net equity value

The Company's objective is to build long-term shareholder value by compounding growth in net equity value per Common Share over the long term. Since inception, the Company's compounded annual growth rate in net equity value, including dividends, has been 12.4%.

Set out below is a table that shows annual growth in each of the past 10 years and since inception.

| **Annual growth in net equity value *** | |
|---|---|
| 2005 | 14.0% |
| 2006 | 25.3% |
| 2007 | 12.7% |
| 2008 | (17.8)% |
| 2009 | 23.7% |
| 2010 | 9.7% |
| 2011 | (13.9)% |
| 2012 | 15.2% |
| 2013 | 28.0% |
| 2014 | 11.3% |
| | |
| **Compounded annual growth *** | |
| 2005 - 2014 - 10 years | 9.6% |
| 1969 - 2014 - Since inception | 12.4% |

* This chart was drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

### Fourth quarter results

Net operating income from continuing operations

For the three months ended December 31, 2014, E-L Financial earned consolidated net operating income from continuing operations of $31.2 million or $6.94 per share compared with $54.9 million or $12.98 per share for the comparable period in 2013. The $23.7 million decrease in net operating income is due to worsened lapse and mortality experience relating to Empire Life's Individual Insurance product line in 2014, as well as a $12.9 million recovery of refundable dividend taxes in 2013 resulting from the $301.5 million special dividend paid to common shareholders.

Net income

For the three months ended December 31, 2014, E-L Financial had consolidated net income of $142.0 million or $35.16 per share compared with $507.4 million or $128.23 per share in 2013. Net income for the fourth quarter of 2013 included non-recurring income of $266.4 million from the sale of The Dominion. This combined with a decrease in income from FVTPL investments from $185.4 million in 2013 to $94.7 million in 2014 resulted in a decline of $365.4 million in net income for the fourth quarter of 2014 compared with 2013.

Comprehensive income

For the three months ended December 31, 2014, E-L Financial had a consolidated comprehensive income of $162.3 million or $40.35 per share compared with $534.6 million or $135.14 per share for the comparable period in 2013. OCI was $20.4 million compared with $27.1 million in 2013. The $6.7 million decrease in OCI is mainly due to The Dominion reporting $11.7 million in 2013. This was partially offset by an increase in OCI in 2014 resulting from the remeasurement of defined benefit plans.

The following table summarizes the quarterly results:

| (millions of dollars, except per share amounts) | **2014** | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue - Continuing Operations | | | | | | | | |
| Net premium income | **$ 216** | $ 208 | $ 214 | $ 229 | $ 215 | $ 203 | $ 197 | $ 207 |
| Associates [(1)] | **14** | 10 | 7 | (5) | 25 | 14 | 17 | 3 |
| FVTPL [(2)] | **355** | 102 | 177 | 308 | 273 | 11 | (161) | 172 |
| AFS [(3)] | **6** | 8 | 10 | 4 | 3 | — | 4 | 3 |
| Investment and other | **136** | 128 | 140 | 124 | 132 | 110 | 116 | 101 |
| Total | **$ 727** | $ 456 | $ 548 | $ 660 | $ 648 | $ 338 | $ 173 | $ 486 |
| Net income (loss) [(4)] | | | | | | | | |
| Continuing operations | **$ 142** | $ 71 | $ 77 | $ 105 | $ 265 | $ 92 | $ 107 | $ 132 |
| Discontinued operations | **—** | — | — | — | 243 | (29) | 84 | 14 |
| Total | **$ 142** | $ 71 | $ 77 | $ 105 | $ 508 | $ 63 | $ 191 | $ 146 |
| Earnings per share [(4)] | | | | | | | | |
| Continuing operations | | | | | | | | |
| - basic | **$ 35.16** | $ 17.00 | $ 18.66 | $ 25.69 | $ 66.41 | $ 22.61 | $ 26.23 | $ 32.70 |
| - diluted | **$ 32.40** | $ 16.12 | $ 17.61 | $ 24.75 | $ 56.27 | $ 19.68 | $ 22.70 | $ 28.09 |
| Total | | | | | | | | |
| - basic | **$ 35.16** | $ 17.00 | $ 18.66 | $ 25.69 | $ 128.23 | $ 15.13 | $ 47.62 | $ 36.20 |
| - diluted | **$ 32.40** | $ 16.12 | $ 17.61 | $ 24.75 | $ 107.88 | $ 13.45 | $ 40.54 | $ 31.01 |

(1) Share of income (loss) of associates, including impairment write downs
(2) Realized and unrealized gains on FVTPL investments
(3) Realized gain on AFS, including impairment write downs
(4) Attributable to shareholders

### Quarterly trend analysis

The consolidated revenue and consolidated net income of the Company are expected to fluctuate on a quarterly basis given its various segments. In particular, equity market movements, changes in interest rates, underwriting results, policy liability discount rates and policy reserve adjustments are likely to cause fluctuations.

Revenue - Continuing operations

For the past eight quarters, Empire Life has had steady net premium income. The quarterly fluctuations found in the investments in associates, FVTPL and AFS categories have been significant and can be attributed to the volatility in equity markets and movement in bond prices. Investment and other income continues to increase in 2014 due to higher fee and dividend income.

Shareholders’ net income

During the first quarter of 2013, net income decreased due to poor underwriting results at The Dominion combined with the unfavourable impact of long-term interest rate movements on Empire Life’s Individual Insurance product line. The Dominion’s poor underwriting results continued throughout the second and third quarters of 2013. However, in the second quarter of 2013, The Dominion liquidated its common share portfolio which resulted in a realized gain on AFS investments. In the fourth quarter of 2013, a gain of $266.4 million was recognized on the sale of The Dominion.

Quarterly net income throughout 2014 was significantly impacted by the significant fluctuations in the global equity markets combined with the unfavourable impact of long-term interest rate movements relating to the Individual Insurance product line.

FVTPL and AFS gains, as well as E-L Corporate's share of income from associates were significantly impacted by the global stock markets volatility throughout the year. Most significant markets rose in 2014 providing investors with strong returns. Canada’s main stock market rose in 2014, but was much weaker than the S&P 500 due to the steep drop in world oil prices and other commodities. Despite the overall strength in 2014, global equity markets were significantly below the 2013 performance levels.

### Selected annual information

| (millions of dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Revenue - Continuing operations** | | | |
| E-L Corporate | **$ 465** | $ 739 | $ 404 |
| Empire Life | **1,926** | 906 | 1,260 |
| | **$ 2,391** | $ 1,645 | $ 1,664 |
| **Shareholder net income** | | | |
| E-L Corporate | **$ 316** | $ 507 | $ 369 |
| Empire Life | **79** | 90 | 64 |
| Continuing operations | **395** | 597 | 433 |
| Discontinued operations - The Dominion | **—** | 311 | 47 |
| Total | **$ 395** | $ 908 | $ 480 |
| **Earnings per share** | | | |
| Continuing operations | | | |
| - basic | **$ 96.51** | $ 147.95 | $ 106.37 |
| - diluted | **$ 90.06** | $ 126.82 | $ 91.14 |
| Total | | | |
| - basic | **$ 96.51** | $ 227.18 | $ 118.41 |
| - diluted | **$ 90.06** | $ 192.97 | $ 101.10 |
| **Assets** | | | |
| E-L Corporate | **$ 4,184** | $ 3,805 | $ 2,336 |
| Empire Life | **13,727** | 12,080 | 10,916 |
| Discontinued operations - The Dominion | **—** | — | 3,403 |
| Total assets | **$ 17,911** | $ 15,885 | $ 16,655 |
| **Cash dividends per share** | | | |
| First Preference shares, Series 1 | **$ 1.3250** | $ 1.3250 | $ 1.3250 |
| First Preference shares, Series 2 | **$ 1.1875** | $ 1.1875 | $ 1.1875 |
| First Preference shares, Series 3 | **$ 1.3750** | $ 1.3750 | $ 1.0868 |
| Common shares | **$ 0.50** | $ 75.50 | $ 0.50 |

Revenue - Continuing operations

Revenues over the period have been significantly impacted by fluctuations in the global stock markets.

- E-L Corporate has experienced significant fluctuations in the fair value change in FVTPL and share of income of associate's revenue streams. In 2012 the fair value change in FVTPL was $145 million increasing to $598 million in 2013. Commencing in 2013, income from United was reported on a consolidated basis as opposed to income from associates in 2012. The increase in 2013 reflected $295 million from United's investments and the favourable impact of stock market movements during the year. In 2014 the fair value change in FVTPL was $330 million reflecting the continued strength in the global equity markets. Income from associates has shown similar movement with a gain of $84 million in 2012 decreasing to $59 million in 2013 and $26 million in 2014. Revenue in 2012 includes a $142 million gain from the consolidation of United.
- Empire Life has experienced steady insurance premium income over the past three years. The movements in revenue over the three years were due primarily to changes in FVTPL investments, resulting from an increase in bond prices in 2014 and 2012 compared to decreases in bond prices in 2013.

Net income

In general, the net income for the Company is significantly impacted by the movements in the global stock markets. Over the three year period global stock markets have experienced significant volatility.

- E-L Corporate's net income is directly related to its revenue, which fluctuated significantly as previously discussed. In 2012 net income was impacted by a $142.2 million one-time gain relating to the consolidation of United.
- Empire Life's net income was $79 million in 2014 compared to $90 million in 2013 and $64 million in 2012. The lower net income in both 2014 and 2012 was due primarily to the favourable impact of long-term interest rate movements relating to the Individual Insurance product line in 2013.
- Net income on discontinued operations for 2013 reflects 10 months of operations combined with a $266.4 gain on the sale of The Dominion.

Assets

Total assets increased in 2013 compared to 2012 due to favourable stock market movements and strong net sales in segregated fund assets. On November 1, 2013, the Company sold The Dominion for gross proceeds of $1.08 billion. The proceeds from the sale were used for a special dividend of $75.00 per share to common shareholders, re-investment of approximately $650 million into U.S. and international equities, with the remainder added to E-L Corporate cash reserves. During 2014 assets continued to increase due to favourable stock market movements.

Cash dividends

For the three year period, the Company paid out a regular annual dividend of $0.50 per share on each of its common shares. In addition, on December 16, 2013, the Company paid a special cash dividend of $75.00 per common share related to the sale of The Dominion.

**Disclosure controls and procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian securities laws is recorded, processed, summarized and reported within the specified time periods, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. Under the supervision of management, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2014. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2014.

**Internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2014. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2014. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Liquidity and capital resources**

Liquidity refers to the Company's ability to maintain cash flow adequate to fund operations, as well as to provide resources for additional investments. The Company's liquidity management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

The Company's corporate obligations, primarily dividend payments on its outstanding Common and Preferred Shares, are funded by cash flows arising from its equity and fixed income portfolio as well as dividends from its subsidiaries. Excess cash flows are invested within E-L Corporate, as opportunities become available.

Empire Life meets their cash requirements primarily through funds generated by insurance operations. Empire Life carries sufficient excess capital in the event of reasonably possible adverse claims experience or investment results. In 2013 Empire Life issued $300 million principal amount of unsecured subordinated debentures with a maturity date of 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. Refer to the 2014 audited consolidated financial statements - Note 14 for further details. At December 31, 2014, Empire Life's Minimum Continuing Capital and Surplus Requirements measure was 197%.

**Critical accounting estimates**

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the financial statements. Note 2 to the consolidated financial statements describes the significant accounting policies. The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

Insurance-related 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.

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.

Provision for impaired investments

The Company 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.

Investments in associates recognize an impairment loss if the investment in associates' recoverable amount is determined to be lower than the investment's carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment's fair value less costs of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. Previously recognized impairment losses are reversed if the investment's recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

Consolidation

There could be judgment involved in assessing control or significant influence of certain of the Company's interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Fair value estimates

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particularly those items categorized within Level 3 of the hierarchy.

## Analysis of business segments

The remainder of this MD&A discusses the individual results of operations and financial condition of the Company's business segments: E-L Corporate and Empire Life.

## E-L CORPORATE

E-L Corporate owns investments in equities and fixed income securities directly and indirectly through pooled funds and other investment companies, as well as significant investments in United, Economic and Algoma.

Economic and Algoma are reported as investments in associates and are discussed below. Investments in equities and fixed income securities held directly by E-L Financial and through United are combined to form "Investments – corporate".

### Investments - corporate

Investments - corporate includes investments in equities and short-term fixed-income investments. At December 31, 2014, investments - corporate had aggregate investments of $3.8 billion, comprised primarily of common shares, compared to aggregate investments at December 31, 2013 of $3.4 billion. The fair value of investments - corporate is summarized in the table below.

| *(millions of dollars)* | **2014** | 2013 |
|---|---|---|
| Short-term investments | **$ 211.5** | $ 126.4 |
| Preferred shares | **1.1** | 1.1 |
| Common shares | | |
| Canadian | **627.1** | 637.8 |
| U.S. | **1,640.4** | 1,453.0 |
| Europe | **797.2** | 727.3 |
| Other | **513.2** | 435.8 |
| Total | **3,577.9** | 3,253.9 |
| Total invested assets | **$ 3,790.5** | $ 3,381.4 |

The return on investments – corporate for the year ended December 31, 2014 was approximately 13% (2013 - 35%).

### Fair value change in FVTPL investments

Fair value change in FVTPL investments includes both realized and unrealized gains (losses).

The fair value change in FVTPL investments for both the quarter and year relative to the prior year reflects the more favourable impact of global stock market movements in 2013. For the three months ended December 31, 2014, the fair value of FVTPL investments increased $94.7 million after tax compared to $185.4 million after tax in 2013. For the year ended December 31, 2014, the fair value of FVTPL investments increased $229.8 million after tax compared to $396.0 million after tax in 2013.

### Share of income of associates

The details of E-L Corporate's share of income of associates on an after tax basis are as follows:

| | **Fourth quarter** | | **Year** | |
|---|---|---|---|---|
| *(millions of dollars)* | **2014** | 2013 | **2014** | 2013 |
| Share of income | **$ 10.9** | $ 21.9 | **$ 20.7** | $ 39.3 |
| Net impairment reversal | **—** | — | **—** | 12.0 |
| | **10.9** | 21.9 | **20.7** | 51.3 |
| Share of OCI | **0.6** | 3.1 | **0.8** | 3.5 |
| | **$ 11.5** | $ 25.0 | **$ 21.5** | $ 54.8 |

E-L Corporate's share of net income from associates for the three months ended December 31, 2014 was $10.9 million after tax compared to a $21.9 million after tax in 2013. The $11.0 million after tax decrease in income from associates was primarily due to a decrease in Economic's net income for the quarter resulting from stronger market performance during the fourth quarter of 2013.

On a year to date basis, E-L Corporate recorded net income from associates of $20.7 million after tax compared to $51.3 million after tax in 2013. The $30.6 million after tax decrease in income from associates is primarily due to stronger market performance in 2013 which resulted in a full reversal of previous impairment on the Company's investment in Economic.

| *(millions of dollars)* | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Ownership** | **Carrying value** | **Fair value** | Ownership | Carrying value | Fair value |
| Algoma | **34.7%** | **$ 182.7** | **$ 221.5** | 34.7% | $ 168.8 | $ 224.1 |
| Economic | **24.0%** | **118.5** | **121.0** | 24.0% | 120.1 | 127.1 |
| Total | | **$ 301.2** | **$ 342.5** | | $ 288.9 | $ 351.2 |

Additional information relating to Algoma and Economic may be found on their respective profiles at www.sedar.com.

### Net operating income

E-L Corporate's net operating income for the quarter was $16.3 million after tax compared with $29.3 million after tax in 2013. The $13.0 million decrease in net operating income is mainly due to a $12.9 million recovery of refundable dividend taxes in 2013 resulting from the $301.5 million payment of special dividends to common shareholders.

For the year ended December 31, 2014, E-L Corporate earned net operating income of $51.1 million after tax compared to $47.9 million after tax for the comparative year. The $3.2 million after tax increase is due to an increase in foreign dividend income in 2014 partially offset by the increase in the recovery of refundable taxes in 2013.

### Comprehensive income

| | **Fourth quarter** | | **Year** | |
|---|---|---|---|---|
| *(millions of dollars)* | **2014** | 2013 | **2014** | 2013 |
| **Comprehensive income** | | | | |
| Net income | **$ 126.7** | $ 240.9 | **$ 315.1** | $ 506.3 |
| OCI | | | | |
| Unrealized fair value increase on AFS investments | **8.9** | 15.9 | **20.3** | 40.6 |
| Realized gain on AFS investments reclassified to net income | **(4.7)** | (4.2) | **(13.5)** | (11.0) |
| Share of OCI of associates | **0.6** | 3.1 | **0.8** | 3.5 |
| Other | **(0.1)** | (0.2) | **(0.1)** | (0.2) |
| | **4.7** | 14.6 | **7.5** | 32.9 |
| **Total** | **$ 131.4** | $ 255.5 | **$ 322.6** | $ 539.2 |

For the three months ended December 31, 2014, E-L Corporate earned OCI of $4.7 million compared to $14.6 million in 2013. For the year ended December 31, 2014, E-L Corporate earned OCI of $7.5 million compared to $32.9 million in 2013. The decrease in OCI for both the quarter and year versus the prior period is mainly due to a lower unrealized fair value increase on AFS investments in 2014 compared to the prior period.

### Risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. Market risk is the most significant risk impacting E-L Corporate as its investing activities are influenced by market price and interest rate risk. In addition to the discussion of risks included in this MD&A, a comprehensive discussion of the material risks that impact the Company is included in the Annual Information Form which is available at www.sedar.com. Disclosures regarding E-L Corporate's financial instruments, including financial risk management, are included in Notes 4, 6 and 24 to the consolidated financial statements.

**Liquidity and capital resources**

E-L Corporate's liquidity, capital resources and cash flow is managed from a non-consolidated perspective.

Composition of cash flows:

| | E-L Financial* | | United | | Empire Life | | The Dominion | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(millions of dollars)* | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Cash flows from: | | | | | | | | | | |
| Operating activities | **$ 29** | $ 26 | **$ 5** | $ (2) | **$ 152** | $ 222 | | $ 30 | **$ 186** | $ 276 |
| Financing activities | | | | | | | | | | |
| Cash dividends | **(18)** | (319) | **(9)** | (9) | **(7)** | (5) | | — | **(34)** | (333) |
| Subordinated debt | **—** | — | **—** | — | **(200)** | 298 | | — | **(200)** | 298 |
| Interest | **—** | — | **—** | — | **(15)** | (18) | | — | **(15)** | (18) |
| Investing activities | **(77)** | 328 | **18** | 23 | **119** | (509) | | (114) | **60** | (272) |
| Net change in cash and cash equivalents | **$ (66)** | $ 35 | **$ 14** | $ 12 | **$ 49** | $ (12) | | $ (84) | **$ (3)** | $ (49) |

* non-consolidated

Cash flows on a non-consolidated basis for 2014 consisted of net investment income of $29 million (2013 - $26 million) and cash dividends received from its subsidiaries of $37 million (2013 - $28 million). In addition, the sale of The Dominion in 2013 provided $1.08 billion in net cash flows. These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $18 million (2013 - $319 million), provided $48 million (2013 – $806 million) for investment opportunities. After the sale of The Dominion, $650 million was invested into U.S. and international equities with the balance being added to E-L Corporate cash reserves.

E-L Corporate maintains sufficient liquidity through holding short-term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary, to fund new investment opportunities and to meet any operating cash flow requirements.

Composition of E-L Financial (non-consolidated) liquidity:

| *(millions of dollars)* | **2014** | 2013 |
|---|---|---|
| Cash and cash equivalents | **$ 60.7** | $ 88.3 |
| Short-term investments | **211.5** | 126.4 |
| Total | **$ 272.2** | $ 214.7 |

**Outlook**

The Company's future earning prospects are dependent on the successful management of its E-L Corporate portfolio and on the continued profitability of its insurance company subsidiary. The performance of the E-L Corporate portfolio is impacted by global securities markets and the selection of equity and fixed income investments. The Company continues to maintain its strategy of accumulating shareholder value through long-term capital appreciation and dividend income. More information on the outlook for Empire Life is provided in the outlook section of Empire Life's report in the MD&A.

## REPORT ON EMPIRE LIFE

Empire Life provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors ("IFA"), Managing General Agents ("MGA"), National Account firms, Mutual Fund Dealers and Employee Benefits brokers and representatives.

Empire Life reported full year shareholders' net income of $98.7 million for 2014, compared to $113.3 million for 2013. Empire Life's net income attributable to the owners of E-L Financial, after adjustment for non-controlling interests, is shown in the following table:

| | Fourth quarter | | Year | |
|---|---|---|---|---|
| *(millions of dollars)* | **2014** | 2013 | **2014** | 2013 |
| **Net income, contribution to E-L Financial** | | | | |
| Shareholders' net income | **$ 18.2** | $ 29.9 | **$ 98.7** | $ 113.3 |
| Non-controlling interests portion of net income | **3.5** | 6.1 | **19.2** | 23.1 |
| Net income, contribution to E-L Financial | **$ 14.7** | $ 23.8 | **$ 79.5** | $ 90.2 |

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.

The summary of Empire Life's operations on page 99 of this Annual Report provides an overview of results for the five-year period from 2010 to 2014. The analysis and discussion which follows is focused on the full year 2014 and comparative 2013 line of business net income after tax.

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 & 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 |
| Non-controlling interests portion of net income | | | | | | | | | **19** | 23 |
| Net income attributable to owners of E-L Financial | | | | | | | | | **$ 79** | $ 90 |
| Assets under management | | | | | | | | | | |
| General fund assets | **$ 1,063** | $ 1,105 | | | | | | | | |
| Segregated fund assets | **$ 6,926** | $ 5,932 | | | **$ 22** | $ 22 | | | | |
| Mutual fund assets | **$ 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 available for sale 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 income.

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 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 in 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**

| | Fourth quarter | | Year | |
|---|---|---|---|---|
| *(millions of dollars)* | **2014** | 2013 | **2014** | 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**

| | Fourth quarter | | Year | |
|---|---|---|---|---|
| *(millions of dollars)* | **2014** | 2013 | **2014** | 2013 |
| **Selected financial information** | | | | |
| Annualized premium sales | **$ 14** | $ 18 | **$ 59** | $ 55 |
| Premium income | **91** | 93 | **362** | 356 |
| | | | | |
| **Net income (loss) after tax** | | | | |
| Net (loss) income 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 25 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 Canada 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.

### 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. Empire Life's dividends to E-L Financial are fully eliminated in the consolidated financial statements of E-L Financial.

**Capital Resources**

| | **Dec. 31 2014** | Sept. 30 2014 | June 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** | Sept. 30 2014 | June 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** | | | | |
| Net income, contribution to E-L Financial | **$ 14.6** | $ 23.8 | **$ 79.5** | $ 90.2 |
| Other comprehensive income (loss) | | | | |
| Unrealized fair value increase (decrease) on AFS investments | **10.6** | 1.2 | **38.3** | (18.9) |
| Realized gain (loss) on AFS investments reclassification to net income | **(0.7)** | 1.6 | **(9.0)** | 1.9 |
| | **9.9** | 2.8 | **29.3** | (17.0) |
| 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) |
| Non-controlling interests | **(3.7)** | (0.2) | **(6.3)** | 1.3 |
| Other comprehensive income (loss), contribution to E-L Financial | **15.5** | 0.8 | **25.9** | (5.3) |
| **Comprehensive income, contribution to E-L Financial** | **$ 30.1** | $ 24.6 | **$ 105.4** | $ 84.9 |

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 (attributable to the owners of E-L Financial) to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

| *(millions of dollars)* | **10% increase** | **10% decrease** | **20% increase** | **20% decrease** |
|---|---|---|---|---|
| **Sensitivity to segregated fund guarantees:** | | | | |
| **2014 Net income attributable to E-L Financial** | **$ nil** | **$ nil** | **$ nil** | **$ nil** |
| 2013 Net income attributable to E-L Financial | $ 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<br>1% decrease | After the sale of AFS assets<br>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. Additional disclosures of Empire Life's sensitivity to risks are included in notes 24 and 25 to the consolidated financial statements.

**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 markets 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 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.

Duncan N.R. Jackman

Chairman, President and Chief Executive Officer

March 5, 2015

## MANAGEMENT REPORT

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements necessarily include amounts that are based on judgments, which are applied consistently and are considered appropriate in the circumstances.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the consolidated financial statements.

The Company and its subsidiaries maintain systems of internal control over financial reporting which are designed to provide reasonable assurance that assets are safeguarded, expenditures are made in accordance with authorizations of management and directors, transactions are properly recorded and that financial records are reliable for preparing the consolidated financial statements in accordance with Canadian generally accepted accounting principles. Under the supervision of management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out as at December 31, 2014. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2014.

The Board of Directors carries out its responsibility for the consolidated financial statements in this Annual Report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committee of the insurance subsidiary also meets periodically with the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors of the insurance subsidiary to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiary's financial statements. The Appointed Actuary uses the work of the external auditors in verifying data used for valuation purposes.

**PricewaterhouseCoopers LLP** has been appointed external auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual consolidated financial statements. In carrying out their audit, the external auditors also consider the work of the actuaries and their report on policy liabilities. The external auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Auditors' Report outlines the scope of their examination and their opinion.

Duncan N.R. Jackman

Chairman, President
and Chief Executive Officer

Mark M. Taylor

Executive Vice-President
and Chief Financial Officer

March 5, 2015

# Independent Auditor's Report

**To the Shareholders of**
**E-L Financial Corporation Limited**

We have audited the accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries, which comprise the consolidated Statements of Financial Position as at December 31, 2014 and December 31, 2013 and the consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of E-L Financial Corporation Limited and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**
Toronto, Ontario
March 5, 2015

**E-L Financial Corporation Limited and subsidiary companies**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**(in thousands of Canadian dollars)**

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents (Note 8) | **$ 316,811** | $ 319,749 |
| Investments - corporate (Note 4) | **3,790,503** | 3,381,417 |
| Investments - insurance operations (Note 5) | **6,426,921** | 5,803,051 |
| Investments in associates (Note 6) | **301,228** | 288,884 |
| Accrued investment income | **28,127** | 26,598 |
| Premiums receivable | **25,213** | 20,849 |
| Income taxes receivable | **1,659** | 1,841 |
| Deferred tax assets (Note 20) | **—** | 2,400 |
| Other assets (Note 11) | **39,947** | 52,105 |
| Property and equipment (Note 9) | **27,531** | 29,773 |
| Intangible assets (Note 10) | **4,832** | 4,317 |
| Segregated fund assets (Note 12) | **6,948,475** | 5,954,508 |
| Total assets | **$ 17,911,247** | $ 15,885,492 |
| **Liabilities** | | |
| Accounts payable | **$ 41,135** | $ 46,547 |
| Policyholders' funds on deposit | **31,332** | 30,937 |
| Reinsurance liabilities (Note 16) | **490,575** | 284,627 |
| Insurance contract liabilities (Note 16) | **4,741,233** | 4,214,272 |
| Investment contract liabilities | **11,626** | 12,687 |
| Provision for profits to policyholders | **24,913** | 23,893 |
| Income and other taxes payable | **7,804** | 35,543 |
| Deferred tax liabilities (Note 20) | **189,204** | 154,885 |
| Other liabilities (Note 13) | **71,205** | 66,371 |
| Subordinated debt (Note 14) | **298,763** | 498,343 |
| Segregated fund liabilities (Note 12) | **6,948,475** | 5,954,508 |
| Total liabilities | **$ 12,856,265** | $ 11,322,613 |
| **Equity** | | |
| Capital stock (Note 17) | **$ 372,388** | $ 372,388 |
| Retained earnings | **3,721,910** | 3,342,064 |
| Accumulated other comprehensive income ("AOCI") | **71,930** | 38,428 |
| Total E-L Financial shareholders' equity | **4,166,228** | 3,752,880 |
| Non-controlling interests in subsidiaries ("NCI") | **828,714** | 759,177 |
| Participating policyholders' interests ("PAR") | **60,040** | 50,822 |
| Total equity | **$ 5,054,982** | $ 4,562,879 |
| Total liabilities and equity | **$ 17,911,247** | $ 15,885,492 |

**Approved by the Board**

Duncan N.R. Jackman, Director

James F. Billett, Director

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

**E-L Financial Corporation Limited and subsidiary companies**
**CONSOLIDATED STATEMENTS OF INCOME**

**(in thousands of Canadian dollars)**

| | 2014 | 2013 |
|---|---|---|
| **Revenue** | | |
| Gross premiums | $ 971,552 | $ 918,521 |
| Premiums ceded to reinsurers | (104,059) | (96,977) |
| Net premiums | 867,493 | 821,544 |
| Investment and other income (Note 7) | 527,750 | 459,277 |
| Share of income of associates (Note 6) | 25,519 | 59,178 |
| Fair value change in fair value through profit or loss investments | 942,271 | 294,558 |
| Realized gain on available for sale investments including impairment write downs (Notes 4 and 5) | 28,204 | 10,339 |
| | 2,391,237 | 1,644,896 |
| **Expenses** | | |
| Gross claims and benefits | 1,288,341 | 437,904 |
| Claims and benefits ceded to reinsurers | 125,067 | (16,653) |
| Net claims and benefits | 1,413,408 | 421,251 |
| Change in investment contracts provision | 2,282 | 945 |
| Commissions | 193,141 | 168,257 |
| Operating (Note 19) | 172,049 | 157,594 |
| Interest expense | 14,180 | 18,977 |
| Premium taxes | 14,259 | 14,011 |
| | 1,809,319 | 781,035 |
| **Income before income taxes** | 581,918 | 863,861 |
| **Income tax expense (Note 20)** | 91,066 | 114,515 |
| Net income from continuing operations | 490,852 | 749,346 |
| Net income from discontinued operations (Note 29) | — | 311,126 |
| **Net income** | 490,852 | 1,060,472 |
| Less: Participating policyholders' income (loss) | 8,670 | (3,243) |
| Non-controlling interests in net income | 87,652 | 156,036 |
| | 96,322 | 152,793 |
| **E-L Financial shareholders' net income** | $ 394,530 | $ 907,679 |
| **Basic earnings per share attributable to E-L Financial common shareholders (Note 21)** | | |
| Earnings per share from continuing operations | $ 96.51 | $ 147.95 |
| Earnings per share from discontinued operations | — | 79.23 |
| Basic earnings per share from net income | $ 96.51 | $ 227.18 |
| **Diluted earnings per share attributable to E-L Financial common shareholders (Note 21)** | | |
| Earnings per share from continuing operations | $ 90.06 | $ 126.82 |
| Earnings per share from discontinued operations | — | 66.15 |
| Diluted earnings per share from net income | $ 90.06 | $ 192.97 |

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

**E-L Financial Corporation Limited and subsidiary companies**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(in thousands of Canadian dollars, except per share amounts)**

| | **2014** | 2013 |
|---|---|---|
| **Net income** | **$ 490,852** | $ 1,060,472 |
| **Other comprehensive income ("OCI") (loss) ("OCL"), net of taxes (Note 22)** | | |
| Items that may be reclassified subsequently to net income: | | |
| Net unrealized fair value increase on available for sale investments ("AFS") | **36,226** | 12,474 |
| Net gain on amortization of derivatives designated as cash flow hedges reclassified to net income | **233** | 574 |
| Share of OCI of associates | **2,763** | 3,820 |
| | **39,222** | 16,868 |
| Items that will not be reclassified to net income: | | |
| Net remeasurement of defined benefit plans | **3,182** | 12,779 |
| Share of employee future benefits of associates | **(1,963)** | (299) |
| | **1,219** | 12,480 |
| **OCI from continuing operations, net of taxes** | **40,441** | 29,348 |
| **OCI from discontinued operations, net of taxes (Note 29)** | **—** | (63,701) |
| **Total OCI (OCL)** | **40,441** | (34,353) |
| **Comprehensive income** | **531,293** | 1,026,119 |
| Less: Participating policyholders' comprehensive income (loss) | **9,218** | (156) |
| Non-controlling interests in comprehensive income | **94,043** | 154,698 |
| | **103,261** | 154,542 |
| **E-L Financial shareholders' comprehensive income** | **$ 428,032** | $ 871,577 |
| Comprehensive income is attributable to shareholders relating to: | | |
| Continuing operations | **$ 428,032** | $ 624,152 |
| Discontinued operations | **—** | 247,425 |
| Comprehensive income | **$ 428,032** | $ 871,577 |

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

## E-L Financial Corporation Limited and subsidiary companies
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(in thousands of Canadian dollars)**

| | E-L Financial shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital stock** | **Retained earnings** | **Total AOCI** | **Total** | **NCI** | **PAR** | **Total equity** |
| **At January 1, 2014** | **$ 372,388** | **$ 3,342,064** | **$ 38,428** | **$ 3,752,880** | **$ 759,177** | **$ 50,822** | **$ 4,562,879** |
| **Net income for the year** | **—** | **394,530** | **—** | **394,530** | **87,652** | **8,670** | **490,852** |
| **OCI** | **—** | **—** | **33,502** | **33,502** | **6,391** | **548** | **40,441** |
| **Comprehensive income** | **—** | **394,530** | **33,502** | **428,032** | **94,043** | **9,218** | **531,293** |
| **Dividends paid during the year (Note 17)** | **—** | **(17,560)** | **—** | **(17,560)** | **(16,248)** | **—** | **(33,808)** |
| **Acquisition of subsidiary shares** | **—** | **2,876** | **—** | **2,876** | **(8,258)** | **—** | **(5,382)** |
| | **—** | **(14,684)** | **—** | **(14,684)** | **(24,506)** | **—** | **(39,190)** |
| **At December 31, 2014** | **$ 372,388** | **$ 3,721,910** | **$ 71,930** | **$ 4,166,228** | **$ 828,714** | **$ 60,040** | **$ 5,054,982** |

| | E-L Financial shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital stock | Retained earnings | Total AOCI | Total | NCI | PAR | Total equity |
| At January 1, 2013 | $ 372,388 | $ 2,764,971 | $ 108,338 | $ 3,245,697 | $ 628,743 | $ 50,978 | $ 3,925,418 |
| Net income (loss) for the year | — | 907,679 | — | 907,679 | 156,036 | (3,243) | 1,060,472 |
| (OCL) OCI | — | — | (36,102) | (36,102) | (1,338) | 3,087 | (34,353) |
| Comprehensive income (loss) | — | 907,679 | (36,102) | 871,577 | 154,698 | (156) | 1,026,119 |
| Dividends paid during the year (Note 17) | — | (319,016) | — | (319,016) | (13,555) | — | (332,571) |
| Acquisition of subsidiary shares | — | 1,438 | — | 1,438 | (10,709) | — | (9,271) |
| Discontinued operations (Note 29) | — | (13,008) | (33,808) | (46,816) | — | — | (46,816) |
| | — | (330,586) | (33,808) | (364,394) | (24,264) | — | (388,658) |
| At December 31, 2013 | $ 372,388 | $ 3,342,064 | $ 38,428 | $ 3,752,880 | $ 759,177 | $ 50,822 | $ 4,562,879 |

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

**E-L Financial Corporation Limited and subsidiary companies**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands of Canadian dollars)**

| | **2014** | 2013 |
|---|---|---|
| **Net inflow (outflow) of cash related to the following activities:** | | |
| **Operating** | | |
| Net income | **$ 490,852** | $ 1,060,472 |
| Continuing operations | | |
| Items not affecting cash resources: | | |
| Change in insurance and investment contract liabilities | **746,454** | (159,439) |
| Realized gain on available for sale of investments including impairment write downs | **(28,204)** | (10,339) |
| Fair value change in fair value through profit or loss investments | **(942,271)** | (294,558) |
| Deferred taxes | **33,962** | 77,939 |
| Share of income of associates, net of dividends received (Note 6) | **(11,422)** | (53,874) |
| Amortization related to investments | **(71,714)** | (70,842) |
| Gain on the sale of The Dominion, before tax | **—** | (306,849) |
| Other items | **(13,100)** | 39,439 |
| | **204,557** | 281,949 |
| Net change in other assets and liabilities | **(18,074)** | 8,074 |
| | **186,483** | 290,023 |
| Discontinued operations | **—** | (14,330) |
| | **186,483** | 275,693 |
| **Financing** | | |
| Continuing operations | | |
| Cash dividends to shareholders | **(17,560)** | (319,016) |
| Cash dividends by subsidiaries to non-controlling interests | **(16,248)** | (13,555) |
| Issuance of subordinated debt | **—** | 298,255 |
| Debt redemption | **(200,000)** | — |
| Interest paid on subordinated debt | **(15,340)** | (17,765) |
| | **(249,148)** | (52,081) |
| **Investing** | | |
| Continuing operations | | |
| Purchases of investments | **(2,194,451)** | (3,191,053) |
| Proceeds from sale or maturity of investments | **2,335,586** | 2,066,882 |
| Net purchases of short-term investments | **(86,604)** | (101,835) |
| Net proceeds from the sale of The Dominion | **—** | 1,071,451 |
| Net sales (purchases) of other assets | **5,196** | (3,345) |
| | **59,727** | (157,900) |
| Discontinued operations | **—** | (114,490) |
| | **59,727** | (272,390) |
| **Decrease in cash and cash equivalents** | **(2,938)** | (48,778) |
| **Cash and cash equivalents, beginning of the year** | **319,749** | 368,527 |
| **Cash and cash equivalents, end of the year (Note 8)** | **$ 316,811** | $ 319,749 |

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

## 1. Business operations

E-L Financial Corporation Limited (the “Company”) is an investment and insurance holding company, publicly traded on the Toronto Stock Exchange and incorporated under the laws of Ontario.

The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

The consolidated financial statements were approved by the Company’s Board of Directors on March 5, 2015.

## 2. Significant accounting policies

### (a) Basis of preparation

The Company’s consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) as set out in Part I of the Handbook of The Chartered Professional Accountants of Canada which represent International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

As described in Note 29, on November 1, 2013, the Company completed the sale of its formerly wholly-owned subsidiary, The Dominion of Canada General Insurance Company (“The Dominion”) to The Travelers Companies, Inc. The financial performance and cash flows of The Dominion have been presented as a discontinued operation in the Company’s consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows for 2013.

These consolidated financial statements have been prepared on a fair value measurement basis, with the exception of certain assets and liabilities. Insurance contract liabilities and reinsurance assets/liabilities are measured on a discounted basis in accordance with accepted actuarial practice. Investment contract liabilities, mortgages, policy contract loans and loans on policies are carried at amortized cost. Certain other assets and liabilities are measured on a historical cost basis, as explained throughout this note.

All figures included in the consolidated financial statements are presented in thousands of Canadian dollars, rounded to the nearest thousand, except per share amounts and where otherwise stated.

### (b) Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. On an ongoing basis, management evaluates its judgments, estimates and critical assumptions in relation to assets, liabilities, revenues and expenses. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

The Company considers the following items to be particularly susceptible to changes in estimates and judgments:

#### Insurance-related 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.

Additional information is included in Notes 2(m), 16, 24 and 25.

**Pension and other employee future benefits**

Pension and other employee post-employment benefits expense is calculated by independent actuaries using assumptions determined by management. The assumptions made effect 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 Other Comprehensive Income ("OCI").

Additional information regarding pension and other employee future benefits is included in Notes 2(l) and 15.

**Provision for impaired investments**

The Company 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.

Investments in associates recognize an impairment loss if the investment in associates' recoverable amount is determined to be lower than the investment’s carrying amount at the reporting date. Recoverable amount is equal to the higher of the investment’s fair value less costs of disposal and value in use. Impairment losses are recognized in the consolidated statements of income. Previously recognized impairment losses are reversed if the investment’s recoverable amount subsequently increases and there is a significant indication that the circumstances that led to the initial recognition of the impairment loss have improved or recovered completely.

Additional information regarding impairment of financial instruments is included in Notes 2(g)iii, 4, 5, 6 and 24.

**Consolidation**

There could be judgment involved in assessing control or significant influence of certain of the Company's interests in other entities. The Company has applied judgment to assess which party has power or influence over the relevant activities of these entities. When assessing decision making power, the Company has considered voting rights, contractual agreements, relative share holdings, and other facts and circumstances. The initial assessment of control or influence is reassessed when there are changes in facts and circumstances.

Additional information regarding the principles of consolidation is included in Note 2(c).

**Fair value estimates**

In measuring the fair value of financial instruments, management exercises judgment in the selection of fair value inputs and in determining their significance to the fair value estimate. Judgment is also required in the classification of fair value measurements within the levels of the fair value hierarchy, in particularly those items categorized within Level 3 of the hierarchy.

Additional information regarding the fair value of financial instruments is included in Notes 2(g)i and 4.

**(c) Principles of consolidation**

i) Subsidiaries - Subsidiaries are all entities (including structured entities) over which the Company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquiree’s identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Company’s accounting policies.

ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii) Disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in OCI in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to profit or loss.

iv) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the income or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in OCI is reclassified to income or loss where appropriate.

The Company's share of post-acquisition income or loss is recognized in the statement of income, and its share of post-acquisition movements in OCI is recognized in OCI with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as share of income (loss) of associates in the income statement.

Income and losses resulting from upstream and downstream transactions between the Company and its associate are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognized in the income statement.

**(d) Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Internal reports about these segments are regularly reviewed by the Company's Chief Executive Officer and by the Board of Directors to assess their performance and to allocate capital and resources.

**(e) Product classification**

Products issued by Empire Life that transfer significant insurance risk have been classified as insurance contracts. Otherwise, products issued by Empire Life are classified as either investment contracts or service contracts, as appropriate. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

**(f) Discontinued operations**

A disposal group is classified as assets held for sale when the Company expects the carrying amount to be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met when the disposal group is available for sale in its present condition and the sale is highly probable and expected to occur within one year from the date of reclassification. Disposal groups classified as held for sale are measured at the lower of their previous carrying amounts, prior to being reclassified, and fair value less costs of disposal. Liabilities directly associated with the held for sale assets of a disposal group are presented separately from liabilities related to continuing operations. Discontinued operations are presented separately from our continuing operations in our consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows.

**(g) Financial instruments**

i) Fair value of financial instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset or liability quoted in an active market is generally the closing price. The investments in private companies that are not listed on a stock exchange are measured using the adjusted net asset method. This method estimates the fair values of the underlying assets and liabilities of the private companies and considers if a minority marketability discount would be appropriate. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments is considered to approximate fair value.

Fair value measurements used in these consolidated financial statements have been classified by using a fair value hierarchy based upon the transparency of the inputs used in making the measurements. The three levels of the hierarchy are:

Level 1 - Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial instruments classified as level 1 generally include cash and exchange traded common and preferred shares.

Level 2 - Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data through correlation or other means. The types of financial instruments classified as level 2 generally include government bonds, certain corporate and private bonds, and short-term investments.

Level 3 - Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect our expectations about the assumptions market participants would use in pricing the asset or liability.

ii) Cash and investments

Cash and cash equivalents and short-term investments are short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition and short-term investments comprise financial assets with maturities of greater than three months and less than one year when acquired.

The Company's financial assets are designated as fair value through profit or loss ("FVTPL"), available for sale ("AFS") or loans and receivables based on management's intentions or characteristics of the instrument. All transactions are recorded on a trade date basis. Transaction costs are expensed for FVTPL instruments and capitalized for all others when the transaction costs are directly attributable to the acquisition of the financial asset.

FVTPL instruments are carried at fair value in the consolidated statements of financial position with changes in the fair value recorded in the consolidated statements of income in the period in which they occur.

AFS common and preferred share instruments and AFS short-term investments, bonds and debentures are carried at fair value in the consolidated statements of financial position. Changes in the fair value of AFS instruments are recorded in OCI in the consolidated statements of comprehensive income until realized, or required to be written down due to impairment, at which time, these gains and losses will be reclassified to the consolidated statements of income. Loans and receivables include mortgage loans, loans on policies and policy contract loans. Loans and receivables are recorded at amortized cost, using the effective interest method, net of provisions for impairment losses, if any.

The Company designates the majority of its Investments - corporate as FVTPL. Empire Life classifies most financial assets supporting insurance contract liabilities and investment contract liabilities as FVTPL. These assets may be comprised of cash, short-term investments, bonds and debentures, common shares, preferred shares, futures, forwards and options. Most financial assets supporting capital and surplus are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures and common and preferred shares.

iii) Impairment

All investments other than FVTPL instruments are assessed for impairment at each reporting date. Impairment is recognized in the consolidated statements of income, when there is objective evidence that a loss event has occurred which has impaired the estimated future cash flows of an asset.

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through the consolidated statements of income. Impairment losses previously recorded through the consolidated statements of income are to be reversed through net income if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

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.

The accounting for an impairment that is recognized in the consolidated statements of income is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in the consolidated statements of income cannot be subsequently reversed. Any subsequent increase in value is recorded in OCI in the consolidated statements of comprehensive income.

Loans and receivables

Mortgages and loans are individually evaluated for impairment in establishing the allowance for impairment. Objective evidence of impairment exists if there is no longer reasonable assurance of full collection of loan principal or loan interest related to a mortgage or policy contract loan. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. If objective evidence of impairment is found, allowances for credit losses are established to adjust the carrying value of these assets to their net recoverable amount and the impairment loss is recorded in the consolidated statements of income to reduce the carrying value of the financial asset to its present value of estimated future cash flows. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed and the reversal is recognized in the consolidated statements of income.

iv) Derecognition

A financial asset is derecognized, when the contractual rights to cash flows expire or the Company has transferred its economic rights to the asset and substantially all risks and rewards. In instances where substantially all risks and rewards have not been transferred or retained, the assets are derecognized if the asset is not controlled through rights to sell or pledge the asset.

v) Other

Insurance receivables have been classified as loans or receivables and are carried at amortized cost. Trade accounts receivables are presented as other assets. Accounts payable and other liabilities and insurance payables are carried at amortized cost. For these financial instruments, carrying value approximates fair value due to their short-term nature.

**(h) Reinsurance**

Empire Life enters into reinsurance agreements with reinsurers in order to limit its exposure to significant losses. Empire Life has a Reinsurance Risk Management policy which requires that such arrangements be placed with well-established, highly rated reinsurers. Reinsurance is measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance treaty. Amounts due to or from reinsurers with respect to premiums received or claims paid are included in reinsurance recoverable and reinsurance liabilities in the consolidated statements of financial position. Premiums for reinsurance ceded are presented as premiums ceded to reinsurers in the consolidated statements of income. Reinsurance recoveries on claims incurred are recorded as claims and benefits ceded to reinsurers in the consolidated statements of income. The reinsurers' share of insurance contract liabilities is recorded as other assets or other liabilities in the consolidated statement of financial position at the same time as the underlying insurance contract liability to which it relates.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that not all amounts due under the terms of the contract will be received. If a reinsurance asset is determined to be impaired, it would be written down to its recoverable amount and the impairment loss would be recorded in the consolidated statements of income.

Gains or losses on buying reinsurance are recognized in the consolidated statements of income immediately at the date of purchase and are not amortized.

**(i) Property and equipment**

Property and equipment is comprised of office properties (including land, building and leasehold improvements) and furniture and equipment. All classes of assets are carried at cost less accumulated amortization, except for land, which is not subject to amortization, and any impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Amortization is calculated to write down the cost of property and equipment to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Land | No amortization |
| Building | Five percent (declining balance) |
| Furniture and equipment | Three to five years (straight-line) |
| Leasehold improvements | Remaining lease term (straight-line) |

The estimated useful lives, residual values and amortization method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Impairment losses are recognized in the consolidated statements of income.

Amortization is included in operating expenses in the consolidated statements of income.

**(j) Intangible assets**

Intangible assets include computer software, related licenses and software development costs, which are carried at cost less accumulated amortization and any impairment losses. Amortization of intangible assets is calculated using the straight-line method to allocate the costs over their estimated useful lives, which are generally between three and seven years. Amortization is included in operating expenses in the consolidated statements of income. For intangible assets under development, amortization begins when the asset is available for use. The Company does not have intangible assets with indefinite useful lives.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying value of the asset exceeds its expected recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses are recognized in the consolidated statement of income.

**(k) Income taxes**

Income tax comprises both current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in OCI or directly in equity, in which case the income tax is also recognized directly in OCI or equity, respectively.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted at the end of each reporting period.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been reflected in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and consolidated financial statement bases for assets and liabilities and for certain carry-forward items.

Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

**(l) Employee benefits**

The Company provides employee pension benefits through either a defined benefit or a defined contribution component of its pension plan. The Company discontinued new enrollments in the defined benefit component effective October 1, 2011 and introduced a defined contribution component effective January 1, 2012 for new enrollments and for any existing employees who chose to transfer from the defined benefit component. The Company also provides other post-employment benefits.

i) Pension benefits

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using current interest rates of high-quality corporate bonds.

Defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds as of prior-year end. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise, and remain in AOCI. Past-service costs are recognized immediately in income.

The defined contribution component of the Plan is a component under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

ii) Other post-employment benefits

The Company also provides other post-employment benefits to their retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise and remain in accumulated OCI. These obligations are valued annually by independent qualified actuaries and are not funded.

iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

**(m) Insurance and investment contracts**

i) Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when Empire Life agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder and the insurance contract has commercial substance. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or service contracts, as appropriate. Products issued by Empire Life that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by Empire Life are classified as either investment contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or service contracts in accordance with IAS 18 *Revenue*. Empire Life defines significant insurance risk as the possibility of paying at least 2% more than the benefits payable if the insured event did not occur. When referring to multiple contract types, Empire Life uses the terminology policy liabilities.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts, however, can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Empire Life classifies its insurance and investment contracts into three main categories: short-term insurance contracts, long-term insurance contracts and investment contracts.

(1) Insurance contracts

Empire Life's insurance contract liabilities are determined using accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA") and the requirements of OSFI. Empire Life uses the Canadian Asset Liability Method ("CALM") for valuation of insurance contracts, which satisfies the IFRS 4 Insurance Contracts requirements for eligibility for use under IFRS.

a. Short-term insurance contracts

These contracts include both annuity products and group benefits.

The annuity products classified as short-term insurance contracts are guaranteed investment options that provide for a fixed rate of return over a fixed period. Contracts include certain guarantees that are initiated upon death of the annuitant. The liabilities are determined using CALM.

The group benefits classified as short-term insurance contracts include short-term disability, health and dental benefits. Benefits are typically paid within one year of being incurred. Liabilities for unpaid claims are estimated using statistical analysis and Empire Life's experience for claims incurred but not reported.

b. Long-term insurance contracts

These contracts include insurance products, annuity products and group benefits. In all cases, liabilities represent an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses and taxes on policies in force.

The insurance products so classified are life insurance and critical illness that provide for benefit payments related to death, survival or the occurrence of a critical illness. Terms extend over a long duration. The annuity products classified as long-term insurance contracts include both annuities that provide for income payments for the life of the annuitant and guarantees associated with Empire Life's segregated fund products. The group benefits classified as long-term insurance contracts are life benefits which are payable upon death of the insured and disability benefits that provide for income replacement in case of disability.

The determination of long-term insurance contract liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes. 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 insurance contract liabilities are adequate to pay future benefits. The resulting provisions for adverse deviation have the effect of increasing insurance contract liabilities and decreasing the income that otherwise would have been recognized at policy inception. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in gross claims and benefits in the consolidated statement of operation income in the year of the change.

Annually, the Appointed Actuary determines whether insurance contract liabilities (for both short-term and long-term categories) are sufficient to cover the obligations and deferred acquisition costs that relate to policies in force at the consolidated statement of financial position date. A number of valuation methods are applied, including CALM, discounted cash flows and stochastic modeling. Aggregation levels and the level of prudence applied in assessing liability adequacy are consistent with requirements of the CIA. Any adjustment is recorded as a change in insurance contract liabilities in the consolidated statement of income.

(2) Investment contracts

These contracts include annuity products that do not involve the transfer of significant risk, either at inception or during the life of the contract. For Empire Life, products so classified are limited to term certain annuities that provide for income payments for a specified period of time.

Investment contract liabilities are recognized when contracts are entered into and deposits are received. These liabilities are initially recognized at fair value, and subsequently they are carried at amortized cost based on expected future cash flows using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the consolidated statement of income. Deposits and withdrawals are recorded in gross claims and benefits on the consolidated statement of financial position.

ii) Premiums

Gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

iii) Benefits and claims paid

Benefits are recorded as an expense when they are incurred. Annuity payments are expensed when due for payment. Health insurance claims are accounted for when there is sufficient evidence of their existence and a reasonable assessment can be made of the monetary amount involved. Benefits and claims paid include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

iv) Deferred acquisition costs

Distribution costs of segregated funds having a deferred sales charge are deferred and amortized over the term of the related deposits or the applicable period of such sales charge, as appropriate. These deferred costs form part of insurance contract liabilities on the consolidated statement of financial position. The costs deferred in the period and amortization of deferred costs form part of the change in insurance contract liabilities on the consolidated statement of income.

**(n) Segregated funds**

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by Empire Life for the benefit of these policyholders. Although the underlying assets are registered in Empire Life's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. The assets of these funds are carried at their period-end fair values. Empire Life records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. Empire Life's consolidated statements of income includes fee income earned for management of the segregated funds under investment and other income, as well as expenses related to the acquisition, investment management, administration and death benefit and maturity benefit guarantees of these funds. See Note 12 for details on segregated fund assets and changes in segregated fund assets.

Empire Life provides minimum guarantees on certain segregated fund contracts. These include minimum death, maturity and withdrawal benefit guarantees which are accounted for as insurance contracts. The actuarial liabilities associated with these minimum guarantees are recorded within insurance contract liabilities. Sensitivity of Empire Life's liability for segregated fund guarantees to market fluctuations is disclosed in Note 25.

**(o) Participating policyholders' interest**

Certain life, disability and annuity policies issued by Empire Life are defined as participating policies by contractual provisions, and are eligible for periodic dividends. Empire Life maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by the Office of the Superintendent of Financial Institutions under section

456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. The distribution of dividends is made from the earnings attributed to the performance of the participating business. Most policies are credited with dividends annually, while a few older plans receive dividends every five years as per contractual provisions. Empire Life has discretion over the amount and timing of the distribution of these earnings to policyholders. Participating policyholder dividends are expensed through the consolidated statement of income.

At the end of the reporting period, all participating policy liabilities, both guaranteed and discretionary are held within insurance contract liabilities, policyholders' funds on deposit, and provision for profits to policyholders. All participating policy reinsurance ceded at the end of the reporting period is held within reinsurance recoverable or reinsurance liabilities. Net income (loss) attributable to participating policyholders is shown on the consolidated statements of income. Comprehensive income (loss) attributable to participating policyholders is shown on the consolidated statements of comprehensive income. The participating policyholders' portion of equity is reported separately in the Company's total equity section of the consolidated statements of financial position.

**(p) Revenue recognition**

For Empire Life, gross premiums for all types of insurance contracts are recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund and investment contract products.

Other income includes fund management fees, policy administration and surrender charges, and is recognized on an accrual basis. Fee income earned for investment management and administration of the segregated and mutual funds, included in investment and other income, is generally calculated and recorded as revenue daily based on the funds' closing net asset values.

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument. Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date. Interest income and dividend income are included in investment and other income in the consolidated statements of income for all financial assets, regardless of classification.

**(q) Foreign currency translation**

The Company uses the Canadian dollar as both its functional and presentational currency.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income.

Translation differences on FVTPL non-monetary items are reported as part of the fair value gain or loss. Translation differences on AFS non-monetary financial assets are recognized in OCI in the consolidated statements of comprehensive income. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in OCI is recognized in the consolidated statements of income.

**(r) Earnings per share ("EPS")**

Basic EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on First Preferred shares, divided by the weighted average number of adjusted common shares outstanding for the period. "Adjusted Common Shares" is determined based on the total common shares and Series A Preference shares less the Company's proportionate interest in its own common shares held indirectly through investments in associates.

Diluted EPS is determined as net income (loss) attributed to common shareholders of the Company less dividends on First Preferred shares, divided by the weighted average number of diluted adjusted common shares outstanding for the period. Diluted adjusted common shares reflect the potential dilutive effect of converting the First Preference shares into common shares.

**(s) Comprehensive income**

Comprehensive income consists of net income and OCI. OCI includes items that may be reclassified subsequently to net income: unrealized gains or losses on AFS financial assets, net of amounts reclassified to net income (loss), the amortization of the loss on derivative investments designated as cash flow hedges and the Company's share of OCI of its associates. OCI also includes items that will not be reclassified to net income: remeasurements of post-employment benefit liabilities. All OCI amounts are net of taxes.

**(t) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in the consolidated statements of income. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**(u) Leases**

The Company leases certain property and equipment. The Company does not have substantially all of the risks and rewards of ownership and these leases are therefore classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

**(v) Subordinated debt**

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as interest expense in the consolidated statements of income.

**(w) Future accounting changes**

*New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statement. None of these standards are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling.There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has yet to assess IFRS 9's full impact.

(all dollar figures expressed in thousands of dollars, except per share amounts)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations issued that are not yet effective that would be expected to have a significant impact on the Company.

### 3. Operating segments

In managing its investments, the Company distinguishes between E-L Corporate and its investment in Empire Life. The Company's E-L Corporate segment includes United, the Company's closed-end investment subsidiary, investments in associates and investments - corporate. Empire Life underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products.

The following is an analysis of significant items of profit and loss by operating segment, operating segment assets and operating segment liabilities, reconciled to the Company's consolidated financial statements. The accounting policies applied by the operating segments are the same as those for the Company as a whole.

| Year ended December 31, 2014 | E-L Corporate | Empire Life | Total |
|---|---|---|---|
| Net premiums | $ — | $ 867,493 | $ 867,493 |
| Investment and other income | 94,353 | 433,397 | 527,750 |
| Share of income of associates | 25,519 | — | 25,519 |
| Fair value change in fair value through profit or loss investments | 329,766 | 612,505 | 942,271 |
| Realized gain on available for sale investments including impairment write downs | 15,583 | 12,621 | 28,204 |
| Net claims and benefits | — | (1,413,408) | (1,413,408) |
| Change in investment contracts provision | — | (2,282) | (2,282) |
| Commissions | — | (193,141) | (193,141) |
| Operating expenses | (20,980) | (151,069) | (172,049) |
| Interest expense | — | (14,180) | (14,180) |
| Premium taxes | — | (14,259) | (14,259) |
| Income taxes | (60,765) | (30,301) | (91,066) |
| Non-controlling interests in subsidiaries and participating policyholders' interest | (68,404) | (27,918) | (96,322) |
| Segment shareholders' net income | $ 315,072 | $ 79,458 | $ 394,530 |

| Year ended December 31, 2014 | E-L Corporate | Empire Life | Total |
|---|---|---|---|
| Segment assets [(1)] | $ 4,184,044 | $ 13,727,203 | $ 17,911,247 |
| Segment liabilities | $ 191,341 | $ 12,664,924 | $ 12,856,265 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

(1) Segment assets for E-L Corporate include investments in associate assets of $301,228.

| Year ended December 31, 2013 | E-L Corporate | Empire Life | Total |
|---|---|---|---|
| Net premiums | $ — | $ 821,544 | $ 821,544 |
| Investment and other income | 68,529 | 390,748 | 459,277 |
| Share of income of associates | 59,178 | — | 59,178 |
| Fair value change in fair value through profit or loss investments | 598,150 | (303,592) | 294,558 |
| Realized gain (loss) on available for sale investments including impairment write downs | 12,827 | (2,488) | 10,339 |
| Net claims and benefits | — | (421,251) | (421,251) |
| Change in investment contracts provision | — | (945) | (945) |
| Commissions | — | (168,257) | (168,257) |
| Operating expenses | (14,244) | (143,350) | (157,594) |
| Interest expense | — | (18,977) | (18,977) |
| Premium taxes | — | (14,011) | (14,011) |
| Income taxes | (85,130) | (29,385) | (114,515) |
| Non-controlling interests in subsidiaries and participating policyholders' interest | (132,976) | (19,817) | (152,793) |
| Net income from continuing operations | 506,334 | 90,219 | 596,553 |
| Net income from discontinued operations | — | — | 311,126 |
| Segment shareholders' net income | $ 506,334 | $ 90,219 | $ 907,679 |

| Year ended December 31, 2013 | E-L Corporate | Empire Life | Total |
|---|---|---|---|
| Segment assets (1) | $ 3,805,082 | $ 12,080,410 | $ 15,885,492 |
| Segment liabilities | $ 198,301 | $ 11,124,312 | $ 11,322,613 |

(1) Segment assets for E-L Corporate include investments in associate assets of $288,884.

## 4. Investments – corporate

Invested assets

Investments – corporate includes the investments held at the corporate level of E-L Financial. The following table provides a comparison of carrying values by class of asset as at December 31:

| **Carrying value** | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Asset category | Fair value through profit or loss | Available for sale | Total carrying value | Fair value through profit or loss | Available for sale | Total carrying value |
| Short-term investments | | | | | | |
| Canadian federal government | $ 39,748 | $ — | $ 39,748 | $ 19,857 | $ — | $ 19,857 |
| Canadian provincial governments | 31,736 | — | 31,736 | 60,775 | — | 60,775 |
| Canadian corporate | 140,029 | — | 140,029 | 45,721 | — | 45,721 |
| Total short-term investments | 211,513 | — | 211,513 | 126,353 | — | 126,353 |
| Preferred shares - Canadian | 1,058 | — | 1,058 | 1,058 | — | 1,058 |
| Common shares and units | | | | | | |
| Canadian | 627,085 | — | 627,085 | 637,777 | — | 637,777 |
| U.S. | 1,562,825 | 77,633 | 1,640,458 | 1,354,997 | 98,045 | 1,453,042 |
| Europe | 735,622 | 61,559 | 797,181 | 668,166 | 59,174 | 727,340 |
| Other | 496,368 | 16,840 | 513,208 | 419,535 | 16,312 | 435,847 |
| Total common shares and units | 3,421,900 | 156,032 | 3,577,932 | 3,080,475 | 173,531 | 3,254,006 |
| Total | $ 3,634,471 | $ 156,032 | $ 3,790,503 | $ 3,207,886 | $ 173,531 | $ 3,381,417 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

The Company's investment in common shares and units includes shares of public and private companies and units in pooled funds.

Investments – measured at fair value

The table below provides a comparison of the fair values by class of asset as at December 31:

| **Fair value** | 2014 | | | |
|---|---|---|---|---|
| Asset category | Quoted Prices (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| Short-term investments | | | | |
| Canadian federal government | $ — | $ 39,748 | $ — | $ 39,748 |
| Canadian provincial governments | — | 31,736 | — | 31,736 |
| Canadian corporate | — | 140,029 | — | 140,029 |
| Total short-term investments | — | 211,513 | — | 211,513 |
| Preferred shares - Canadian | — | — | 1,058 | 1,058 |
| Common shares and units | | | | |
| Canadian | 5,384 | 47,357 | 574,344 | 627,085 |
| U.S. | 1,442,059 | 85,118 | 113,281 | 1,640,458 |
| Europe | 698,089 | 40,204 | 58,888 | 797,181 |
| Other | 285,022 | 202,349 | 25,837 | 513,208 |
| Total common shares and units | 2,430,554 | 375,028 | 772,350 | 3,577,932 |
| Total | $ 2,430,554 | $ 586,541 | $ 773,408 | $ 3,790,503 |

| **Fair value** | 2013 | | | |
|---|---|---|---|---|
| Asset category | Quoted Prices (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| Short-term investments | | | | |
| Canadian federal government | $ — | $ 19,857 | $ — | $ 19,857 |
| Canadian provincial governments | — | 60,775 | — | 60,775 |
| Canadian corporate | — | 45,721 | — | 45,721 |
| Total short-term investments | — | 126,353 | — | 126,353 |
| Preferred shares - Canadian | — | — | 1,058 | 1,058 |
| Common shares and units | | | | |
| Canadian | 1,170 | 53,030 | 583,577 | 637,777 |
| U.S. | 1,251,461 | 99,377 | 102,204 | 1,453,042 |
| Europe | 635,259 | 37,437 | 54,644 | 727,340 |
| Other | 240,476 | 173,806 | 21,565 | 435,847 |
| Total common shares and units | 2,128,366 | 363,650 | 761,990 | 3,254,006 |
| Total | $ 2,128,366 | $ 490,003 | $ 763,048 | $ 3,381,417 |

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2014 and 2013 there were no transfers of financial instruments between Level 1, Level 2 or Level 3.

Included in Level 2 are the Company's investments in pooled funds which at December 31, 2014 had a carrying value of 375,028 (December 31, 2013 - $363,650). The Company invests in pooled funds whose objectives range from achieving medium to long-term capital growth and whose investment strategies do not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives. The Company's investments are susceptible to market price risk arising from the underlying investments in the funds. The Company holds redeemable units in each of its investee funds that entitle the holder to a proportional share in the respective fund's net assets. The Company has the right to redeem its investments in pooled funds within a 30 to 90 day period depending on the fund.

Included in Level 3 are investments in common and preferred shares in private companies. The Company utilizes the adjusted net asset method to derive the fair value of investments in private companies by reference to the fair value of its assets and liabilities, along with assessing a minority marketability discount, if any. The minority marketability discount is an unobservable input for fair value measurement. The adjusted net asset method has been determined most appropriate for an investment whose value is mainly derived from the holding of assets. The underlying assets and liabilities of the private companies primarily include listed investments and deferred tax liabilities. The Company identified a range of possible values which market participants could apply to the private companies. This analysis resulted in a range of plus or minus 10% of the fair value of the underlying net assets. Taking this into account, the Company applied no minority marketability discount or premium to the fair value estimate of the private companies. If the minority marketability discount was 10%, compared to a premium of 10%, with all other variables remaining constant, net assets would have decreased or increased by approximately $67,093 (2013 - $66,195).

The fair value change in FVTPL investments for Level 3 investments was $10,360 (2013 - $187,712) for the year. There were no purchases, sales, issues or settlements of Level 3 investments during 2014 and 2013.

**Impairment**

Based on the impairment review as at December 31, 2014, an impairment loss on AFS investments of $523 (2013 - $nil) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

For analysis of the Company's risks arising from financial instruments, refer to Note 24 – Investment risk management.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 5. Investments – Empire Life

### Invested assets

The following table provide a comparison of carrying values by class of asset held by Empire Life as at December 31:

| Carrying Value | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Asset category | Fair value through profit or loss | Available for sale | Total carrying value | Fair value through profit or loss | Available for sale | Total carrying value |
| Short-term investments | | | | | | |
| Canadian federal government | $ 3,310 | $ 4,961 | $ 8,271 | $ 7,325 | $ — | $ 7,325 |
| Canadian provincial government | 1,782 | — | 1,782 | — | — | — |
| Canadian corporate | 16,839 | — | 16,839 | 18,123 | — | 18,123 |
| Total short-term investments | 21,931 | 4,961 | 26,892 | 25,448 | — | 25,448 |
| Bonds | | | | | | |
| Bonds issued or guaranteed by: | | | | | | |
| Canadian federal government | 72,626 | 165,921 | 238,547 | 59,870 | 197,160 | 257,030 |
| Canadian provincial and municipal governments | 2,479,365 | 284,502 | 2,763,867 | 2,034,681 | 252,445 | 2,287,126 |
| Total government bonds issued or guaranteed | 2,551,991 | 450,423 | 3,002,414 | 2,094,551 | 449,605 | 2,544,156 |
| Canadian corporate bonds by industry sector: | | | | | | |
| Financial services | 545,554 | 437,673 | 983,227 | 495,906 | 472,359 | 968,265 |
| Infrastructure | 241,371 | 20,079 | 261,450 | 219,882 | 24,241 | 244,123 |
| Utilities | 246,080 | 30,881 | 276,961 | 224,452 | 34,962 | 259,414 |
| Communications | 1,608 | 28,007 | 29,615 | 2,194 | 37,014 | 39,208 |
| Energy | 52,759 | 60,643 | 113,402 | 49,294 | 35,535 | 84,829 |
| Consumer staples | 78,546 | 68,319 | 146,865 | 67,223 | 9,903 | 77,126 |
| Industrials | 47,240 | 1,564 | 48,804 | 40,343 | 6,469 | 46,812 |
| Health care | 70,683 | 14,050 | 84,733 | 54,621 | 5,246 | 59,867 |
| Materials | 10,615 | — | 10,615 | 9,712 | — | 9,712 |
| Total Canadian corporate bonds | 1,294,456 | 661,216 | 1,955,672 | 1,163,627 | 625,729 | 1,789,356 |
| Total bonds | 3,846,447 | 1,111,639 | 4,958,086 | 3,258,178 | 1,075,334 | 4,333,512 |
| Preferred shares - Canadian | 186,856 | 9,323 | 196,179 | 224,313 | 69,905 | 294,218 |
| Total preferred shares | 186,856 | 9,323 | 196,179 | 224,313 | 69,905 | 294,218 |
| Common shares | | | | | | |
| Canadian | | | | | | |
| Common | 526,613 | 61,481 | 588,094 | 476,742 | 65,778 | 542,520 |
| Real estate limited partnership units | 47,512 | — | 47,512 | 41,081 | — | 41,081 |
| U.S. | 139,988 | — | 139,988 | 116,699 | — | 116,699 |
| Other | 13,921 | — | 13,921 | 15,090 | — | 15,090 |
| Total common shares | 728,034 | 61,481 | 789,515 | 649,612 | 65,778 | 715,390 |
| Loans and receivables: | | | | | | |
| Mortgages | — | — | 323,117 | — | — | 299,353 |
| Loans on policies | — | — | 46,434 | — | — | 44,855 |
| Policy contract loans | — | — | 86,698 | — | — | 90,275 |
| Total | $ 4,783,268 | $ 1,187,404 | $ 6,426,921 | $ 4,157,551 | $ 1,211,017 | $ 5,803,051 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

Investments – measured at fair value

The table below provides a comparison of the fair values by class of asset as at December 31:

| **Fair value** | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Asset category | Quoted Prices (Level 1) | Significant other observable inputs (Level 2) | Total fair value | Quoted Prices (Level 1) | Significant other observable inputs (Level 2) | Total fair value |
| Short-term investments | | | | | | |
| Canadian federal government | $ — | $ 8,271 | $ 8,271 | $ — | $ 7,325 | $ 7,325 |
| Canadian provincial government | — | 1,782 | 1,782 | — | — | — |
| Canadian corporate | — | 16,839 | 16,839 | — | 18,123 | 18,123 |
| Total short-term investments | — | 26,892 | 26,892 | — | 25,448 | 25,448 |
| Bonds | | | | | | |
| Bonds issued or guaranteed by: | | | | | | |
| Canadian federal government | — | 238,547 | 238,547 | — | 257,030 | 257,030 |
| Canadian provincial and municipal governments | — | 2,763,867 | 2,763,867 | — | 2,287,126 | 2,287,126 |
| Total government bonds issued or guaranteed | — | 3,002,414 | 3,002,414 | — | 2,544,156 | 2,544,156 |
| Canadian corporate bonds by industry sector: | | | | | | |
| Financial services | — | 983,227 | 983,227 | — | 968,265 | 968,265 |
| Infrastructure | — | 261,450 | 261,450 | — | 244,123 | 244,123 |
| Utilities | — | 276,961 | 276,961 | — | 259,414 | 259,414 |
| Communications | — | 29,615 | 29,615 | — | 39,208 | 39,208 |
| Energy | — | 113,402 | 113,402 | — | 84,829 | 84,829 |
| Consumer staples | — | 146,865 | 146,865 | — | 77,126 | 77,126 |
| Industrials | — | 48,804 | 48,804 | — | 46,812 | 46,812 |
| Health care | — | 84,733 | 84,733 | — | 59,867 | 59,867 |
| Materials | — | 10,615 | 10,615 | — | 9,712 | 9,712 |
| Total Canadian corporate bonds | — | 1,955,672 | 1,955,672 | — | 1,789,356 | 1,789,356 |
| Total bonds | — | 4,958,086 | 4,958,086 | — | 4,333,512 | 4,333,512 |
| Preferred shares - Canadian | 196,179 | — | 196,179 | 294,218 | — | 294,218 |
| Total preferred shares | 196,179 | — | 196,179 | 294,218 | — | 294,218 |
| Common shares | | | | | | |
| Canadian | | | | | | |
| Common | 588,094 | — | 588,094 | 542,520 | — | 542,520 |
| Real estate limited partnership units | — | 47,512 | 47,512 | — | 41,081 | 41,081 |
| U.S. | 139,988 | — | 139,988 | 116,699 | — | 116,699 |
| Other | 13,921 | — | 13,921 | 15,090 | — | 15,090 |
| Total common shares | 742,003 | 47,512 | 789,515 | 674,309 | 41,081 | 715,390 |
| Loans and receivables: | | | | | | |
| Mortgages | — | 338,160 | 338,160 | — | 304,134 | 304,134 |
| Loans on policies | — | 46,434 | 46,434 | — | 44,855 | 44,855 |
| Policy contract loans | — | 86,698 | 86,698 | — | 90,275 | 90,275 |
| Total | $ 938,182 | $ 5,503,782 | $ 6,441,964 | $ 968,527 | $ 4,839,305 | $ 5,807,832 |

The fair value of these financial instruments is the same as the carrying value, except for mortgages.

The fair value of mortgages has been calculated by discounting cash flows of each mortgage at a discount rate appropriate to its remaining term to maturity. The discount rates are determined based on regular competitive rate surveys.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The fair values of loans on policies and policy contract loans approximates their carrying values, due to the life insurance contracts that secure them.

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

**Impairment**

AFS investments

Based on the impairment review as at December 31, 2014, a year to date impairment loss on AFS investments of $221 before tax (2013 - $409) has been recorded in net income. Impairment was assessed on these investments due to a number of factors, including the severity of the unrealized loss compared to the cost and the amount of time the investment had an unrealized loss.

Loans and receivables

Assets classified as mortgages and policy contract loans have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $6,303 (2013 - $7,076) have been reduced by an allowance for impairment of $2,295 (2013 - $2,374) and policy contract loans with a recorded value of $813 (2013 - $813) have been reduced by an allowance for impairment of $541 (2013 - $556).

For analysis of the risks arising from financial instruments, refer to Note 24 – Investment risk management.

## 6. Investments in associates

The Company has the following investments in associates, all of which are held within the E-L Corporate segment:

Algoma Central Corporation (“Algoma”) is incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol “ALC”. Algoma owns and operates the largest Canadian flag fleet of dry and liquid bulk carriers operating on the Great Lakes - St. Lawrence Waterway.

Economic Investment Trust Limited (“Economic”) is a closed-end investment corporation incorporated in Canada and is listed on the Toronto Stock Exchange under the symbol “EVT”. Economic is an investment vehicle for long-term growth through investments in common equities.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Ownership | Carrying value | Fair value | Ownership | Carrying value | Fair value |
| Algoma | 34.7% | $ 182,695 | $ 221,475 | 34.7% | $ 168,747 | $ 224,177 |
| Economic | 24.0% | 118,533 | 120,998 | 24.0% | 120,137 | 127,064 |
| Total | | $ 301,228 | $ 342,473 | | $ 288,884 | $ 351,241 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following table details the movement during the year:

| | 2014 | 2013 |
|---|---|---|
| Balance, beginning of the year | $ 288,884 | $ 230,994 |
| Income recorded in the statements of income and comprehensive income: | | |
| Share of income | 25,519 | 45,317 |
| Net impairment reversals | — | 13,861 |
| | 25,519 | 59,178 |
| Share of other comprehensive income | 920 | 4,016 |
| | 26,439 | 63,194 |
| Dividends received during the year | (14,095) | (5,304) |
| Balance, end of the year | $ 301,228 | $ 288,884 |

The Company's associates are measured using the equity method. As at December 31, 2014, the fair value of the investments in associates was $342,473 (2013 - $351,241). Fair value is based on the close price for each investment multiplied by the corresponding number of common shares held.

Impairment

The Company has a significant investment in Economic which it regards as an associate and accounts for using the equity method. Economic has historically traded at significant discounts to its net asset values. The Company is required to test the values of its associates for impairment by comparing their carrying values to their recoverable amount which is the higher of their fair value less costs of disposal and their values in use. In performing its impairment assessments, the Company regards the fair value less costs of disposal as the most objective evidence of the net recoverable amounts of Economic, since the Company cannot unilaterally control the timing of realization of any benefit related to the difference between the traded price of Economic and their net asset values.

Based on an impairment review of all of the investments in associates as at December 31, 2014, there was no impairment or impairment reversal on Economic (2013 – an impairment reversal of $13,861) recorded in net income. The recoverable amount for Economic is the investment's fair value less costs of disposal based on the fair value calculation noted above.

Summarized below are the assets, liabilities, revenue, net income and comprehensive income of the Company's associates.

| | Algoma | | Economic | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Cash and cash equivalents | $ 256,896 | $ 216,057 | $ 8,786 | $ 49,693 |
| Other current assets | 84,854 | 87,147 | 736,033 | 704,444 |
| Non-current assets | 632,305 | 629,150 | — | — |
| | 974,055 | 932,354 | 744,819 | 754,137 |
| Current liabilities | 66,733 | 68,808 | 504 | 465 |
| Non-current liabilities | 300,223 | 302,460 | 56,821 | 53,474 |
| | 366,956 | 371,268 | 57,325 | 53,939 |
| Net assets | $ 607,099 | $ 561,086 | $ 687,494 | $ 700,198 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

| | Algoma | | Economic | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | $ 503,683 | $ 491,499 | $ 36,815 | $ 262,694 |
| Net income | $ 52,765 | $ 41,923 | $ 30,255 | $ 229,778 |
| Other comprehensive income | 3,145 | 31,266 | — | — |
| Total comprehensive income | $ 55,910 | $ 73,189 | $ 30,255 | $ 229,778 |

The Company received the following dividends during the year from the associates:

| | Algoma | | Economic | | Total | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Dividends received | $ 3,781 | $ 3,781 | $ 10,314 | $ 1,523 | $ 14,095 | $ 5,304 |

At December 31, 2014 Algoma has commitments of $137,972 (2013 - $165,995) (Economic - $nil) mainly relating to the purchase of five new vessels and its employee future benefit plans.

## 7. Investment and other income

Investment and other income from continuing operations is comprised of the following:

| | 2014 | 2013 |
|---|---|---|
| Interest income on: | | |
| Available for sale | $ 41,868 | $ 39,751 |
| Fair value through profit or loss investments | 154,667 | 147,733 |
| Loans and receivables | 23,470 | 23,469 |
| Fee income | 187,516 | 150,589 |
| Dividend income | 115,548 | 97,412 |
| Other | 4,681 | 323 |
| Total | $ 527,750 | $ 459,277 |

| | 2014 | 2013 |
|---|---|---|
| Interest income received | $ 152,024 | $ 142,982 |
| Dividend income received | 107,543 | 93,148 |
| Total | $ 259,567 | $ 236,130 |

## 8. Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid instruments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition. Cash and cash equivalents are measured at fair value under Level 1 or Level 2 of the fair value hierarchy. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

| | 2014 | 2013 |
|---|---|---|
| Cash | $ 65,745 | $ 66,076 |
| Cash equivalents | 251,066 | 253,673 |
| Total | $ 316,811 | 319,749 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following table presents the cash and cash equivalents classified by the fair value hierarchy:

| Cash and cash equivalents | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| December 31, 2014 | $ 65,745 | $ 251,066 | $ — | $ 316,811 |
| December 31, 2013 | $ 66,076 | $ 253,673 | $ — | $ 319,749 |

## 9. Property and equipment

Property and equipment are comprised of:

| **Cost** | Office Properties | Furniture and equipment | Computer hardware | Total |
|---|---|---|---|---|
| As at January 1, 2014 | $ 41,779 | $ 21,862 | $ — | $ 63,641 |
| Additions | 2 | 3,045 | — | 3,047 |
| As at December 31, 2014 | 41,781 | 24,907 | — | 66,688 |
| **Accumulated amortization** | | | | |
| As at January 1, 2014 | (18,933) | (14,935) | — | (33,868) |
| Amortization | (2,904) | (2,385) | — | (5,289) |
| As at December 31, 2014 | (21,837) | (17,320) | — | (39,157) |
| **Net book value as at December 31, 2014** | $ 19,944 | $ 7,587 | $ — | $ 27,531 |

| **Cost** | Office Properties | Furniture and equipment | Computer hardware | Total |
|---|---|---|---|---|
| As at January 1, 2013 | 47,535 | 25,915 | 2,746 | 76,196 |
| Sale of discontinued operations | (3,830) | (6,875) | (2,746) | (13,451) |
| | 43,705 | 19,040 | — | 62,745 |
| Additions | 1,854 | 2,822 | — | 4,676 |
| Disposals | (3,780) | — | — | (3,780) |
| As at December 31, 2013 | 41,779 | 21,862 | — | 63,641 |
| **Accumulated amortization** | | | | |
| As at January 1, 2013 | (18,108) | (17,498) | (1,991) | (37,597) |
| Sale of discontinued operations | 1,637 | 5,113 | 1,991 | 8,741 |
| | (16,471) | (12,385) | — | (28,856) |
| Amortization | (2,462) | (2,550) | — | (5,012) |
| As at December 31, 2013 | (18,933) | (14,935) | — | (33,868) |
| **Net book value as at December 31, 2013** | $ 22,846 | $ 6,927 | $ — | $ 29,773 |

Office properties consist of land, building and leasehold improvements on leased or Corporate owned office space.

There were no asset impairments in 2014 or 2013.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 10. Intangible assets

Intangibles are comprised of software and intangibles under development, as follows:

| | 2014 | 2013 | | |
|---|---|---|---|---|
| | Software | Software | Intangibles under development | Total |
| **Cost** | | | | |
| As at January 1 | $ 42,851 | $ 140,305 | $ 18,708 | $ 159,013 |
| Sale of discontinued operations | — | (100,366) | (18,708) | (119,074) |
| | 42,851 | 39,939 | — | 39,939 |
| Additions - purchased | 1,486 | 2,912 | — | 2,912 |
| As at December 31 | 44,337 | 42,851 | — | 42,851 |
| **Accumulated amortization** | | | | |
| As at January 1 | (38,534) | (78,087) | — | (78,087) |
| Sale of discontinued operations | — | 40,219 | — | 40,219 |
| | (38,534) | (37,868) | — | (37,868) |
| Amortization | (971) | (666) | — | (666) |
| As at December 31 | (39,505) | (38,534) | — | (38,534) |
| **Net book value as at December 31** | $ 4,832 | $ 4,317 | $ — | $ 4,317 |

Software is mainly comprised of software development costs related to assets that have been put in use. Intangibles under development are comprised of software development costs related to assets that have not yet been put in use.

There were no asset impairments in 2014 or 2013.

## 11. Other assets

Other assets are comprised of the following:

| | 2014 | 2013 |
|---|---|---|
| Due from reinsurance companies | $ 16,530 | $ 20,165 |
| Other | 23,417 | 31,940 |
| Total | $ 39,947 | $ 52,105 |

All amounts are expected to be recovered within one year of the consolidated statement of financial position date. These financial instruments are short-term in nature and their fair values approximate carrying value.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 12. Segregated funds

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

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 162,646 | $ 81,079 |
| Short-term investments | 152,395 | 171,903 |
| Bonds | 1,567,578 | 1,347,287 |
| Common and preferred shares | 5,067,181 | 4,414,766 |
| Net other assets | 24,977 | 27,885 |
| | 6,974,777 | 6,042,920 |
| Less segregated funds held within general fund investments | (26,302) | (88,412) |
| Total | $ 6,948,475 | $ 5,954,508 |

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

| 2014 | Level 1 | Level 2 | Fair value |
|---|---|---|---|
| Cash and cash equivalents | $ 26,829 | $ 135,817 | $ 162,646 |
| Common and preferred shares | 5,067,181 | — | 5,067,181 |
| Bonds | — | 1,567,578 | 1,567,578 |
| Short-term investments | — | 152,395 | 152,395 |
| Total | $ 5,094,010 | $ 1,855,790 | $ 6,949,800 |

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

There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2014 or during the year ended December 31, 2013.

(all dollar figures expressed in thousands of dollars, except per share amounts)

c) The following table presents the change in segregated funds:

| | 2014 | 2013 |
|---|---|---|
| Segregated funds - beginning of the year | $ 5,954,508 | $ 5,014,392 |
| Additions to segregated funds: | | |
| Amount received from policyholders | 1,650,775 | 1,410,240 |
| Interest | 57,360 | 52,730 |
| Dividends | 123,868 | 111,164 |
| Other income | 29,743 | 23,971 |
| Net realized gains on sale of investments | 481,448 | 273,734 |
| Net unrealized increase in fair value of investments | 34,206 | 438,167 |
| | 2,377,400 | 2,310,006 |
| Deductions from segregated funds: | | |
| Amounts withdrawn or transferred by policyholders | 1,242,284 | 1,184,549 |
| Management fees and other operating costs | 203,259 | 168,058 |
| | 1,445,543 | 1,352,607 |
| Net change in segregated funds held within general fund investments | 62,110 | (17,283) |
| Segregated funds - end of the year | $ 6,948,475 | $ 5,954,508 |

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

Segregated fund products issued by Empire Life contain death and maturity guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees. The impact of market price fluctuations in segregated funds on the shareholders' net income is disclosed in the investment risk management Note 24.

### 13. Other liabilities

Other liabilities are comprised of the following:

| | 2014 | 2013 |
|---|---|---|
| Employee benefit liabilities (Note 15) | $ 18,239 | $ 18,836 |
| Due to reinsurance companies | 10,804 | 8,630 |
| Premiums paid in advance | 2,456 | 2,579 |
| Other | 39,706 | 36,326 |
| Total | $ 71,205 | 66,371 |

Of the above total, $18,239 (2013 - $18,836) is expected to be settled more than one year after the statement of financial position date. All other amounts are short-term in nature and their fair value approximates carrying value. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value.

### 14. Subordinated debt

On May 31, 2013, Empire Life issued $300,000 principal amount of unsecured subordinated debentures with a maturity date of May 31, 2023. The interest rate from May 31, 2013 until May 31, 2018 is 2.87%, and the rate from May 31, 2018 until May 31, 2023 will be equal to the 3-month Canadian Deposit Offering Rate plus 1.05%. Interest is payable semi-annually at May 31 and November 30 until May 31, 2018, quarterly thereafter with the first such payment on August 31, 2018. Empire Life may call for redemption of the debentures on or after May 31, 2018 subject to the approval of OSFI. The holders have no right of redemption.

On May 20, 2009, Empire Life issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of May 20, 2019. The interest rate from May 20, 2009 until May 20, 2014 was 6.73%, and the rate from May 20, 2014 until May 20, 2019 was equal to the 3-month Canadian Deposit Offering Rate plus 5.75%. Interest is payable semi-annually at May 20 and November 20 until May 20, 2014, quarterly thereafter with the first such payment on August 20, 2014. Empire Life redeemed these debentures on May 20, 2014 at par.

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

The fair value of the debentures is $305,199 as of December 31, 2014 (2013 - $500,609), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

## 15. Employee benefit plans

Empire Life sponsors pension and other post-employment benefit plans for eligible employees. The Empire Life Insurance Company Staff Pension Plan (“the Plan”) consists of a defined benefit component and a defined contribution component. Empire Life discontinued enrollments in the defined benefit component effective October 1, 2011. Empire Life has supplemental arrangements that provide defined pension benefits in excess of statutory limits. In addition to pension benefits, Empire Life also provides for post-employment health and dental care coverage and other future benefits to qualifying employees and retirees.

The defined benefit component of the Plan is a final average salary pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members’ age, length of service and their salary in the final years leading up to retirement. Pensions generally do not receive inflationary increases once in payment. In the past, however, Empire Life has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of Empire Life’s Board of Directors. The pension benefit payments are from trustee-administered funds.

Empire Life’s staff pension benefit plan is governed by the Pension Benefits Act of the Province of Ontario, as amended, which requires that the plan sponsor fund the defined benefits determined under the plan. Empire Life’s supplemental employee retirement benefit plan is governed by provisions of the plan, which requires that the plan sponsor fund the defined benefits determined under the plan. The amount of funds contributed to these defined benefit pension plans by Empire Life is determined by an actuarial valuation of the plans.

Under the defined contribution component, contributions are made in accordance with the provisions of the Plan documents.

A pension committee, composed of selected senior members of Empire Life's management and the Company, oversees the Pension Plan of the Company. The Pension Committee reports quarterly to the Human Resources Committee of Empire Life's Board of Directors. The Audit Committee of the Board of Directors approves the audited annual financial statements of the Pension Plan.

The other post-employment benefit plan provides for health, dental care, and other future defined benefits to qualifying employees and retirees. It is unfunded and the Company meets the benefit payment obligation as it falls due.

In the absence of an active market for post-employment benefit obligations, the actuarially determined values provide a reasonable approximation of their fair value. Plan assets are carried at fair value.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following tables present financial information for Empire Life's defined benefit plans.

| | Pension Benefit Plans | | Other Post-Employment Benefits Plans | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Present value of obligations | $ (202,231) | $ (185,725) | $ (10,619) | $ (10,101) |
| Fair value of plan assets | 194,611 | 176,990 | — | — |
| Post-employment benefit liability | $ (7,620) | $ (8,735) | $ (10,619) | $ (10,101) |

The post-employment benefit liability, net of the cumulative impact of the asset ceiling, is included in the consolidated statement of financial position in other liabilities.

The movement in the present value of the Plans' defined benefit obligations over the year is as follows:

| | Pension Benefit Plans | | Other Post-Employment Benefits Plans | |
|---|---|---|---|---|
| Present Value of Defined Benefit Obligation | 2014 | 2013 | 2014 | 2013 |
| Opening defined benefit obligation | $ 185,725 | $ 201,447 | $ 10,101 | $ 34,645 |
| Current service cost | 6,252 | 7,758 | 47 | 458 |
| Past service cost | 236 | 286 | — | — |
| Interest expense | 8,702 | 8,175 | 472 | 1,227 |
| Decrease in net income before tax | 15,190 | 16,219 | 519 | 1,685 |
| Remeasurements | | | | |
| (Gain) loss from changes in demographic assumptions | (2,523) | 7,423 | (504) | 1,146 |
| Loss (gain) from changes in financial assumptions | 21,743 | (18,523) | 1,009 | (6,039) |
| Actuarial (gain) loss from member experience | (11,052) | 3,495 | (186) | 469 |
| Decrease (increase) in OCI before tax | 8,168 | (7,605) | 319 | (4,424) |
| Plan transfers / curtailments | — | (15,443) | — | (20,889) |
| Employee contributions | 2,006 | 2,132 | — | — |
| Benefits paid | (8,858) | (11,025) | (320) | (916) |
| Closing defined benefit obligation | $ 202,231 | $ 185,725 | $ 10,619 | $ 10,101 |

The movement in the fair value of the Plan's assets over the year is as follows:

| | Pension Benefit Plans | |
|---|---|---|
| Fair Value of Defined Benefit Assets | 2014 | 2013 |
| Fair value at beginning of year | $ 176,990 | $ 175,647 |
| Interest income | 8,453 | 7,161 |
| Administrative expense | (649) | (649) |
| Increase in net income before tax | 7,804 | 6,512 |
| Remeasurements | | |
| Return on plan assets, excluding amounts included in interest income | 12,651 | 17,356 |
| Plan transfers \ curtailments | — | (21,382) |
| Employer contributions | 4,018 | 7,750 |
| Employee contributions | 2,006 | 2,132 |
| Benefits paid | (8,858) | (11,025) |
| Fair value of Plan assets at end of year | $ 194,611 | $ 176,990 |

The actual return on plan assets net of administrative expense, for the year ended December 31, 2014 was a gain of $20,455 (2013 - $23,868).

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following table summarizes income, expense and remeasurement activity for the Company's defined benefit plans for the years ended:

| | Pension Benefit Plans | | Other Post-Employment Benefits Plans | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Operating expense | | | | |
| Current service cost | $ 6,252 | $ 7,758 | $ 47 | $ 458 |
| Past service cost | 236 | 286 | — | — |
| Interest expense | 8,702 | 8,175 | 472 | 1,227 |
| Interest income on plan assets | (8,453) | (7,161) | — | — |
| Administrative expense | 649 | 649 | — | — |
| Decrease in net income before tax | $ 7,386 | $ 9,707 | $ 519 | $ 1,685 |
| Remeasurements | | | | |
| Return on plan assets, excluding amounts included in interest income | $ (12,651) | $ (17,356) | $ — | $ — |
| (Gain) loss from changes in demographic assumptions | (2,523) | 7,423 | (504) | 1,146 |
| Loss (gain) from changes in financial assumptions | 21,743 | (18,523) | 1,009 | (6,039) |
| Actuarial (gain) loss from member experience | (11,052) | 3,495 | (186) | 469 |
| (Increase) decrease in OCI before tax | $ (4,483) | $ (24,961) | $ 319 | $ (4,424) |

Defined benefit plan expense is recognized in operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $679 (2013 - $4,684) of pension expense related to the defined contribution component of the pension plan.

Expected contributions (including both employer and employee amounts) to Empire Life's defined benefit pension plans for the year ending December 31, 2015 are approximately $5,458 (2014 - $7,721).

(all dollar figures expressed in thousands of dollars, except per share amounts)

The Plan invests primarily in Empire Life segregated and mutual funds. The fair value of the underlying assets of the funds and other investments are included in the following table:

| | Pension Assets | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Equity | | | | |
| Canadian | | | | |
| Consumer discretionary | $ 4,103 | 2% | $ 6,789 | 4% |
| Consumer staples | 8,710 | 4% | 3,565 | 2% |
| Energy | 13,488 | 7% | 11,094 | 6% |
| Financials | 23,656 | 12% | 22,213 | 13% |
| Industrials | 9,425 | 5% | 4,541 | 3% |
| Information technology | 7,426 | 4% | 4,168 | 2% |
| Materials | 698 | —% | 4,148 | 2% |
| Telecom services | 3,265 | 2% | 1,434 | 1% |
| Utilities | 2,272 | 1% | 2,022 | 1% |
| Total Canadian | 73,043 | 37% | 59,974 | 34% |
| Foreign | 40,009 | 21% | 45,008 | 25% |
| Total Equity | 113,052 | 58% | 104,982 | 59% |
| Debt | | | | |
| Government of Canada | 6,626 | 3% | 10,485 | 6% |
| Provincial governments | 14,871 | 8% | 12,503 | 7% |
| Municipal governments | 1,966 | 1% | 1,167 | 1% |
| Canadian corporations | 34,017 | 17% | 26,399 | 15% |
| Total Debt | 57,480 | 29% | 50,554 | 29% |
| Cash, cash equivalent, accruals | 5,564 | 3% | 4,392 | 2% |
| Mutual Funds | 9,543 | 5% | 8,038 | 5% |
| Other | 8,972 | 5% | 9,024 | 5% |
| Total fair value of assets | $ 194,611 | 100% | $ 176,990 | 100% |

All equities are classified as level 1 and all debt is classified as level 2 in the fair value hierarchy.

The following weighted average assumptions were used in actuarial calculations:

| | Pension Benefit Plans | | Other Post-Employment Benefits Plans | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Defined benefit obligation as at December 31: | | | | |
| Discount rate - defined benefit obligation | 4.0% | 4.8% | 3.9% | 4.8% |
| Discount rate - net interest | 4.8% | 4.2% | 4.8% | 4.1% |
| Inflation assumption | 2.0% | 2.0% | n/a | n/a |
| Rate of compensation increase | 3.5% | 3.5% | n/a | n/a |
| Future pension increases | 3.0% | 3.0% | n/a | n/a |
| Assumed health care cost trend rates at December 31: | | | | |
| Initial health care cost trend rate | n/a | n/a | 7.8% | 8.1% |
| Cost trend rate declines to | n/a | n/a | 4.5% | 4.5% |
| Year ultimate health care cost trend rate is reached | n/a | n/a | 2026 | 2026 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

Assumptions (in number of years) relating to future mortality to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

| | 2014 | 2013 |
|---|---|---|
| Males aged 65 at measurement date | 21.49 | 22.49 |
| Females aged 65 at measurement date | 23.96 | 24.52 |
| Males aged 40 at measurement date | 22.88 | 23.58 |
| Females aged 40 at measurement date | 25.18 | 25.37 |

The following table provides the sensitivity of the defined benefit pension and other post-employment benefit obligations to changes in significant actuarial assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the Post-employment benefit liability recognized within the statement of financial position.

| As at December 31, 2014 | Change in assumption | Impact on Pension Benefits | | Impact on Other Post-Employment Benefits | |
|---|---|---|---|---|---|
| | | Increase | Decrease | Increase | Decrease |
| Discount rate | 1% | $ (23,923) | $ 32,994 | $ (1,349) | $ 1,655 |
| Rate of compensation increase | 1% | 10,170 | (8,817) | n/a | n/a |
| Health care cost increase | 1% | n/a | n/a | 1,518 | (1,266) |
| Claim rate | 10% | n/a | n/a | 1,007 | (1,007) |
| Life expectancy | 1 year | $ 4,467 | $ (4,571) | $ 508 | $ (495) |

| As at December 31, 2013 | Change in assumption | Impact on Pension Benefits | | Impact on Other Post-Employment Benefits | |
|---|---|---|---|---|---|
| | | Increase | Decrease | Increase | Decrease |
| Discount rate | 1% | $ (23,197) | $ 31,632 | $ (991) | $ 1,192 |
| Rate of compensation increase | 1% | 9,035 | (7,856) | n/a | n/a |
| Health care cost increase | 1% | n/a | n/a | 1,410 | (1,093) |
| Claim rate | 10% | n/a | n/a | 932 | (934) |
| Life expectancy | 1 year | $ 4,492 | $ (4,801) | $ 499 | $ (519) |

The weighted average duration, in number of years, of the defined benefit obligations:

| | 2014 | 2013 |
|---|---|---|
| Staff pension plan | 14 | 14 |
| Supplemental employee retirement plan | 12 | 12 |
| Other post-employment benefits | 15 | 13 |

Risks

Through its defined benefit pension plan and the other post-employment benefit plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan obligations are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The pension plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while producing volatility and risk in the short-term.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following tables summarize the potential impact on OCI of a change in global equity markets regarding assets in Empire Life's pension plan. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity.

| | 2014 | | | |
|---|---|---|---|---|
| | 10% Increase | 10% Decrease | 20% Increase | 20% Decrease |
| Shareholders' other comprehensive income | $ 7,177 | $ (7,177) | $ 14,353 | $ (14,353) |

| | 2013 | | | |
|---|---|---|---|---|
| | 10% Increase | 10% Decrease | 20% Increase | 20% Decrease |
| Shareholders' other comprehensive income | $ 6,492 | $ (6,492) | $ 12,983 | $ (12,983) |

The following tables summarize the potential impact on OCI as a result of change in interest rates on assets in Empire Life's pension plan.

| | 2014 | | | |
|---|---|---|---|---|
| | 100bps Increase | 100bps Decrease | 200bps Increase | 200bps Decrease |
| Shareholders' other comprehensive income | $ (2,107) | $ 2,619 | $ (3,706) | $ 5,753 |

| | 2013 | | | |
|---|---|---|---|---|
| | 100bps Increase | 100bps Decrease | 200bps Increase | 200bps Decrease |
| Shareholders' other comprehensive income | $ (1,767) | $ 2,140 | $ (3,158) | $ 4,656 |

Changes in bond yields

A decrease in corporate bond yields will increase plan obligations, although this will be partially offset by an increase in the value of the plans' bond holdings.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

In case of the funded plans, the Pension Committee ensures that the investment positions are managed in accordance with the investment philosophy outlined in the investment policy approved by the Human Resources Committee of the Board. The fundamental philosophy is to achieve acceptably high investment return over the long term without jeopardizing the level of security of the members' benefits and without introducing too much volatility into the Company's future expense. The Company's objective is to match assets to the pension obligations by investing in equities as well as fixed interest securities. Empire Life actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Plan has not changed the processes used to manage its risks from previous periods. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Plan invests primarily in Canadian bonds and equities through its' ownership of units in Empire Life segregated and mutual funds. Empire Life believes that equities offer the best returns over the long term with an acceptable level of risk.

The last triennial valuation was completed in August 2014, as at December 31, 2013. The next triennial valuation is due to be completed as at December 31, 2016.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 16. Insurance contract liabilities and reinsurance liabilities

Empire Life's insurance contract liabilities are comprised of:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance liabilities | Net | Gross | Reinsurance liabilities | Net |
| Insurance contract liabilities | $ 4,741,233 | $ (490,575) | $ 5,231,808 | $ 4,214,272 | $ (284,627) | $ 4,498,899 |

The change in insurance contract liabilities and reinsurance assets (liabilities) is outlined below:

| | 2014 | | |
|---|---|---|---|
| | Insurance contract liabilities | Reinsurance assets/(liabilities) | Net |
| Balance, beginning of year | $ 4,214,272 | $ (284,627) | $ 4,498,899 |
| Changes in methods and assumptions | | | |
| - improvements in mortality/morbidity experience | (141,617) | (113,471) | (28,146) |
| - lapse assumption updates | 77,408 | (40,400) | 117,808 |
| - update of investment return assumptions | (88,465) | 4,607 | (93,072) |
| - model enhancements | (5,882) | (257) | (5,625) |
| - other changes | (16,331) | (18,442) | 2,111 |
| Normal changes | | | |
| - new business | 125,003 | (1,731) | 126,734 |
| - in-force business | 576,845 | (36,254) | 613,099 |
| Balance, end of year | $ 4,741,233 | $ (490,575) | $ 5,231,808 |

| | 2013 | | |
|---|---|---|---|
| | Insurance contract liabilities | Reinsurance assets/(liabilities) | Net |
| Balance, beginning of year | $ 4,399,317 | $ (244,808) | $ 4,644,125 |
| Changes in methods and assumptions | | | |
| - improvements in mortality/morbidity experience | (74,377) | (59,800) | (14,577) |
| - update of lapse assumptions | 42,242 | (1,450) | 43,692 |
| - update of investment return assumptions | (1,433) | 3,402 | (4,835) |
| - model enhancements | (13,912) | 2,184 | (16,096) |
| - other changes | (7,600) | (140) | (7,460) |
| Normal changes | | | |
| - new business | 112,569 | 2,491 | 110,078 |
| - in-force business | (242,534) | 13,494 | (256,028) |
| Balance, end of year | $ 4,214,272 | $ (284,627) | $ 4,498,899 |

Changes in methods and assumptions summarized in the above tables are further explained as follows:

The updates for mortality/morbidity experience for 2014 are primarily related to favourable mortality experience for individual life business. In addition, there were refinements to the mortality study to reflect mortality experience for higher face amount policies and renewable term business. The updates for mortality/morbidity experience for 2013 are primarily related to favourable mortality experience for individual life business.

The refinements to lapse rate assumptions for 2014 are primarily related to emerging lapse rate experience for certain cost of insurance structures offered within Empire Life’s universal life product and for the Company's critical illness products as well as regular updates for Empire Life’s other individual life insurance products. The refinements to lapse rate assumptions for 2013 are primarily related to lapse rate assumptions for renewable term products, which take into account the Canadian Institute of Actuaries' Renewal Lapse Experience Study for 10-Year Term Insurance (released January 2014) as well as Empire Life's emerging lapse rate experience.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The update in investment return assumptions for 2014 was primarily due to revised Canadian actuarial standards of practice effective October 15, 2014, which prescribed higher long-term ultimate risk-free reinvestments for non-fixed income assets and lower limits for the projected amount of equities backing individual life insurance liabilities. In addition, there were several refinements to the CALM model for future reinvestment assumptions. The update in investment return assumptions for 2013 was primarily due to the impact of the higher interest rate environment on the initial reinvestment rate assumption, which was offset by lower ultimate reinvestment rates related to continuing decreases in the moving average of Government of Canada long-term bond rates over the last 10 years.

The model enhancements for 2014 are related to refinements to the valuation models for group life waiver of premium business. The model enhancements for 2013 are related to the refinements of CALM valuation models for universal life business to more accurately reflect the timing of asset default rates and investment expense on reinvestment cash flows and revise the calculation of projected valuation interest rates. In addition, refinements were made to the valuation models for participating business.

Other changes for 2014 relate to lower expense unit costs resulting from refinements to expense studies that were offset by refinements for modeling unearned reinsurance premiums and other minor changes to assumptions and methodologies. Other changes for 2013 relate primarily to lower unit costs for individual life insurance business. There were several other minor changes to assumptions and methodologies.

Normal changes in the policy liabilities are further explained as follows:

The change in new business reflects changes in the volume and mix of business from year to year.

The change for in-force business is primarily attributable to the fair value change in liabilities due to a decrease in interest rates in 2014, and an increase in interest rates in 2013.

Empire Life expects to pay $4,563,763 (2013 - $4,004,629) of insurance contract liabilities and $492,065 (2013 - $288,153) of reinsurance liabilities more than one year after the consolidated statements of financial position date.

For additional analysis of the Company's insurance risk please see Note 25 - Insurance risk management.

## 17. Share capital

| | Authorized | Issued and outstanding | 2014 | 2013 |
|---|---|---|---|---|
| Preferred shares | | | | |
| Series A Preference shares [(1)] | 402,733 | 258 | $ 1 | $ 1 |
| First Preference shares, Series 1 [(2a)] | unlimited | 4,000,000 | 100,000 | 100,000 |
| First Preference shares, Series 2 [(2b)] | unlimited | 4,000,000 | 100,000 | 100,000 |
| First Preference shares, Series 3 [(2c)] | unlimited | 4,000,000 | 100,000 | 100,000 |
| Common shares | unlimited | 4,019,409 | 72,387 | 72,387 |
| Total | | | $ 372,388 | $ 372,388 |

1. The Series A Preference shares are convertible, at the shareholder's option, in perpetuity into common shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum. The Series A Preference shares and common shares are each entitled to one vote per share.

2. The First Preference shares of each series rank pari passu with every other series of First Preference shares and in priority to the common shares and the Series A Preference shares of the Company with respect to the payment of dividends and the distribution of assets on the dissolution, liquidation or winding up of the

Company. As of December 31, 2014 there were three series of First Preference shares outstanding; the First Preference shares, Series 1, the First Preference shares, Series 2 and the First Preference shares, Series 3. The First Preference shares are non-voting unless there has been a specified default in the payment of dividends or to approve of modifications attending to the series of shares.

(a) The First Preference shares, Series 1 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.325 per share per annum. On and after October 17, 2013, the Company may redeem for cash the First Preference shares, Series 1 in whole or in part, at the Company's option at $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2009, the Company may convert all or any part of the outstanding First Preference shares, Series 1 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(b) The First Preference shares, Series 2 are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.1875 per share per annum. On and after October 17, 2014, the Company may redeem for cash the First Preference shares, Series 2 in whole or in part, at the Company's option at $25.25 if redeemed thereafter and prior to October 17, 2015 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2011, the Company may convert all or any part of the outstanding First Preference shares, Series 2 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(c) The First Preference shares, Series 3, are entitled, if and when declared, to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum. First Preference shares, Series 3 will not be redeemable prior to April 17, 2017. On and after April 17, 2017, the Company may redeem for cash the First Preference shares, Series 3 in whole or in part, at the Company's option for: $26.00 per share if redeemed on or after April 17, 2017 and prior to April 17, 2018; $25.75 per share if redeemed on or after April 17, 2018 and prior to April 17, 2019; $25.50 per share if redeemed on or after April 17, 2019 and prior to April 17, 2020; $25.25 per share if redeemed on or after April 17, 2020 and prior to April 17, 2021; and $25.00 per share if redeemed on or after April 17, 2021, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

On and after April 17, 2017, the Company may convert all or any part of the outstanding First Preference shares, Series 3 into that number of common shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion date.

(all dollar figures expressed in thousands of dollars, except per share amounts)

Dividends paid during the year are as follows:

| | 2014 | 2013 |
|---|---|---|
| First Preference shares, Series 1, $1.325 per share | $ 5,300 | $ 5,300 |
| First Preference shares, Series 2, $1.1875 per share | 4,750 | 4,750 |
| First Preference shares, Series 3, $1.375 per share | 5,500 | 5,500 |
| Common shares, $0.50 per share | 2,010 | 2,010 |
| Common shares, $75.00 per share | — | 301,456 |
| Total | $ 17,560 | $ 319,016 |

When calculated on the basis of the Adjusted Common Shares, the total common dividend is $1,963 (2013 - $296,633).

The following dividends were declared by the Board of Directors at their meeting on March 5, 2015, with a record and payable date of April 1, 2015 and April 17, 2015, respectively:

- First Preference shares, Series 1, $0.33125 per share;
- First Preference shares, Series 2, $0.296875 per share;
- First Preference shares, Series 3, $0.34375 per share;
- Series A Preference shares, $0.125 per share; and
- Common shares, $0.125 per share.

**18. Reinsurance**

In the normal course of business, Empire Life cedes reinsurance to other insurers in order to limit exposure to significant losses. Reinsurance does not relieve the insurance subsidiary of its primary liability as the originating insurer. Reinsurance agreements typically renew annually and the terms and conditions are reviewed by senior management and reported to the insurance subsidiary's Board. Reinsurance agreements are negotiated with reinsurance companies that have an independent credit rating of "A-" or better and that Empire Life considers credit-worthy. Based on ongoing monitoring, the insurance subsidiary assesses the credit risk associated with the reinsurance recoverable to be insignificant.

Most of Empire Life's individual life reinsurance (with the exception of its renewable term products) is on an excess basis (with a $500 retention limit), meaning Empire Life retains 100% of the risk up to $500 in face amount. With Empire Life's renewable term products, however, all amounts over $100 are reinsured at an 80% level, meaning that Empire Life retains only 20% of the risk on coverage over $100, to a maximum retention of $500. In addition Empire Life also retains a maximum of $100 on individual accidental death policies. Retention amounts are lower for group business but are in addition to those noted for individual business. A portion of Empire Life's segregated fund death benefit exposure is reinsured. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement.

As a result of this reinsurance strategy, Empire Life utilizes lower than average levels of reinsurance, compared to Canadian competitors, and absorbs the resultant negative impact on short-term earnings due to additional sales strain. Empire Life does not have any assumed reinsurance business.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 19. Operating expenses

Operating expenses from continuing operations include the following:

| | 2014 | 2013 |
|---|---|---|
| Salary and benefits expense | $ 88,893 | $ 87,130 |
| Rent, leasing and maintenance | 10,473 | 11,147 |
| Professional services | 15,527 | 14,698 |
| Amortization of assets | 6,260 | 5,678 |
| Other | 50,896 | 38,941 |
| Total | $ 172,049 | $ 157,594 |

## 20. Income taxes

Income taxes are assessed on net income from continuing operations before income taxes. The effective tax rate varies from the combined statutory rate as follows:

| | 2014 | 2013 |
|---|---|---|
| Income taxes at statutory rate | $ 154,234 | $ 228,895 |
| Variance as a result of: | | |
| Tax-paid dividends | (11,056) | (13,606) |
| Non-taxable portion of gains | (49,161) | (88,660) |
| Net refundable dividend taxes | (34) | (12,913) |
| Other | (2,917) | 799 |
| Income taxes expense | $ 91,066 | $ 114,515 |

The current enacted corporate tax rates as they impact Company in 2014 stand at 26.5% (2013 - 26.5%). This rate is expected to remain at 26.5% through to 2018.

The Company’s income taxes (recovery) expense from continuing operations includes provisions for current and deferred taxes as follows:

| | 2014 | 2013 |
|---|---|---|
| Current | $ 57,101 | $ 36,576 |
| Deferred | 33,965 | 77,939 |
| Income taxes expense | $ 91,066 | $ 114,515 |

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences which will give rise to deferred income taxes are reflected in the consolidated statements of financial position as follows:

| | 2014 | 2013 |
|---|---|---|
| Deferred taxes (payable) | | |
| Investments | $ (195,492) | $ (170,233) |
| Insurance contract liabilities | (10,479) | (11,298) |
| Losses recoverable in future years | 6,011 | 16,942 |
| Post-employment benefit plans | 4,875 | 4,903 |
| Other | 5,881 | 7,201 |
| Total | $ (189,204) | (152,485) |
| Recorded as: | | |
| Deferred tax assets | $ — | $ 2,400 |
| Deferred tax liabilities | (189,204) | (154,885) |
| | $ (189,204) | $ (152,485) |

(all dollar figures expressed in thousands of dollars, except per share amounts)

Of the above total, $189,734 (2013 - $167,241) is expected to be paid more than one year after the reporting date.

Deferred tax expense (recovery) included in net income from continuing operations represents movements on the following items:

| | 2014 | 2013 |
|---|---|---|
| Investments | $ 25,259 | $ 80,950 |
| Insurance contract liabilities | (819) | (2,983) |
| Losses recoverable in future years | 10,931 | 8,268 |
| Post-employment benefit plans | 28 | 4,992 |
| Other | 1,320 | (4,984) |
| Net change | $ 36,719 | $ 86,243 |
| | | |
| Net change reported in: | | |
| Consolidated statements of income: | | |
| Income tax expense | $ 33,965 | $ 77,939 |
| Net income from discontinued operations, including gain on sale | — | 3,441 |
| Other comprehensive income: | | |
| Income taxes | 2,754 | 4,863 |
| Net change | $ 36,719 | $ 86,243 |

During 2014, the Company and its subsidiaries paid income tax installments and assessments totaling $90,966 (2013 - $47,839) and received income tax refunds totaling $5,120 (2013 - $723).

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 21. Earnings per share ("EPS")

Basic and diluted earnings per share

Earnings per share has been calculated by dividing net income (loss) attributed to equity shareholders of the Company for the year, less dividends on First Preference shares, by the amount equal to the total number of Adjusted Common Shares outstanding of 4,019,667 less 92,754 (2013 - 92,754), which is the Company's proportionate interest in its own common shares held indirectly through its associate, Economic.

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations:

| | 2014 | 2013 |
|---|---|---|
| **Basic earnings per common share:** | | |
| Net income from continuing operations | $ 394,530 | $ 596,553 |
| Less: Dividends on First Preference shares | (15,550) | (15,550) |
| Net income from continuing operations after dividends on First Preference shares | 378,980 | 581,003 |
| Net income from discontinued operations | — | 311,126 |
| Net income available to shareholders | $ 378,980 | $ 892,129 |
| Weighted average number of Adjusted Common Shares outstanding | 3,926,913 | 3,926,913 |
| Basic earnings per common share from continuing operations | $ 96.51 | $ 147.95 |
| Basic earnings per common share from discontinued operations | — | 79.23 |
| Basic earnings per common share from net income | $ 96.51 | $ 227.18 |
| **Diluted earnings per common share:** | | |
| Net income from continuing operations | $ 394,530 | $ 596,553 |
| Net income from discontinued operations | — | 311,126 |
| Net income available to shareholders | $ 394,530 | $ 907,679 |
| Weighted average number of Adjusted Common Shares outstanding | 3,926,913 | 3,926,913 |
| Dilutive effect of the conversion of First Preference shares into common shares | 454,011 | 776,879 |
| Weighted average number of diluted Adjusted Common Shares outstanding | 4,380,924 | 4,703,792 |
| Diluted earnings per common share from continuing operations | $ 90.06 | $ 126.82 |
| Diluted earnings per common share from discontinued operations | — | 66.15 |
| Diluted earnings per common share from net income | $ 90.06 | $ 192.97 |

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 22. Other comprehensive income

The following table summarizes the changes in the components of OCI from continuing operations, net of tax:

| | 2014 | 2013 |
|---|---|---|
| Items that may be reclassified subsequently to net income: | | |
| **Net unrealized fair value increase on available for sale investments** | | |
| Unrealized fair value increase on AFS investments | $ 58,719 | $ 21,647 |
| Less: Realized gain on AFS investments reclassified to net income | (22,493) | (9,173) |
| | 36,226 | 12,474 |
| **Net gain on derivatives designated as cash flow hedges** | | |
| Gain on derivatives designated as cash flow hedges | — | — |
| Add: Amortization of loss on derivatives designated as cash flow hedges reclassified to net income | 233 | 574 |
| | 233 | 574 |
| **Share of OCI of associates** | 2,763 | 3,820 |
| | 39,222 | 16,868 |
| Items that will not be reclassified to net income: | | |
| **Net remeasurement of defined benefit plans** | 3,182 | 12,779 |
| **Share of employee future benefits of associates** | (1,963) | (299) |
| | 1,219 | 12,480 |
| **OCI, net of tax** | $ 40,441 | $ 29,348 |

OCI is presented net of income taxes. The following tax amounts are included in each component of OCI.

| | Income Taxes | |
|---|---|---|
| | 2014 | 2013 |
| Items that may be reclassified subsequently to net income: | | |
| **Net unrealized fair value increase on available for sale investments** | | |
| Unrealized fair value increase on AFS investments | $ 16,949 | $ (610) |
| Less: Realized gain on AFS investments reclassified to net income | (5,711) | (1,166) |
| | 11,238 | (1,776) |
| **Net gain on derivatives designated as cash flow hedges** | | |
| Gain on derivatives designated as cash flow hedges | — | — |
| Add: Amortization of loss on derivatives designated as cash flow hedges reclassified to net income | 111 | 275 |
| | 111 | 275 |
| **Share of other comprehensive income of associates** | 421 | 584 |
| | 11,770 | (917) |
| Items that will not be reclassified to net income: | | |
| **Net remeasurement of defined benefit plans** | 1,147 | 5,031 |
| **Share of employee future benefits of associates** | (301) | (89) |
| | 846 | 4,942 |
| **Total expense in OCI** | $ 12,616 | $ 4,025 |

In anticipation of the issuance of unsecured subordinated debentures (Note 14), Empire Life entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative was accounted for as a hedging item in a cash flow hedging relationship.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 23. Commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments recognized as an expense from continuing operations in 2014 were $2,403 (2013 - $2,661). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2014 | 2013 |
|---|---|---|
| 2014 | $ — | $ 2,500 |
| 2015 | 3,178 | 1,872 |
| 2016 | 2,828 | 1,570 |
| 2017 | 2,586 | 1,283 |
| 2018 | 2,308 | 1,016 |
| 2019 (and thereafter for 2013 comparatives) | 2,234 | 1,577 |
| 2020 and thereafter | 732 | — |
| Total commitments | $ 13,866 | $ 9,818 |

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2014 there were $8,942 (2013 - $11,430) of outstanding commitments to purchase units in a real estate limited partnership. These commitments are payable on demand and mature within 5 months.

## 24. Investment risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to financial risks arising from its investing activities. For investment risks, the Company is exposed to credit risk, liquidity risk and various market risks including interest rate risk, market price fluctuations and foreign currency risk.

The disclosures in Notes 4, 5 and 6 provide the breakdown of investments by type and by geographic region based on the underlying risk. The fair values of these investments are inherently volatile and frequently change in value as a result of factors beyond the Company's control, including general economic and capital market conditions.

***E-L Corporate:***

E-L Corporate owns investments in equities and fixed income securities directly and indirectly through pooled funds and other investment companies.

In addition to the investments in equities and fixed income securities, the E-L Corporate segment includes the net assets of United, a closed-end investment subsidiary and significant investments in Economic, also a closed-end investment company and Algoma, a shipping company, which are accounted for as investments in associates.

The Company maintains a strategy of long-term growth through investments in common equities. The externally managed portfolios of equities and fixed income securities have mandates in which the manager's performance is evaluated. Their performance is reviewed by management on a monthly basis, evaluating performance over a period of time relative to their mandate. On a quarterly basis, the Board of Directors reviews the E-L Corporate investment portfolio, including investment performance benchmarked against the relevant indices, exposure by geographic distribution, investment concentration and significant movements in the investment portfolios during the period.

***Empire Life:***

The investments held by Empire Life consist of equity and fixed income securities, mortgages and loans.

(all dollar figures expressed in thousands of dollars, except per share amounts)

Declines in investment values could significantly reduce Empire Life's net income, shareholder's equity and the adequacy of their regulatory capital. Empire Life has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. Investing activities are subject to the Insurance Companies Act (Canada) and to Investment Guidelines established by the Investment Committee of the individual company's Board of Directors. Empire Life's Investment Guidelines define objectives and eligible investments and impose constraints to limit concentration and other portfolio risks. Investment portfolio managers report quarterly to the Investment Committee on portfolio content, performance and outlook. Management monitors and reports to the Investment Committee each quarter regarding compliance with the investment guidelines.

*Credit risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes a financial loss to another party. The gross credit risk exposure for the Company related to its financial instruments is as follows:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 316,811 | $ 319,749 |
| Short-term investments | 238,405 | 151,801 |
| Bonds | 4,958,086 | 4,333,512 |
| Preferred shares | 197,237 | 295,276 |
| Mortgages | 323,117 | 299,353 |
| Reinsurance | 99,707 | 91,967 |
| Loans on policies | 46,434 | 44,855 |
| Policy contract loans | 86,698 | 90,275 |
| Accrued investment income | 28,127 | 26,598 |
| Premiums receivables | 25,213 | 20,849 |
| Total | $ 6,319,835 | $ 5,674,235 |

Mortgages, loans on policies, policy contract loans and commercial loans are fully or partially secured. The Company has made provisions in its consolidated statements of financial position for credit losses. Provisions have been made partly through reduction in the value of the assets and partly through a provision in insurance contract liabilities.

*Concentration of credit risk*

The following table discloses the holdings of fixed income securities in the ten issuers, excluding the federal governments, to which the operating segments had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds:

| | E-L Corporate | | Empire Life | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Holdings of fixed income securities* in the ten issuers (excluding federal governments) to which the operating segments had the greatest exposure | $ 100,606 | $ 96,743 | $ 3,242,685 | $ 2,803,115 |
| Percentage of the segment's total cash and investments | 2.6% | 2.8% | 49.0% | 46.6% |
| Exposure to the largest single issuer of corporate bonds | $ nil | $ nil | $ 123,415 | $ 130,849 |
| Percentage of the segment's total cash and investments | 0.0% | 0.0% | 1.9% | 2.2% |

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

(all dollar figures expressed in thousands of dollars, except per share amounts)

a) Investments in bonds and debentures

| Empire Life | 2014 | | 2013 | |
|---|---|---|---|---|
| | Fair value | % of Fair value | Fair value | % of Fair value |
| AAA | $ 269,223 | 5% | $ 290,418 | 7% |
| AA | 1,395,341 | 28% | 1,190,826 | 27% |
| A | 2,578,045 | 53% | 2,257,568 | 52% |
| BBB | 714,717 | 14% | 594,134 | 14% |
| BB | 760 | 0% | 566 | 0% |
| Total | $ 4,958,086 | 100% | $ 4,333,512 | 100% |

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

b) Preferred shares

Empire Life's preferred share investments are all issued by Canadian companies with 10% (2013 – 33%) of these investments rated as P1 as at December 31, 2014 and the remaining 90% (2013 – 67%) rated as P2.

c) Mortgages and policy contract loans

Empire Life's mortgages in the province of Ontario represent the largest concentration with $320,262 or 99% (2013 – $296,025 or 99%) of the total mortgage portfolio.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity risk management strategy is to ensure that there will be sufficient cash to meet all financial commitments and obligations as they become due.

E-L Corporate:

The majority of the Corporate Investment's obligations relate to its ability to pay annual dividend commitments of $17,560 (2013 - $17,560) and to meet ongoing operating expenses as they fall due. In most years, the Company is able to fund these obligations by its cash flow from net investment income earned on its investment portfolio. In addition to this, the Company maintains sufficient liquidity through holding short term investments, cash equivalents and high quality marketable investments that may easily be sold, if necessary to fund new investment opportunities and to meet any operating cash flow deficiencies.

Composition of E-L Corporate's liquidity:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 77,709 | $ 102,399 |
| Short-term investments | 211,513 | 126,353 |
| Total | $ 289,222 | $ 228,752 |

Empire Life:

The majority of Empire Life's obligations relate to its policy liabilities the duration of which varies by line of business and expectations relating to key policyholder actions or events (i.e. cash withdrawal, mortality, morbidity). The remaining obligations of Empire Life relate to its subordinated debt (refer to Note 14 - subordinated debt) and ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The actuarial and other policy liability amounts are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

The expected maturity profile of Empire Life's significant undiscounted financial liabilities and contractual commitments as at December 31 are shown in the following tables:

| 2014 | 1 year or less | 1 - 5 years | 5 - 10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Insurance contract liabilities | $ 150,297 | $ 186,989 | $ 418,045 | $ 15,967,863 | $ 16,723,194 |
| Investment contract liabilities | 1,983 | 6,739 | 3,964 | 3,189 | 15,875 |
| Subordinated debt | 8,610 | 30,094 | 320,039 | — | 358,743 |
| Other liabilities | 164,583 | 6,461 | 17,560 | — | 188,604 |
| Total liabilities | 325,473 | 230,283 | 759,608 | 15,971,052 | 17,286,416 |
| Operating lease commitments | 2,466 | 7,322 | 679 | — | 10,467 |
| Total | $ 327,939 | $ 237,605 | $ 760,287 | $ 15,971,052 | $ 17,296,883 |

| 2013 | 1 year or less | 1 - 5 years | 5 - 10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Insurance contract liabilities | $ 169,841 | $ 267,826 | $ 468,223 | $ 14,564,254 | $ 15,470,144 |
| Investment contract liabilities | 2,729 | 6,294 | 5,085 | 3,068 | 17,176 |
| Subordinated debt | 214,218 | 32,883 | 326,235 | — | 573,336 |
| Other liabilities | 164,239 | — | 18,317 | — | 182,556 |
| Total liabilities | 551,027 | 307,003 | 817,860 | 14,567,322 | 16,243,212 |
| Operating lease commitments | 3,011 | 5,670 | 1,577 | — | 10,258 |
| Total | $ 554,038 | $ 312,673 | $ 819,437 | $ 14,567,322 | $ 16,253,470 |

Empire Life is able to fund its short term cash outflows by generating positive cash flow from operations and from investment income earned on its investment portfolio. The Asset-Liability Management Committee, which meets regularly, monitors the matched position of Empire Life's investments in relation to its liabilities within the various segments of its operations. The matching process is designed to require that assets supporting policy liabilities closely match, to the extent possible, the timing and amount of policy obligations, and to plan for the appropriate amount of liquidity in order to meet its financial obligations as they fall due. Empire Life maintains a portion of its investments in short term investments and cash equivalents to meet its short term funding requirements. As of December 31, 2014, 4.0% (2013 - 4.0%) of cash and investments were held in these shorter duration investments.

The following table provides bonds by contractual maturity (using the earliest contractual maturity date):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Fair value | % of fair value | Fair value | % of fair value |
| 1 year or less | $ 106,297 | 2% | $ 61,367 | 1% |
| 1 - 5 years | 671,657 | 14% | 658,374 | 15% |
| 5 - 10 years | 489,124 | 10% | 492,778 | 11% |
| Over 10 years | 3,691,008 | 74% | 3,120,993 | 73% |
| Total | $ 4,958,086 | 100% | $ 4,333,512 | 100% |

(all dollar figures expressed in thousands of dollars, except per share amounts)

*Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related financial instruments are traded, expectations of future price and yield movements and the composition of the Company's investment portfolio. For the Company, the most significant market risks are interest rate risk, market price fluctuations and foreign currency risk.

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can result from many factors including general market volatility, or specific social, political or economic events. Changing interest rates have a direct impact on the fair value of the E-L Corporate and Empire Life's fixed income investments, which total $5.0 billion at December 31, 2014 (2013 - $4.3 billion) on a consolidated basis. Rising interest rates will lead to declines in the fair value of these investments and falling interest rates will lead to increases in the fair value of these investments.

Empire Life

Empire Life has interest rate risk in its investments and in its products. Certain of Empire Life's product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, Empire Life may be required to increase policy liabilities against losses, thereby adversely affecting its operating results. Interest rate changes can also cause compression of net spread between interest earned on investments and interest credited to customers; thereby adversely affecting Empire Life's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls, and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Fluctuations in interest rates may cause losses to Empire Life due to the need to reinvest or divest during periods of changing interest rates, which may force Empire Life to sell investment assets at a loss. In addition, an interest rate sensitivity mismatch between assets and the liabilities that they are designated to support could have an adverse effect on Empire Life's financial position and operating results.

The following tables summarize the immediate financial impact of a reasonably possible change in interest rates affecting investments and policy liabilities (there is no material impact on net income as the change in the fair value of FVTPL investments is offset by a corresponding change in policy liabilities):

| 2014 | 1% Increase | 1% Decrease | 2% Increase | 2% Decrease |
|---|---|---|---|---|
| Shareholders' net income | $ nil | $ nil | $ nil | $ nil |
| Shareholders' OCI | (31,109) | 40,142 | (53,186) | 89,316 |

| 2013 | 1% Increase | 1% Decrease | 2% Increase | 2% Decrease |
|---|---|---|---|---|
| Shareholders' net income | $ nil | $ nil | $ nil | $ nil |
| Shareholders' OCI | (29,239) | 36,231 | (51,514) | 79,485 |

b) Market price fluctuations

The Company maintains a strategy of long-term growth through investments in common equities as management believe that over long periods of time, common equities, as an asset class, will outperform fixed income instruments or balanced funds. The Company regularly reviews its portfolio and, while expecting and tolerating the volatility associated with such investments, attempts to mitigate its exposure to this risk through diversification.

(all dollar figures expressed in thousands of dollars, except per share amounts)

Empire Life manages market price risk exposure mainly through investment limits. The Investment Committee of Empire Life meets quarterly to review the composition and performance of managed assets.

E-L Corporate

The following table summarizes the potential impact on E-L Corporate of a change in global equity markets. E-L Corporate used a 10% increase or decrease in equity markets as such a change is considered to be a reasonably possible change in equity markets based on historic results and is a useful comparator as it is commonly used. E-L Corporate used a 20% increase or decrease in its equity market to illustrate that changes in equity markets in excess of 10% may result in both linear and non-linear impacts, and a 20% change in equity markets is a commonly used additional sensitivity factor.

The calculations below assume that all other variables are held constant and that all of E-L Corporate's equities move according to a one-to-one correlation with the equity markets.

| | **2014** | | **2013** | |
|---|---|---|---|---|
| | Effect on shareholders' net income | Effect on shareholders' OCI | Effect on shareholders' net income | Effect on shareholders' OCI |
| Corporate Investments: | | | | |
| Investments - corporate | | | | |
| 10% fluctuation | $ 243,842 | $ 13,536 | $ 221,005 | $ 15,184 |
| 20% fluctuation | $ 487,684 | $ 27,072 | $ 442,010 | $ 30,368 |
| Investments in associates | | | | |
| 10% fluctuation | $ 12,187 | $ — | $ 12,194 | $ — |
| 20% fluctuation | $ 24,374 | $ — | $ 24,388 | $ — |

Empire Life

Empire Life has risks related to global equity markets in its investments and in its products. The risk of fluctuation of the market value of Empire Life's segregated funds is generally assumed by the policyholders. Market value variations of such assets will result in variations in the income of Empire Life to the extent fees are determined in relation to the value of such funds. A significant and steady decline of the securities markets may result in net losses on such products which could adversely affect Empire Life. Additionally, certain of Empire Life's segregated fund products contain guarantees upon death, maturity, or withdrawal, where the guarantee may be triggered by the market performance of the underlying funds. If a significant market decline is experienced, the resulting increased cost of providing these guarantees could have an adverse effect on Empire Life's financial position, Minimum Continuing Capital and Surplus Requirements ("MCCSR") position, and results of operations. Empire Life has reinsured a portion of its segregated fund death benefit guarantee. During the fourth quarter of 2014, Empire Life initiated a semistatic hedging program. The objective of the hedging program is to partially protect Empire Life from possible future MCCSR ratio declines that might result from adverse stock market price changes.

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of Empire Life. Cash flows arising from these investments are intended to match the liquidity requirements of Empire Life's policy liabilities, within the limits prescribed by Empire Life. However, if Empire Life does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following table summarizes the potential impact on Empire Life of a change in global equity markets. Empire Life uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. Empire Life has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. For insurance operations, the effect on shareholders' net income includes the impact on FVTPL equity investments, segregated fund management fees and the impact on policy liabilities (other than segregated fund guarantee policy liabilities). For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased.

The amounts shown below for segregated fund guarantee policy liabilities represent the impact on shareholders' net income.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Effect on shareholders' net income | Effect on shareholders' OCI | Effect on shareholders' net income | Effect on shareholders' OCI |
| Empire Life | | | | |
| 10% increase | $ 16,611 | $ 1,717 | $ 16,028 | $ 1,434 |
| 10% decrease | $ (15,615) | $ (1,717) | $ (16,028) | $ (1,434) |
| 20% increase | $ 33,653 | $ 3,434 | $ 32,074 | $ 2,867 |
| 20% decrease | $ (29,539) | $ (3,434) | $ (32,074) | $ (2,867) |
| Segregated fund guarantees | | | | |
| 10% increase (decrease) | $ nil | $ nil | $ nil | $ nil |
| 20% increase (decrease) | $ nil | $ nil | $ nil | $ nil |

Concentration of common equity holdings

E-L Corporate's largest exposure to common equities relates to its investment in associates of $301,228 (2013 – $288,884) which represents 7% (2013 – 8%) of E-L Corporate's total assets.

| Empire Life | 2014 | 2013 |
|---|---|---|
| Exposure to the ten largest common share holdings | $ 279,662 | $ 260,775 |
| As a percentage of the segment's total cash and investments | 4.2% | 4.3% |
| Exposure to the largest single issuer of common shares | $ 47,487 | $ 41,081 |
| As a percentage of the segment's total cash and investments | 0.7% | 0.7% |

c) Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and create an adverse effect on earnings and equity when measured in the Company's functional currency.

The Company's exposure to foreign currency is limited to its investments in common shares and units. The U.S. dollar represents the largest currency exposure. In addition, the Company has exposure to several currencies worldwide, reflecting the global diversity of its non-Canadian portion of its investments. These investments are managed by both Empire Life's in-house investment managers and third party investment managers, with decisions regarding exposure to currency risk being part of the investment manager's strategy.

(all dollar figures expressed in thousands of dollars, except per share amounts)

A 10% fluctuation in the U.S. dollar would have the following impact:

E-L Corporate: Approximately $113,230 (2013 – $97,136) on shareholders' net income and 10,696 (2013 – $13,813) on other comprehensive income.

Empire Life: Approximately $nil (2013 – $1,139) on shareholders' net income and $nil (2013 – $nil) on other comprehensive income.

## 25. Insurance risk management

The objective of the Company's risk management process is to ensure that the operations of the Company encompassing risk are consistent with the Company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance. The Company is exposed to insurance risks through its insurance subsidiary.

The Company and Empire Life have created Risk Management Policies. Oversight and management of the policies falls under the authority of senior management, Risk Management Committees, where applicable, and the Board of Empire Life.

Empire Life provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by segment as follows:

| (millions of dollars) | Wealth Management | | Employee Benefits | | Individual Insurance | | Capital & Surplus | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Net premium income | $ 186 | $ 159 | $ 319 | $ 307 | $ 362 | $ 356 | $ — | $ — | $ 867 | $ 822 |
| Fee and other income | 178 | 140 | 9 | 8 | 1 | 1 | — | 2 | 188 | 151 |
| Total revenues | $ 364 | $ 299 | $ 328 | $ 315 | $ 363 | $ 357 | $ — | $ 2 | $ 1,055 | $ 973 |

Empire Life is in the business of measuring and managing risk, and this is reflected in the valuation of insurance contract liabilities. Empire Life is exposed to experience risk, product design and pricing risk, underwriting and claims risk and reinsurance risk arising from its insurance operations. Empire Life regularly evaluates its exposure to foreseeable risks through stress testing to changes including Dynamic Capital Adequacy Testing analysis.

### *Experience risk*

The principal risk Empire Life faces under insurance contracts is the risk that experience on claims, policy lapses and operating expenses will not emerge as expected. To the extent that emerging experience is more favourable than assumed in the valuation, income will emerge. If emerging experience is less favourable, losses will result. Therefore, the objective of Empire Life is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

The computation of insurance liabilities and related reinsurance recoverables requires "best estimate" assumptions covering the remaining life of the policies. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market trends and other published information. These assumptions are made for mortality, morbidity, investment returns, lapse, expenses, inflation and taxes. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities. These margins are intended to allow for possible deterioration in experience and to provide greater confidence that policy liabilities are adequate to pay future benefits. The effect of these margins is to increase policy liabilities over the best estimate assumptions.

The margins for adverse deviation used by Empire Life are within the target range established by the Canadian Institute of Actuaries ("CIA"). A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

Policy liability 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. The methods for arriving at the most important of these assumptions are outlined below. Also included are measures of Empire Life's estimated shareholders' net income sensitivity to changes in best estimate assumptions in the non-participating insurance liabilities, based on a starting point and business mix as of December 31, 2014. For participating business it is assumed that changes will occur in policyholder dividend scales corresponding to changes in best estimate assumptions such that the net change in participating insurance contract liabilities is immaterial.

**(a) Mortality**

Empire Life carries out annual internal studies of its own mortality experience. The valuation mortality assumptions are based on a combination of this experience and recent CIA industry experience. An increase in the rate of mortality will lead to a larger number of claims (and claims could occur sooner than anticipated), which for life insurance, will increase expenditures and reduce profits for the shareholders.

For non-participating insurance business, a 2% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $9,500 (2013- $8,800). For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing shareholders' net income by approximately $3,300 (2013 - $2,900).

**(b) Investment returns**

The computation of policy liabilities takes into account projected investment income net of investment expenses from the assets supporting policy liabilities, and investment income expected to be earned on reinvestments. The assets supporting the policy liabilities are segmented from the assets backing shareholders' and policyholders' equity. For life and health insurance, the projected cash flows for the assets supporting policy liabilities are combined with estimated future reinvestment rates based on both the current economic outlook and Empire Life's expected future asset mix. In order to provide a margin that recognizes the mismatch of assets and liabilities, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, Empire Life maintains certain equity, bond and currency financial instruments as part of its general fund assets. Asset-liability mismatch risk for these liabilities is monitored on a daily basis.

For the life insurance business, where the insurance contract liabilities have a longer term than most available bonds and mortgages, Empire Life needs to reinvest net cash flows arising in the future to extend the duration of its assets. Under the revised Canadian actuarial standards of practice, the yields assumed for these future reinvestments are related to current interest rates, the current economic outlook and Empire Life's expected future asset mix. The reinvestment assumption grades from the initial reinvestment rate ("IRR") assumption to the ultimate reinvestment rate ("URR") assumption over the rolling 40-year period following the balance sheet date.

The impact of an immediate change in interest rates can be found in Note 24 - Investment risk management. If interest rates increase or decrease during the next year, then a change to the IRR assumption would be required to take into account the then-current economic outlook. For non-participating insurance business, a 1% change in interest rates would cause a change in reinvestment assumption for the next 40-years, resulting in an increase to policy liabilities thereby reducing net income by approximately $45,900 (not available for 2013). This assumes no change in the URR assumption.

For investment income expected to be earned on reinvestments beyond the rolling 40-year period, the Company uses an URR assumption. Under the revised Canadian actuarial standards of practice effective October 15, 2014, the URR assumption is prescribed as a long-term ultimate risk-free reinvestment rate of 3.3% plus a maximum amount for credit spreads minus asset default rates of 0.8%. In order to provide a margin that recognizes the longer-term mismatch, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the insurance contract liabilities are then adjusted to provide for credible adverse future scenarios. Empire Life uses an URR of 4.0% (3.0% for 2013) to adjust for credible adverse scenarios.

For the life insurance business, Empire Life's policy is to also use equity investments to cover estimated insurance liability cash flows of non-participating life and universal life products beyond 20 years following the balance sheet date. The value of the liabilities supported by these equities depends on assumptions about the future level of equity markets. The best estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.2% (9.2% for 2013). Empire Life uses an assumption of 7.5% (7.7% for 2013) to include provisions for moderate changes in equity rates of return determined in accordance with Canadian actuarial standards of practice. The returns are then reduced by margins to determine the net returns used in the valuation. Changes in the current market would result in changes to these assumptions.

The impact of an immediate change in equity markets can be found in Note 24 - Investment risk management. If the change in equity markets persisted for one year, then a change to the actuarial future equity market return assumption would be made. For non-participating insurance business, a 1% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $74,000 (2013 - $68,300).

For annuity business, where the timing and amount of the benefit obligations can be more readily determined, the matching of the asset and liability cash flows is tightly controlled. A sudden increase or decrease in interest rates would have a negligible effect on future profits from annuity business currently in force. For annuity business, the impact a 1% decrease in assumed IRR has on policy liabilities and subsequently on net income is negligible as a result of the matching process described above. Empire Life does not use equity investments to match annuity liability cash flows.

(c) Policy termination (lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of Empire Life's own internal termination studies (conducted annually) and recent CIA industry experience. Separate policy termination assumptions are used for permanent cash-value business, for renewable term insurance, term insurance to age 100 and for universal life insurance. In setting policy termination rates for renewable term insurance, it is assumed that an increase in lapses will occur at each renewal point, and that healthy policyholders are more likely to lapse at that time than those who have become uninsurable.

Acquisition costs may not be recovered fully if lapses in the early policy years exceed those in the actuarial assumptions. An increase in policy termination rates early in the life of the policy would tend to reduce profits for shareholders. An increase in policy termination rates later in the life of the policy would tend to increase profits for shareholders if the product is lapse supported (such as term insurance to age 100), but decrease shareholder profits for other types of policies.

For non-participating insurance and annuity business a 10% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing shareholders' net income by approximately $91,000 (2013 - $80,100). For products where fewer terminations would be financially adverse to Empire Life, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to Empire Life, the change is applied as an increase to the lapse assumption.

**(d) Expenses**

Policy liabilities provide for the future expense of administering policies in force, renewal commissions, general expenses, and taxes. Expenses associated with policy acquisition and issue are specifically excluded. The future expense assumption is derived from internal cost studies and includes an assumption for inflation.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

For non-participating insurance business and annuity business combined, a 5% increase in the maintenance expense assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $4,700 (2013 - $4,500).

**(e) Morbidity**

Empire Life carries out annual internal studies of its own morbidity experience where morbidity refers to both the rates of accident or sickness and the rates of recovery from the accident or sickness. The valuation assumptions are based on a combination of internal experience and recent CIA industry experience.

For individual critical illness business the incidence rates (or rates of accident or sickness) are the key assumption related to morbidity. An increase in incidence rates would result in an increase in the number of claims which increases expenditures and reduces shareholders' profits. For group long-term disability business the termination rates (or rates of recovery) are the key assumption related to morbidity. A decrease in termination rates would result in disability claims persisting longer which increases expenditures.

For non-participating insurance business where the morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing shareholders' net income by approximately $5,200 (2013 - $4,100).

***Product design and pricing risk***

Empire Life is subject to the risk of financial loss resulting from transacting insurance business where the costs and liabilities assumed in respect of a product exceed the expectations reflected in the pricing of the product. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through dividends and experience rating refunds, or through the fact that Empire Life can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, Empire Life assumes the entire risk, and thus must carry out a full valuation of the commitments in this regard.

Empire Life manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described below. Empire Life has established policy liabilities in accordance with standards set forth by the CIA. Experience studies (both company-specific and industry level) are factored into ongoing valuation, renewal and new business processes so that policy liabilities , as well as product design and pricing, take into account emerging experience. Empire Life has established an active capital management process that includes a Capital Management Policy and capital management levels that exceed regulatory minimums. As prescribed by regulatory authorities, the Appointed Actuary conducts Dynamic Capital Adequacy Testing and reports annually to Empire Life's Audit Committee on Empire Life's financial condition, outlining the impact on capital levels should future experience be adverse. Empire Life has also developed a Product Design and Pricing Risk Management Policy for each of its major product lines. This policy, which is established by management and approved by Empire Life's Board of Directors, defines Empire Life's product design and pricing risk management philosophy. The policy sets out product design and pricing approval authorities, product concentration limits, and required product development and monitoring processes and controls.

***Underwriting and claims risk***

Empire Life is subject to the risk of financial loss resulting from the selection and underwriting of risks to be insured and from the adjudication and settlement of claims. Many of Empire Life's individual insurance and group disability products provide benefits over the policyholder's lifetime. Actual claims experience may differ from the mortality and morbidity assumptions used to calculate the related premiums. Catastrophic events such as earthquakes, acts of terrorism or an influenza pandemic in Canada could result in adverse claims experience.

In addition to the risk management controls described above under Product Design and Pricing Risk, Empire Life also manages underwriting and claims risk through its Underwriting and Liability Risk Management Policy for each of its major product lines. This policy is established by management and approved by Empire Life's Board of Directors. Together, these policies define Empire Life's underwriting and claims management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. Empire Life uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines in the underwriting and liability management policy and the Board approves changes to these retention limits.

***Reinsurance risk***

Empire Life is subject to the risk of financial loss due to improper reinsurance coverage or a default of a reinsurer. Amounts reinsured per life vary according to the type of protection and the product. Empire Life also maintains a catastrophe reinsurance program, which provides protection in the event that multiple insured lives perish in a common accident or catastrophic event. Although Empire Life relies on reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience, reinsurance does not release it from its primary commitments to its policyholders and it is exposed to the credit risk associated with the amounts ceded to reinsurers. The availability and cost of reinsurance are subject to prevailing reinsurance market conditions, both in terms of price and availability, which can also affect earnings.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Empire Life's net exposure to claims, as a result of reinsurance coverage, is outlined in Note 18 - Reinsurance.

Empire Life does not have any material assumed reinsurance annual premium revenue and it does not reinsure Empire Life segregated fund guaranteed products or those issued by other insurance companies.

## 26. Guarantees and other contingencies

The Company's by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to the Company. The broad general nature of these indemnifications does not permit a reasonable estimate of the maximum potential amount of any liability.

In connection with its operations, the Company is from time to time named as a defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

The Company's subsidiary, Empire Life, operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the subsidiary. In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

The Company has agreed to indemnify the purchaser of The Dominion for losses arising out of breaches of representations, warranties and covenants following closing of the sale on November 1, 2013. The indemnities survive for periods ranging from 21 months to 8 years, and in some limited cases with no term limitations. The Company has not recorded any liabilities with respect to these indemnities and while it is not possible to estimate the outcome of any such matters, the Company does not believe it will incur any material loss. The nature of the indemnifications does not permit a reasonable estimate of the maximum potential amount of any liability.

(all dollar figures expressed in thousands of dollars, except per share amounts)

## 27. Related party transactions

The Company's has investments in related parties which includes investments in associates of $301,228 (2013 - $288,884) and investments in other related parties within investments - corporate of $740,916 (2013 - $733,990). The ultimate controlling party of the Company and these related parties, is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

In addition the Company has a investment in a private company of $32,492 where one of the key management personnel is also a director of the Company.

The Company received administrative service fees of $337 (2013 - $292) from related parties during the year.

### Compensation of key management personnel

Key management personnel are comprised of the directors of the Company and their remuneration is as follows:

| | 2014 | 2013 |
|---|---|---|
| Salaries and other short-term benefits | $ 1,439 | $ 1,245 |
| Post-employment benefits | 179 | 140 |
| Total | $ 1,618 | $ 1,385 |

## 28. Subsidiaries

The principal subsidiaries are:

i) E-L Financial Services Limited (81.0% owned), whose operating subsidiary is The Empire Life Insurance Company ("Empire" or "Empire Life") (99.2%). Empire underwrites life and health insurance policies and provides segregated funds, and annuity products. Empire Life's mutual fund subsidiary, Empire Life Investments Inc. (wholly-owned) is a registered Investment Funds Manager.

ii) United Corporations Limited ("United") (51.5% owned) which is a closed-end investment company traded on the Toronto Stock Exchange under the symbol "UNC". United is an investment vehicle for long-term growth through investments in common equities. United has a reporting date of March 31, therefore, certain adjustments have been made for the purpose of inclusion in the Company's consolidated financial statements.

(all dollar figures expressed in thousands of dollars, except per share amounts)

The following table summarizes the statements of financial position for the operating subsidiaries:

| | **Empire Life** | | **United** | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| NCI percentage | 19.5% | 20.4% | 48.5% | 48.5% |
| Cash and cash equivalents | $ 239,102 | $ 217,350 | $ 17,005 | $ 13,999 |
| Investments | 6,426,921 | 5,803,051 | 1,321,516 | 1,206,090 |
| Segregated funds | 6,948,475 | 5,954,508 | — | — |
| Other | 112,705 | 105,501 | 3,940 | 3,995 |
| Total assets | 13,727,203 | 12,080,410 | 1,342,461 | 1,224,084 |
| Insurance and investment contract liabilities | (4,725,088) | (4,187,925) | — | — |
| Reinsurance liabilities | (490,575) | (284,627) | — | — |
| Deferred tax | (8,243) | — | (47,041) | (46,921) |
| Subordinated debt | (298,763) | (498,343) | — | — |
| Segregated funds | (6,948,475) | (5,954,508) | — | — |
| Other | (193,780) | (198,909) | (749) | (719) |
| Total liabilities | (12,664,924) | (11,124,312) | (47,790) | (47,640) |
| Net assets | 1,062,279 | 956,098 | 1,294,671 | 1,176,444 |
| Less: Participating policyholders' interests | (60,040) | (50,822) | — | — |
| Preferred shareholders' interest | — | — | (7,747) | (7,747) |
| Net assets available to common shareholders | $ 1,002,239 | $ 905,276 | $ 1,286,924 | $ 1,168,697 |
| NCI - common shareholders | $ 194,590 | $ 184,128 | $ 626,377 | $ 567,302 |
| NCI - preferred shareholders | — | — | 7,747 | 7,747 |
| Total NCI | $ 194,590 | $ 184,128 | $ 634,124 | $ 575,049 |

During the year, the Company invested $4,945 (2013 - $nil) in Empire Life and $nil (2013 - $9,051) in United. The following table summarizes the statements of income and comprehensive income:

| | Empire Life | | United | |
|---|---|---|---|---|
| For the year ended | 2014 | 2013 | 2014 | 2013 |
| Revenue | $ 1,926,016 | $ 906,212 | $ 168,850 | $ 324,152 |
| Net income | 107,376 | 110,036 | 137,261 | 273,945 |
| Other comprehensive income (loss) | 32,789 | (3,486) | — | — |
| Total comprehensive income | $ 140,165 | $ 106,550 | $ 137,261 | $ 273,945 |
| Total comprehensive income allocated to NCI | $ 25,535 | $ 21,722 | $ 66,626 | $ 132,976 |
| Dividends paid to NCI | $ 6,815 | $ 4,907 | $ 9,433 | $ 8,648 |

The following table summarizes the cash flows:

| | Empire Life | | United | |
|---|---|---|---|---|
| Summarized cash flows | 2014 | 2013 | 2014 | 2013 |
| Cash flows from operating activities | $ 151,847 | $ 221,746 | $ 4,510 | $ (2,074) |
| Cash flows from investing activities | $ 119,229 | $ (509,168) | $ 17,530 | $ 22,908 |
| Cash flows from financing activities | $ (249,324) | $ 256,390 | $ (19,034) | $ (17,817) |

Empire Life is registered under the *Insurance Companies Act*, Canada and is regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”). Any dividends paid by Empire Life must comply with regulatory requirements.

(all dollar figures expressed in thousands of dollars, except per share amounts)

Shareholders' entitlement to $4,410 (2013 - $4,554) of shareholders' equity is contingent upon future payment of dividends to participating Empire Life policyholders.

## 29. Discontinued operations

During the second quarter of 2013, the Company announced that it had entered into an agreement to sell the shares of its wholly-owned subsidiary, The Dominion, to The Travelers Companies, Inc. for total proceeds of $1.08 billion. Following receipt of all regulatory approvals, the sale closed on November 1, 2013.

The Dominion has been classified as discontinued operations, the results of which are set out below.

(a) Analysis of net income from discontinued operations

| **Ten month period ending November 1, 2013 (date of sale)** | | 2013 |
|---|---|---|
| **Revenue** | | |
| Net premiums earned | $ | 972,284 |
| Investment and other income | | 82,560 |
| Investment gains | | 120,256 |
| | | 1,175,100 |
| **Expenses** | | |
| Gross claims and benefits | | 836,170 |
| Claims and benefits ceded to reinsurers | | (72,122) |
| | | 764,048 |
| Commissions | | 190,174 |
| Other expenses | | 162,127 |
| | | 1,116,349 |
| Income before tax of discontinued operations | | 58,751 |
| Income tax expense | | 13,993 |
| **Income after tax of discontinued operations** | | 44,758 |
| Gain on sale of discontinued operations [1] | | 306,849 |
| Tax expense of sale of discontinued operations | | 40,481 |
| **After tax gain on sale of discontinued operations** | | 266,368 |
| **Net income from discontinued operations, including gain on sale** | $ | 311,126 |

[1] Included in the gain on sale is a $46,816 reclassification of The Dominion's unrealized fair value increase on AFS investments from AOCI to the consolidated statements of income. The remaining $13,008 in AOCI, which relates to the remeasurement of defined benefit plans, has been reclassified to retained earnings.

(all dollar figures expressed in thousands of dollars, except per share amounts)

(b) Other comprehensive income related to discontinued operations

| **Ten month period ending November 1, 2013 (date of sale)** | | 2013 |
|---|---|---|
| **Other comprehensive income ("OCI")** | | |
| Items that may be reclassified subsequently to net income: | | |
| Unrealized fair value increase on AFS investments | $ | 22,198 |
| Income tax | | (5,891) |
| Unrealized gains | | 16,307 |
| Realized gain on AFS investments reclassified to net income | | (122,449) |
| Income tax | | 33,783 |
| Reclassification adjustment | | (88,666) |
| Net unrealized fair value increase on AFS investments | | (72,359) |
| Items that will not be reclassified to net income: | | |
| Remeasurement of defined benefit plans | | 11,575 |
| Income tax | | (2,917) |
| Remeasurement of defined benefit plans | | 8,658 |
| **OCI from discontinued operations** | $ | (63,701) |

## 30. Capital management

The Company's capital management process is designed to protect capital and build shareholder value over the long-term. Effective capital management includes maintaining sufficient liquidity to be able to pay dividends to the Company's preferred shareholders, satisfy issuer credit ratings requirements, as well as providing flexibility to pursue strategic opportunities. Total capital on a consolidated basis at December 31, 2014, consisted of E-L Financial shareholders' equity of $4,166,228 (2013 - $3,752,880), non-controlling interests in subsidiaries of $828,714 (2013 - $759,177) and participating policyholders' interests of $60,040 (2013 - $50,822).

Empire Life manages its regulatory capital in order to meet the regulatory capital adequacy requirements of the Insurance Companies Act, Canada as established by OSFI. Under the guidelines established by OSFI, Empire Life's regulatory capital consists of two tiers. Empire Life's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, subordinated debt, and negative reserves on policy liabilities. OSFI's supervisory target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2014 and December 31, 2013, Empire Life exceeded both of these requirements.

# Glossary of Terms (Unaudited)

**Accumulated Other Comprehensive Income ("AOCI")**

A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and the Company's share of AOCI from its associates. These items have been recognized in comprehensive income, but excluded from net income.

**Active Market**

An active market is a market in which the items traded are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public.

**Available For Sale ("AFS") Financial Assets**

Non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, held to maturity investments, or held for trading.

**Canadian Asset Liability Method ("CALM")**

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

**Canadian Institute of Actuaries ("CIA")**

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

**Chartered Professional Accountants of Canada ("CPA Canada")**

Canada's not-for-profit association for Chartered Professional Accountants ("CPA") provides information and guidance to its members, students and capital markets. Working in collaboration with its provincial member organizations, CPA Canada supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and develops and delivers education programs.

**Canadian Life and Health Insurance Association ("CLHIA")**

The CLHIA is an organization representing life insurance and health insurance providers in Canada. The Canadian life and health insurance industry provides a wide range of financial security products to more than 26 million Canadians and their dependants. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

**Effective Interest Method**

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**Fair Value Through Profit or Loss ("FVTPL")**

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option.

**International Financial Reporting Standards ("IFRS")**

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

**Minimum Continuing Capital and Surplus Requirements (MCCSR)**

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

**Net Premiums Earned**

Net premiums earned reflects the earning of net premiums written (gross premiums written less reinsurance ceded) on a straight-line basis over the terms of the individual insurance policies.

**Other Comprehensive Income (OCI)**

Unrealized gains and losses, primarily on financial assets backing Capital and Surplus, are recorded as Other Comprehensive Income ("OCI") or Other Comprehensive Loss ("OCL"). When these assets are sold or written down the resulting gain or loss is reclassified from OCI to net income. Remeasurements of post-employment benefit liabilities are also recorded as OCI or OCL. These remeasurements will not be reclassified to net income and will remain in AOCI.

**Office of the Superintendent of Financial Institutions Canada ("OSFI")**

The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

**Participating Policies**

The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. Empire Life has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account.

**Value in Use**

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

## Summary of Consolidated Results (unaudited)

| | IFRS | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 * | 2011 * | 2010 * |
| Premium income | $ 867,493 | $ 821,544 | $ 2,022,797 | $ 1,972,790 | $ 2,006,855 |
| Share of income (loss) from investments in associates | 25,519 | 59,178 | 83,945 | (27,298) | 31,837 |
| Fair value change in fair value through profit or loss investments | 942,271 | 294,558 | 201,326 | 335,458 | 289,551 |
| Realized gain on available for sale investments including impairment write downs | 28,204 | 10,339 | 68,081 | 59,249 | 15,459 |
| Investment and other income | 527,750 | 459,277 | 491,710 | 465,348 | 439,650 |
| Excess of fair value of net assets acquired over purchase price | — | — | 142,241 | — | — |
| Total revenues | 2,391,237 | 1,644,896 | 3,010,100 | 2,805,547 | 2,783,352 |
| Policy benefits | 1,413,408 | 422,196 | 1,711,065 | 2,125,855 | 1,900,569 |
| Operating expenditures including commissions and premium taxes | 395,911 | 358,839 | 753,532 | 718,609 | 674,965 |
| Income taxes | 91,066 | 114,515 | 56,190 | (1,609) | 25,968 |
| | 490,852 | 749,346 | 489,313 | (37,308) | 181,850 |
| Policyholders' and non-controlling interest portion of income | 96,322 | 152,793 | 9,709 | 7,415 | (851) |
| Net income (loss) before undernoted items | 394,530 | 596,553 | 479,604 | (44,723) | 182,701 |
| Net income from discontinued operations, including gain on sale | — | 311,126 | — | — | — |
| Total net income | $ 394,530 | $ 907,679 | $ 479,604 | $ (44,723) | $ 182,701 |
| Net income (loss) per share - basic | $ 96.51 | $ 227.18 | $ 118.41 | $ (13.93) | $ 43.80 |
| **Assets** | | | | | |
| Cash and cash equivalents | $ 316,811 | $ 319,749 | $ 393,998 | $ 248,838 | $ 339,892 |
| Investments in associates | 301,228 | 288,884 | 230,994 | 419,784 | 449,363 |
| Investments - corporate | 3,790,503 | 3,381,417 | 2,026,644 | 872,889 | 961,188 |
| Investments - insurance operations | 6,426,921 | 5,803,051 | 8,222,486 | 7,859,822 | 6,964,620 |
| Reinsurance recoverable | — | — | 77,361 | 74,311 | 87,799 |
| Premiums receivable | 25,213 | 20,849 | 330,476 | 316,539 | 309,999 |
| Other assets | 102,096 | 117,034 | 358,330 | 392,082 | 354,040 |
| | 10,962,772 | 9,930,984 | 11,640,289 | 10,184,265 | 9,466,901 |
| Segregated funds | 6,948,475 | 5,954,508 | 5,014,392 | 4,415,318 | 4,620,899 |
| | $17,911,247 | $15,885,492 | $16,654,681 | $14,599,583 | $14,087,800 |
| **Liabilities** | | | | | |
| Insurance contract liabilities | $ 4,741,233 | $ 4,214,272 | $ 6,849,328 | $ 6,557,459 | $ 5,928,096 |
| Other liabilities | 1,166,557 | 1,153,833 | 865,543 | 691,597 | 531,857 |
| Policyholders' and non-controlling interest | 888,754 | 809,999 | 679,721 | 215,816 | 216,409 |
| | 6,796,544 | 6,178,104 | 8,394,592 | 7,464,872 | 6,676,362 |
| Capital stock | 372,388 | 372,388 | 372,388 | 272,388 | 272,388 |
| Retained earnings | 3,721,910 | 3,342,064 | 2,764,971 | 2,304,961 | 2,363,078 |
| Accumulated other comprehensive income | 71,930 | 38,428 | 108,338 | 142,044 | 155,073 |
| | 4,166,228 | 3,752,880 | 3,245,697 | 2,719,393 | 2,790,539 |
| | 10,962,772 | 9,930,984 | 11,640,289 | 10,184,265 | 9,466,901 |
| Segregated funds | 6,948,475 | 5,954,508 | 5,014,392 | 4,415,318 | 4,620,899 |
| | $17,911,247 | $15,885,492 | $16,654,681 | $14,599,583 | $14,087,800 |

* including discontinued operations

## Summary of Empire Life (unaudited)

| | IFRS | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | | | (Restated) | | |
| Premium income | $ 867,493 | $ 821,544 | $ 813,532 | $ 758,454 | $ 816,526 |
| Fair value change in fair value through profit or loss investments | 538,036 | (349,037) | 1,397 | 394,512 | 213,646 |
| Realized gain on fair value through profit or loss investments | 74,469 | 45,445 | 54,349 | 41,324 | 8,047 |
| Realized gain (loss) on available for sale investments including impairment write downs | 12,621 | (2,488) | 28,405 | 25,846 | 7,496 |
| Investment and other income | 433,397 | 390,748 | 362,572 | 337,025 | 317,442 |
| Total revenues | 1,926,016 | 906,212 | 1,260,255 | 1,557,161 | 1,363,157 |
| Policy benefits | 1,415,690 | 422,196 | 827,107 | 1,199,741 | 1,051,297 |
| Operating expenditures including commissions and premium taxes | 368,549 | 340,695 | 342,157 | 324,136 | 302,655 |
| Income and capital taxes | 34,401 | 33,285 | 17,438 | 139 | (5,742) |
| | 107,376 | 110,036 | 73,553 | 33,145 | 14,947 |
| Profits allocated to policyholders | 8,670 | (3,243) | (6,610) | 838 | (4,890) |
| Profits allocated to non-policyholders | 19,248 | 23,060 | 16,319 | 6,577 | 4,039 |
| Net contribution to E-L | $ 79,458 | $ 90,219 | $ 63,844 | $ 25,730 | $ 15,798 |
| | | | | | |
| Premium income by line | | | | | |
| Individual: | | | | | |
| Insurance | $ 341,139 | $ 336,184 | $ 332,160 | $ 321,073 | $ 299,390 |
| Annuities | 183,299 | 155,197 | 173,087 | 132,681 | 231,534 |
| Health | 21,306 | 19,493 | 16,091 | 17,629 | 16,799 |
| | 545,744 | 510,874 | 521,338 | 471,383 | 547,723 |
| Group: | | | | | |
| Insurance | 30,300 | 29,594 | 27,368 | 25,929 | 23,623 |
| Annuities | 2,807 | 4,087 | 2,685 | 8,765 | 7,145 |
| Health | 288,642 | 276,989 | 262,141 | 252,377 | 238,035 |
| | 321,749 | 310,670 | 292,194 | 287,071 | 268,803 |
| Total premiums | $ 867,493 | $ 821,544 | $ 813,532 | $ 758,454 | $ 816,526 |
| Assets including segregated funds | $ 13,727,203 | $ 12,080,410 | $ 10,915,798 | $ 10,014,822 | $ 9,530,926 |

## Summary of Financial Progress Since the Company's Inception

**(Unaudited)**

| Year ending December | Total Assets | Net Premiums | Total Revenues | Net Common Shareholders' Equity | Net Income (Loss) | Net Income (Loss) Per Share |
|---|---|---|---|---|---|---|
| 1969 | $ 161,787 | $ 41,256 | $ 49,966 | $ 21,447 | $ 2,032 | $ 0.58 |
| 1970 | 178,204 | 48,024 | 57,637 | 24,656 | 2,607 | 0.75 |
| 1971 | 192,863 | 52,386 | 62,985 | 27,007 | 2,504 | 0.72 |
| 1972 | 212,319 | 57,570 | 69,404 | 30,824 | 4,352 | 1.25 |
| 1973 | 234,926 | 67,732 | 81,221 | 34,707 | 4,278 | 1.22 |
| 1974 | 257,732 | 76,487 | 92,117 | 37,155 | 2,118 | 0.60 |
| 1975 | 282,000 | 88,314 | 105,793 | 39,741 | 2,990 | 0.85 |
| 1976 | 323,131 | 111,484 | 131,560 | 45,824 | 6,375 | 1.82 |
| 1977 | 376,428 | 134,419 | 158,446 | 55,047 | 9,970 | 2.86 |
| 1978 | 450,606 | 150,607 | 179,995 | 70,323 | 7,252 | 2.08 |
| 1979 | 487,206 | 147,330 | 181,869 | 82,604 | 13,084 | 3.26 |
| 1980 | 536,926 | 164,708 | 204,357 | 97,422 | 11,300 | 2.81 |
| 1981 | 585,110 | 195,967 | 242,631 | 92,162 | (1,860) | (0.46) |
| 1982 | 630,645 | 218,042 | 273,265 | 100,691 | 8,662 | 2.15 |
| 1983 | 706,425 | 219,067 | 281,979 | 129,134 | 28,464 | 7.08 |
| 1984 | 777,270 | 230,445 | 300,345 | 150,766 | 26,954 | 6.71 |
| 1985 | 1,118,141 | 356,232 | 441,180 | 140,111 | (9,671) | (2.41) |
| 1986 | 1,400,171 | 435,795 | 537,969 | 154,593 | 18,436 | 4.59 |
| 1987 | 1,545,769 | 480,742 | 602,617 | 187,455 | 21,846 | 5.44 |
| 1988 | 1,666,086 | 477,787 | 610,928 | 222,944 | 36,097 | 8.98 |
| 1989 | 1,832,250 | 547,353 | 696,924 | 256,575 | 40,258 | 10.01 |
| 1990 | 1,928,160 | 568,217 | 727,841 | 255,463 | 7,208 | 1.80 |
| 1991 | 2,341,396 | 667,477 | 820,109 | 276,464 | 31,725 | 7.89 |
| 1992 | 2,783,297 | 737,292 | 933,083 | 322,706 | 18,700 | 4.65 |
| 1993 | 2,944,319 | 706,822 | 914,718 | 362,925 | 41,619 | 10.36 |
| 1994 | 3,029,425 | 637,915 | 812,062 | 402,734 | 41,055 | 10.21 |
| 1995 | 3,052,601 | 723,330 | 900,179 | 443,953 | 43,555 | 10.83 |
| 1996 | 3,598,443 | 766,606 | 964,533 | 498,320 | 57,814 | 14.38 |
| 1997 | 5,130,087 | 805,187 | 1,135,463 | 667,634 | 166,386 | 41.39 |
| 1998 | 5,522,285 | 822,513 | 1,109,457 | 951,114 | 57,165 | 14.22 |
| 1999 | 5,756,343 | 875,594 | 1,185,846 | 1,001,548 | 52,599 | 13.09 |
| 2000 | 6,253,408 | 918,065 | 1,267,189 | 1,139,691 | 73,389 | 18.26 |
| 2001 | 6,385,555 | 966,826 | 1,306,988 | 1,250,974 | 77,480 | 19.27 |
| 2002 | 6,433,194 | 1,107,295 | 1,380,163 | 1,267,385 | 51,512 | 12.81 |
| 2003 | 7,308,559 | 1,358,119 | 1,652,951 | 1,375,394 | 46,870 | 11.66 |

This chart is drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

1985 - The Canadian Indemnity Company was acquired

1986 - Montreal Life Insurance Company was acquired

1991 - Canadian operations of SAFECO Corporation were acquired

1997 - Colonia Life Insurance Company was acquired - Investment in National Trustco Inc. was sold

1998 - E-L Financial's Corporate Investments were recorded at market value versus cost basis

(Continued)

## Summary of Financial Progress Since the Company's Inception

**(Unaudited)**

| Year ending December | Total Assets | Net Premiums | Total Revenues | Net Common Shareholders' Equity | Shareholders' Comprehensive Income (Loss) | Comprehensive Income (Loss) Per Share |
|---|---|---|---|---|---|---|
| 2004 | $ 8,279,929 | $ 1,543,086 | $ 1,893,119 | $ 1,582,143 | $ 129,886 | $ 31.91 |
| 2005 | 9,830,984 | 1,600,708 | 2,201,191 | 1,815,670 | 293,703 | 86.68 |
| 2006 | 11,206,412 | 1,628,870 | 2,320,794 | 2,197,721 | 372,520 | 109.97 |
| 2007 | 12,835,288 | 1,630,208 | 2,162,946 | 2,500,446 | 81,860 | 21.58 |
| 2008 | 10,912,997 | 1,709,435 | 1,600,148 | 2,015,202 | (470,235) | (144.42) |
| 2009 | 12,902,041 | 1,925,902 | 2,153,506 | 2,250,943 | 249,876 | 72.28 |
| 2010 | 13,974,077 | 2,008,040 | 2,725,184 | 2,433,377 | 195,293 | 55.94 |
| 2011 | 14,599,583 | 1,972,790 | 2,805,547 | 2,519,393 | (57,752) | (17.24) |
| 2012 | 16,662,339 | 2,022,797 | 3,010,100 | 2,981,573 | 481,774 | 118.96 |
| 2013 | 15,885,492 | 821,544 | 1,644,896 | 3,752,880 | 871,577 | 217.99 |
| 2014 | 17,911,247 | 867,493 | 2,391,237 | 4,166,228 | 428,032 | 105.04 |

This chart is drawn from the individual annual reports and has not been restated for any subsequent changes in accounting policies.

2005 - Changes in fair value of E-L Financial's Corporate Investments are recognized in income in the period in which the change occurs

2007 - All investments are carried at fair value except for those which do not have a quoted price in an active market. The change in fair value of certain investments are reflected in net income ('held for trading' investments) with the remainder in other comprehensive income ('available for sale' investments). Comprehensive income consists of net income and other comprehensive income.

2011 - Conversion to International Financial Reporting Standards ("IFRS")

2012 - United Corporation Limited became a subsidiary of E-L Financial Corporation Limited

2013 - The Dominion of Canada General Insurance Company was sold

| | |
|---|---|
| HEAD OFFICE | Tenth Floor, 165 University Avenue, Toronto, Ontario, M5H 3B8<br>Tel: 416-947-2578<br>Fax: 416-362-2592 |
| TRANSFER AGENT AND REGISTRAR | Computershare Investor Services Inc.<br>100 University Avenue, 9th Floor<br>Toronto, Ontario M5J 2Y1<br>Telephone: 416-981-9633<br>Toll Free: 1-800-564-6253<br>www.computershare.com/service |

STOCK EXCHANGE LISTINGS

| | |
|---|---|
| Common Shares | ELF |
| First Preference Shares, Series 1 | ELF.PR.F |
| First Preference Shares, Series 2 | ELF.PR.G |
| First Preference Shares, Series 3 | ELF.PR.H |

REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. James Billett
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
M5H 3B8
Email: jfbillett@rogers.com
Phone: 416-284-6440

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with The Company's policy for reporting accounting or auditing matters.