The Empire Life Insurance Company

Annual Report 2013

Empire Life

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FINANCIAL HIGHLIGHTS

267%
MCCSR ratio
as at December 31, 2013

Strength of our capital base

Our Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio is well above the minimum requirements set by the industry regulator. A high MCCSR ratio demonstrates our long-term ability to pay claims and our prudent capital management.

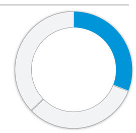
What is an MCCSR ratio?

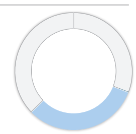
An MCCSR ratio of 100% means that a company has adequate capital to meet obligations to its policyholders. The Office of the Superintendent of Financial Institutions of Canada (OSFI) requires life insurance companies to maintain an MCCSR ratio of at least 120% and expects them to have a target ratio of at least 150%.

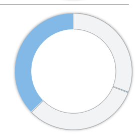
Product diversification

by premium and fee income for the twelve months ended December 31, 2013.

Empire Life is well-diversified across three product lines:

Wealth Management
31%


Employee Benefits
32%


Individual Insurance
37%


Financial Ratings

These financial ratings give you an independent opinion of our financial strength as an insurer and our ability to meet policyholder obligations.

A (Excellent)
A.M. Best Company (as at June 28, 2013)

Subordinated Debt Rating of A (low)
Issuer Rating of A

Claims Paying Rating of IC-2 (2nd of five categories)
DBRS (as at May 10, 2013)

Shareholders' Net Income
2013 (in millions)
$113.3

Shareholders' Net Income
2012 (in millions) (restated): $80.2

Net Premium and Fee Income
2013 (in millions)
$972

Net Premium and Fee Income
2012 (in millions): $939

Total Assets under Management
2013 (in millions)
$12,013

Total Assets under Management
2012 (in millions): $10,839

Note: The selected financial information presented above is derived from the audited financial statements of The Empire Life Insurance Company and Management's Discussion and Analysis included in the Empire Life 2013 Annual Report.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Looking back at 2013, it's been a good year. Market returns have been more robust, long-term interest rates are rising and returning to more normal levels, and we have seen signs that the economy is beginning to stabilize after a number of years of uncertainty and tumult. I think the results presented within this report show that 2013 has also been a good year for Empire Life. The Board is pleased with the company's results.

Even with an improving economy, there is no question that the regulatory landscape in Canada is more complex than ever before. Not only is our regulatory framework changing, but the marketplace overall is changing as well. We have seen some dramatic shifts in the Canadian insurance industry over the last number of years. Perhaps the biggest trend is that many companies have moved away from offering guaranteed long-term products. Empire Life, however, remains firmly committed to the insurance business and to offering guaranteed products Canadians need.

The Board is keenly aware of the pressures and challenges the current regulatory and economic environments present and has full confidence in how Empire Life and its management is responding to the demands. The Board believes that Empire Life is positioned well for the future.

We welcomed two new Shareholder Directors this year: Andrew Birrell and Jonathan Yates. I am pleased with the wealth of knowledge, depth and expertise of the Board and thank all members for their contributions in 2013.

My appreciation is also extended to each employee at Empire Life, whose contributions can be directly linked to the very positive results we have seen this past year. Together, the Board, management and employees are working to help Empire Life fulfill its vision and I am proud of our partnership and dedication.

Duncan N.R. Jackman
Chairman of the Board
February 25, 2014

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

A key theme over the last five years was our challenging economic environment and how it affected our decisions and our business results. In 2013, we saw brighter moments within the economic landscape that presented a different story: we are beginning to see more global economic stability; long-term interest rates are rising; and Canadian and U.S. equity markets have improved dramatically over the past 12 months. While we still face an uncertain regulatory environment regarding accounting rules for insurance contracts and capital requirements, an improved economic picture helped us achieve our goals and strong results for 2013. I am very pleased with our results and progress made on our key projects.

OUR RESULTS

For the second consecutive year, we achieved a record level of Shareholders' Net Income reaching $113.3 million in 2013. Individual Insurance and strong segregated fund net income were major contributors to this result. We achieved strong growth in our total assets under management reaching $12 billion, an increase of 11% over 2012. Our Minimum Continuing Capital and Surplus Requirements Ratio (MCCSR) is well-above minimum requirements and internal targets and was 267% at the end of 2013.

Our Employee Benefits business experienced weaker earnings in 2013 with $8.6 million in net income compared to $17.2 million in 2012. Increased health claims and unfavourable long-term disability results were the primary reasons for this decrease. However, the line had one of its strongest sales years hitting $52.0 million, an 18% increase over the previous year. In particular, we achieved greater sales of our 20Plus product focused on the 100-200 employees market which is very positive.

Within our Wealth line of business, strong earnings from our segregated funds contributed to an overall result of $18.6 million in net income. Our segregated funds line-up is solid with our newest guaranteed minimum withdrawal benefit product, Class Plus 2, gaining favour with customers and advisors. Improving market performance also contributed to our earnings and higher segregated fund assets under management reaching $5.9 billion, an increase of 19% over 2012.

While our mutual funds, offered through our subsidiary, Empire Life Investments Inc., achieved lower than expected sales, we did see steady growth during the second half of the year. This momentum is encouraging and we have higher expectations for this product line as it gains more awareness in the market.

Our Individual Insurance line of business contributed $72.2 million to our Shareholders' Net Income, a significant increase over $20 million earned in 2012 and the net loss we experienced in 2011. Improved investment performance and rising interest rates helped contribute to this result. Sales were lower than 2012, but improving interest rates allowed us to re-price our products in Q4 to be more competitive.

OUR PRIORITIES IN FOCUS

In 2013, our team completed a review of our strategy and sharpened our focus on three key priorities: our customer, distribution and operational effectiveness. Ensuring every employee is clear about our goals and where we are headed is very important. We continue to make progress on our initiatives that will see us become a company known for simplicity, being easy to do business with and having a personal touch.

Knowing more about customers, the Canadians who trust us with their wealth and financial security, is a cornerstone of our strategy. In 2013, we implemented a new customer database and spent time developing a customer service strategy. Using our people and technology, we want to create an improved experience that will help us interact in a more meaningful way with our customers.

We are putting the fundamentals in place to improve our operations and service, and a major component of that is our wealth administration system. This past September, we moved the administration of our largest block of wealth business to Citigroup (Citi). It was a very successful conversion and an important step in this project that has helped us achieve greater efficiency and scale. We also launched our newest online portal for investment customers and having Citi's robust back-end system helped make this possible.

Customer adoption of our group health electronic claims system is increasing, particularly after we added a number of enhancements early in 2013. This system is steadily gaining a reputation for being extremely simple, easy to use and cost-efficient. Achieving operational effectiveness is an important goal for our company and in the past year, we completed a number of process and cost reviews. We will continue to find ways to reduce costs and implement efficiencies around our business.

Two initiatives within our Individual Insurance line are industry-leading and very exciting for the future of Empire Life. In the spring, we launched Hybrid Solution 100, an adjustable-priced product that has guaranteed features. It is a permanent insurance solution that offers competitive prices that fluctuate when interest rates go up or down.

We are also changing the way people buy insurance with our new electronic, fully-underwritten sales process, Fast & Full™. Introduced in December, Fast & Full offers an easy way for consumers to access the insurance they need with the help of their advisor. We know there are large numbers of middle-income Canadians who are not properly insured. With our fast and easy way to buy insurance, we believe we are taking great strides to help our customers protect their families and futures.

MESSAGE FROM THE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

To close, 2013 was a strong year for Empire Life, in both financial results and progress on our strategy. Our employees, management and Board are responsible for our success and I thank all of them for their work and dedication. I am excited about the changes we are making so we can continue to deliver profitable growth, compete and be a leader in our industry.

Leslie C. Herr
President and Chief Executive Officer
February 25, 2014

Source of earnings is a methodology for identifying and quantifying the various sources of International Financial Reporting Standards (IFRS) income of a life insurance company. It presents shareholders' net income in a different format from the traditional income statement form and provides a better understanding of the Company's sources of profit for each major product line.

Expected Profit from In-Force Business

This source of earnings represents the profit the Company expects to generate on in-force business if experience is in line with the Company's best estimate assumptions for mortality, morbidity, persistency, investment returns, expenses and taxes.

Impact of New Business

Writing new business typically adds economic value to a life insurance company. However, as of the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

Experience Gains and Losses

This item represents gains or losses due to the difference between actual experience and the best estimate assumptions.

Management Actions and Changes in Assumptions

This component includes earnings generated by management actions during the year (e.g. acquisition or sale of a block of business, changes to product price, fees or asset mix, etc.) or the impact of changes in assumptions or methodology used for the calculation of actuarial liabilities for in-force business.

Other

This item includes any source of earnings from operations not included above.

Earnings on Surplus

This component represents the pre-tax earnings on the shareholders' capital and surplus funds.

Source of Earnings by Line of Business

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
For the year ended December 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Expected profit on in-force business	**$ 47.6**	$ 35.9	**$ 18.5**	$ 17.4	**$ 39.7**	$ 38.9			**$ 105.8**	$ 92.2
Impact of new business	**(23.8)**	(24.7)	**(11.9)**	(12.5)	**(6.9)**	(19.8)			**(42.6)**	(57.0)
Experience gains & losses	**1.1**	2.2	**4.7**	12.8	**59.8**	(3.9)			**65.6**	11.1
Management actions and changes in assumptions	**(3.3)**	(6.5)	**0.1**	5.0	**3.9**	2.9			**0.7**	1.4
Other	**—**	—	**—**	—	**—**	3.5			**—**	3.5
Earnings on operations before income taxes	**21.6**	6.9	**11.4**	22.7	**96.5**	21.6	**—**	—	**129.5**	51.2
Earnings on surplus	**—**	—	**—**	—	**—**	—	**17.4**	48.3	**17.4**	48.3
Income before income tax	**21.6**	6.9	**11.4**	22.7	**96.5**	21.6	**17.4**	48.3	**146.9**	99.5
Income taxes	**2.9**	(0.4)	**2.8**	5.5	**24.3**	1.6	**3.6**	12.6	**33.6**	19.3
Shareholders' Net Income	**$ 18.7**	$ 7.3	**$ 8.6**	$ 17.2	**$ 72.2**	$ 20.0	**$ 13.8**	$ 35.7	**$ 113.3**	$ 80.2

Wealth Management

Wealth Management's 2013 earnings on operations were higher than the level achieved in 2012. In 2013 there was an increase in expected profit on in-force business due primarily to the segregated fund business. Higher net income on in-force business in 2013 was due to the growth of the guaranteed minimum withdrawal benefit (GMWB) product which generates higher fees than other segregated fund products. In addition, in-force business profits improved due to the positive impact of favourable stock market conditions in 2013 on average assets under management and management fees earned.

In addition, there was an increase in earnings on operations in 2013 compared to 2012 from the impact of new business due to weaker GMWB segregated fund gross sales. While GMWB product sales remained strong in 2013 they were down from the elevated levels experienced in the third and fourth quarters of 2012. The elevated sales in the third and fourth quarters of 2012 appeared to be attributable primarily to announcements by some GMWB competitors to suspend the sale of GMWB products, remove benefits, or increase fees.

There was also an increase in earnings resulting from management actions and changes in assumptions primarily related to annuitant mortality assumptions. While annuitant mortality assumptions were strengthened in both years the amount of the strengthening was lower in 2013.

These items were partly offset by a decrease in income from experience gains which was due primarily to annuitant mortality experience losses in 2013 compared to gains in 2012.

Employee Benefits

Employee Benefit's earnings on operations were lower than the level achieved in 2012. In 2013 there was a decrease in income from experience gains as the gain from claims experience in 2013 was lower than 2012 due to less favourable health claims and long-term disability results.

In addition, there was a decrease in earnings on operations in 2013 compared to 2012 due to a less favourable update of policy liability assumptions in 2013 relative to 2012.

These items were partly offset by an increase in expected profit on in-force business due to strong growth of the in-force block of business.

Individual Insurance

The increase in Individual Insurance earnings on operations was primarily due to experience gains. The most significant item was improved investment experience which was due primarily to a significant increase in long-term interest rates in 2013, compared to the small decrease that occurred in 2012. The improvement also resulted from a significant increase in stock markets in 2013, compared to the modest increase that occurred in 2012. While the impact of this 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.

New business strain also improved in 2013. Lower new business strain resulted from higher prices on long-term products and lower annualized premium sales.

In addition, there were improved results from management actions and changes in assumptions in 2013. The 2013 update of policy liability assumptions was slightly more favourable than 2012.

These items were partly offset by a decrease in income from other items in 2013 compared to 2012. 2012 had income resulting from a decrease in policy liabilities, due to a tax law change that lowered future expected premium taxes in the province of Quebec.

Capital & Surplus

2013 earnings from Capital and Surplus were lower than 2012 due primarily to losses on the sale of available for sale (AFS) bond investments in 2013, compared to gains from the sale of AFS equity investments in 2012. This 2012 sale of equity investments was due primarily to a decision to lower equity exposure in Empire Life's Shareholders' Capital and Surplus to allow capacity to purchase common equities to match longer term liabilities in the Individual Insurance product line.

This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the operating results and financial condition of The Empire Life Insurance Company ("Empire Life" or the "Company") for the years ended December 31, 2013 and 2012. This MD&A should be read in conjunction with the Company's December 31, 2013 consolidated financial statements, which form part of The Empire Life Insurance Company 2013 Annual Report dated February 25, 2014. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Chartered Professional Accountants of Canada. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars.

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

Financial Analysis

Overview

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012*	**2013**	2012*
Shareholders' net income	**$ 29.9**	$ 25.1	**$ 113.3**	$ 80.2

*All 2012 comparative amounts have been restated to reflect adoption of IAS 19R.

Empire Life reported record full year shareholders' net income of $113.3 million for 2013, compared to $80.2 million for 2012.

For the year, shareholders' net income was higher relative to 2012 due primarily to improved Individual Insurance product line net income. This product line's improvement was due primarily to three items:

1. In 2013 there was a significant increase in long-term interest rates (for the year, 30 year Canadian federal government bond yield up 87 basis points from 2.37% to 3.24%), compared to the small decrease that occurred in 2012.

2. In 2013 there was a significant increase in stock markets (for the year, S&P TSX up 9.6%, S&P 500 up 29.6%), compared to the modest increase that occurred in 2012.

3. Higher prices on long-term products and lower annualized premium sales resulted in lower new business strain in 2013 compared to 2012.

In addition, the Wealth Management product line reported a strong improvement in net income in 2013 relative to 2012. The improvement was due primarily to 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 due primarily to strong GMWB sales and the positive impact of favourable stock market conditions on management fees earned.

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 2013 net income compared to 2012 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 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):

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
For the year ended December 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue										
Net premium income	$ 159	$ 176	$ 307	$ 290	$ 356	$ 348	$ —	$ —	$ 822	$ 814
Fee and other income	140	115	8	7	1	1	2	2	151	125
Investment income	54	53	4	6	140	143	42	35	240	237
Realized gain on FVTPL investments	7	2	—	2	38	50	—	—	45	54
Realized gain (loss) on available for sale investments including impairment write downs	1	—	—	—	—	—	(3)	28	(2)	28
Fair value change in FVTPL investments	(36)	1	(7)	(3)	(306)	3	—	—	(349)	1
	325	347	312	302	229	545	41	65	907	1,259
Expenses										
Benefits and expenses	302	341	294	273	132	526	21	15	749	1,155
Income and other taxes	4	(1)	9	12	31	7	4	13	48	31
	306	340	303	285	163	533	25	28	797	1,186
Net income after tax	$ 19	$ 7	$ 9	$ 17	$ 66	$ 12	$ 16	$ 37	$ 110	$ 73
Policyholders' portion									(3)	(7)
Shareholders' net income									$ 113	$ 80
Assets under management										
General fund assets	$ 1,105	$ 1,147							$ 6,126	$ 5,901
Segregated fund assets	$ 5,932	$ 4,993			$ 22	$ 21			$ 5,954	$ 5,014
Mutual fund assets	$ 38	$ 13							$ 38	$ 13
Annualized premium sales			$ 52	$ 44	$ 55	$ 65				

Total Revenue

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Revenue				
Net premium income	**$ 215**	$ 212	**$ 822**	$ 814
Investment income	**64**	58	**240**	237
Fair value change in FVTPL investments including realized amounts	**5**	(29)	**(304)**	56
Realized gain (loss) on AFS investments including impairment write downs	**(2)**	23	**(2)**	28
Fee and other income	**40**	35	**150**	125
Total	**$ 322**	$ 299	**$ 906**	$ 1,260

For the year, total revenue at Empire Life decreased by 28% to $906 million compared to $1.26 billion in 2012. Major revenue items are discussed below.

Net premium income for the year increased in 2013 relative to 2012. The increase related primarily to the Employee Benefits product line.

Fair value change in FVTPL investments including realized amounts often causes large revenue volatility. These assets experienced a net loss in 2013 compared to a net gain in 2012. In 2013 the large loss was from primarily a decrease in bond prices (due to a large increase in market interest rates). This was partly offset by an increase in common share prices in 2013. In 2012 the gain was from primarily an increase in bond prices (due to a decrease in market interest rates) and an increase in common share prices. 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 loss in 2013 relative to gains in 2012. The decreased revenue was due primarily to losses from the sale of AFS bonds in 2013, compared to gains from the sale of AFS equities in 2012. 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 were used primarily to back capital and surplus.

Fee and other income increased in 2013 relative to 2012 due primarily to growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit (GMWB) products. The growth in both of these items was due primarily to strong GMWB product sales in the second half of 2012 and for the full year in 2013 and GMWB price increases in 2013. In addition, there was a positive impact on average assets under management and management fees earned, resulting from stock market conditions, as stock markets were higher on average during 2013 than 2012.

Total Benefits and Expenses

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Benefits and expenses				
Net benefits and claims	**$ 145**	$ 148	**$ 560**	$ 541
Net change in insurance contract liabilities	**43**	14	**(160)**	265
Change in investment contracts provision	**—**	—	**1**	1
Policy dividends	**6**	5	**22**	20
Operating expenses	**36**	39	**139**	140
Net commissions	**47**	55	**168**	175
Interest expense	**6**	3	**19**	14
Total	**$ 283**	$ 264	**$ 749**	$ 1,156

Total benefits and expenses at Empire Life for the year decreased by 35% to $749 million compared to $1.156 billion in 2012. 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. For the year, the increase in claims related primarily to the Employee Benefits product line. Variability in claims amounts does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released can be larger or smaller than the claims incurred depending on whether claims experience has been favourable or unfavourable. Claims experience is the combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities. Year over year claims experience is discussed in each of the impacted product lines (see Product Line Results sections later in this report).

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the year, the main reason for the large change from 2012 for this item was the change in insurance contract liabilities resulting from the fair value change in matching assets (described above in the Total Revenue section). Variability in the net change in insurance contract liabilities amounts does not, in isolation, impact net income as it must be looked at in concert with other lines of the statement of operations.

Commission expenses decreased year over year due primarily to lower Individual Insurance sales.

Interest expense increased in 2013 relative to 2012 due to the issuance of $300 million of subordinated debentures on May 31, 2013.

Product Line Results - Wealth Management

(millions of dollars)	As at Dec. 31 2013	2012
Assets under management		
General fund annuities	**$ 1,105**	$ 1,147
Segregated funds	**5,932**	4,993
Mutual funds	**38**	13

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Selected financial information				
Fixed interest annuity premiums	**$ 44**	$ 50	**$ 159**	$ 176
Segregated fund gross sales	**302**	539	**1,009**	1,159
Segregated fund net sales	**107**	313	**231**	404
Segregated fund fee income	**37**	32	**139**	115
Mutual fund gross sales	**10**	9	**22**	13
Mutual fund net sales	**10**	9	**20**	13
Mutual fund fee income	**—**	—	**—**	—
Net income (loss) after tax fixed income annuity portion	**(4)**	(4)	**—**	—
Net income after tax segregated fund portion	**7**	2	**22**	10
Net loss after tax mutual fund portion	**(1)**	(1)	**(3)**	(3)
Net income (loss) after tax	**$ 2**	$ (3)	**$ 19**	$ 7

Assets in Empire Life's general fund annuities decreased by 4%, while segregated fund assets increased by 19% 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, 2012, 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 products. For the year, fixed interest annuity premiums were down 9% compared to 2012 due to decreased sales of fixed interest immediate annuities.

For the year, segregated fund gross sales were down 13% compared to 2012. This product line’s gross sales decline for the year is attributable to GMWB products. While GMWB product sales remain strong they are down from the elevated levels experienced in the third and fourth quarters of 2012. The elevated sales in the third and fourth quarters of 2012 appeared to be attributable primarily to announcements by some GMWB competitors to suspend the sale of GMWB products, remove benefits, or increase fees.

Empire Life has taken several steps to limit GMWB risk exposure. In the first quarter of 2013 Empire Life launched a new version of the GMWB product. The new version reduces the amount of risk Empire Life is taking on and commands a higher price, while still offering a competitive guaranteed income solution to policyholders.

Segregated fund net sales for the year were down 43% compared to 2012 due to the above mentioned gross sales result, and higher withdrawals compared to 2012.

For the year, segregated fund fee income increased by 21% in 2013 relative to 2012. The increase was due primarily to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. The growth in both of these items was due primarily to strong GMWB product sales in the second half of 2012 and for the full year in 2013 and GMWB price increases in 2013. In addition, there was a positive impact on average assets under management and management fees earned, resulting from stock market conditions, as stock markets were higher on average during 2013 than 2012.

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 65% in 2013 compared to 2012. Mutual fund gross sales also improved during 2013 as sales for the fourth quarter came in at $10 million compared to $6 million in the third quarter and $3 million in both the first and second quarters.

During the fourth quarter and for the year earnings from this product line increased relative to 2012. 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 2013	$ 2	$ 19
Net income (loss) after tax 2012	(3)	7
Increase in net income after tax	$ 5	$ 12
Components of increase		
2012 loss from update of policy liability assumptions	$ 5	$ 5
2013 loss from update of policy liability assumptions	(2)	(2)
Increase in inforce profit margins	2	9
Lower new business strain	2	1
Improved (worsened) investment experience	(2)	1
Worsened annuitant mortality experience	—	(2)
Total	$ 5	$ 12

In 2012, the update of policy liability assumptions was unfavourable by $5 million. The 2012 updates for general fund annuities related primarily to annuitant mortality assumptions.

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

Higher net income on inforce business in 2013 was due primarily to the strong growth of the GMWB product which generates higher fees than other segregated fund products. In addition, inforce business profits improved due to the positive impact of favourable stock market conditions in 2013 on average assets under management and management fees earned.

Higher net income from lower new business strain resulted from weaker GMWB segregated fund sales in 2013 relative to 2012.

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

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

Product Line Results - Employee Benefits

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Selected financial information				
Annualized premium sales	**$ 12**	$ 11	**$ 52**	$ 44
Premium income	**78**	74	**307**	290
Net income after tax	**$ 1**	$ 5	**$ 9**	$ 17

For the year, sales in this product line increased by 18% relative to 2012. The 2013 sales reflect continuing strength compared to the recessionary lows experienced four years ago. This product line's premium income for the year increased by 6% relative to 2012 due to continuing growth of the inforce block.

During the fourth quarter and for the year earnings from this product line decreased relative to 2012. 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 2013	**$ 1**	**$ 9**
Net income after tax 2012	**5**	**17**
Decrease in net income after tax	**$ (4)**	**$ (8)**
Components of decrease		
2012 gain from update of policy liability assumptions	**$ (4)**	**$ (4)**
Worsened claims experience	**(2)**	**(6)**
Increase in inforce profit margins	**2**	**2**
Total	**$ (4)**	**$ (8)**

In 2012, the update of policy liability assumptions was favourable. The 2012 update of policy liability assumptions was due primarily to refinements of valuation models for group long-term disability claims.

In 2013, the update of policy liability assumptions was not significant for this line of business.

In 2013 worsened claims experience relates to unfavourable health claims and long-term disability results.

Higher net income on inforce business in 2013 was due to strong growth of the inforce block of business.

Product Line Results - Individual Insurance

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Selected financial information				
Annualized premium sales	**$ 18**	$ 16	**$ 55**	$ 65
Premium income	**93**	89	**356**	348
Net income (loss) after tax				
Net income after tax shareholders' portion	**25**	3	**72**	20
Net income (loss) after tax policyholders' portion	**(4)**	(3)	**(6)**	(8)
Net income after tax	**$ 21**	$ —	**$ 66**	$ 12

For the year, annualized premium sales in this product line decreased by 16% compared to 2012, and premium income increased by 2% compared to 2012. This product line's full year sales result is attributable primarily to slower universal life product sales. During 2011, 2012 and 2013, Empire Life increased prices on long-term products, including universal life, due to the low long-term interest rate environment. We have observed a similar trend with many of our competitors. However, during the fourth quarter of 2013 Empire Life has reduced the prices of certain life insurance products to improve competitiveness and to reflect the recent rise in interest rates and continuing mortality improvements.

During the fourth quarter and for the year, earnings from this product line increased relative to 2012. 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 2013	$	21	$	66
Net income after tax 2012		—		12
Increase in net income after tax	$	21	$	54
Components of income increase				
2012 gain from update of policy liability assumptions	$	(1)	$	(1)
2013 gain from update of policy liability assumptions		2		2
Improved investment experience		22		37
Lower new business strain		2		8
Improved (worsened) mortality, surrender and other experience		(4)		8
Total	$	21	$	54

In 2012, the update of policy liability assumptions was favourable by $1 million.

In 2013, the update of policy liability assumptions was favourable by $2 million. The following table provides a breakdown of the components of this amount:

Components of income increase from update of policy liability assumptions (millions of dollars)		Year
Net re-investment assumptions	$	4
Mortality		13
Model enhancements		9
Lapse		(32)
Other		8
Total 2013 gain from update of policy liability assumptions	$	2

Empire Life uses an ultimate reinvestment rate (“URR”) assumption of 3.0% (3.1% for 2012). Empire Life uses a best estimate return assumption for equities used to match long-term liabilities of 7.7% (8.1% for 2012). This equity return assumption is then reduced by margins to determine the net return used in the valuation. Additional information regarding investment return assumptions can be found in note 27(b)i)(2) to the consolidated financial statements.

For the year, investment experience improved by $37 million year over year due primarily to the favourable impact from long-term interest rate movements in 2013. While market interest rates remain unusually low, they increased significantly during the year, particularly during the second quarter of 2013. Empire Life took advantage of the higher rates by purchasing long-term bonds during the second quarter at these increased interest rates for the purpose of matching long-term liabilities. As a result, a reserve release from locking in these higher investment yields occurred in the second quarter resulting in a $7 million increase in net income for this line of business. For the year, investment experience also improved in 2013 due to the impact of changes in long-term interest rates on existing insurance contract liabilities and matching assets. 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.

In addition, investment experience improved strongly year over year due to the favourable impact from stock market movements in 2013. Empire Life makes use of common share assets for the purpose of matching long-term liabilities. Full year investment experience improved in 2013 due to the impact of changes in common share returns on existing insurance contract liabilities and matching assets. While the impact of common share asset market value changes on net income is largely reduced due to a corresponding change in insurance contract liabilities, net income is impacted as it is not possible to perfectly match future liability cash flows with future asset cash flows.

Higher net income from lower new business strain caused a year over year improvement in net income. Lower new business strain resulted from higher prices on long-term products and lower annualized premium sales.

Results - Capital and Surplus

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Net income after tax				
Net income after tax shareholders' portion	**$ 2**	$ 20	**$ 14**	$ 36
Net income after tax policyholders' portion	**1**	—	**2**	1
Net income after tax	**$ 3**	$ 20	**$ 16**	$ 37

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 decreased relative to 2012. 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 2013	**$ 3**	**$ 16**
Net income after tax 2012	**20**	**37**
Decrease in net income after tax	**$ (17)**	**$ (21)**
Components of decrease		
Decreased net income from sale of investments	**$ (17)**	**$ (22)**
Lower impairment write downs	**—**	**1**
Higher interest expense	**(2)**	**(4)**
Higher investment income	**2**	**4**
Total	**$ (17)**	**$ (21)**

Decreased net income from sale of investments was due primarily to losses on the sale of AFS bond investments in 2013, compared to gains from the sale of AFS equity investments in 2012. In 2012 approximately $15 million in shareholders' net income resulted from gains on the sale of $174 million of equities in the fourth quarter of 2012. This 2012 sale of equity assets was aimed at lowering equity exposure in Empire Life's Shareholders' Capital and Surplus to allow capacity to purchase $174 million of common equities to match longer term liabilities in the Individual Insurance product line.

Higher interest expense was due to the issuance of $300 million of subordinated debentures on May 31, 2013.

Higher investment income was due primarily to an increase in invested assets resulting from the investment of the proceeds from the above mentioned issuance of subordinated debentures.

Total Cash Flow

	Year	
(millions of dollars)	**2013**	2012
Cash Flow provided from (used for)		
Operating Activities	**$ 222**	$ 229
Investing Activities	**(509)**	(123)
Financing Activities	**256**	(13)
Net change in cash and cash equivalents	**$ (31)**	$ 93

The decrease in cash provided by operating activities in 2013 relative to 2012 was due primarily to cash outflows related to income taxes in 2013 compared to cash inflows related to income taxes in 2012.

The increase in cash used for investing activities during 2013 relative to 2012 was due primarily to the investment of proceeds from the May 31, 2013 issuance of $300 million of subordinated debentures (described below). In addition, cash used for investing activities increased due to completion of asset mix changes that began late in 2012. A sale of common share 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.

The increase in cash provided from financing activities was due to the issuance of $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. This was partially offset by the payment of $24.1 million of dividends to common shareholders during the third quarter.

Capital Resources

	Dec 31 2013*	Sept 30 2013*	June 30 2013*	Mar 31 2013*	Dec 31 2012
MCCSR Ratio	**267%**	265%	262%	212%	203%

*Reflects adoption of IAS 19R and new MCCSR standards related to lapse required capital on January 1, 2013.

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 267% as at December 31, 2013 continued to be well above requirements, and above minimum internal targets.

The MCCSR ratio increased by 2 points from the previous quarter and increased by 64 points on a full year basis. This change was due to increases in available regulatory capital for both the fourth quarter and the year to date, as shown in the table below. For the fourth quarter this was partly offset by increases in required regulatory capital, as shown in the table below. However, for the full year required regulatory capital decreases contributed to the MCCSR increase.

(millions of dollars)	Dec 31 2013*	Sept 30 2013*	June 30 2013*	Mar 31 2013*	Dec 31 2012
Available regulatory capital					
Tier 1	**$ 831**	$ 785	$ 775	$ 732	$ 756
Tier 2	**533**	523	521	335	327
Total	**$ 1,364**	$ 1,308	$ 1,296	$ 1,067	$ 1,083
Required regulatory capital	**$ 511**	$ 493	$ 494	$ 503	$ 533

*Reflects adoption of IAS 19R and new MCCSR standards related to lapse required capital on January 1, 2013.

Tier 1 and Tier 2 available regulatory capital increased from the previous quarter and on a year to date basis.

The increase in Tier 1 available regulatory capital from the previous quarter was due primarily to fourth quarter net income.

For the year the increase in Tier 1 available regulatory capital was due primarily to net income, partly offset by the payment of a common share dividend and the impact of implementation of IAS 19R Employee Benefits standards. The dividend of $24.1 million, which was paid during the third quarter, decreased Empire Life's MCCSR ratio by 7 points. The implementation of IAS 19R (related to employee defined benefit plans), which occurred in the first quarter 2013, lowered Empire Life's available regulatory capital by $26 million, and decreased Empire Life's MCCSR ratio by 5 points.

The increase in Tier 2 available regulatory capital from the previous quarter was not significant. The increase in Tier 2 available regulatory capital for the year to date was due primarily to the issuance of $300 million of subordinated debentures on May 31, 2013.

Regulatory capital requirements increased from the previous quarter, but decreased on a year to date basis. The increase from the previous quarter was due primarily to higher investment and lapse exposures. For the year to date the decrease was due primarily to higher interest rates which lowered required regulatory capital related to lapse risk, and to changes to the MCCSR standards related to lapse required regulatory capital in the first quarter which improved Empire Life's MCCSR ratio by 14 points. The above items were partly offset by the impact of higher investment exposures which were caused primarily by increased investment in common shares and bonds.

On February 25, 2014 the Board of Directors of Empire Life approved the declaration of a common share dividend of $34 million payable in the first quarter of 2014. On a pro forma basis, after giving effect to the dividend payment, Empire Life estimates that, as at December 31, 2013, its MCCSR ratio would have decreased by 10 points.

In May 2014 Empire Life intends to redeem $200 million 6.73% subordinated debentures at par. The redemption is subject to approval by the Office of the Superintendent of Financial Institutions Canada (OSFI). On a pro forma basis, after giving effect to the debenture redemption, Empire Life estimates that, as at December 31, 2013, its MCCSR ratio would have decreased by 19 points.

Comprehensive Income

	Fourth quarter		Year	
(millions of dollars)	**2013**	2012	**2013**	2012
Comprehensive income				
Shareholders' net income	**$ 29.9**	$ 25.1	**$ 113.3**	$ 80.2
Unrealized fair value increase (decrease) on AFS investments	**1.2**	(1.9)	**(18.9)**	7.5
Realized loss (gain) on AFS investments reclassification to net income	**1.6**	(15.1)	**1.9**	(19.2)
	2.8	(17.0)	**(17.0)**	(11.7)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	**0.2**	0.1	**0.6**	0.5
Items that will not be reclassified to net income:				
Remeasurements of defined benefit plans	**(0.1)**	0.9	**12.9**	(8.7)
	2.9	(16.0)	**(3.5)**	(19.9)
Less: Participating Policyholders	**(1.9)**	(0.3)	**(3.1)**	(1.2)
Other comprehensive income (loss), attributable to shareholders	**1.0**	(16.3)	**(6.6)**	(21.1)
Comprehensive income, attributable to shareholders	**$ 30.9**	$ 8.8	**$ 106.7**	$ 59.1

For the year 2013, Empire Life incurred an other comprehensive loss of $6.6 million due primarily to unrealized fair value decreases relating to AFS bonds. For the year 2012 Empire Life incurred an other comprehensive loss of $21.1 million due primarily to the reclassification to net income of a large realized gain from the sale of AFS equity investments during the fourth quarter of 2012.

In the first quarter of 2013 the new accounting standard relating to the remeasurement of defined benefit (DB) plans was applied retrospectively resulting in the restatement of 2012. For the year 2013 Empire Life experienced a $12.9 million gain after tax on its DB plans. The gain for the year was due primarily 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 assumptions.

For the year 2012 Empire Life experienced an $8.7 million loss after tax on its DB plans. This loss was due primarily to the impact of lower interest rates on DB plan liabilities.

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

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 recently launched mutual fund products. Empire Life achieved strong growth in assets under management from its GMWB segregated fund business in 2013. However, Empire Life has taken several steps to limit GMWB risk exposure. In the first quarter of 2013 Empire Life launched a new version of the GMWB product. The new version 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 continue to grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to significant levels of 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. Sales strain was particularly high in 2010 and 2011 due to the low long-term interest rate environment that followed the financial crisis. The low interest rate environment continued in 2012. This has impacted the entire industry resulting in significant price increases in both 2011 and 2012 for individual insurance products by Empire Life and many of our competitors. However, while market long-term interest rates remain unusually low in 2013 they increased significantly during the year, particularly during the second quarter of 2013. During the fourth quarter of 2013 Empire Life has reduced the prices of certain life insurance products to improve competitiveness and to reflect this recent rise in interest rates and continuing mortality improvements. 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 is 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, 2013 Empire Life had $5.95 billion of segregated fund assets and liabilities. Of this amount, approximately $5.7 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec 31 2013	Dec 31 2012
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 100% death benefit guarantee	**57.4%**	63.8%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.2%**	5.2%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**37.4%**	31.0%

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 2013 and 2012, the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from stock market increases and decreases is as follows:

(millions of dollars)	**10% Increase**	**10% Decrease**	**20% Increase**	**20% Decrease**
Sensitivity To Segregated Fund Guarantees:				
2013 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
2012 Shareholders' net income	$ nil	$ nil	$ nil	$ nil

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

	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Sensitivity To Stock Markets:				
December 31, 2013 MCCSR Ratio	**(1.2)%**	**1.2%**	**(2.3)%**	**2.5 %**
December 31, 2012 MCCSR Ratio	(0.5)%	—%	(1.1)%	(12.2)%

The use of common share assets to match longer term liabilities causes the sensitivity of Empire Life's MCCSR ratio to stock market increases to be reduced or slightly negative. Increased stock markets cause a gain on common share assets partly offset by a loss due to higher policy liabilities for a net increase in available capital. However, increased stock markets also cause an increase in required capital, as the required capital related to common share assets increases. As of December 31, 2013 and December 31, 2012, under a 10% and 20% stock market increase scenario, the increase in required capital slightly outweighs the increase in available capital resulting in a slightly negative impact on Empire Life's MCCSR ratio.

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

Empire Life has not historically hedged its segregated fund guarantee risk. Given the current segregated fund product mix and level of sensitivity to stock markets, Empire Life has not hedged its segregated fund guarantee risk as of December 31, 2013 or December 31, 2012 (except for the reinsurance agreement described below).

Effective January 1, 2013 Empire Life has entered into 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. If this agreement was in place as at December 31, 2012 approximately $8 million of the $112 million death benefit "amount at risk" reported as at December 31, 2012 in the table below would be ceded to the reinsurer. 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, 2013	**$ 29**	**$ 3**	**$ 264**	**$ 18**	**$ 328**	**$ nil**	**$ nil**
December 31, 2012	$ 107	$ 11	$ 1,250	$ 112	$ 298	$ nil	$ <1

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 2013 decreased from the December 2012 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 2013 increased from the December 2012 levels for GMWB top-up exposure, due primarily to strong GMWB sales in 2013.

In addition, Empire Life's MCCSR ratio is sensitive to changes in market interest rates. The impact of an immediate 1% decrease in interest rates, and a 1% decrease in assumed initial reinvestment rate (IRR) for nonparticipating insurance business, would result in a decrease to Empire Life's MCCSR ratio of 35 points as of December 31, 2013 (32 points as of December 31, 2012). This assumes no change in the ultimate reinvestment rate (URR). The impact above excludes the impact of market value changes in available for sale (AFS) bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. If the AFS bonds were sold to realize the gains from a 1% decrease in interest rates, the above impact would be reduced to 23 points as of December 31, 2013 (28 points as of December 31, 2012).

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

Critical Accounting Estimates

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

Policy Liabilities

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

Financial instrument classification

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

Pension and other employee future benefits

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

Provision for Impaired Investments

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

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

Outlook

In 2013 Canada's economy remained stable, but experienced relatively weak growth. 2013 headlines in Canada were filled with economic concerns about unemployment, commodity prices, factory closures, housing markets and consumer debt levels. Global concerns in 2012 about the European sovereign debt crisis and U.S. fiscal issues eased significantly in 2013, improving consumer confidence. As a result, global stock and credit markets have improved significantly from the economic turmoil of 2008 and early 2009. Canadian long-term interest rates increased significantly in 2013, after three years of falling rates. Global stock markets remained volatile, but most significant markets rose strongly in 2013. This was particularly the case in the U.S., where stock markets provided investors with excellent returns in 2013. Canada's main stock market rose in 2013, which was an improvement from the moderate gains of 2012. However, Canada's stock market performance in 2013 was meagre compared to the US. 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 faired 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. As a result businesses 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 in 2011 and 2012 was 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. However, while market long-term interest rates remained unusually low in 2013 they increased significantly during the year. During the fourth quarter of 2013 Empire Life has reduced the prices of certain life insurance products to improve competitiveness and to reflect this recent rise in interest rates and continuing mortality improvements. Long-term interest rates and product pricing are expected to continue to be issues for Empire Life's Individual Insurance product line in 2014.

Regulatory change related to segregated fund guarantees continues to evolve. OSFI is currently reviewing the overall approach for determining capital requirements for segregated fund risks, and is implementing this change in two stages. In the first stage, the parameters within life company stochastic models were strengthened with respect to new business issued after January 1, 2011. This did not have a significant impact on Empire's MCCSR ratio. In the second stage, a new approach will be implemented for all inforce segregated fund business (including new business issued in 2011 and later). With respect to the second stage, OSFI states that "we are considering a range of alternatives including a more market-consistent approach and potentially credit for hedging" and that the target date for this is 2017 or later.

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 the international framework known as "Solvency II" within a similar timeframe. 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. It is unclear whether similar changes will occur for life insurance companies in the future.

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 Own Risk and 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).

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

Quarterly Results

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

(millions of dollars)	**Dec 31 2013**	Sept 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sept 30 2012	Jun 30 2012	Mar 31 2012
Revenue	**$ 322**	$ 235	$ 61	$ 289	$ 299	$ 377	$ 368	$ 215
Shareholders' Net income	**$ 30**	$ 32	$ 40	$ 11	$ 25	$ 20	$ 18	$ 17

Revenue for the three months ended December 31, 2013 increased to $322 million (2012 $299 million). The increase was primarily due to an increase in FVTPL investments in 2013 resulting from an increase in common share prices in 2013 (see Total Revenue section earlier in this report).

For the fourth quarter net income was higher relative to last year from primarily improved Individual Insurance product line net income. This was due primarily to a significant increase in stock markets in 2013, compared to the modest stock market results that occurred in 2012. See Product Line Results sections earlier in this report for further information on quarterly results.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements in this annual report have been prepared by management, who is responsible for their integrity, objectivity and reliability. This responsibility includes selecting and applying appropriate accounting policies, making judgements and estimates, and ensuring information contained throughout the annual report is consistent with these statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada.

The Company maintains a system of internal control over financial reporting which is 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 the financial records are reliable for preparing the consolidated financial statements in accordance with Canadian GAAP. 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, 2013. Based on that evaluation, management concluded that the Company’s internal control over financial reporting was effective as at December 31, 2013.

The Board of Directors, acting through the Audit Committee which is comprised of directors who are not officers or employees of the Company, oversees management’s responsibility for financial reporting and for internal control systems. The Audit Committee is responsible for reviewing the consolidated financial statements and annual report and recommending them to the Board of Directors for approval. The Audit Committee meets with management, internal audit and the external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters, and financial reporting issues.

The Appointed Actuary is appointed by the Board of Directors and is responsible for ensuring that the assumptions and methods used in the valuation of the policy liabilities are in accordance with accepted actuarial practice and regulatory requirements. The Appointed Actuary is required to provide an opinion regarding the appropriateness of the policy liabilities at the consolidated statement of financial position date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion. The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company under adverse economic and business conditions for the current year and the next four years.

PricewaterhouseCoopers’ responsibility as external auditors is to report to the policyholders, shareholders and OSFI regarding the fairness of presentation of the Company’s annual consolidated financial statements. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit. The Independent Auditor’s Report outlines the scope of their examination and their opinion.

Leslie C. Herr
President and Chief Executive Officer
Kingston, Ontario
February 25, 2014

Gary J. McCabe
Senior Vice-President and Chief Financial Officer
Kingston, Ontario
February 25, 2014

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

We have audited the accompanying consolidated financial statements of The Empire Life Insurance Company and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2013 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year 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 audit. We conducted our audit 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 audit 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 The Empire Life Insurance Company and its subsidiary as at December 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 25, 2014

APPOINTED ACTUARY'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

I have valued the policy liabilities and reinsurance liabilities of The Empire Life Insurance Company for its Consolidated statements of financial position at December 31, 2013 and their change in the Consolidated statements of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance liabilities, makes appropriate provision for all policy obligations and the Consolidated financial statements fairly present the results of the valuation.

Leonard Pressey

Leonard Pressey, F.S.A., F.C.I.A.
Fellow, Canadian Institute of Actuaries
Kingston, Ontario
February 25, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

As at		December 31, 2013		December 31, 2012 (Restated - Note 2 d))		January 1, 2012 (Restated - Note 2 d))
Assets						
Cash and cash equivalents (Note 3)	$	**217,350**	$	248,382	$	155,559
Investments						
Short-term investments (Note 3)		**25,448**		16,440		33,867
Bonds (Note 3)		**4,333,512**		4,227,329		4,063,897
Common and preferred shares (Note 3)		**1,009,608**		878,085		808,681
Mortgages (Note 3)		**299,353**		302,531		264,238
Loans on policies (Note 3)		**44,855**		43,071		41,981
Policy contract loans (Note 3)		**90,275**		95,461		113,118
Total investments		**5,803,051**		5,562,917		5,325,782
Accrued investment income		**24,058**		21,452		20,107
Insurance receivables (Note 4)		**41,014**		30,035		28,455
Current income taxes receivable		**—**		—		17,106
Deferred income taxes (Note 18)		**2,400**		4,596		—
Other assets (Note 5)		**11,669**		9,126		21,330
Property and equipment (Note 6)		**22,043**		22,827		21,241
Intangible assets (Note 7)		**4,317**		2,071		1,090
Segregated fund assets (Note 8)		**5,954,508**		5,014,392		4,415,318
Total Assets	$	**12,080,410**	$	10,915,798	$	10,005,988
Liabilities						
Accounts payable and other liabilities (Note 11)	$	**55,833**	$	69,875	$	80,266
Insurance payables (Note 9)		**78,940**		63,152		67,859
Current income taxes payable		**9,306**		7,473		—
Reinsurance liabilities (Note 10)		**284,627**		244,808		156,119
Insurance contract liabilities (Note 10)		**4,175,238**		4,375,441		4,199,501
Investment contract liabilities		**12,687**		14,591		15,076
Policyholders' funds on deposit		**30,937**		30,634		30,263
Provision for profits to policyholders		**23,893**		22,142		21,791
Deferred income taxes (Note 18)		**—**		—		432
Subordinated debt (Note 23)		**498,343**		199,642		199,405
Segregated fund policy liabilities		**5,954,508**		5,014,392		4,415,318
		11,124,312		10,042,150		9,186,030
Equity						
Capital stock (Note 25)		**985**		985		985
Contributed surplus		**19,387**		19,387		19,387
Retained earnings (Note 24)		**945,692**		859,756		786,203
Accumulated other comprehensive income (loss)		**(9,966)**		(6,480)		13,383
		956,098		873,648		819,958
Total Liabilities and Equity	$	**12,080,410**	$	10,915,798	$	10,005,988

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

Duncan N. R. Jackman
Chairman of the Board

Leslie C. Herr
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts)

For the year ended December 31		2013		2012 (Restated - Note 2 d))
Revenue				
Gross premiums	$	**918,521**	$	902,733
Premiums ceded to reinsurers		**(96,977)**		(89,201)
Net premiums (Note 13)		**821,544**		813,532
Investment income (Note 3)		**240,159**		237,354
Fair value change in fair value through profit or loss assets		**(349,037)**		1,397
Realized gain (loss) on fair value through profit or loss assets sold		**45,445**		54,349
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)		**(2,488)**		28,405
Fee income (Note 14)		**150,589**		125,218
Total revenue		**906,212**		1,260,255
Benefits and Expenses				
Gross benefits and claims paid (Note 15)		**616,009**		590,041
Claims recovery from reinsurers (Note 15)		**(56,472)**		(48,795)
Gross change in insurance contract liabilities (Note 15)		**(200,203)**		175,940
Change in insurance contract liabilities ceded (Note 15)		**39,819**		88,689
Change in investment contracts provision		**945**		754
Policy dividends		**22,098**		20,478
Operating expenses (Note 17)		**139,450**		140,155
Commissions		**170,579**		177,175
Commission recovery from reinsurers		**(2,322)**		(2,336)
Interest expense		**18,977**		13,697
Total benefits and expenses		**748,880**		1,155,798
Premium tax		**14,011**		13,466
Investment and capital tax		**3,900**		3,900
Net Income Before Income Taxes		**139,421**		87,091
Income taxes (Note 18)		**29,385**		13,538
Net Income	$	**110,036**	$	73,553
Net Income (Loss) Attributable to:				
Participating Policyholders	$	**(3,243)**	$	(6,610)
Shareholders		**113,279**		80,163
Total	$	**110,036**	$	73,553
Earnings per share - basic and diluted (2,000,000 shares authorized; 985,076 shares outstanding)	$	**115.00**	$	81.38

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

For the year ended December 31		2013		2012 (Restated - Note 2 d))
Net Income	**$**	**110,036**	$	73,553
Other comprehensive income (loss), net of income taxes:				
Items that may be reclassified subsequently to net income:				
Unrealized fair value change on available for sale investments (Note 18)		**(18,881)**		7,504
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 18)		**1,887**		(19,161)
Net unrealized fair value increase (decrease)		**(16,994)**		(11,657)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income (Note 18)		**574**		534
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 18)		**12,934**		(8,740)
Total other comprehensive income (loss)		**(3,486)**		(19,863)
Comprehensive Income	**$**	**106,550**	$	53,690
Comprehensive income (loss) attributable to:				
Participating Policyholders	**$**	**(156)**	$	(5,379)
Shareholders		**106,706**		59,069
Total	**$**	**106,550**	$	53,690

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	2013			2012		
For the year ended December 31				(Restated - Note 2 d))		
	Shareholders'	**Policyholders'**	**Total**	Shareholders'	Policyholders'	Total
Capital stock (Note 25)	**$ 985**	**$ —**	**$ 985**	$ 985	$ —	$ 985
Contributed surplus	**19,387**	**—**	**19,387**	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	**812,642**	**47,114**	**859,756**	732,479	53,724	786,203
Net income (loss)	**113,279**	**(3,243)**	**110,036**	80,163	(6,610)	73,553
Dividends to common shareholders	**(24,100)**	**—**	**(24,100)**	—	—	—
Retained earnings - end of year	**901,821**	**43,871**	**945,692**	812,642	47,114	859,756
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	**(10,344)**	**3,864**	**(6,480)**	10,750	2,633	13,383
Other comprehensive income (loss)	**(6,573)**	**3,087**	**(3,486)**	(21,094)	1,231	(19,863)
Accumulated other comprehensive income (loss) - end of year	**(16,917)**	**6,951**	**(9,966)**	(10,344)	3,864	(6,480)
Total equity	**$ 905,276**	**$ 50,822**	**$ 956,098**	$ 822,670	$ 50,978	$ 873,648
Composition of accumulated other comprehensive income (loss) - end of year						
Unrealized gain (loss) on available for sale financial assets	**$ (5,214)**	**$ 8,436**	**$ 3,222**	$ 14,523	$ 5,693	$ 20,216
Unamortized gain (loss) on cash flow hedges	**(233)**	**—**	**(233)**	(807)	—	(807)
Remeasurements of post-employment benefit liabilities	**(12,313)**	**(642)**	**(12,955)**	(24,629)	(1,260)	(25,889)
Shareholder portion of policyholders' accumulated other comprehensive income	**843**	**(843)**	**—**	569	(569)	—
Total accumulated other comprehensive income (loss)	**$ (16,917)**	**$ 6,951**	**$ (9,966)**	$ (10,344)	$ 3,864	$ (6,480)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the year ended December 31	2013	2012 (Restated - Note 2 d))
Operating Activities		
Net income	**$ 110,036**	$ 73,553
Non-cash items affecting net income		
Change in contract liabilities	**(199,258)**	176,694
Change in reinsurance liability	**39,819**	88,689
Fair value change in fair value through profit or loss assets	**349,037**	(1,397)
Realized (gain) loss on assets including impairment write downs on available for sale assets	**(42,957)**	(82,754)
Amortization related to invested assets	**(70,842)**	(73,108)
Amortization related to capital assets	**4,613**	3,673
Deferred income taxes	**(2,462)**	(1,892)
Other items	**33,760**	45,498
Cash provided from operating activities	**221,746**	228,956
Investing Activities		
Portfolio investments		
Purchases and advances	**(2,110,910)**	(1,354,055)
Sales and maturities	**1,612,993**	1,219,502
Loans on policies		
Advances	**(10,333)**	(7,600)
Repayments	**14,575**	8,293
Decrease (increase) in short-term investments	**(9,008)**	17,427
Net purchase of capital assets	**(6,485)**	(6,240)
Cash provided from (used for) investing activities	**(509,168)**	(122,673)
Financing Activities		
Dividends to common shareholders (Note 19)	**(24,100)**	—
Interest paid on subordinated debt	**(17,765)**	(13,460)
Debt issue (Note 23)	**298,255**	—
Cash provided from (used for) financing activities	**256,390**	(13,460)
Net Change in Cash and Cash Equivalents	**(31,032)**	92,823
Cash and Cash Equivalents - Beginning of Year	**248,382**	155,559
Cash and Cash Equivalents - End of Year	**$ 217,350**	$ 248,382
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	**$ 24,074**	$ (15,476)
Interest income received	**138,902**	124,863
Dividend income received	**32,897**	43,994

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

1. DESCRIPTION OF COMPANY AND SUMMARY OF OPERATIONS

The Empire Life Insurance Company (the "Company" or "Empire Life") was founded in 1923 when it was organized under a provincial charter in Toronto. Authorization to continue as a federal corporation was obtained in 1987. The Company underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products for individuals and groups across Canada. The Company is a subsidiary of E-L Financial Corporation Limited (the "Parent" or "E-L"). The head office, principal address and registered office of the Company are located at 259 King Street East, Kingston, Ontario, K7L 3A8. Empire Life is a Federally Regulated Financial Institution, regulated by the Office of the Superintendent of Financial Institutions, Canada (OSFI). The Company established a mutual fund subsidiary in 2011, Empire Life Investments Inc. (ELII). ELII became a registered Investment Funds Manager on January 5, 2012. The head office for ELII is located at 165 University Avenue, 9th Floor, Toronto, Ontario, M5H 3B8.

These consolidated financial statements were approved by the Company's Board of Directors on February 25, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The annual consolidated financial statements of the Company for the year ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable at December 31, 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 amounts included in the consolidated financial statements are presented in thousands of Canadian dollars except for per share amounts and where otherwise stated. These consolidated financial statements also comply with the accounting requirements of OSFI.

(b) Basis of Consolidation

The Company's consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company and its wholly-owned and controlled subsidiary, Empire Life Investments Inc. The Company owns 100% of the voting shares and maintains control of its subsidiary. Control is defined as the power to govern the financial and operating activities of an entity so as to obtain the benefits from its activities. The financial statements of its subsidiary are included in the Company's results from the day control was established, the commencement of operations, and will be deconsolidated should control cease. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All significant inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

(c) Critical Accounting Estimates and Judgements

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 judgements, 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 judgements:

i) Insurance-related liabilities

Liabilities for insurance contracts are determined using the Canadian Asset Liability Method, which incorporates best-estimate assumptions for mortality, morbidity, policy lapses, surrenders, future investment yields, policy dividends, administration costs and margins for adverse deviation. These assumptions are reviewed at least annually and are updated to reflect actual experience and market conditions. Changes in the assumptions and margins for adverse deviation can have a significant impact on the valuation of insurance related liabilities.
Additional information regarding insurance-related liabilities is included in Notes 2 f), 2 l),10 and 27 b).

ii) Financial instrument classification

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

iii) Pension and other post-employment benefits

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

iv) Impairment

Available for sale securities and loans and receivables are reviewed at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. For available for sale securities and loans and receivables, impairment losses are recognized if there is objective evidence of impairment as a result of an event that reduces the estimated future cash flows of the instrument and the impact can be reliably estimated. Objective evidence of impairment includes, but is not limited to, bankruptcy or default, delinquency by a debtor, and specific adverse conditions affecting an industry or a region. In addition, for equity securities, a significant or prolonged decline in the fair value of a security below its cost is objective evidence of impairment. For these purposes management considers a significant decline to be 20% or greater and a prolonged period to be 12 months or greater. The decision to record a write-down, its amount and the period in which it is recorded could change if management's assessment of those factors were different. Impairment write-downs on debt securities are not recorded when impairment is due to changes in market interest rates, if future contractual cash flows associated with the debt security are still expected to be recovered.
Additional information regarding impairment is included in Notes 2 e), 3 b), 10 c) and 27 a).

(d) Change in Accounting Policies

(i) *IAS 1 Presentation of Financial Statements*

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments require the Company to group OCI items by those that will be subsequently reclassified to net income and those that will not be reclassified. These changes did not result in any adjustments to OCI or comprehensive income.

(ii) *IFRS 10 Consolidated Financial Statements*

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definitions of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and December 31, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiary.

(iii) *IFRS 12 Disclosure of Interest in Other Entities*

The Company assessed its disclosure of its interest in other entities' on January 1, 2013 and December 31, 2013 and determined that the adoption of IFRS 12 did not result in any change in the disclosure of its interests in its subsidiaries and investees.

(iv) *IFRS 13 Fair Value Measurement*

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

In accordance with IFRS 13, at January 1, 2013, the Company began measuring the fair value of its Level 1 financial assets at closing market prices. The change in fair value from bid price to closing price did not result in any significant measurement adjustments as at January 1, 2013.

IFRS 13 also requires enhanced disclosures when fair value is used for measurement. Such enhanced disclosures are included in these consolidated financial statements.

(v) *IAS 19R Employee Benefits*

IAS 19R requires the net defined benefit liability (asset) to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits expense. Instead, post-employment benefits 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. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in OCI. The Company immediately recognizes in AOCI all pension adjustments recognized in OCI. AOCI amounts related to IAS 19R will remain in AOCI and will not be reclassified to Net Income in the future. The Company recognizes interest expense (income) on net post-employment benefits liabilities (assets) in operating expense in the consolidated statement of operations.

The Company adopted the amendments of IAS 19R retrospectively and adjusted its opening equity as at January 1, 2012 to recognize previously unamortized actuarial gains and losses. The operating expense for the comparable period has been adjusted to reflect the accounting changes for defined benefit plans. The adjustments for each financial statement line item affected are presented in the tables below. Post-employment assets are included in Other assets and Post-employment liabilities are included in Accounts payable and other liabilities on the statement of financial position.

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

Impact of accounting policy changes on statement of financial position line items

	December 31, 2012			January 1, 2012		
	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes
Assets						
Post-employment assets	$ 12,338	$ (12,338)	$ —	$ 13,137	$ (13,137)	$ —
Other assets	9,130	(4)	9,126	21,327	3	21,330
Deferred income tax assets	—	4,596	4,596	—	—	—
All other assets	10,902,076	—	10,902,076	9,984,658	—	9,984,658
Total Assets	10,923,544	(7,746)	10,915,798	10,019,122	(13,134)	10,005,988
Liabilities						
Post-employment liabilities	11,744	23,209	34,953	11,318	10,166	21,484
Accounts payable and other liabilities	34,927	(5)	34,922	58,779	3	58,782
Deferred income tax liabilities	4,792	(4,792)	—	6,586	(6,154)	432
All other liabilities	9,972,275	—	9,972,275	9,105,332	—	9,105,332
Total Liabilities	10,023,738	18,412	10,042,150	9,182,015	4,015	9,186,030
Equity						
Capital Stock	985	—	985	985	—	985
Contributed Surplus	19,387	—	19,387	19,387	—	19,387
Retained Earnings						
Participating Policyholders	47,127	(13)	47,114	53,724	—	53,724
Shareholders	812,898	(256)	812,642	732,479	—	732,479
Accumulated other comprehensive income						
Participating Policyholders	5,124	(1,260)	3,864	3,487	(854)	2,633
Shareholders	14,285	(24,629)	(10,344)	27,045	(16,295)	10,750
Total Equity	899,806	(26,158)	873,648	837,107	(17,149)	819,958
Total Liabilities and Equity	$ 10,923,544	$ (7,746)	$ 10,915,798	$ 10,019,122	$ (13,134)	$ 10,005,988

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

Impact of IAS 19R accounting policy changes on statement of operations line items

	December 31, 2012		
	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes
Total Revenue	$ 1,260,255	$ —	$ 1,260,255
Benefits and Expenses			
Operating expenses	139,788	367	140,155
All other benefits & expenses	1,015,643	—	1,015,643
Other taxes	17,366	—	17,366
Net Income Before Income Taxes	87,458	(367)	87,091
Income taxes	13,636	(98)	13,538
Net Income	$ 73,822	$ (269)	$ 73,553
Attributable to:			
Participating Policyholders	$ (6,597)	$ (13)	$ (6,610)
Shareholders	80,419	(256)	80,163
	$ 73,822	$ (269)	$ 73,553
Earnings per share	$ 81.64	$ (0.26)	$ 81.38

Impact of IAS 19R accounting policy changes on statement of comprehensive income line items

	December 31, 2012		
	Before Accounting Changes	IAS 19R Adjustment	After Accounting Changes
Net Income	$ 73,822	$ (269)	$ 73,553
Other Comprehensive Income (Loss), Net of Income Taxes			
Remeasurements of post-employment benefit liabilities	$ —	$ (8,740)	$ (8,740)
All other comprehensive income	(11,123)	—	(11,123)
Total other comprehensive income (loss)	(11,123)	(8,740)	(19,863)
Comprehensive Income	$ 62,699	$ (9,009)	$ 53,690
Attributable to:			
Participating Policyholders	$ (4,960)	$ (419)	$ (5,379)
Shareholders	67,659	(8,590)	59,069
	$ 62,699	$ (9,009)	$ 53,690

(e) Financial Instruments

i) Fair Value

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. For financial instruments such as cash equivalents and short-term investments that have a short duration, the carrying value of these instruments approximates 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 cash equivalents, 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 the Company's expectations about the assumptions market participants would use in pricing the asset or liability.

All of the Company's financial instruments requiring fair value measurement meet the requirements of Level 1 or Level 2 of the fair value hierarchy.

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.

Most financial assets supporting insurance contract liabilities and investment contract liabilities are designated as FVTPL. These assets may be comprised of cash, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Changes in the fair value of these financial assets are recorded in fair value change in FVTPL assets in the Consolidated statement of operations in the period in which they occur.

Most financial assets supporting capital and surplus and participating accounts are classified as AFS. These assets may be comprised of short-term investments, bonds and debentures or common and preferred shares. AFS assets are carried at fair value in the Consolidated statement of financial position. Except for foreign currency gains/losses on monetary AFS assets and impairment losses, any changes in the fair value are recorded, net of income taxes, in OCI. Gains and losses realized on sale or maturity of AFS assets are reclassified from OCI to Realized gain (loss) on AFS assets in the Consolidated statement of operations.

Loans and receivables may include mortgage loans, loans on policies and policy contract loans. These assets are recorded at amortized cost, using the effective interest method, net of provisions for impairment losses, if any. Mortgage loans are secured by real estate. Loans on policies and policy contract loans are secured by policy values. Loans and receivables are defined as non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

All transactions are recorded on the trade date. Transaction costs are expensed for FVTPL instruments and capitalized for all others.

iii) Impairment

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

(1) AFS Debt Instruments

An AFS debt instrument would be identified as impaired when there is objective observable 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 net income (loss). Impairment losses previously recorded through net income (loss) are reversed if the fair value subsequently increases and the increases can be objectively related to an event occurring after the impairment loss was recognized.

(2) 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 net income (loss) is the same as described for AFS debt instruments above with the exception that impairment losses previously recognized in net income (loss) cannot be subsequently reversed. Any subsequent increase in value is recorded in OCI.

(3) 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, policy contract loan or a loan on a policy. Events and conditions considered in determining if there is objective evidence of impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability and credit worthiness 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 net income (loss). 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 by adjusting the allowance account and the reversal is recognized in net income (loss).

iv) Derecognition

A financial asset is derecognized when the contractual rights to its 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) Hedge Accounting

From time to time, the Company enters into hedging arrangements. Where the Company has elected to use hedge accounting, a hedge relationship is designated and documented at inception. The Company evaluates hedge effectiveness at the inception of the relationship and at least on a quarterly basis using a variety of techniques including the cumulative dollar offset method. Both at inception and throughout the term of the hedge, the Company expects that each hedging instrument will be highly effective in offsetting the risk being hedged. When it is determined that the hedging relationship is no longer effective, or the hedged item has been sold or terminated, the Company discontinues hedge accounting prospectively. In such cases, if the derivative hedging instrument is not sold or terminated, any subsequent change in fair value of the derivative is recognized in investment income.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging instrument is recorded in OCI while the ineffective portion is recognized in investment income in the Consolidated statement of operations. Gains and losses in Accumulated other comprehensive income (AOCI) are reclassified and recognized in investment income in the Consolidated statement of operations during the periods when the variability in the cash flows hedged or the hedged forecasted transactions are recognized in the Consolidated statement of operations. Gains and losses on cash flow hedges accumulated in AOCI are reclassified immediately to investment income in the Consolidated statement of operations when either the hedged item is sold or the forecasted transaction is no longer expected to occur. When hedge accounting is discontinued, and it remains probable that the hedged forecasted transaction will occur, then the amounts previously recognized in AOCI are reclassified and recognized in investment income in the Consolidated statement of operations in the periods during which variability in the cash flows hedged or the hedged forecasted transactions are recognized in the Consolidated statement of operations.

vi) Other

Insurance receivables and Trade 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 have been classified as other financial liabilities and are carried at amortized cost. For these financial instruments, carrying value approximates fair value.

(f) Reinsurance

The Company enters into reinsurance agreements with reinsurers in order to limit its exposure to significant losses. The Company 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 Insurance receivables and Insurance liabilities in the Consolidated statement of financial position. Premiums for reinsurance ceded are presented as Premiums ceded to reinsurers in the Consolidated statement of operations. Reinsurance recoveries on claims incurred are recorded as Claims recovery from reinsurers in the Consolidated statement of operations. The reinsurers' share of Insurance contract liabilities is recorded as Reinsurance assets or Reinsurance 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 statement of operations.

Gains or losses on buying reinsurance are recognized in the Consolidated statement of operations immediately at the date of purchase and are not amortized.

(g) Property and Equipment

Property and equipment comprises own use land, building, leasehold improvements and furniture and equipment. All classes of assets are carried at cost less accumulated amortization including any impairment losses, except for land, which is not subject to amortization. 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)

Amortization is included in Operating expenses in the Consolidated statement of operations.

The estimated useful lives, residual values and amortization methods 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 to sell and value in use. Impairment losses are recognized in the Consolidated statement of operations.

(h) 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 statement of operations. 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 to sell 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 operations.

(i) Segregated Funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. Although the underlying assets are registered in the Company'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. The Company records a segregated fund policy liability equal to the fair value of the assets and any guarantees are recorded as an insurance contract liability. The Company's Consolidated statement of operations includes fee income earned for management of the segregated funds, as well as expenses related to the acquisition, investment management, administration and death benefit and maturity benefit guarantees of these funds. See Note 8 for details on segregated fund assets and changes in segregated fund assets.

The Company 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 the Company's liability for segregated fund guarantees to market fluctuations is disclosed in Note 27 (a) i) (1).

(j) 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 statement of operations.

(k) 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 enrolments in the defined benefit component effective October 1, 2011 and introduced a defined contribution component effective January 1, 2012 for new enrolments 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 AOCI. 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.

(l) 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 the Company 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 the Company that transfer significant insurance risk have been classified as insurance contracts in accordance with IFRS 4 *Insurance Contracts*. Otherwise, products issued by the Company 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*. The Company 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, the Company 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.

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

(1) Insurance Contracts

The Company'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. The Company 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 Company 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 the Company'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 Change in insurance contract liabilities in the Consolidated statement of operations 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 operations.

(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 the Company, 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 operations. Deposits and withdrawals are recorded in Investment contract liabilities 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 operations.

(m) Participating Policies

The Company 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 OSFI under sections 456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are expensed through the Consolidated statement of operations.

At the end of the reporting period all participating insurance contract 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 assets or Reinsurance liabilities. Net income (loss) attributable to participating policyholders is shown on the Consolidated statements of operations. Comprehensive income (loss) attributable to participating policyholders is shown on the Consolidated statements of comprehensive income. The participating policyholders’ portion of Retained earnings and AOCI is reported separately in the Policyholders’ equity section of the Consolidated statements of changes in equity.

i) Investment Policy

The investments in the participating account are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of the Company's Board of Directors (the "Board"). The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments. Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Asset/Liability Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels.

ii) Investment Income Allocation

Investment income is recorded directly to each asset segment. When there is a deficiency of funds over assets, a portion of investment income is allocated to the Shareholders' Capital and Surplus segment from the participating account's asset segments in proportion to the deficiency of funds over assets of each segment. When there is an excess of funds over assets, a portion of investment income is allocated from the Shareholders' Capital and Surplus segment to the participating account's asset segments in proportion to the excess of funds over assets of each segment.

iii) Expense Allocation

For purposes of allocation of profits to the participating accounts, expenses associated directly with the participating account will be attributed to the participating account. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

iv) Income Tax Allocation

For the purpose of allocation of profits to the participating accounts, income taxes are allocated to the participating account in proportion to total taxable income for the Company.

(n) Fee Income

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

(o) Investment Income

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 income in the Consolidated statement of operations for all financial assets.

(p) Income Taxes

Income tax expense for the period is comprised of current and deferred tax. Tax is recognized in the Consolidated statement of operations except to the extent that it relates to items recognized in OCI or directly in equity. In these cases, the tax is recognized in OCI or directly in 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 the amount 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. 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 tax and 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 their 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.

(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 statement of operations.

For monetary financial assets designated as AFS, translation differences are recognized in the Consolidated statement of operations. Translation differences on non-monetary items, such as foreign denominated AFS common equities, are recognized in OCI and included in the AFS component within AOCI. On derecognition of an AFS non-monetary financial asset, the cumulative exchange gain or loss previously recognized in equity is recognized in the Consolidated statement of operations.

(r) Comprehensive Income

Comprehensive income consists of Net income and OCI. OCI includes items that may be reclassified subsequently to net income: unrealized fair value change on AFS financial assets, net of amounts reclassified to net income and the amortization of loss on derivative investments designated as cash flow hedges. 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.

(s) 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 Net 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.

(t) 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 charged to Net income on a straight-line basis over the term of the lease.

(u) Earnings per Share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to common share owners of the Company by the weighted average number of common shares outstanding during the period. The Company does not have any potentially dilutive instruments. As a result, diluted earnings per share are the same as basic earnings per share.

(v) Future Accounting Changes

IFRS 9 *Financial Instruments*

On February 20, 2014, the International Accounting Standards Board announced that IFRS 9 would become effective January 1, 2018. The quantitative impact of this new standard on the Company’s financial statements has not yet been determined.

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

3. FINANCIAL INSTRUMENTS

(a) Summary of Cash and Investments

The carrying values and fair values of cash and investments are as follows:

	As at December 31, 2013				
Asset category	**Fair Value Through Profit or Loss**	**Available for Sale**	**Loans & Receivables**	**Total Carrying Value**	**Total Fair Value**
Cash and cash equivalents	$ 217,350	$ —	$ —	$ 217,350	$ 217,350
Short-term investments					
Canadian federal government	7,325	—	—	7,325	7,325
Corporate	18,123	—	—	18,123	18,123
Total short-term investments	25,448	—	—	25,448	25,448
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	59,870	197,160	—	257,030	257,030
Canadian provincial and municipal governments	2,034,681	252,445	—	2,287,126	2,287,126
Total government bonds issued or guaranteed	2,094,551	449,605	—	2,544,156	2,544,156
Canadian corporate bonds by industry sector:					
Financial services	495,906	472,359	—	968,265	968,265
Infrastructure	219,882	24,241	—	244,123	244,123
Utilities	224,452	34,962	—	259,414	259,414
Communications	2,194	37,014	—	39,208	39,208
Energy	49,294	35,535	—	84,829	84,829
Consumer staples	67,223	9,903	—	77,126	77,126
Industrials	40,343	6,469	—	46,812	46,812
Health care	54,621	5,246	—	59,867	59,867
Materials	9,712	—	—	9,712	9,712
Total Canadian corporate bonds	1,163,627	625,729	—	1,789,356	1,789,356
Total bonds	3,258,178	1,075,334	—	4,333,512	4,333,512
Preferred shares					
Canadian	224,313	69,905	—	294,218	294,218
Total preferred shares	224,313	69,905	—	294,218	294,218
Common shares					
Canadian					
Common shares	476,742	65,778	—	542,520	542,520
Real estate limited partnership units	41,081	—	—	41,081	41,081
U.S.	116,699	—	—	116,699	116,699
Other	15,090	—	—	15,090	15,090
Total common shares	649,612	65,778	—	715,390	715,390
Mortgages	—	—	299,353	299,353	304,134
Loans on policies	—	—	44,855	44,855	44,855
Policy contract loans	—	—	90,275	90,275	90,275
Total	$ 4,374,901	$ 1,211,017	$ 434,483	$ 6,020,401	$ 6,025,182

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

	As at December 31, 2012				
Asset category	Fair Value Through Profit or Loss	Available for Sale	Loans & Receivables	Total Carrying Value	Total Fair Value
Cash and cash equivalents	$ 248,382	$ —	$ —	$ 248,382	$ 248,382
Short-term investments					
Canadian federal government	3,991	—	—	3,991	3,991
Corporate	12,449	—	—	12,449	12,449
Total short-term investments	16,440	—	—	16,440	16,440
Bonds					
Bonds issued or guaranteed by:					
Canadian federal government	66,391	186,822	—	253,213	253,213
Canadian provincial and municipal governments	2,249,585	188,453	—	2,438,038	2,438,038
Total government bonds issued or guaranteed	2,315,976	375,275	—	2,691,251	2,691,251
Canadian corporate bonds by industry sector:					
Financial services	544,631	229,081	—	773,712	773,712
Infrastructure	239,394	36,418	—	275,812	275,812
Utilities	204,291	7,348	—	211,639	211,639
Communications	—	9,986	—	9,986	9,986
Energy	37,559	31,898	—	69,457	69,457
Consumer staples	55,124	7,163	—	62,287	62,287
Industrials	44,935	6,404	—	51,339	51,339
Health care	75,944	5,881	—	81,825	81,825
Materials	21	—	—	21	21
Total Canadian corporate bonds	1,201,899	334,179	—	1,536,078	1,536,078
Total bonds	3,517,875	709,454	—	4,227,329	4,227,329
Preferred shares					
Canadian	213,879	107,442	—	321,321	321,321
Total preferred shares	213,879	107,442	—	321,321	321,321
Common shares					
Canadian					
Common shares	471,080	53,877	—	524,957	524,957
Real estate limited partnership units	8,853	—	—	8,853	8,853
U.S.	13,755	523	—	14,278	14,278
Other	8,676	—	—	8,676	8,676
Total common shares	502,364	54,400	—	556,764	556,764
Mortgages	—	—	302,531	302,531	314,349
Loans on policies	—	—	43,071	43,071	43,071
Policy contract loans	—	—	95,461	95,461	95,461
Total	$ 4,498,940	$ 871,296	$ 441,063	$ 5,811,299	$ 5,823,117

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

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. Mortgages are classified as Level 2 by the fair value hierarchy.

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

(b) Impairments

i) Loans and Receivables

Investments in individual assets have been reduced by the following specific allowances for impairment:

	As at December 31, 2013		
Impaired Loans	**Recorded Investment**	**Allowance for Impairment**	**Carrying Amount**
Mortgages	**$ 7,076**	**$ 2,374**	**$ 4,702**
Policy contract loans	**813**	**556**	**257**
Total	**$ 7,889**	**$ 2,930**	**$ 4,959**

	As at December 31, 2012		
Impaired Loans	Recorded Investment	Allowance for Impairment	Carrying Amount
Mortgages	$ 8,186	$ 2,878	$ 5,308
Policy contract loans	813	533	280
Total	$ 8,999	$ 3,411	$ 5,588

The Company holds collateral of $4,725 (2012 $5,343) in respect of these mortgages and $257 (2012 $280) in respect of these policy contract loans as at December 31, 2013. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

Continuity of Allowance for Loan Impairment	**2013**	2012
Allowance - beginning of year	**$ 3,411**	$ 3,120
Provision for loan impairment	**488**	1,193
Write-off of loans	**(969)**	(902)
Allowance - End of Year	**$ 2,930**	$ 3,411

The Company has recorded interest income of $810 (2012 $864) on these assets.

As at December 31, 2013 loans and receivables past due but not impaired are $nil (2012 $6,248).

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

ii) Available for Sale

For the year-ended December 31, 2013, the Company reclassified a pre-tax loss of $409 from OCI to Net income due to write downs of impaired available for sale common and preferred shares (2012 $2,138). Management considers these assets to be impaired due to the length of time that the fair value was less than the cost and/or the extent and nature of the loss.

For additional information on the fair values of the Company's AFS investments, refer to Note 3 e) Fair Value of Financial Instruments. For analysis of the Company's risks arising from financial instruments, refer to Note 27 Risk Management.

(c) Hedge Accounting

In conjunction with the issuance of unsecured subordinated debentures in 2009 (Note 23), the Company entered into a bond forward derivative with a notional amount of $75,000 which matured on May 13, 2009. This derivative had been accounted for as a hedging item in a cash flow hedging relationship.

The Company expects to reclassify a pre-tax loss of $344 (2012 $849) from AOCI to investment income on the Consolidated statement of operations in the next twelve months.

(d) Investment Income

Investment income is comprised of the following:

For the year ended December 31	2013	2012
Interest income	**$ 206,741**	$ 194,294
Dividend income	**32,797**	43,703
Other	**1,109**	550
Provision for loan impairment	**(488)**	(1,193)
Investment Income	**$ 240,159**	$ 237,354

Included in interest income is $63,220 (2012 $53,130) relating to assets not classified as fair value through profit or loss.

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

(e) Fair Value of Financial Instruments

The following table presents the investments measured at fair value classified by the fair value hierarchy:

		As at December 31, 2013		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Cash and cash equivalents	**$ 53,394**	**$ 163,956**	**$ —**	**$ 217,350**
Fair value through profit or loss:				
Bonds	**—**	**3,258,178**	**—**	**3,258,178**
Common shares	**608,531**	**41,081**	**—**	**649,612**
Preferred shares	**224,313**	**—**	**—**	**224,313**
Short-term investments	**—**	**25,448**	**—**	**25,448**
Available for sale:				
Bonds	**—**	**1,075,334**	**—**	**1,075,334**
Common shares	**65,778**	**—**	**—**	**65,778**
Preferred shares	**69,905**	**—**	**—**	**69,905**
Total	**$ 1,021,921**	**$ 4,563,997**	**$ —**	**$ 5,585,918**

		As at December 31, 2012		
	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	$ 30,570	$ 217,812	$ —	$ 248,382
Fair value through profit or loss:				
Bonds	—	3,517,875	—	3,517,875
Common shares	493,511	8,853	—	502,364
Preferred shares	213,879	—	—	213,879
Short-term investments	—	16,440	—	16,440
Available for sale:				
Bonds	—	709,454	—	709,454
Common shares	54,400	—	—	54,400
Preferred shares	107,442	—	—	107,442
Total	$ 899,802	$ 4,470,434	$ —	$ 5,370,236

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2013 or during the year ended December 31, 2012.

For additional information on the composition of the Company's invested assets and analysis of the Company's risks arising from financial instruments refer to Notes 3 a) and 27.

(f) Derivative Financial Instruments

The values of derivative instruments are set out in the following table. The use of derivatives is measured in terms of notional principal amounts, which serve as the basis for calculating payments and are generally not actual amounts that are exchanged.

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

As at December 31, 2013

		Notional Principal		Current Replacement Cost		Fair Value Positive		Fair Value Negative		Credit Equivalent Amount		Risk Weighted Balance
Exchange-traded												
Equity index futures	$	**28,261**	$	**1,145**	$	**1,145**		**—**		**—**		**—**
Over-the-counter												
Foreign currency forwards		**123,469**		**471**		**471**		**130**		**1,705**		**20**
Total	$	**151,730**	$	**1,616**	$	**1,616**	$	**130**	$	**1,705**	$	**20**

As at December 31, 2012

		Notional Principal		Current Replacement Cost		Fair Value Positive		Fair Value Negative		Credit Equivalent Amount		Risk Weighted Balance
Exchange-traded												
Equity index futures	$	22,203	$	182	$	182		—		—		—
Over-the-counter												
Foreign currency forwards		15,802		61		61		44		219		4
Total	$	38,005	$	243	$	243	$	44	$	219	$	4

All contracts mature in less than one year. Fair value positive amounts and fair value negative amounts are reported on the Consolidated statement of financial position as Other assets and Accounts payable and other liabilities respectively.

Current replacement cost represents the current cost of replacing all contracts having a positive fair value, should the counterparty default.

As the regulator of the Canadian insurance industry, OSFI provides guidelines to quantify the use of derivatives. The credit equivalent amount, a measure used to approximate the potential credit exposure, is determined as the replacement cost of the derivative contracts having a positive fair value plus an amount representing the potential future credit exposure. Equity index futures have negligible credit risk as they are settled daily.

The risk-weighted credit equivalent balance is a measure used to determine the amount of capital necessary to support derivative transactions for Canadian regulatory purposes. It is determined by weighting the credit equivalent amount according to the nature of the derivative and the creditworthiness of the counterparties.

For analysis of the Company’s risks arising from financial instruments, refer to Note 27 Risk Management.

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

4. INSURANCE RECEIVABLES

As at December 31		2013		2012
Due from policyholders	$	**4,057**	$	3,653
Due and accrued from reinsurers		**20,165**		11,080
Fees receivable		**13,414**		8,923
Other		**3,378**		6,379
Insurance Receivables	$	**41,014**	$	30,035

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.

5. OTHER ASSETS

Other assets consist of the following:

As at December 31		2013		2012 (Restated)
Trade accounts receivable	$	**8,397**	$	5,753
Prepaid expenses		**3,272**		3,373
Other Assets	$	**11,669**	$	9,126

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.

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

6. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture and Equipment	Leasehold Improvements	Total
Cost					
As at December 31, 2011	$ 2,728	$ 12,873	$ 15,092	$ 5,194	$ 35,887
Additions	—	—	3,948	684	4,632
Disposals	—	—	—	—	—
As at December 31, 2012	2,728	12,873	19,040	5,878	40,519
Additions	—	—	2,822	751	3,573
Disposals	(410)	—	—	—	(410)
As at December 31, 2013	**$ 2,318**	**$ 12,873**	**$ 21,862**	**$ 6,629**	**$ 43,682**
Amortization					
As at December 31, 2011	—	$ (1,255)	$ (10,624)	$ (2,767)	$ (14,646)
Charge for the year	—	(581)	(1,761)	(704)	(3,046)
Disposals	—	—	—	—	—
As at December 31, 2012	—	(1,836)	(12,385)	(3,471)	(17,692)
Charge for the year	—	(552)	(2,550)	(845)	(3,947)
Disposals	—	—	—	—	—
As at December 31, 2013	**$ —**	**$ (2,388)**	**$ (14,935)**	**$ (4,316)**	**$ (21,639)**
Carrying Amount					
December 31, 2012	$ 2,728	$ 11,037	$ 6,655	$ 2,407	$ 22,827
December 31, 2013	**$ 2,318**	**$ 10,485**	**$ 6,927**	**$ 2,313**	**$ 22,043**

There were no asset impairments in 2013 or 2012.

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

7. INTANGIBLE ASSETS

Cost		
As at December 31, 2011	$	38,331
Additions		1,608
Disposals		—
As at December 31, 2012		39,939
Additions		2,912
Disposals		—
As at December 31, 2013	**$**	**42,851**
Amortization		
As at December 31, 2011	$	(37,241)
Charge for the year		(627)
Disposals		—
As at December 31, 2012		(37,868)
Charge for the year		(666)
Disposals		—
As at December 31, 2013	**$**	**(38,534)**
Carrying Amount		
December 31, 2012	$	2,071
December 31, 2013	**$**	**4,317**

The Company's total amount of research and development expenditure recognized as an expense during 2013 is $3,848 (2012 $4,461).

There were no asset impairments during 2013 or 2012.

8. SEGREGATED FUNDS

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

As at December 31		2013		2012
Cash and cash equivalents	**$**	**81,079**	$	192,581
Short-term investments		**171,903**		150,376
Bonds		**1,347,287**		1,204,163
Common and preferred shares		**4,414,766**		3,510,274
Net other assets		**27,885**		28,127
		6,042,920		5,085,521
Less segregated funds held within general fund investments		**(88,412)**		(71,129)
Total	**$**	**5,954,508**	$	5,014,392

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

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

As at December 31, 2013	Level 1	Level 2	Level 3	Total
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

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 40,329	$ 152,252	$ —	$ 192,581
Common and preferred shares	3,510,274	—	—	3,510,274
Bonds	—	1,204,163	—	1,204,163
Short-term investments	—	150,376	—	150,376
Total	$ 3,550,603	$ 1,506,791	$ —	$ 5,057,394

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

For the year ended December 31	2013	2012
Segregated funds - beginning of year	$ 5,014,392	$ 4,415,318
Additions to segregated funds:		
Amount received from policyholders	1,410,240	1,421,084
Interest	52,730	45,478
Dividends	111,164	101,066
Other income	23,971	18,221
Net realized gains on sale of investments	273,734	—
Net unrealized increase in fair value of investments	438,167	180,651
	2,310,006	1,766,500
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,184,549	1,016,535
Net realized losses on sale of investments	—	2,819
Management fees and other operating costs	168,058	138,346
	1,352,607	1,157,700
Net change in segregated funds held within general fund investments	(17,283)	(9,726)
Segregated Funds - End of Year	$ 5,954,508	$ 5,014,392

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

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

Segregated fund products issued by Empire Life contain death and maturity guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees. The impact of market price fluctuations in segregated funds on the shareholders' net income is disclosed in the risk management Note 27 a) (i).

9. INSURANCE PAYABLES

As at December 31		2013		2012
Claims due and accrued	**$**	**39,034**	$	23,876
Payable to agents		**9,939**		10,173
Premiums paid in advance		**2,579**		2,446
Due to reinsurance companies		**8,630**		7,674
Other		**18,758**		18,983
Insurance Payables	**$**	**78,940**	$	63,152

Of the above total, $1,836 (2012 $1,523) is expected to be settled more than one year after the Consolidated statement of financial position date. Most of these financial instruments are short-term in nature and their fair value approximates carrying value. In the absence of an active market for the amount to be settled more than one year after the Consolidated statement of financial position date, the carrying value provides a reasonable approximation of fair value.

10. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS/LIABILITIES

(a) Nature and Composition of Insurance Contract Liabilities and Related Reinsurance

Insurance contract liabilities include life, health and annuity contracts on a participating and non-participating basis.

Changes in actuarial assumptions are made based on emerging and evolving experience with respect to major factors affecting estimates of future cash flows and consideration of economic forecasts of investment returns, industry studies and requirements of the CIA and OSFI.

Insurance contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, expenses, and taxes on policies in force. Insurance contract liabilities are determined using accepted actuarial practice according to standards established by the CIA and the requirements of OSFI.

The Company reinsures excess risks with Canadian regulated reinsurance companies. The reinsurance asset (liability) is determined based on both the premiums expected to be paid by the Company under reinsurance agreements over the duration of the insurance contracts that they support and the insurance claims expected to be received by the Company when an insured event occurs under those insurance contracts. The liability position of some of the reinsurance is because of the excess of future premiums payable over the expected benefit of reinsurance. The change in reinsurance liability is primarily related to the Company's revised mortality assumptions, which reduce the present value of insurance claims expected to be recovered from the reinsurance companies. The Company enters into reinsurance agreements only with reinsurance companies that have an independent credit rating of "A-" or better from A.M. Best.

Reinsurance transactions do not relieve the original insurer of its primary obligation to policyholders.

The Company is active in most life insurance and annuity product lines across Canada and does not operate in foreign markets. The tables below show the concentration of insurance contract liabilities and related reinsurance assets (liabilities) by type of contract.

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

Concentration of Insurance Contract Liabilities

	As at December 31, 2013		
	Gross Insurance Contract Liabilities	**Reinsurance Assets (Liabilities)**	**Net**
Participating Individual			
- Life	**$ 456,433**	**$ (2,552)**	**$ 458,985**
- Other	**430**	**—**	**430**
Non-participating Individual			
- Life	**2,375,625**	**(372,024)**	**2,747,649**
- Annuity	**1,048,353**	**15,239**	**1,033,114**
- Health	**96,392**	**9,099**	**87,293**
Non-participating Group			
- Life	**28,746**	**927**	**27,819**
- Annuity	**64,300**	**—**	**64,300**
- Health	**182,448**	**64,684**	**117,764**
Segregated fund deferred acquisition costs	**(77,489)**	**—**	**(77,489)**
Total	**$ 4,175,238**	**$ (284,627)**	**$ 4,459,865**

	As at December 31, 2012		
	Gross Insurance Contract Liabilities	Reinsurance Assets (Liabilities)	Net
Participating Individual			
- Life	$ 480,011	$ (3,482)	$ 483,493
- Other	425	—	425
Non-participating Individual			
- Life	2,505,369	(332,870)	2,838,239
- Annuity	1,088,572	16,727	1,071,845
- Health	97,206	9,323	87,883
Non-participating Group			
- Life	26,297	807	25,490
- Annuity	67,617	—	67,617
- Health	181,783	64,687	117,096
Segregated fund deferred acquisition costs	(71,839)	—	(71,839)
Total	$ 4,375,441	$ (244,808)	$ 4,620,249

The Company expects to pay $4,018,709 (2012 $4,264,345) of Insurance contract liabilities and $288,153 (2012 $245,543) of Reinsurance liabilities more than one year after the Consolidated statement of financial position date.

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

The following segregated fund deferred acquisition costs are included in Insurance contract liabilities:

		2013		2012
Segregated funds deferred acquisition costs - beginning of year	$	**71,839**	$	55,175
Deferred during year		**32,012**		39,097
Amortized during year		**(26,362)**		(22,433)
Segregated Funds Deferred Acquisition Costs - End of Year	$	**77,489**	$	71,839

Of the above total, $31,535 is expected to be amortized during the next year.

(b) Change in Insurance Contract Liabilities and Reinsurance Assets/Liabilities

2013

			Gross Insurance Contract Liabilities		Reinsurance Assets (Liabilities)		Net
Insurance contracts	- beginning of year	$	**4,375,441**	$	**(244,808)**	$	**4,620,249**
Changes in methods and assumptions	- improvements in mortality/morbidity experience		**(74,377)**		**(59,800)**		**(14,577)**
	- lapse assumption updates		**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		**(257,692)**		**13,494**		**(271,186)**
Insurance Contracts - End of Year		$	**4,175,238**	$	**(284,627)**	$	**4,459,865**

2012

			Gross Insurance Contract Liabilities		Reinsurance Assets (Liabilities)		Net
Insurance contracts	- beginning of year	$	4,199,501	$	(156,119)	$	4,355,620
Changes in methods and assumptions	- improvements in mortality/morbidity experience		(97,053)		(81,111)		(15,942)
	- update of investment return assumptions		28,489		(579)		29,068
	- model enhancements		(49,478)		(10,238)		(39,240)
	- other changes		22,799		(2,910)		25,709
Normal changes	- new business		151,083		3,520		147,563
	- in-force business		120,100		2,629		117,471
Insurance Contracts - End of Year		$	4,375,441	$	(244,808)	$	4,620,249

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

The improvements in mortality/morbidity experience for both 2013 and 2012 are primarily related to favourable mortality experience for individual life business.

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.

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 update in investment return assumptions in 2012 is primarily made up of two components:

1. For fixed income asset assumptions, a $158,100 policy liability increase primarily related to the unfavourable impact of the low interest rate environment on fixed income future reinvestment rate assumptions; and
2. For non-fixed income asset assumptions, a $129,800 policy liability decrease due primarily to the increased use of equities to match long-term liabilities of non-participating life and universal life products. This resulted primarily from an Asset Liability Management and Capital Management decision in the fourth quarter to purchase $174 million of common equities to match longer term liabilities.

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.

The model enhancements for 2012 are related to the refinements of CALM valuation models for individual non-participating insurance business. In addition, refinements were made to the valuation models for group LTD claims.

Other changes for 2013 relate primarily to lower unit costs for individual life insurance business developing in recent expense studies. There were several other minor changes to assumptions and methodologies.

Other changes for 2012 relate primarily to unfavorable experience associated with policy termination (lapse) for T100 and Universal Life level cost of insurance products and higher unit costs for individual life insurance business developing in recent expense studies.

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

(c) Mix of Assets Allocated to Insurance, Annuity, Investment Contract Liabilities and Equity

As at December 31, 2013

	Insurance Liabilities	Annuity Liabilities	Investment Contract Liabilities	Equity and Other Liabilities	Total
Cash & short-term investments	**$ 86,443**	**$ 24,074**	**$ 280**	**$ 132,001**	**$ 242,798**
Bonds	**2,630,849**	**565,870**	**6,573**	**1,130,220**	**4,333,512**
Mortgages	**41,433**	**254,958**	**2,962**	**—**	**299,353**
Preferred shares	**45,831**	**203,144**	**2,360**	**42,883**	**294,218**
Common shares	**649,612**	**—**	**—**	**65,778**	**715,390**
Loans on policies	**44,855**	**—**	**—**	**—**	**44,855**
Policy contract loans	**1,140**	**38,527**	**448**	**50,160**	**90,275**
Other	**13,567**	**5,616**	**64**	**86,254**	**105,501**
Total	**$ 3,513,730**	**$ 1,092,189**	**$ 12,687**	**$ 1,507,296**	**$ 6,125,902**

As at December 31, 2012 (Restated)

	Insurance Liabilities	Annuity Liabilities	Investment Contract Liabilities	Equity and Other Liabilities	Total
Cash & short-term investments	$ 80,147	$ 20,622	$ 266	$ 163,787	$ 264,822
Bonds	2,883,431	607,537	7,827	728,534	4,227,329
Mortgages	36,777	262,374	3,380	—	302,531
Preferred shares	69,425	195,230	2,515	54,151	321,321
Common shares	502,364	—	—	54,400	556,764
Loans on policies	43,071	—	—	—	43,071
Policy contract loans	4,513	40,927	527	49,494	95,461
Other	12,755	5,817	76	71,459	90,107
Total	$ 3,632,483	$ 1,132,507	$ 14,591	$ 1,121,825	$ 5,901,406

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are $114,000 (2012 $124,900)

(d) Fair Value of Insurance and Investment Contract Liabilities and Reinsurance Assets/Liabilities

In the absence of an active market for the sale of insurance and investment contract liabilities and reinsurance assets/liabilities, the actuarially determined values provide a reasonable approximation of their fair value. Investment contract liabilities are term certain annuities with a relatively short duration.

(e) Liquidity

The Company defines liquid assets as high quality marketable investments that may be easily sold, meaning there exists an active market and observable prices for the investments. Liquid asset values are based on fair value as at December 31.

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

The Company defines cash demands or demand liabilities as those policyholder obligations that may be called on immediately at the discretion of the policyholder. More specifically, demand liabilities include cash surrender values under whole life insurance products as well as current accumulated values of annuity products. Amounts would be gross of any surrender charge or market value adjustment allowed under the terms of the contract. Demand liabilities are determined as though all such policyholders made their call at the same time and as such cannot be readily compared to insurance contract liabilities that are determined based on actuarial assumptions associated with lapse as well as other decrements.

The Company maintains a high level of liquid assets so that cash demands can be readily met. The Company's liquidity position is as follows:

As at December 31		2013		2012
Assets:				
Cash and short-term investments	$	**242,798**	$	264,822
Canada and provincial bonds		**2,425,017**		2,609,190
Other readily-marketable bonds and stocks		**2,369,078**		2,067,815
Total Liquid Assets	$	**5,036,893**	$	4,941,827
Liabilities:				
Demand liabilities with fixed values	$	**511,709**	$	480,943
Demand liabilities with market value adjustments		**1,120,376**		1,056,768
Total Liquidity Needs	$	**1,632,085**	$	1,537,711

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of:

As at December 31		2013		2012 (Restated)
Accounts payable	$	**23,904**	$	25,859
Post-employment benefit liability		**18,317**		34,953
Accrued interest on subordinated debt		**2,371**		1,604
Other		**11,241**		7,459
Accounts Payable and Other Liabilities	$	**55,833**	$	69,875

Of the above total, $18,317 (2012 $34,953) is expected to be settled more than one year after the Consolidated 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.

12. 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. The defined contribution component became effective January 1, 2012. Plan participants as of September 30, 2011 were offered the choice of continuing membership in the defined benefit component or switching to the defined contribution component on January 1, 2012. The Company discontinued enrolments in the defined benefit component effective October 1, 2011. The company has supplemental arrangements that provide defined pension benefits in excess of statutory limits. In addition to pension benefits, the Company 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 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, the Company has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of the Company's Board of Directors. The pension benefit payments are from trustee-administered funds.

The Company'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. The Company'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 that of its parent, E-L Financial Corporation, oversees the Pension Plan of the Company. The Pension Committee reports quarterly to the Human Resources Committee of the 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.

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

The following tables present financial information for the Company's defined benefit plans.

	Pension Benefits		Other Post Employment Benefits	
As at December 31	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Present value of obligations	**$ 177,592**	$ 172,925	**$ 10,017**	$ 9,815
Fair value of plan assets	**169,292**	147,787	**—**	—
Post-employment benefit asset (liability)	**$ (8,300)**	$ (25,138)	**$ (10,017)**	$ (9,815)

The post-employment benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated statement of financial position in Accounts payables and other liabilities.

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

	Pension Benefits		Other Post Employment Benefits	
	2013	2012 (Restated)	**2013**	2012 (Restated)
Present Value of Defined Benefit Obligation				
Opening defined benefit obligation	**$ 172,925**	$ 148,207	**$ 9,815**	$ 12,473
Current service cost	**6,603**	5,017	**54**	103
Interest expense	**7,117**	7,462	**397**	610
Decrease (increase) in net income before tax	**13,720**	12,479	**451**	713
Remeasurements				
(Gain)/loss from changes in demographic assumptions	**5,986**	—	**1,135**	(3,404)
(Gain)/loss from changes in financial assumptions	**(10,385)**	17,081	**(905)**	1,242
Actuarial (gain) loss from member experience	**3,052**	—	**(228)**	(921)
Decrease (increase) in OCI before tax	**(1,347)**	17,081	**2**	(3,083)
Employee contributions	**2,053**	2,212	**—**	—
Benefits paid	**(9,759)**	(7,054)	**(251)**	(288)
Closing defined benefit obligation	**$ 177,592**	$ 172,925	**$ 10,017**	$ 9,815

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

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

	Pension Benefits	
	2013	2012 (Restated)
Fair Value of Defined Benefit Assets		
Fair value at beginning of year	**$ 147,787**	$ 139,196
Interest income	**6,189**	7,098
Administrative expense	**(635)**	(636)
Increase (decrease) in net income before tax	**5,554**	6,462
Remeasurements		
Return on plan assets, excluding amounts included in interest income	**16,247**	2,122
Increase (decrease) in OCI before tax	**16,247**	2,122
Employer contributions	**7,410**	4,849
Employee contributions	**2,053**	2,212
Benefits paid	**(9,759)**	(7,054)
Fair value of Plan assets at end of year	**$ 169,292**	$ 147,787

The actual return on plan assets net of administrative expense, for the year ended December 31, 2013 was a gain of $21,801 (2012 gain of $8,584).

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

	Pension Benefits		Other Post Employment Benefits	
For the year ended	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Operating expense				
Current service cost	**$ 6,603**	$ 5,017	**$ 54**	$ 103
Interest expense	**7,117**	7,462	**397**	610
Interest income on plan assets	**(6,189)**	(7,098)	**—**	—
Administrative expense	**635**	636	**—**	—
Decrease (increase) in net income before tax	**$ 8,166**	$ 6,017	**$ 451**	$ 713
Remeasurements				
Return on plan assets, excluding amounts included in interest income	**$ (16,247)**	$ (2,122)	**$ —**	$ —
(Gain)/loss from changes in demographic assumptions	**5,986**	—	**1,135**	(3,404)
(Gain)/loss from changes in financial assumptions	**(10,385)**	17,081	**(905)**	1,242
Actuarial (gain) loss from member experience	**3,052**	—	**(228)**	(921)
Decrease (increase) in OCI before tax	**$ (17,594)**	$ 14,959	**$ 2**	$ (3,083)

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

Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $544 (2012 $333) of pension expense related to the defined contribution component of the pension plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2014 are approximately $7,443.

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:

As at December 31	2013		2012	
Equity				
Canadian				
Consumer discretionary	**$ 6,633**	**4%**	$ 3,881	3%
Consumer staples	**3,483**	**2%**	1,457	1%
Energy	**10,839**	**6%**	14,969	9%
Financials	**21,702**	**13%**	15,511	10%
Industrials	**4,437**	**3%**	3,090	2%
Information technology	**4,072**	**2%**	1,838	1%
Materials	**4,053**	**2%**	5,564	4%
Telecom services	**1,401**	**1%**	3,725	2%
Utilities	**1,975**	**1%**	1,393	1%
Total Canadian	**58,595**	**34%**	51,428	33%
Foreign	**43,974**	**26%**	27,412	19%
Total Equity	**102,569**	**60%**	78,840	52%
Debt				
Government of Canada	**10,244**	**6%**	6,979	5%
Provincial governments	**12,216**	**8%**	14,096	9%
Municipal governments	**1,140**	**1%**	1,114	1%
Canadian corporations	**25,793**	**15%**	28,837	20%
Total Debt	**49,393**	**30%**	51,026	35%
Cash, cash equivalent, accruals	**4,046**	**2%**	5,307	4%
Mutual Funds	**6,254**	**4%**	5,407	4%
Other	**7,030**	**4%**	7,207	5%
Total fair value of assets	**$ 169,292**	**100%**	$ 147,787	100%

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

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

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefits		Other Post Employment Benefits	
As at December 31	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	**4.8%**	4.2%	**4.8%**	4.1%
Discount rate - net interest	**4.2%**	5.1%	**4.1%**	5.0%
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	**8.1%**	8.4%
Cost trend rate declines to	**n/a**	n/a	**4.5%**	4.5%
Year that the rate reaches the rate it is assumed to remain at	**n/a**	n/a	**2026**	2026

Assumptions relating to future mortality to determine the defined benefit obligation and the net benefit cost for the defined benefit pension plans are as follows:

(number of years)	**2013**	2012
Males aged 65 at measurement date	**22.49**	19.76
Females aged 65 at measurement date	**24.52**	22.13
Males aged 40 at measurement date	**23.58**	21.63
Females aged 40 at measurement date	**25.37**	23.14

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.

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

		Impact on Pension Benefits		Impact on Other Post Employment Benefits	
	Change in Assumption	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate	1%	(21,927)	30,011	(982)	1,181
Rate of compensation increase	1%	8,556	(7,414)	n/a	n/a
Health care cost increase	1%	n/a	n/a	1,397	(1,083)
Claim rate	10%	n/a	n/a	924	(926)
Life expectancy	1 year	4,267	(4,558)	495	(514)

The weighted average duration of the defined benefit obligations are:

	2013
Staff pension plan	**14**
Supplemental employee retirement plan	**11**
Other post-employment benefits	**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.

The following table summarizes 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.

	As at December 31, 2013			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' other comprehensive income	**$ 7,760**	**$ (7,760)**	**$ 15,520**	**$ (15,520)**
Policyholders' other comprehensive income	**$ 369**	**$ (369)**	**$ 738**	**$ (738)**

	As at December 31, 2012			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' other comprehensive income	$ 6,022	$ (6,022)	$ 12,044	$ (12,044)
Policyholders' other comprehensive income	$ 274	$ (274)	$ 548	$ (548)

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

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

	As at December 31, 2013			
	100bps Increase	**100bps Decrease**	**200bps Increase**	**200bps Decrease**
Shareholders' other comprehensive income	**$ (2,152)**	**$ 2,607**	**$ (3,847)**	**$ 5,671**
Policyholders' other comprehensive income	**$ (104)**	**$ 126**	**$ (185)**	**$ 273**

	As at December 31, 2012			
	100bps Increase	100bps Decrease	200bps Increase	200bps Decrease
Shareholders' other comprehensive income	$ (2,488)	$ 2,691	$ (4,794)	$ 5,597
Policyholders' other comprehensive income	$ (114)	$ 123	$ (220)	$ 257

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 within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plan. Within this framework, the Company's ALM objective is to match assets to the pension obligations by investing in equities as well as in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Company 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. The Company believes that equities offer the best returns over the long term with an acceptable level of risk.

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

The last triennial valuation was completed in August 2013, as at December 31, 2012.

The next triennial valuation is due to be completed as at December 31, 2015 for both the defined benefit component of the pension plan and the other post-employment benefits.

13. INSURANCE PREMIUMS

For the year ended December 31	2013			2012		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life premiums	$ 439,465	$ (73,683)	$ 365,782	$ 427,623	$ (68,094)	$ 359,529
Health premiums	319,334	(22,856)	296,478	299,338	(21,107)	278,231
Total life and health premiums	758,799	(96,539)	662,260	726,961	(89,201)	637,760
Annuity premiums	159,722	(438)	159,284	175,772	—	175,772
Total Insurance Premiums	$ 918,521	$ (96,977)	$ 821,544	$ 902,733	$ (89,201)	$ 813,532

14. FEE INCOME

For the year ended December 31	2013	2012
Investment management, policyholder administration and guarantee fees	$ 143,442	$ 117,802
Surrender charges and other miscellaneous fees	7,147	7,416
Fee Income	$ 150,589	$ 125,218

15. BENEFITS AND EXPENSES

(a) Insurance Contract Benefits and Claims Paid

For the year ended December 31	2013			2012		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life claims	$ 169,046	$ (41,789)	$ 127,257	$ 164,415	$ (34,453)	$ 129,962
Health claims	221,903	(11,491)	210,412	209,078	(10,626)	198,452
Total life and health claims	390,949	(53,280)	337,669	373,493	(45,079)	328,414
Annuity benefits	225,060	(3,192)	221,868	216,548	(3,716)	212,832
Benefits and Claims Paid	$ 616,009	$ (56,472)	$ 559,537	$ 590,041	$ (48,795)	$ 541,246

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

(b) Change in Insurance Contract Liabilities and Reinsurance Ceded

For the year ended December 31	2013			2012		
	Gross	Reinsurance Ceded	Net	Gross	Reinsurance Ceded	Net
Life	**$ (150,411)**	**$ 37,845**	**$ (112,566)**	$ 175,781	$ 80,525	$ 256,306
Health	**(610)**	**486**	**(124)**	(2,520)	7,959	5,439
Total life and health	**(151,021)**	**38,331**	**(112,690)**	173,261	88,484	261,745
Annuity	**(49,182)**	**1,488**	**(47,694)**	2,679	205	2,884
Change in Insurance Contract Liabilities	**$ (200,203)**	**$ 39,819**	**$ (160,384)**	$ 175,940	$ 88,689	$ 264,629

16. SEGMENTED INFORMATION

The Company operates in the Canadian life insurance industry and follows a product line management approach for internal reporting and decision making. A description of the product lines is as follows:

The Wealth Management product line includes segregated funds, mutual funds, guaranteed interest rate annuities and annuities providing income for life.

The Employee Benefits product line offers group benefit plans to employers for medical, dental, disability, and life insurance coverage of their employees.

The Individual Insurance product line includes both non-participating and participating individual life and health insurance products.

The Capital and Surplus segment is made up of assets held in the shareholders' and participating policyholders' equity accounts.

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

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

	For the year ended December 31, 2013				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 159,284	$ 306,585	$ 355,675	$ —	$ 821,544
Interest income	41,489	5,633	122,508	37,111	206,741
Total investment income	53,213	4,256	140,199	42,491	240,159
Fair value change in fair value through profit or loss assets	(36,256)	(6,561)	(306,220)	—	(349,037)
Realized gain (loss) on fair value through profit or loss assets	7,173	299	37,973	—	45,445
Realized gain (loss) on available for sale assets including impairment write downs	162	195	150	(2,995)	(2,488)
Fee income from external customers	140,211	7,605	1,009	1,764	150,589
Net benefits and claims	221,868	219,151	118,518	—	559,537
Net change in insurance contract liabilities	(47,694)	2,996	(115,686)	—	(160,384)
Change in investment contract provision	945				945
Policy dividends	—	—	22,098	—	22,098
Amortization of capital assets	1,729	1,306	1,578	—	4,613
Total operating expenses	55,249	41,926	40,798	1,477	139,450
Net commission expense	71,838	30,172	66,247	—	168,257
Interest expense	—	—	—	18,977	18,977
Premium tax	—	6,697	7,314	—	14,011
Investment and capital tax	—	—	3,900	—	3,900
Income tax expense (recovery)	2,938	2,790	19,182	4,475	29,385
Net income (loss) after tax	18,651	8,647	66,407	16,331	110,036

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

	For the year ended December 31, 2012 (Restated)				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 175,772	$ 289,510	$ 348,250	$ —	$ 813,532
Interest income	42,075	5,324	120,491	26,404	194,294
Total investment income	53,037	6,273	143,385	34,659	237,354
Fair value change in fair value through profit or loss assets	1,388	(2,963)	2,972	—	1,397
Realized gain (loss) on fair value through profit or loss assets	2,944	1,625	49,780	—	54,349
Realized gain (loss) on available for sale assets including impairment write downs	182	199	57	27,967	28,405
Fee income from external customers	115,355	7,217	1,009	1,637	125,218
Net benefits and claims	212,831	206,059	122,356	—	541,246
Net change in insurance contract liabilities	2,883	(1,774)	263,520	—	264,629
Change in investment contract provision	754	—	—	—	754
Policy dividends	—	—	20,478	—	20,478
Amortization of capital assets	1,316	1,007	1,350	—	3,673
Total operating expenses	52,654	40,870	45,548	1,083	140,155
Net commission expense	72,639	27,645	74,555	—	174,839
Interest expense	—	—	—	13,697	13,697
Premium tax	—	6,312	7,154	—	13,466
Investment and capital tax	—	—	3,900	—	3,900
Income tax expense (recovery)	(370)	5,522	(4,321)	12,707	13,538
Net income (loss) after tax	7,287	17,227	12,263	36,776	73,553

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

	As at December 31, 2013				
	Wealth Management	**Employee Benefits**	**Individual Insurance**	**Capital & Surplus**	**Total**
Assets excluding segregated funds	**$ 1,104,876**	**$ 154,470**	**$ 3,359,260**	**$ 1,507,296**	**$ 6,125,902**
Segregated funds	**5,932,724**	**—**	**21,784**	**—**	**5,954,508**
Total assets	**$ 7,037,600**	**$ 154,470**	**$ 3,381,044**	**$ 1,507,296**	**$ 12,080,410**

	As at December 31, 2012 (Restated)				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	$ 1,147,098	$ 150,149	$ 3,482,334	$ 1,121,825	$ 5,901,406
Segregated funds	4,993,338	—	21,054	—	5,014,392
Total assets	$ 6,140,436	$ 150,149	$ 3,503,388	$ 1,121,825	$ 10,915,798

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

While specific general fund assets are nominally matched against specific types of general fund liabilities or held in the shareholders' and policyholders' equity accounts, all general fund assets are available to pay all general fund liabilities if required. Segregated fund assets are not available to pay liabilities of the general fund.

17. OPERATING EXPENSES

Operating expenses include the following:

For the year ended December 31		2013		2012 (Restated)
Salary and benefits expense	**$**	**83,713**	$	85,024
Professional services		**14,273**		18,488
Rent, leasing and maintenance		**10,826**		9,471
Amortization and depreciation of capital assets		**4,613**		3,673
Other		**26,025**		23,499
Total	**$**	**139,450**	$	140,155

Significant components of other expenses include travel, advertising, and office supplies and services.

18. INCOME TAXES

(a) Income Tax Expense

The Company's income tax expense includes provisions for current and deferred taxes as follows:

For the year ended December 31		2013		2012 (Restated)
Current income tax expense	**$**	**31,847**	$	15,430
Deferred income tax expense (benefit)				
- relating to the origination and reversal of temporary differences		**(2,462)**		(2,466)
- resulting from substantively enacted changes in tax rates		**—**		574
Income Tax Expense	**$**	**29,385**	$	13,538

During 2013 the Company paid income tax installments totaling $24,074 (2012 $3,920) and recovered income taxes in respect of prior years totaling $nil (2012 $(19,396)).

The Company has an Ontario minimum tax carry-forward of $7,822. Of this amount, $479 expires in 15 years, $2,432 expires in 16 years, $2,432 expires in 17 years, and $2,479 expires in 18 years. Management considers it more likely than not that these tax carry-forwards will be realized before they expire.

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

(b) Variance from Statutory Provision

Income taxes provided varies from the expected statutory provision as follows:

For the year ended December 31	2013	2012 (Restated)
Net income before income taxes	$ **139,421**	$ 87,091
Income tax provision at statutory rates	**36,919**	23,000
Increase (decrease) resulting from:		
Substantively enacted changes in income tax rates	**—**	74
Tax paid dividends on stocks	**(7,515)**	(11,371)
Miscellaneous	**(19)**	1,835
Income Tax Expense	$ **29,385**	$ 13,538

The current enacted corporate tax rates as they impact the Company in 2013 stand at 26.48% (2012 26.41%). This rate is expected to move to 26.51% for 2014 and remain unchanged through to 2016. The impact of future enacted corporate tax rates has been taken into consideration in the deferred tax calculation.

(c) Deferred Income Taxes

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences will give rise to deferred income taxes, which are reflected on the Consolidated statement of financial position. These differences arise in the following items:

As at December 31	2013	2012 (Restated)
Insurance contracts	$ **(11,298)**	$ (14,281)
Portfolio investments	**(7,707)**	(9,417)
Taxes recoverable in future years	**16,942**	19,342
Post-employment benefit plans	**4,772**	9,318
Other, net	**(309)**	(366)
Deferred Income Tax Asset (Liability)	$ **2,400**	$ 4,596

Of the above total, $6,833 (2012 $9,490) is expected to be received (paid) more than one year after the Consolidated statement of financial position date.

The net movement on the deferred income tax account is as follows:

For the year ended December 31	2013	2012 (Restated)
Deferred income tax asset (liability) - beginning of year	$ **4,596**	$ (432)
Deferred income tax (expense) benefit		
Statement of operations	**2,462**	1,892
Other comprehensive Income	**(4,658)**	3,136
Deferred income tax asset (liability) - end of year	$ **2,400**	$ 4,596

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

(d) Income Taxes Included in Other Comprehensive Income

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

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

For the year ended December 31	2013			2012 (Restated)		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ (25,682)	$ (6,801)	$ (18,881)	$ 10,192	$ 2,688	$ 7,504
Fair value change on available for sale investments reclassified to net income, including impairment write downs	2,488	601	1,887	(28,405)	(9,244)	(19,161)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	849	275	574	791	257	534
Remeasurements of post-employment benefit liabilities	17,592	4,658	12,934	(11,876)	(3,136)	(8,740)
Net Other Comprehensive Income (Loss)	$ (4,753)	$ (1,267)	$ (3,486)	$ (29,298)	$ (9,435)	$ (19,863)

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

For the year ended December 31	2013			2012 (Restated)		
	Before Tax	Tax Provision (Recovery)	After Tax	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	$ (31,046)	$ (8,222)	$ (22,824)	$ 8,454	$ 2,229	$ 6,225
Fair value change on available for sale investments reclassified to net income, including impairment write downs	4,173	1,086	3,087	(29,256)	(9,555)	(19,701)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income	849	275	574	791	257	534
Remeasurements of post-employment benefit liabilities	16,752	4,436	12,316	(11,324)	(2,990)	(8,334)
Shareholder portion of policyholder other comprehensive income (loss)	368	94	274	259	77	182
Net Other Comprehensive Income (Loss)	$ (8,904)	$ (2,331)	$ (6,573)	$ (31,076)	$ (9,982)	$ (21,094)

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

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

For the year ended December 31		2013			2012 (Restated)	
	Before Tax	**Tax Provision (Recovery)**	**After Tax**	Before Tax	Tax Provision (Recovery)	After Tax
Unrealized fair value change on available for sale investments	**$ 5,364**	**$ 1,421**	**$ 3,943**	$ 1,738	$ 459	$ 1,279
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(1,685)**	**(485)**	**(1,200)**	851	311	540
Remeasurements of post-employment benefit liabilities	**840**	**222**	**618**	(552)	(146)	(406)
Shareholder portion of policyholder other comprehensive (income) loss	**(368)**	**(94)**	**(274)**	(259)	(77)	(182)
Net Other Comprehensive Income (Loss)	**$ 4,151**	**$ 1,064**	**$ 3,087**	$ 1,778	$ 547	$ 1,231

19. DIVIDENDS

Shareholder dividends paid in 2013 and 2012 were $24,100 and $nil, respectively. This represents a dividend pay out rate of $24.4652 per share in 2013 and $nil per share in 2012.

On February 25, 2014 the Board of Directors approved a dividend of $33,984 ($34.4985 per share) payable in the first quarter of 2014.

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

20. CAPITAL MANAGEMENT

The Company aims to manage its regulatory capital in order to meet the regulatory capital adequacy requirements of the *Insurance Companies Act* (Canada) as established and monitored by OSFI. Under the guidelines established by OSFI, the Company's regulatory capital consists of two tiers. The Company's Tier 1 regulatory capital includes common shares, contributed surplus, retained earnings and participating policyholders' equity. Tier 2 regulatory capital includes the accumulated unrealized gains on AFS equity securities, net of tax, negative reserves on insurance contract liabilities and subordinated debt. OSFI's target Tier 1 and total regulatory capital ratios for Canadian life insurance companies are 105% and 150% respectively. As at December 31, 2013 and December 31, 2012 the Company was in compliance with these ratios.

As at December 31		2013		2012
Tier 1 Regulatory Capital	**$**	**830,538**	$	755,641
Tier 2 Regulatory Capital		**532,961**		327,187
Total Regulatory Capital	**$**	**1,363,499**	$	1,082,828

21. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has entered into various operating leases as lessee for office space and certain computer and other equipment. Operating lease payments in 2013 were $3,250 (2012 $2,987). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

		2013		2012
2013	**$**	**—**	$	2,722
2014		**3,011**		2,568
2015		**1,859**		1,513
2016		**1,521**		1,202
2017		**1,274**		955
2018 (and thereafter for comparative)		**1,016**		1,937
2019 (and thereafter)		**1,577**		—
	$	**10,258**	$	10,897

Investment Commitments

In the normal course of business, investment commitments are outstanding which are not reflected in the consolidated financial statements. At December 31, 2013 there were $11,430 (2012 $41,281) of outstanding commitments to purchase units in a real estate limited partnership. These commitments are payable on demand and mature within 5 months.

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

Other Contingencies

The Company 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 litigation) will have a material effect on its results and financial position.

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

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.

22. RELATED PARTY TRANSACTIONS

The Company is a 98.3% owned subsidiary of E-L Financial Services Limited which in turn is an 81.0% owned subsidiary of E-L Financial Corporation Limited. The Company's ultimate controlling party is The Honourable Henry N. R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman. In the normal course of business, the Company enters into transactions with its Shareholder and other companies under common control or common influence involving the leasing of office property, investment management services and miscellaneous office services. During 2013, the Company earned investment management service fees of $1,631 (2012 $1,634) from related companies under common shareholder control. For all other services, the amounts earned and expensed were not significant. Some directors and officers have insurance policies underwritten by the Company.

Compensation of Key Management Personnel

Key management personnel are comprised of directors and executive officers of the Company. The remuneration of key management personnel is as follows:

For the year ended December 31		2013		2012 (Restated)
Salaries and other short-term employee benefits	**$**	**6,369**	$	6,367
Post-employment benefits		**565**		434
Total	**$**	**6,934**	$	6,801

Post-employment benefits are comprised of employer current service costs for pension and other post-employment benefits.

There were no termination benefits expensed during 2013 or 2012.

Management has established procedures to review and approve transactions with related parties and reports annually to the Conduct Review Committee of the Board of Directors on the procedures followed and the results of the review.

23. SUBORDINATED DEBT

On May 31, 2013, the Company issued $300,000 principal amount of unsecured subordinated debentures with a maturity date of May 31, 2023. The interest rate from May 31, 2013 until May 31, 2018 is 2.870%, and the rate from May 31, 2018 until May 31, 2023 will be equal to the 3-month Canadian Deposit Offering Rate plus 1.05%. Interest is payable semi-annually at May 31 and November 30 until May 31, 2018, quarterly thereafter with the first such payment on August 31, 2018. The Company may call for redemption of the debentures on or after May 31, 2018 subject to the approval of OSFI. The holders have no right of redemption.

On May 20, 2009, the Company issued $200,000 principal amount of unsecured subordinated debentures with a maturity date of May 20, 2019. The interest rate from May 20, 2009 until May 20, 2014 is 6.73%, and the rate from May 20, 2014 until May 20, 2019 will be equal to the 3-month Canadian Deposit Offering Rate plus 5.75%. Interest is payable semi-annually at May 20 and November 20 until May 20, 2014, quarterly thereafter with the first such payment on August 20, 2014. The Company may call for redemption of the debentures at any time subject to the approval of OSFI. The holders have no right of redemption.

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

The fair value of these debentures is $500,609 as of December 31, 2013 (2012 $211,432), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

24. SHAREHOLDERS' EQUITY ENTITLEMENT

Shareholders' entitlement to $5,718 (2012 $5,804) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

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

25. CAPITAL STOCK

(a) Authorized

Common shares: 2,000,000 shares with no par value

(b) Issued and fully paid

As at December 31		2013		2012
Number of common shares: 985,076	**$**	**985**	$	985

26. SUPPLEMENTARY PARTICIPATING POLICYHOLDER INFORMATION

Participating Account Assets

As at December 31		2013		2012 (Restated)
Assets backing participating account equity	**$**	**50,822**	$	50,978
Assets backing participating account liabilities	**$**	**510,765**	$	533,215

Transfers to Shareholders' Account

In 2013, the Company transferred $2,292 (2012 $2,267), equal to 1/9th of the dividends credited to the participating policyholders, from the participating account to the shareholders' account.

27. RISK MANAGEMENT

The objective of the Company's risk management process is to ensure that the operations of the Company that expose it to risk are consistent with the Company's objectives and risk philosophy while maintaining an appropriate risk/reward balance. In support of this, the Company has created a Risk Management Policy. Oversight and management of this policy falls under the responsibility of the Management Risk Committee, a multi-disciplinary management committee with representation from all functional areas of the Company, chaired by the Chief Actuary and reporting directly to the Board. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment and are presented to the Board on an annual basis.

The Company is exposed to financial risks arising from its investing activities and its insurance operations and to general reputation risk associated with its activities and ability to manage specific risks. The specific risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company, are outlined below in order of importance:

(a) Investment Risk:
- i) Market Risk, including:
  - (1) Market Price Fluctuations
  - (2) Interest Rate Risk
  - (3) Foreign Currency Risk
- ii) Liquidity Risk
- iii) Credit Risk

(b) Insurance Risk:
- i) Experience Risk
  - (1) Mortality
  - (2) Investment Returns
  - (3) Policy Termination (Lapse)
  - (4) Expenses
  - (5) Morbidity
- ii) Product Design and Pricing Risk
- iii) Underwriting and Claims Risk
- iv) Reinsurance Risk

(a) Investment Risk

i) Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices such as interest rates, trading prices of equity and other securities, credit spreads and foreign currency exchange rates. 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 market price fluctuations, interest rate risk and foreign currency risk.

The Company buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of the Company. The Company's investment strategy also includes the use of publicly-listed "large cap" common stocks to support the liabilities under its insurance policies. Cash flows arising from these investments are intended to match the liquidity requirements of the Company's policy liabilities, within the limits prescribed by the Company. However, if the Company does not achieve the expected returns underlying the pricing of its products, its operating results may be adversely affected. Furthermore, a decrease in the fair value of the Company's common stock portfolio results in reduced shareholders' equity, reduced policyholders' surplus and a reduced MCCSR position. Regulatory pressure to increase capital escalates as the MCCSR ratio approaches OSFI's supervisory minimum. Net income would also be reduced if the declines in value are realized through dispositions or recognized in provisions for impairment.

(1) Market Price Fluctuations

The Company's investment portfolio consists primarily of bonds and equity securities and the fair value of its investments varies according to changes in general economic and securities market conditions, including volatility and declines in equity markets. Equity market volatility could occur as a result of general market volatility or as a result of specific social, political or economic events. A decline in securities markets could have an adverse impact on the return on assets backing capital, capital adequacy, the management fees collected on segregated fund contracts, mutual funds and on index funds within universal life contracts and insurance policy liabilities and capital requirements, particularly in respect of segregated fund guarantees.

The risk of fluctuation of the market value of the Company's segregated funds and mutual funds are generally assumed by the policyholders. Market value variations of such assets will result in variations in the income of the Company 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 the Company. Additionally, certain of the Company'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 the Company's financial position, Minimum Continuing Capital and Surplus Requirements (MCCSR) position and results of operations.

The Company manages equity risk exposure mainly through investment limits and Investment Committee oversight of its investment managers. The Investment Committee actively monitors the portfolio size and asset mix. The Company is fully exposed to the portfolio's fair value changes and does not hedge this exposure.

The Company's general fund investments are subject to limits established by the *Insurance Companies Act* and to investment guidelines established by the Investment Committee of its Board. The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments by segment. The Investment Committee receives monthly reporting on general fund asset mix and performance by segment, derivatives matching, segregated fund asset mix and performance, and investment transactions for all funds. In addition, on at least a quarterly basis, management through the Asset Liability Management (ALM) Committee, and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board of Directors, on portfolio content, asset mix, the Company's matched position, the performance of general, capital and surplus and segregated funds and compliance with the investment guidelines.

The Company uses stochastic models to monitor and manage risk associated with segregated fund guarantees and establishes policyholder liability provisions in accordance with standards set forth by the CIA. Product development and pricing policies also require consideration of portfolio risk and capital requirements in the design, development and pricing of the products. The ALM Committee reports quarterly to the Investment Committee of the Board on the nature and value of the Company's segregated fund guarantee liabilities, including potential top-up exposure and capital requirements.

The Company has established a Capital Management policy, capital management levels that exceed regulatory minimums and Dynamic Capital Adequacy Testing that takes into account the potential effect of adverse investment-risk scenarios (including adverse market conditions and adverse interest rates) on the Company's capital position. Management monitors its MCCSR position on a regular basis and reports at least quarterly to the Board of Directors on the Company's MCCSR.

The following table summarizes the potential impact on the Company of a change in global equity markets. The Company uses a 10% increase or decrease in equity markets as a reasonably possible change in equity markets. The Company has also disclosed the impact of a 20% increase or decrease in its equity market sensitivity. For segregated fund guarantee policy liabilities the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantee policy liabilities represent the impact on shareholders' net income. The impact of a change in future equity return assumptions can be found in Note 27 b) (i) (2) under the Insurance Risk Investment Return section.

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

	As at December 31, 2013			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' net income	**$ 20,125**	**$ (20,125)**	**$ 40,272**	**$ (40,272)**
Policyholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Shareholders' other comprehensive income	**$ 1,800**	**$ (1,800)**	**$ 3,600**	**$ (3,600)**
Policyholders' other comprehensive income	**$ 3,036**	**$ (3,036)**	**$ 6,072**	**$ (6,072)**
Segregated fund guarantee policy liabilities	**$ nil**	**$ nil**	**$ nil**	**$ nil**

	As at December 31, 2012			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income	$ 18,083	$ (18,083)	$ 36,184	$ (36,184)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 1,525	$ (1,525)	$ 3,050	$ (3,050)
Policyholders' other comprehensive income	$ 2,478	$ (2,478)	$ 4,956	$ (4,956)
Segregated fund guarantee policy liabilities	$ nil	$ nil	$ nil	$ nil

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

As at December 31	**2013**	2012
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	**$ 260,775**	$ 249,655
Percentage of total cash and investments	**4.3%**	4.3%
Exposure to the largest single issuer of common equities	**$ 41,081**	$ 39,328
Percentage of total cash and investments	**0.7%**	0.7%

(2) Interest Rate Risk

Interest rate risk is the risk of economic loss due to the need to reinvest or divest during periods of changing interest rates. Changes in interest rates, as a result of the general market volatility or as a result of specific social, political or economic events, could have an adverse effect on the Company’s business and profitability in several ways. Certain of the Company’s product offerings contain guarantees and, if long-term interest rates fall below those guaranteed rates, the Company 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, thereby adversely affecting the Company’s operating results.

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

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 policy surrenders. Fluctuations in interest rates may cause losses to the Company due to the need to reinvest or divest during periods of changing interest rates, which may force the Company 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 the Company's financial position and operating results.

The following tables summarize the immediate financial impact on Net income and OCI as a result of a change in interest rates. The impact of a change in future interest rate assumptions on Insurance contract liabilities can be found in Note 27 b) (i) (2) under the Insurance Risk Investment Return section.

	As at December 31, 2013			
	100bps Increase	**100bps Decrease**	**200bps Increase**	**200bps Decrease**
Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Policyholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Shareholders' other comprehensive income	**$ (36,712)**	**$ 45,492**	**$ (64,681)**	**$ 99,801**
Policyholders' other comprehensive income	**$ (2,187)**	**$ 2,460**	**$ (4,101)**	**$ 5,193**

	As at December 31, 2012			
	100bps Increase	100bps Decrease	200bps Increase	200bps Decrease
Shareholders' net income	$ nil	$ nil	$ nil	$ nil
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ (20,421)	$ 21,525	$ (39,827)	$ 43,713
Policyholders' other comprehensive income	$ (2,435)	$ 2,575	$ (4,740)	$ 5,295

Interest rate risk in Empire Life's investment portfolio is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Company's investment guidelines establish investment objectives and eligible interest rate sensitive investments, as well as establish diversification criteria, exposure, concentration and asset quality limits for these investments. The ALM Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable levels and within risk tolerances. Product development and pricing policies and practices also require consideration of interest rate risk in the design, development and pricing of the products.

(3) Foreign Currency Risk

Foreign currency risk is the risk that the fair value of 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 primary foreign currency exposure arises from portfolio investments denominated in US dollars. A 10% fluctuation in the US dollar would have an impact of approximately $1,430 (2012 $1,278) on net income, $nil (2012 $nil) on shareholders' OCI and $nil (2012 $38) on policyholders' OCI. The Company has no significant foreign currency exposure in its financial liabilities.

The Company uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage foreign exchange risks. Improper use of these instruments could have an adverse impact on earnings. The Company manages this risk by applying limits established by the Investment Committee in its investment guidelines, which set out permitted derivatives and permitted uses for derivatives, as well as limits to the use of these instruments. In particular, no leverage is permitted in the use of derivatives and strict counterparty credit restrictions are imposed, with total credit exposure limited to $25 million.

The Company has a foreign exchange risk management policy which outlines objectives, risk limits and authority associated with any foreign exchange exposure. Oversight and management of this policy falls under the responsibility of the ALM Committee, which reports exposures and breaches to the Investment Committee of the Board.

ii) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The majority of the Company'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, and morbidity). The remaining obligations of the Company relate to the subordinated debt (refer to Note 23 - Subordinated Debt) and to ongoing operating expenses as they fall due, which are expected to settle in a very short period of time.

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.

The Company's liquidity risk management program is monitored by management and by the Board of the Company through regular reporting to the Investment Committee and the Board. The Company monitors its cash flow obligations and meets its liquidity needs by holding high quality marketable investments that may be easily sold, if necessary, and by maintaining a portion of investments in cash and short term investments.

The Company maintains a liquidity policy requiring an assessment of the Company's liquidity risk and specific procedures so that liquidity needs are met. Compliance with the policy is monitored by the ALM Committee and exposures and breaches are reported to the Investment Committee of the Board. The Company's current liquidity position as at December 31 is provided in a table in Note 10 e).

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

Based on the Company's historical cash flows and current financial performance, management believes that the cash flows from the Company's operating activities will continue to provide sufficient liquidity for the Company to satisfy debt service obligations and to pay other expenses.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of policy liabilities. Policy liability cash flows include estimates related to the timing and payment of death and disability claims, policy maturities, annuity payments, policyholder dividends, amounts on deposit, commission and premium taxes offset by contractual future premiums and fees on in-force business. Recoveries from reinsurance agreements are also reflected. Segregated fund liabilities are excluded from this analysis. These estimated cash flows are based on the best estimate assumptions, with margins for adverse deviations, used in the determination of policy liabilities. The actuarial and other policy liability amounts included in the Company's 2013 consolidated financial statements 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.

	As at December 31, 2013				
	1 year or less	**1 - 5 years**	**5 - 10 years**	**Over 10 years**	**Total**
Insurance contract liabilities	**$ 155,439**	**$ 231,802**	**$ 441,101**	**$ 14,533,202**	**$ 15,361,544**
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	**536,625**	**270,979**	**790,738**	**14,536,270**	**16,134,612**
Operating lease commitments	**3,011**	**5,670**	**1,577**	**—**	**10,258**
Total	**$ 539,636**	**$ 276,649**	**$ 792,315**	**$ 14,536,270**	**$ 16,144,870**

	As at December 31, 2012 (Restated)				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 107,176	$ 297,823	$ 386,770	$ 14,021,133	$ 14,812,902
Investment contract liabilities	2,919	7,866	5,745	3,373	19,903
Subordinated debt	13,460	53,482	218,927	—	285,869
Other liabilities	141,206	—	34,953	—	176,159
Total liabilities	264,761	359,171	646,395	14,024,506	15,294,833
Operating lease commitments	2,722	6,238	1,937	—	10,897
Total	$ 267,483	$ 365,409	$ 648,332	$ 14,024,506	$ 15,305,730

The Company is able to fund its short-term cash outflows by generating positive cash inflows from operations and from investment income earned on its investment portfolio. The ALM Committee, which meets regularly, monitors the matched position of the Company'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. The Company maintains a portion of its investments in cash, cash equivalents and short-term investments to meet its short-term funding requirements. As at December 31, 2013, 4.0% (2012 4.6%) of cash and investments were held in these shorter duration investments.

iii) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is subject to credit risk which arises from debtors or counterparties who are unable to meet their obligations under debt or derivative instruments. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, cash and cash equivalents and mortgages.

The Company manages this risk by applying its investment guidelines and product design and pricing risk management policy established by the Investment Committee of the Board of Directors. The investment guidelines establish minimum credit ratings for issuers of bonds, debentures and preferred share investments, and provide for concentration limits by issuer of such debt instruments. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Management reports regularly to the Investment Committee of the Company's Board on the credit risk to which the portfolio is exposed. The Reinsurance Risk Management Policy (along with supporting material in the Product Design and Pricing Risk Management Policy) establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. The Company enters into reinsurance agreements only with reinsurance companies that have a credit rating of "A-" or better.

Credit risk analysis includes the consideration of credit spreads. From an investment perspective, when buying credit the Company is guided by two principles; first that there is a high likelihood of return of principal and second that there is an acceptable return on investment. The Company looks to obtain a risk/reward balance that aligns with its objectives and risk philosophy. When determining insurance contract liabilities, credit spreads and changes in credit spreads are reflected implicitly in the interest rate assumption.

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

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

As at December 31	2013	2012
Cash and cash equivalents	$ **217,350**	$ 248,382
Short-term investments	**25,448**	16,440
Bonds	**4,333,512**	4,227,329
Preferred shares	**294,218**	321,321
Mortgages	**299,353**	302,531
Loans on policies	**44,855**	43,071
Policy contract loans	**90,275**	95,461
Accrued investment income	**24,058**	21,452
Insurance receivables	**41,014**	30,035
Trade accounts receivable	**8,397**	5,753
Total	$ **5,378,480**	$ 5,311,775

Mortgages, Loans on policies and Policy contract loans are fully or partially secured.

The Company has made provision in its Statement of financial position for credit losses. Provisions have been made partly through reduction in the value of the assets (see Note 3 b)) and partly through a provision in policy liabilities (see Note 10 c)).

Concentration of Credit Risk

(1) Bonds and Debentures

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

As at December 31	2013		2012	
	Fair Value	**% of Fair Value**	Fair Value	% of Fair Value
AAA	$ **290,418**	**7%**	$ 266,832	6%
AA	**1,190,826**	**27%**	1,274,244	30%
A	**2,257,568**	**52%**	2,253,538	54%
BBB	**594,134**	**14%**	432,535	10%
BB	**566**	**—%**	180	—%
Total	$ **4,333,512**	**100%**	$ 4,227,329	100%

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

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

Provincial bonds represent the largest concentration in the bond portfolio, as follows:

As at December 31	2013	2012
Provincial bond holdings	**$ 2,167,988**	$ 2,355,977
Percentage of total bond holdings	**50%**	56%

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

As at December 31	2013		2012	
	Fair Value	**% of Fair Value**	Fair Value	% of Fair Value
1 year or less	**$ 61,367**	**1%**	$ 53,360	1%
1 - 5 years	**658,374**	**15%**	434,762	10%
5 - 10 years	**492,778**	**11%**	510,229	12%
Over 10 years	**3,120,993**	**73%**	3,228,978	77%
Total	**$ 4,333,512**	**100%**	$ 4,227,329	100%

The following table discloses the Company's holdings of fixed income securities in the 10 issuers (excluding the federal government) to which the Company had the greatest exposure, as well as exposure to the largest single issuer of corporate bonds.

As at December 31	2013	2012
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	**$ 2,803,115**	$ 2,935,033
Percentage of total cash and investments	**47%**	51%
Exposure to the largest single issuer of corporate bonds	**$ 130,849**	$ 139,727
Percentage of total cash and investments	**2.2%**	2.4%

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

(2) Preferred Shares

The Company’s preferred share investments are all issued by Canadian companies, with 33% (2012 86%) of these investments rated as P1 and the remaining 67% (2012 14%) rated as P2.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with $296,025 or 99% (2012 $298,432 or 99%) of the total mortgage portfolio.

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

(b) Insurance Risk

The Company provides a broad range of life insurance, health insurance and wealth management products, employee benefit plans, and financial services that are concentrated by product line as follows:

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Net premium income	**$ 159**	$ 176	**$ 307**	$ 290	**$ 356**	$ 348	**$ —**	$ —	**$ 822**	$ 814
Fee and other income	**140**	115	**8**	7	**1**	1	**2**	2	**151**	125
Total	**$ 299**	$ 291	**$ 315**	$ 297	**$ 357**	$ 349	**$ 2**	$ 2	**$ 973**	$ 939

The Company is in the business of measuring and managing risk, as reflected in the valuation of insurance contract liabilities. The Company is exposed to various insurance risks, and the most important insurance risks of the Company include:

i) Experience Risk, including:
   (1) Mortality
   (2) Investment Returns
   (3) Policy Termination (Lapse)
   (4) Expenses
   (5) Morbidity
ii) Product Design and Pricing Risk
iii) Underwriting and Claims Risk
iv) Reinsurance Risk

The Company regularly evaluates its exposure to foreseeable risks through Dynamic Capital Adequacy Testing analysis.

i) Experience Risk

The principal risk the Company 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 the Company is to establish sufficient insurance liabilities to cover these obligations with reasonable certainty.

The computation of insurance liabilities and related reinsurance recoverable 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 the Company are within the target range established by the Canadian Institute of Actuaries. 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 the Company’s estimated 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, 2013. 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.

(1) Mortality

The Company 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 net income by approximately $11,100 ($12,400 for 2012). For annuity business, lower mortality is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing net income by approximately $3,600 ($4,100 for 2012).

(2) 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 the Company's expected future asset mix. 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, the Company 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, the Company's policy is to cover estimated insurance liability cash flows rigorously only for a rolling 20-year period. For investment income expected to be earned on reinvestments during the rolling 20-year period, the Company uses an initial reinvestment rate (IRR) assumption. Under Canadian actuarial standards of practice, the IRR is determined as 90% of the interest rates based on the current economic outlook and the Company's expected future asset mix, which grades to the ultimate reinvestment rate assumption (described below) over the 20-year rolling period. In order to provide a margin that recognizes the mismatch for the 20-year rolling-period, 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.

The impact of an immediate change in interest rates can be found in Note 27 a) (i) (2) under the Investment Risk section. 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% decrease in assumed IRR would result in an increase to policy liabilities thereby reducing net income by approximately $34,100 ($47,300 for 2012). This assumes no change in the ultimate reinvestment rate (URR).

For investment income expected to be earned on reinvestments beyond the rolling 20-year period, the Company uses an URR assumption. Under Canadian actuarial standards of practice, the URR must not exceed the lesser of 5% or 90% of an interest rate based on a moving average of Government of Canada long-term bond rates over the last 10 years. The maximum prescribed URR decreased from 3.4% for 2012 to 3.2% for 2013. If long-term interest rates remain at current levels for the next year, then the URR is estimated to decrease to 3.1% for 2014. 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. The Company uses an URR of 3.0% (3.1% for 2012) to reflect the downward trend in long-term interest rates. For non-participating insurance business, a 0.10% decrease in assumed URR would result in an increase to policy liabilities thereby reducing net income by approximately $12,200 ($16,600 for 2012).

The above estimates do not take into account any compensatory measures that the Company may take to mitigate the impact of lasting decreases in interest rates. The Company reviews the continuing appropriateness of the URR assumption annually.

For the life insurance business, the Company's policy is to also use equity investments to cover estimated insurance liability cash flows of non-participating life and universal life products beyond the 20-year rolling period. 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 2012). The Company uses an assumption of 7.7% (8.1% for 2012) 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 27 a) (i) (1) under the Investment Risk section. 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 net income by approximately $85,800 ($86,300 in 2012).

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 of a 1% decrease in assumed IRR or a 0.10% decrease in assumed URR is negligible as a result of the matching process described above. The Company does not use equity investments to match annuity liability cash flows.

(3) Policy Termination (Lapse)

Policy termination (lapse) and surrender assumptions are based on a combination of the Company'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 extra 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 net income by approximately $100,600 ($104,200 in 2012). For products where fewer terminations would be financially adverse to the Company, the change is applied as a decrease to the lapse assumption. Alternatively, for products where more terminations would be financially adverse to the Company, the change is applied as an increase to the lapse assumption.

(4) 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 net income by approximately $5,700 ($6,300 in 2012).

(5) Morbidity

The Company 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 morbidity is a significant assumption, a 5% adverse change in the assumption would result in an increase to policy liabilities thereby reducing net income by approximately $5,100 ($5,200 in 2012).

ii) Product Design and Pricing Risk

The Company 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 the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk and thus must carry out a full valuation of the commitments in this regard.

The Company manages product design and pricing risk through a variety of enterprise-wide programs and controls. The key programs and controls are described below. The Company 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. The Company 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 the Company's Audit Committee on the Company's financial condition, outlining the impact on capital levels should future experience be adverse. The Company has also developed a Product Design and Pricing Policy for each of its major product lines. This policy, which is established by management and approved by the Company's Board of Directors, defines the Company'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 monitoring processes and controls.

iii) Underwriting and Claims Risk

The Company 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 the Company'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, the Company also manages underwriting and claims risk through its Underwriting and Liability Management Policy for each of its major product lines. This policy is established by management and approved by the Company's Board of Directors. Together, these policies define the Company's underwriting and risk 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. The Company uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and the Board approves changes to these retention limits.

iv) Reinsurance Risk

The Company 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. The Company 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 the Company 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 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. Most of the Company’s individual life reinsurance (with the exception of its Term 10 and Term 20 products) is on an excess basis (with a $500 retention limit), meaning the Company retains 100% of the risk up to $500 in face amount. With the Company’s Term 10 and 20 products, however, all amounts over $100 are reinsured at an 80% level, meaning that the Company retains only 20% of the risk on coverage over $100, to a maximum retention of $500. In addition the Company 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. Effective January 1, 2013 Empire Life has entered into 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. As a result of this reinsurance strategy, the Company 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. The Company does not have any assumed reinsurance business.

GLOSSARY OF TERMS (unaudited)

Accumulated Other Comprehensive Income (AOCI)

A separate component of shareholders' and policyholders' equity which includes net unrealized gains and losses on available for sale securities, unamortized gains and losses on cash flow hedges, unrealized foreign currency translation gains and losses and remeasurement of post-employment benefit liabilities. These items have been recognized in comprehensive income, but excluded from net income.

Available For Sale (AFS) Financial Assets

Non-derivative financial assets that are designated as available for sale or that are not classified as loans and receivables, held to maturity investments, or held for trading. Most financial assets supporting capital and surplus are classified as Available for sale (AFS).

Canadian Asset Liability Method (CALM)

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

Canadian Institute of Actuaries (CIA)

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

Chartered Professional Accountants of Canada (CPA Canada)

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

Canadian Life and Health Insurance Association (CLHIA)

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

Fair Value Through Profit or Loss (FVTPL)

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as Fair value through profit or loss (FVTPL).

International Financial Reporting Standards (IFRS)

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

Minimum Continuing Capital and Surplus Requirements (MCCSR)

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

Other Comprehensive Income (OCI)

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

GLOSSARY OF TERMS (unaudited)

Office of the Superintendent of Financial Institutions Canada (OSFI)

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

Participating Policies

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

PARTICIPATING ACCOUNT MANAGEMENT POLICY

The Board of Directors of The Empire Life Insurance Company has approved the following policy:

Participating Account Management Policy

Description of the Participating Account and its Policies

The Empire Life Insurance Company ("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 of the *Insurance Companies Act* (Canada). The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive dividends every five years as per contractual provisions. Empire Life does not maintain sub-accounts within the participating account for life, disability and annuity plans, other funds, or blocks of business acquired from other companies. Empire Life does not have any closed blocks of participating business established as part of the demutualization of a mutual company into a shareholder company.

Investment Policy

The general fund investments in the participating account are subject to limits established by the *Insurance Companies Act* (Canada) and to investment guidelines established by the Investment Committee of Empire Life's Board of Directors (the "Board"). The investment guidelines are designed to limit overall investment risk by defining investment objectives, eligible investments, diversification criteria, exposure, concentration and asset quality limits for eligible investments.
Interest rate risk is managed through Investment Committee established limits and regular reporting by management to the Investment Committee and the Board. The Asset/Liability Management Committee oversees sensitivity to interest rates. The objective is to maximize investment yields while managing the default, liquidity and reinvestment risks at acceptable and measurable low levels. Within the participating account, Empire Life has established three asset segments to nominally match the investments to the specific type of liabilities or surplus as follows: Protection Par, Miscellaneous Insurance Par and Policyholders' Surplus. Each asset segment is assigned specific assets in an amount approximately equal to its total liabilities or surplus. Each asset segment is also subject to asset segmentation guidelines established by the Asset/Liability Management Committee and approved by the Investment Committee.

The Investment Committee receives monthly reporting on general fund asset mix and performance and investment transactions for all funds by asset segment. In addition, on at least a quarterly basis, management and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board of Directors, on portfolio content, asset mix, the Company's matched position, the performance of general and segregated funds, and compliance with the investment guidelines. The investment guidelines are reviewed at least annually by the Board.

Investment Income Allocation

Investment income is recorded directly to each asset segment. A portion of investment income is allocated to or from the Shareholders' Capital and Surplus segment from or to the participating account's asset segments in proportion to the deficiency or excess of funds over assets of each segment.

Expense Allocation

General expenses are allocated to the participating account using cost centre methods. Expenses associated directly with the participating account are so charged. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost centres are charged to the participating account in proportion to expenses directly charged. Investment expenses are allocated monthly to the participating account in proportion to the Company's total funds at the beginning of each month. Premium taxes are allocated in proportion to taxable premiums. Other taxes, licenses, and fees are allocated to lines of business using cost centre methods.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

Income Tax Allocation

Income taxes are allocated to the participating account in proportion to total taxable income for the Company. Deferred tax assets and liabilities are treated consistently between participating and non-participating accounts.

Surplus Management

The level of surplus in the participating account will be managed by Company management taking into consideration the continuing solvency of the participating account, the participating account's ability to fulfill all of its contractual obligations and the extent to which existing participating business is financing new participating business.

Transfers to Shareholders' Account

It is Empire Life's intention to transfer the full permitted percentage of distributable participating profits to the shareholders' account as allowed by section 461 of the *Insurance Companies Act* (Canada). The Company's current practice, so long as the participating account in aggregate remains below $250 million, is to transfer an amount equal to 1/9th of the dividends credited to participating policyholders from the participating account to the shareholders' account.

Amendments

The Company's participating account management policy may be amended from time to time at the discretion of its Board. The principal factors that would be expected to change the policy include changes in legislation, regulation of participating account, accepted actuarial practice, capital requirements, taxation and accounting rules or fundamental changes to the circumstances of the Company. The policy will also be reviewed if the Company decides to stop accepting new business in the participating account. Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

PARTICIPATING ACCOUNT DIVIDEND POLICY

The Board of Directors of The Empire Life Insurance Company has approved the following policy:

Participating Policy Dividends and Bonus Policy

This dividend policy applies to all policies issued in the participating account of The Empire Life Insurance Company ("Empire Life" or the "Company") that entitle its policyholders to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive the dividends every five years as per contractual provisions.

Dividends are declared at the discretion of the Board. The aggregate amount of dividend and allocation of the dividend to the different classes of participating policies is declared annually at the discretion of the Board of Directors (the "Board") of Empire Life under section 464(1) of the *Insurance Companies Act* (Canada). Before declaring the aggregate amount of dividend, the Board will consider Company management's recommendations for policyholder dividends and the Appointed Actuary's opinion on the conformity of the proposed dividend to this policy and its fairness to participating policyholders. Company management's recommendations and the Appointed Actuary's opinions shall be prepared in compliance with applicable legislative and regulatory requirements, and generally accepted actuarial practice with such changes as determined by the Office of the Superintendent of Financial Institutions.

Principal Factors that Affect the Aggregate Amount of Dividends

The aggregate amount of dividends will reflect operating income on all participating life, annuity and disability coverage, dividends on deposit, participating paid-up additions and participating term additions, as well as income attributable to surplus in the participating account. The aggregate amount of dividends will also be influenced by considerations such as, solvency of the participating account, its ability to fulfill all contractual obligations, the extent to which surplus in the participating account is financing new business, changes in legislation, regulation of the participating account, taxation, accounting rules or fundamental changes in the circumstances of the Company.

Principal Sources of Income

The principal sources of income considered for determining the aggregate amount of dividends are investment income, asset defaults, mortality, lapses, expenses and taxes. The actual experience of the participating account will be reviewed annually by Company management. The sources of income may be adjusted to smooth fluctuations in experience and provide for transitions during periods of major change over a period not to exceed five years. The Company uses a temporary contribution to policyholder surplus philosophy, so that contributions to policyholder surplus from participating account income are expected to be returned to policyholders over the lifetime of the policy.

Since actual experience cannot be known in advance, the aggregate amount of dividends and allocation of the dividends cannot be guaranteed. As a result, dividends will increase or decrease depending on actual experience.

Dividend Allocation

Policyholders participate in this distribution through the setting of dividend scales, which allocate the aggregate amount of dividends among different dividend classes. The Company establishes dividend classes for participating policyholders based on the original pricing assumptions used when setting the guaranteed values provided by the policies. The Company uses a combination of factor-based and pricing methods when setting the dividend scale to allocate the aggregate amount of dividends among different dividend classes. The basic concept of this method is to allocate the aggregate amounts of dividends among dividend classes in the same proportion as the policies are considered to have contributed to the aggregate amount of dividends over the long term. The fundamental objective in the allocation of dividends is the maintenance of reasonable equity between dividend classes and between generations of policyholders, taking into account practical considerations and limits. The dividend scales may also be adjusted to reflect specific policyholder behaviour, such as experience for lapses or for policy loans taken at guaranteed rates. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to income of those blocks. Termination dividends are not payable under any participating policies issued by Empire Life.

Amendments

The Company's dividend policy may be amended from time to time at the discretion of the Board. The principal factors that would be expected to change the policy include changes in legislation, regulation of participating account, accepted actuarial practice, capital requirements, taxation and accounting rules or fundamental changes to the circumstances of the Company. The policy will also be reviewed if the Company decides to stop accepting new business in the participating account. Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

CORPORATE GOVERNANCE OVER RISK MANAGEMENT

The Empire Life Insurance Company (the "Company") is a stock company that has both shareholders and participating policyholders. The Company also has a mutual fund subsidiary, Empire Life Investments Inc. ("ELII").

Pursuant to the *Insurance Companies Act* (Canada) (the "Act") each holder of one or more participating policies is entitled to one vote in the election of policyholders' directors, and each shareholder is entitled to one vote per share held in the election of shareholders' directors. At least one-third of directors are elected as policyholder directors and the balance are elected as shareholder directors. The Company is governed by the Act, which contains provisions concerning corporate governance. The Company's governance system is supported by internal audit, corporate compliance, external audit by an independent chartered accountants firm, and examination by the Office of the Superintendent of Financial Institutions Canada ("OSFI").

Management is responsible for identifying risks and determining their impact upon the Company. Management is also responsible for establishing appropriate policies, procedures, and controls to mitigate risks. The Company has an internal risk management committee, which reports to the Board of Directors. An internal audit function is responsible for assessing the adequacy and adherence to the systems of internal control. The results of internal audit's reviews are reported to management and to the Audit Committee of the Board of Directors regularly throughout the year.

Management is supervised in the completion of these responsibilities by the Board of Directors and its Committees. Senior management of the Company reports regularly to the Board on its risk management policies and procedures.

The Board of Directors has plenary power. The Board's responsibility is to oversee the conduct of the business and affairs of the Company including oversight and monitoring of the Company's risk management. The Board discharges these responsibilities directly and through delegation to Board Committees and management. The Board met nine times in 2013 and is scheduled to meet seven times in 2014.

The risk management functions overseen by the Board include those relating to market price fluctuations, interest rate risk, credit risk, foreign currency risk, reinsurance risk, liquidity risk, other risks associated with policy liabilities (including mortality risk, investment return risk, policy termination (lapse) risk, expense risk, morbidity risk and risks associated with segregated fund policy guarantees), regulatory risk, and operational risk (including product design and pricing risk, underwriting and claims risk). Primary responsibility for oversight of some of these risks is delegated to four standing Committees of the Board, whose roles and responsibilities are specifically defined. Those not delegated to a standing Committee remain with the Board. The following is a brief summary of some of the key responsibilities of the four Committees.

The Audit Committee has statutory responsibility under the Act to oversee, on behalf of the Board, the Company's financial reporting, accounting and financial reporting systems and internal controls. The Committee also oversees work related to stress testing and capital management.

The Investment Committee assists the Board in monitoring the Company's investment and lending policies, standards and procedures and in monitoring the Company's investment activities and portfolios. Some of the activities of the Investment Committee are prescribed by the Company's Investment Guidelines, which reflect the requirements of the Act. The Committee also monitors activities mandated to the Company's Asset/Liability Management Committee.

The Human Resources Committee is responsible for reviewing and monitoring the Company's human resources practices, including employee and executive compensation, manpower and pension and benefit plans.

The Conduct Review Committee is responsible for oversight of procedures established to identify material related party transactions pursuant to the Act. The Committee also monitors certain corporate policies, including procedures with respect to conflicts of interest, confidentiality of information and outsourcing.

CORPORATE INFORMATION

Corporate Head Office

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1 877 548-1881
info@empire.ca
www.empire.ca

The Empire Life Insurance Company is a member of Assuris, the organization that protects Canadian insurance policyholders from loss of benefits due to the financial failure or insolvency of a member company.

Policyholders and prospective policyholders can learn more about Assuris and the protection it provides by visiting www.assuris.ca or calling the Assuris Information Centre at 1 866 878-1225.

RETAIL SALES OFFICES

WESTERN CANADA

Vancouver Retail Sales Office
N302-5811 Cooney Road, North Tower
Richmond, British Columbia V6X 3M1
604 232-5557
1 888 627-3591

Calgary Retail Sales Office
100-1401 1st Street S.E.
Calgary, Alberta T2G 2J3
403 269-1000
1 800 656-2878

Saskatoon Retail Sales Office
285-2366 Ave C. North,
Saskatoon, Saskatchewan S7L 5X5
306 934-3899
1 800 667-7775

Winnipeg Retail Sales Office
200-5 Donald Street
Winnipeg, Manitoba R3L 2T4
204 452-9138
1 866 204-1001

ONTARIO

Burlington Retail Sales Office
601-5500 North Service Road
Burlington, Ontario L7L 6W6
905 335-6558
1 888 548-4729

Toronto Retail Sales Office
500-2550 Victoria Park Avenue
Toronto, Ontario M2J 5A9
416 494-0900
1 888 548-4729

QUEBEC

Montréal Retail Sales Office
1600-600 de Maisonneuve Boulevard W.
Montréal, Quebec H3A 3J2
514 842-9151
1 800 371-9151

Québec Retail Sales Office
100-1220 Lebourgneuf Boulevard
Québec, Quebec G2K 2G4
418 628-1220
1 888 816-1220

GROUP SALES OFFICES

WESTERN CANADA

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N302-5811 Cooney Road, North Tower
Richmond, British Columbia V6X 3M1
604 232-5558
1 800 547-0628

Calgary Group Sales Office
100-1401 1st Street S.E.
Calgary, Alberta T2G 2J3
403 262-6386
1 888 263-6386

Edmonton Group Sales Office
1980-10020 101 A Avenue
Edmonton, Alberta T5J 3G2
780 482-4241
1 866 990-9925

ONTARIO

Burlington Group Sales Office
601-5500 North Service Road
Burlington, Ontario L7L 6W6
905 335-6558
1 800 663-9984

Toronto Group Sales Office
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1600A-600 de Maisonneuve Boulevard W.
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BOARD OF DIRECTORS

SHAREHOLDERS' DIRECTORS

James F. Billett[1, 3, 4]
President
J.F. Billett Holdings Ltd.

Andrew S. Birrell, B.Bus.Sc (Hons)[5]
Chief Financial Officer
Guardian Financial Services

Edward M. Iacobucci[1, 4]
Professor of Law
University of Toronto

Duncan N.R. Jackman[1, 2, 3, 4, 5]
Chairman of the Board
The Empire Life Insurance Company

Deanna Rosenswig, B.Com., M.B.A.[1, 3]
Corporate Director

Clive P. Rowe[2]
Partner
Oskie Capital

Stephen J.R. Smith[2, 3, 5]
Chairman and President
First National Financial LP

Mark M. Taylor[2]
Executive Vice-President and Chief Financial Officer
E-L Financial Corporation Limited

Paul R. Weiss, F.C.P.A., F.C.A.[1, 4]
Corporate Director

Jonathan J. Yates[5]
Chief Executive Officer
Guardian Financial Services

POLICYHOLDERS' DIRECTORS

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President and Chief Executive Officer
Ontario Pension Board

Leslie C. Herr[2, 5]
President and Chief Executive Officer
The Empire Life Insurance Company

Harold W. Hillier[2, 5]
Corporate Director

Richard E. Rooney, F.C.A., C.F.A.[2, 3]
President
Burgundy Asset Management

Douglas C. Townsend, F.C.I.A.[1, 3, 5]
President
Townsend Actuarial Consulting Ltd.

[1] Member of Audit Committee
[2] Member of Investment Committee
[3] Member of Human Resources Committee
[4] Member of Conduct Review Committee
[5] Member of Ad Hoc Capital Committee

HONORARY CHAIRMAN

The Honourable Henry N.R. Jackman, O.C., O.Ont., LL.D., C.D.
Honorary Chairman
The Empire Life Insurance Company

HONORARY DIRECTOR

The Right Honourable John N. Turner, P.C., C.C., Q.C.
Partner
Miller Thomson LLP

CORPORATE MANAGEMENT

Leslie C. Herr
President and Chief Executive Officer

Drew Wallace
Executive Vice-President, Retail

Anne E. Butler, LL.B.
Senior Vice-President, General Counsel and Corporate Secretary

Richard Cleaver
Senior Vice-President and Chief Technology Officer

J. Edward Gibson, F.S.A., F.C.I.A.
Senior Vice-President, Strategy and Chief Actuary

Timo J. Hytonen, M.B.A., C.H.R.P., F.C.I.P., C.R.M., C.Dir.
Senior Vice-President, Human Resources and Corporate Initiatives

Sean E. Kilburn, F.S.A., F.C.I.A.
Senior Vice-President, Life Insurance

Gary J. McCabe, C.P.A., C.A.
Senior Vice-President and Chief Financial Officer

Gaelen Morphet, C.F.A.
Senior Vice-President and Chief Investment Officer

Steve S. Pong, B.A.Sc.
Senior Vice-President, Group Solutions

EMPIRE LIFE ANNUAL REPORT 2013

The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security.

Empire Life is among the top 10 life insurance companies in Canada[1] and is rated A (Excellent) by A.M. Best Company[2]. Our vision is to be known for simplicity, being easy to do business with and having a personal touch.

[1] Source: *The Globe and Mail Report on Business Magazine*, July 2013, based on revenue
[2] As at June 28, 2013

Investments • Insurance • Group solutions
www.empire.ca info@empire.ca

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Empire Life®