The Empire Life Insurance Company

Annual Report 2015

Empire Life

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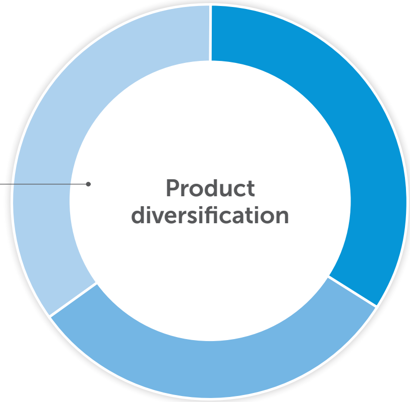
2015 FINANCIAL HIGHLIGHTS

201%

MCCSR ratio
as at December 31, 2015



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 12 months ended December 31, 2015

Empire Life is well-diversified across three product lines:

Wealth Management
33%

Employee Benefits
32%

Individual Insurance
35%

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 May 19, 2015)

Financial Strength Rating: A

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

DBRS (as at December 17, 2015)

Shareholders' Net Income
2015 (in millions)

$108.6

Shareholders' Net Income
2014 (in millions): $98.7

Net Premium and Fee Income
2015 (in millions)

$1,052

Net Premium and Fee Income
2014 (in millions): $1,055

Total Assets Under Management
2015 (in millions)

$14,535

Total Assets Under Management
2014 (in millions): $13,723

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 2015 Annual Report.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Empire Life experienced another year of growth and success in 2015. The Board is pleased with the company's 2015 results and has full confidence in its management and direction.

In December 2015, E-L Financial Corporation Ltd. (E-L Financial) acquired an additional 19% stake in Empire Life's holding company E-L Financial Services Ltd. (ELFS) from Guardian Assurance Ltd. This results in E-L Financial owning 100% of ELFS which owns 98.3% of Empire Life.

E-L Financial has always been firmly committed to Empire Life, its employees, distribution partners, shareholders and customers. This share purchase further strengthens that commitment. As Chairman and Chief Executive Officer of E-L Financial, I can tell you that we make investment decisions based on long-term investment horizons. We are very positive about owning an increased share of Empire Life, a significant competitor in the Canadian life insurance market.

Through E-L Financial, my family has held an ownership position in Empire Life for close to 60 years. We are proud of how this company has grown to become one of the leading life insurance companies in Canada and I look forward to seeing the Empire Life story continue to evolve and develop.

Much of any company's success comes from its people and Empire Life is no different. Our employees, senior leadership and Board members work together to provide Canadians with investment and insurance products that help them become financially secure. I am very proud to lead and serve with our Board members whose impressive talents and accomplishments provide careful counsel, strategy and leadership to the management team. I wish to thank our Board for their valued work and commitment this past year. I would also like to thank and acknowledge the leadership and contributions of Andrew Birrell, who stepped down from the Board in December 2015.

To close, on behalf of the Board of Directors, I thank our shareholders and policyholders for their continued support, as well as Empire Life employees, whose work, passion, commitment and innovation fuel this company and its success.

Duncan N. R. Jackman
Chairman of the Board
February 25, 2016

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The economic environment around the world was unsettled in 2015. Equity markets, the Canadian dollar and oil prices steadily declined in 2015, creating a difficult environment for asset managers and investors. Low long-term interest rates continue to be a challenge in 2016. We are particularly impacted by this trend as the majority of our assets backing insurance policy liabilities are fixed income based. Our objective in these turbulent times is simple. Measure and manage risk. We have refined our ability to quantify the nature of our future obligations to our policy holders and we select our investments carefully focusing on high quality assets that can sustain through economic uncertainty.

During the past decade we have seen an increasing trend towards more active financial services regulation designed to provide consumers with more complete disclosure and conflict free advice. This is as it should be. The burden of monitoring compliance has been placed primarily on the insurers who issue the contracts and to a degree the distribution networks that interact with consumers. The life insurance industry has worked with the regulators to implement changes that satisfy consumer needs and help them to obtain the right products, services and advice on a timely basis.

The life insurance industry is highly competitive. Many industry observers forecast that the consolidation in our industry would reduce the level of competition. The opposite has occurred. We have found that large life insurance companies are willing and able to actively compete by offering good service, product innovation and keen pricing. We constantly review our business in order to improve our products and increase our efficiency. In order to succeed we must be able to provide consumers with an exceptional value proposition.

Despite the unstable economy, and challenging regulatory and competitive environment, we were able to effectively manage and grow our business in 2015. One of the strengths of our company has always been our investment expertise. Our value-oriented approach has endured for more than 50 years. Sound business practices and staying true to our investment philosophy have protected us in this unstable economic climate, while still finding opportunities for growth.

Building the digital highways of the future

The way we communicate is changing. The new generation of consumers want to access information, products and services online. We are making investments to meet this need. We have been building out our digital capabilities in order to deliver our products and services to middle income Canadians and small business customers.

We enhanced our Fast and Full™ online insurance platform, arguably one of the best platforms in the industry. With this platform, advisors can virtually meet with their clients, and apply for insurance online. In June, we launched empirelife.ca, a new website where Canadians can apply for simple term life insurance online directly or through their advisor. This will help us reach a large underserved market in Canada. In our Employee Benefits line of business, we continued to see good adoption of our eClaims system which makes it fast and easy to submit group health claims. We also introduced a new critical illness product as part of our Employee Benefits offering. These online channels and tools are helping us improve service, broaden our distribution, and make it simple, fast and easy for Canadians to get the insurance protection they need.

The delivery of our products and services is achieved by working with our distribution partners. We believe strongly in the value of advice. As we build the digital highways of the future, we will ensure that the systems work in conjunction with the services provided by our distribution partners.

System for managing

Technology is key to delivering a superior customer service. But it is only one part of the process. We have undergone a complete review of our operations to find all possible ways to improve efficiency in order to lower our unit costs. I am pleased with the progress we are making as an organization to develop systems for managing that will help us measure, plan and manage our work effectively. We are striving to continuously improve our business to ensure we provide superior products and services to our customers and distribution partners.

Managing risk

We are in the risk business. We don't sell insurance, we buy risk. Our customers rely on our ability to provide them with financial support when the need arises. We take risk off their shoulders and put it on ours. In order to do this we must effectively monitor and manage risk. In 2015, we continued to strengthen our risk management capability. We have developed our risk management practices for precisely what we are experiencing now - volatile financial markets.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The year in numbers

Shareholders' net income was $108.6 million in 2015, up from $98.7 million in 2014. Strong profits from our inforce segregated funds and increased earnings on capital and surplus due to a gain on the sale of bonds helped contribute to this very positive result.

For the third year in a row, sales of our segregated fund products exceeded $1 billion, helping to contribute to earnings of $59.2 million in this business line, compared to $41.9 million in 2014. Growth in segregated fund management fees and positive net sales helped contribute to this result. Our funds performed well in 2015, reinforcing for our customers the value of active management, downside protection and valuable guarantees for their investments. We continue to see steady growth of our mutual funds, managed through our subsidiary, Empire Life Investments Inc.

Our individual insurance line of business experienced a loss of $1.3 million in 2015, compared to a $27.5 million gain in 2014. Lower sales of universal life policies were offset by strong sales of our participating policyholder product line and the launch of EstateMax™ in 2015, which provides affordable lifetime insurance protection combined with long-term cash values, ideal for estate planning needs.

We have managed to compete effectively against much larger competitors in the Employee Benefits business. But the impact of aggressive pricing in the market has been seen in our results. Despite our strong claims management practices we saw our net income decline to $5.8 million in 2015, compared to $9.0 million in 2014.

Total assets under management increased from $13.8 billion in 2014 to $14.5 billion in 2015. We continue to maintain a healthy Minimum Continuing Capital and Surplus Requirements ratio, which was 201% at the end of December, 2015. This demonstrates our long-term ability to pay claims and our prudent capital management.

In 2015, we became a reporting issuer, giving us the ability to raise capital to invest in our business and which resulted in an issue of $130 million in preferred shares in February 2016. This is an exciting development for Empire Life and will strengthen our ability to compete. In December, DBRS assigned our company a Financial Strength Rating of "A" and confirmed our Issuer Rating of "A" and Subordinated Debt rating of A (low) for Empire Life, an important third party confirmation of our strength.

How we achieve success

How do we achieve success? One word. Teamwork. Our business is complex. Our job is to manage the complexity and make it simple, fast and easy for our customers to do business with us. This is only possible when everyone in our organization works as a team. So I would like to thank all of our employees for their spirit and willingness to work together to help our customers to build wealth and obtain the financial protection they need.

I would like to thank the Board of Directors and our shareholders for their support and continued commitment to our customers, distribution partners and our employees.

Mark Sylvia
President and Chief Executive Officer
February 25, 2016

SOURCES OF EARNINGS

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

For the year ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(millions of dollars)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Expected profit on in-force business	**$ 91.6**	$ 71.3	**$ 21.1**	$ 20.8	**$ 43.8**	$ 40.0			**$ 156.4**	$ 132.1
Impact of new business	**(13.7)**	(26.8)	**(9.9)**	(10.2)	**(6.9)**	(4.0)			**(30.5)**	(41.0)
Experience gains & losses	**6.2**	12.4	**(3.4)**	(1.9)	**(12.4)**	(0.5)			**(9.6)**	10.0
Management actions and changes in assumptions	**(5.8)**	(3.3)	**0.2**	3.8	**(19.3)**	5.8			**(24.9)**	6.3
Other	**—**	—	**—**	—	**—**	(7.3)			**—**	(7.3)
Earnings on operations before income taxes	**78.3**	53.6	**8.0**	12.5	**5.2**	34.0	**—**	—	**91.4**	100.1
Earnings on surplus	**—**	—	**—**	—	**—**	—	**50.2**	30.8	**50.2**	30.8
Income before income tax	**$ 78.3**	$ 53.6	**$ 8.0**	$ 12.5	**$ 5.2**	$ 34.0	**$ 50.2**	$ 30.8	**$ 141.6**	$ 130.9
Income taxes	**19.0**	11.9	**2.2**	3.5	**(1.6)**	8.4	**13.4**	8.4	**33.0**	32.2
Shareholders' Net Income	**$ 59.3**	$ 41.7	**$ 5.8**	$ 9.0	**$ 6.8**	$ 25.6	**$ 36.8**	$ 22.4	**$ 108.6**	$ 98.7

Wealth Management

Wealth Management's 2015 earnings on operations were higher than the level achieved in 2014. In 2015 there was an increase in expected profit on in-force business primarily due to the segregated fund business. This was primarily due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit (GMWB) products. Despite the recent drop in stock markets in 2015, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to 2014 was primarily due to product price increases and higher assets under management ("AUM"). The increase in AUM was due to positive segregated fund net sales (gross sales net of withdrawals) in the last 12 months, and the positive impact of the above mentioned segregated fund performance.

In addition, there were higher earnings from lower new business strain in 2015 due to lower segregated fund product sales in 2015 relative to 2014 and lower expenses.

These items were partly offset by lower experience gains in 2015 compared to 2014 levels primarily due to worsened investment experience and worsened annuitant mortality experience. The worsened investment experience resulted from market interest rate movements and reduced availability of assets at attractive yields for matching fixed interest annuity contract liabilities.

In addition, 2015 losses resulting from management actions and changes in assumptions were higher than losses incurred in 2014. In 2015 the losses primarily related to investment return assumptions. In 2014 the losses primarily related to annuitant mortality assumptions.

Employee Benefits

Employee Benefits earnings on operations were lower than the level achieved in 2014. In 2015 there was a decrease in earnings from experience gains and losses as the experience loss from claims experience worsened in 2015 compared to 2014 due to unfavourable health claims results.

In addition, the update of policy liability assumptions in 2015 was less favourable relative to 2014 primarily due to waiver of premium assumptions for group life insurance products in 2014.

These items were partly offset by increased earnings due to lower new business strain in 2015 resulting from efficiency improvements in 2015 relative to 2014.

There was also an increase in expected profit on in-force business in 2015 due to growth of the in-force block of business.

Individual Insurance

The decrease in Individual Insurance earnings on operations was primarily due to management actions and changes in assumptions. This was primarily due to a larger net strengthening of reserves in 2015 relative to 2014. This primarily resulted from a lower reserve release from mortality assumption updates in 2015 relative to 2014. There was also a favourable settlement on a lawsuit resulting in a gain for Empire Life in 2014.

In addition, there was worsened mortality, surrender and lapse experience in 2015, compared with 2014 levels. This was partly offset by improved investment experience in 2015 relative to 2014 primarily from the increase in interest rate spreads on provincial and corporate bonds during 2015 compared to unfavourable interest rate movements during 2014. 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.

In addition, there were lower earnings due to higher new business strain in 2015 resulting from higher expenses in 2015 relative to 2014.

These items were partly offset by a decrease in losses resulting from other items in 2015 due to the 2014 increased premium tax rates in the province of Quebec on both in-force policies and new policies sold. Some in-force policies allow for an adjustment to prices or charges to cover the cost of the additional tax. However, some in-force policies are fully guaranteed and cannot be adjusted, resulting in a strengthening of insurance contract liabilities of $7.3 million in 2014.

Capital & Surplus

2015 earnings from Capital and Surplus were higher than 2014 primarily due to gains on the sale of available for sale (AFS) bond investments in 2015, and lower borrowing costs in 2015 due to a reduced debt level.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A is dated as of February 25, 2016.

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, 2015 and 2014. This MD&A should be read in conjunction with the Company's December 31, 2015 consolidated financial statements, which form part of The Empire Life Insurance Company 2015 Annual Report dated February 25, 2016. 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 contains forward-looking information and involves numerous risks and uncertainties, including but not limited to, those described in the "Risk Factors" section of the Annual Information Form which is available at www.sedar.com. No assurance can be given that results, performance or achievement expressed in, or implied by, any of the forward-looking information will occur, or if they do, that any benefits may be derived from them. Actual results may differ materially from those expressed or implied by such forward-looking information. See Forward-Looking Statements and Information section in this report.

The financial statements of the Company are prepared in compliance with IFRS, which is generally accepted accounting principles ("GAAP") as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-GAAP measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. See Non-GAAP Measures section in this report.

Financial Analysis

Overview

	Fourth quarter		Year	
(in millions of dollars except per share amounts)	**2015**	2014	**2015**	2014
Shareholders' net income	**$ 16.2**	$ 18.2	**$ 108.6**	$ 98.7
Earnings per share - basic and diluted	**$ 16.43**	$ 18.44	**$ 110.22**	$ 100.20
Return on shareholders' equity (quarters annualized) ("ROE")	**5.9%**	7.4%	**10.2%**	10.5%

Empire Life reported fourth quarter shareholders' net income of $16.2 million for 2015, compared to $18.2 million for 2014. Full year shareholders' net income was $108.6 million compared to $98.7 million in 2014.

The following table provides a breakdown of the sources of earnings[1] for the fourth quarter and full year.

Sources of Earnings	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Expected profit on in-force business	**$ 40.3**	$ 33.3	**$ 156.4**	$ 132.1
Impact of new business	**(8.9)**	(12.7)	**(30.5)**	(41.0)
Experience gains (losses)	**8.0**	6.3	**(9.6)**	10.0
Management actions and changes in assumptions	**(24.9)**	(1.7)	**(24.9)**	6.3
Other	**—**	(7.3)	**—**	(7.3)
Earnings on operations before income taxes	**14.5**	17.9	**91.4**	100.1
Earnings on surplus	**7.1**	7.9	**50.2**	30.8
Income before income tax	**$ 21.6**	$ 25.8	**$ 141.6**	$ 130.9
Income taxes	**5.4**	7.6	**33.0**	32.2
Shareholders' net income	**$ 16.2**	$ 18.2	**$ 108.6**	$ 98.7

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Fourth quarter shareholders' net income and ROE were lower relative to 2014 primarily due to lower profit from the Employee Benefits product line. The decreased profit from this product line primarily resulted from the 2014 favourable update of group life policy liability assumptions, which did not recur in 2015.

Full year shareholders' net income was higher relative to 2014 primarily due to growing profit on in-force Wealth Management business and increased earnings on surplus. Despite the higher net income, full year ROE was slightly lower in 2015 than 2014 due to a higher level of shareholders' equity in 2015.

The Wealth Management product line's improved result was due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to guaranteed minimum withdrawal benefit ("GMWB") products. Despite the recent drop in stock markets in 2015, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to full year 2014 was due to positive segregated fund net sales (gross sales net of withdrawals) in the last 12 months, product price increases and the positive impact of the above mentioned segregated fund performance. Earnings on surplus improved primarily due to increased gains on the sale of bonds.

The impact of new business improved, relative to 2014 primarily due to lower fourth quarter and full year segregated fund sales and lower Wealth Management expenses. Experience losses occurred in the full year 2015 primarily related to unfavourable surrender, lapse and mortality experience, which adversely affected the Individual Insurance product line. In 2014 full year experience gains were primarily due to the Wealth Management product line's favourable investment experience which resulted from market interest rate movements and the availability of assets at attractive yields for matching fixed interest annuity contract liabilities.

The loss from management actions in 2015 primarily resulted from an unfavourable update of policy liability assumptions for the Individual Insurance product line. This unfavourable update primarily related to lapse assumptions based on updated industry and company experience data. The full year gain from management actions in 2014 resulted from a favourable settlement on a lawsuit.

In addition, 2014 included a decrease in earnings resulting from other items due to increased premium tax rates in the province of Quebec on both in-force policies and new policies sold. Some in-force policies allow for an adjustment to prices or charges to cover the cost of the additional tax. However, some in-force policies are fully guaranteed and cannot be adjusted, which resulted in a strengthening of insurance contract liabilities of $7.3 million in 2014.

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 2015 net income compared to 2014 is shown in the Product Line Results sections later in this report.

On August 5, 2015 Empire Life filed a final long form non-offering prospectus with the securities regulatory authority in the province of Ontario. The purpose of filing the non-offering prospectus was to qualify Empire Life to raise regulatory capital in the form of preferred shares and subordinated debt, as well as other debt securities.

On January 28, 2016 the Company announced a $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares. Empire Life intends to use the net proceeds from the offering for regulatory capital and general corporate purposes. The offering closed on February 16, 2016 and commenced trading on the Toronto Stock Exchange under the ticker symbol EML.PR.A. Empire Life has granted the underwriters an option to purchase up to $19.5 million of additional preferred shares exercisable at any time up to a period of 30 days from the date of closing. Holders of the preferred shares will be entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%. On a pro forma basis, after giving effect to the preferred share issue (but assuming no exercise of the over-allotment option), the Company estimates that, as at December 31, 2015, its Minimum Continuing Capital and Surplus Requirements ("MCCSR") would have increased by 17 points from 201% to 218%.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Selected Financial Information

Income Statement Financial Information	**For the years ended December 31**		
(in millions of dollars)	**2015**	2014	2013
Revenue			
Net premium income	**$ 835**	$ 867	$ 822
Fee and other income	**217**	188	151
Investment income	**259**	246	240
Realized gain on FVTPL investments	**42**	74	45
Realized gain on available for sale investments including impairment write downs	**19**	13	(2)
Fair value change in FVTPL investments	**(85)**	538	(349)
Total Revenue	**1,287**	1,926	907
Expenses			
Benefits and expenses	**$ 1,139**	$ 1,770	$ 749
Income and other taxes	**46**	49	48
Total Expenses	**1,185**	1,819	797
Net income after tax	**102**	107	110
Participating policyholders' portion	**(6)**	9	(3)
Shareholders' net income	**$ 108**	$ 98	$ 113
Return on shareholders' equity	**10.2%**	10.5%	13.1%

Revenue volatility was primarily driven by the impact of market interest rate movements on fair value change in fair value through profit or loss (“FVTPL”) investments. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities (included in Benefits and expenses in the above table).

Balance Sheet Financial Information	**As at December 31**		
(in millions of dollars)	**2015**	2014	2013
Assets			
Total Cash and Investments	**$ 6,859**	$ 6,669	$ 6,020
Other assets	**137**	112	105
Segregated fund assets	**7,368**	6,948	5,955
Total Assets	**$ 14,364**	$ 13,729	$ 12,080
Liabilities			
Insurance contract liabilities	**$ 4,799**	$ 4,713	$ 4,175
Reinsurance liabilities	**531**	491	285
Subordinated debt	**299**	299	498
Other liabilities	**215**	216	211
Segregated fund policy liabilities	**7,368**	6,948	5,955
Total Liabilities	**13,212**	12,667	11,124
Total Equity	**1,152**	1,062	956
Total Liabilities & Equity	**$ 14,364**	$ 13,729	$ 12,080

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Other Financial Informtion	**As at December 31**		
(in millions of dollars)	**2015**	**2014**	2013
Assets under management[2]			
General fund assets	**$ 6,996**	$ 6,780	$ 6,126
Segregated fund assets	**7,368**	6,948	5,954
Mutual fund assets	**171**	109	38
Subordinated debt	**299**	299	498
Available regulatory capital			
Tier 1	**$ 918**	$ 872	$ 831
Tier 2	**504**	452	533
Total	**1,422**	1,324	1,364
Required regulatory capital	**$ 708**	$ 671	$ 511
MCCSR Ratio	**201%**	197%	267%

Empire Life's subordinated debt and MCCSR ratio were higher from May 31, 2013 until May 20, 2014 due to the timing of Empire Life's issuance of $300 million 2.87% subordinated debentures on May 31, 2013 and the redemption of $200 million 6.73% subordinated debentures at par on May 20, 2014. This pre-funding of maturing debt resulted in Empire Life temporarily having $200 million of additional debt in its capital structure. The redemption of $200 million 6.73% subordinated debentures at par on May 20, 2014 resulted in a 19 point decrease in Empire Life's MCCSR ratio. In addition, regulatory capital requirements increased significantly in 2014 resulting in a lower MCCSR ratio in 2014. $102 million of the 2014 increase was due to a comprehensive review and update of the methods and assumptions used in Empire Life's stochastic model for determining required regulatory capital and policy liabilities for Empire Life's segregated fund product guarantees. Empire Life updated the methods and assumptions used in its stochastic model to be more consistent with the industry. The 2014 $102 million increase in required regulatory capital resulted in a 36 point decrease in Empire Life's 2014 MCCSR ratio. This decrease in the MCCSR ratio was entirely related to older segregated fund products that are closed to new policies.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The following table provides a summary of Empire Life results by major product line (figures in MD&A may differ due to rounding):

For the twelve months ended December 31	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
(in millions of dollars)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Revenue										
Net premium income	**$ 144**	$ 186	**$ 325**	$ 319	**$ 366**	$ 362	**$ —**	$ —	**$ 835**	$ 867
Fee and other income	**207**	178	**9**	9	**1**	1	**—**	—	**217**	188
Investment income	**43**	49	**4**	4	**171**	151	**41**	42	**259**	246
Realized gain on FVTPL investments	**1**	9	**1**	—	**38**	65	**2**	—	**42**	74
Realized gain on available for sale investments including impairment write downs	**—**	—	**—**	—	**—**	—	**19**	13	**19**	13
Fair value change in FVTPL investments	**(28)**	20	**(2)**	4	**(56)**	514	**1**	—	**(85)**	538
Total Revenue	**367**	442	**337**	336	**520**	1,093	**63**	55	**1,287**	1,926
Expenses										
Benefits and expenses	**289**	388	**322**	317	**518**	1,049	**10**	16	**1,139**	1,770
Income and other taxes	**19**	12	**9**	10	**4**	17	**14**	10	**46**	49
Total Expenses	**308**	400	**331**	327	**522**	1,066	**24**	26	**1,185**	1,819
Net income (loss) after tax	**$ 59**	$ 42	**$ 6**	$ 9	**$ (2)**	$ 27	**$ 39**	$ 29	**$ 102**	$ 107
Participating policyholders' portion									**(6)**	9
Shareholders' net income									**$ 108**	$ 98
Assets under management[3]										
General fund assets	**$ 959**	$ 1,063							**$ 6,996**	$ 6,779
Segregated fund assets	**$ 7,347**	$ 6,926			**$ 20**	$ 22			**$ 7,367**	$ 6,948
Mutual fund assets	**$ 171**	$ 109							**$ 171**	$ 109
Annualized premium sales[3]			**$ 44**	$ 42	**$ 51**	$ 59				

Total Revenue

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Revenue				
Net premium revenue	**$ 206**	$ 215	**$ 835**	$ 867
Investment income	**67**	63	**259**	246
Fair value change in FVTPL investments including realized amounts	**62**	212	**(43)**	612
Realized gain (loss) on AFS investments including impairment write downs	**—**	1	**19**	13
Fee and other income	**56**	50	**217**	188
Total Revenue	**$ 391**	$ 541	**$ 1,287**	$ 1,926

For the quarter, total revenue at Empire Life decreased by 28% to $391 million compared to $541 million in 2014. On a full year basis, total revenue decreased by 33% to $1.287 billion compared to $1.926 billion in 2014. Revenue volatility was primarily driven by the impact of market interest rate and stock market movements on Fair value change in fair value through profit and loss ("FVTPL") investments. Major revenue items are discussed below.

Net premium revenue for the quarter and year decreased by 4.5% and 3.7% respectively, relative to 2014. The decrease related primarily to the fixed interest deferred annuities portion of the Wealth Management product line, which experienced weak demand due to the low interest rate environment.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Fair value change in FVTPL investments including realized amounts often causes large revenue volatility. These assets experienced a lower gain for the fourth quarter and a net loss for the year in 2015 compared to large net gains for the same periods in 2014. In 2015 the loss was from a decrease in stock prices and bond prices (due to an increase in market interest rates). In 2014 the gain was primarily from an increase in bond prices (due to a decrease in market interest rates). For the fourth quarter and year, 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 (“AFS”) including impairment write downs was a gain for the year in both 2015 and 2014. The 2015 gain was primarily due to the sale of AFS bonds, while the gain for the year in 2014 was due to the sale of both AFS equities and bonds. These gains and losses impact net income and are considered in the net income investment experience comments for each of the impacted product lines (see Product Line Results sections later in this report). The assets sold primarily backed capital and surplus.

Fee and other income for the quarter and year increased by 12.3% and 15.6% respectively in 2015 relative to 2014 primarily due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products (see the Product Line Results - Wealth Management section later in this report).

Total Benefits and Expenses

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Benefits and expenses				
Net benefits and claims	**$ 162**	$ 168	**$ 642**	$ 645
Net change in insurance contract liabilities	**109**	232	**126**	745
Change in investment contracts provision	**(1)**	1	**—**	2
Policy dividends	**7**	7	**26**	24
Operating expenses	**39**	40	**147**	147
Net commissions	**49**	51	**189**	193
Interest expense	**2**	2	**9**	14
Total benefits and expenses	**$ 367**	$ 501	**$ 1,139**	$ 1,770

Total benefits and expenses at Empire Life for the quarter decreased by 27% to $367 million compared to $501 million in 2014. On a full year basis, total benefits and expenses decreased by 36% to $1.139 billion compared to $1.770 billion in 2014. Expense volatility was primarily driven by the impact of market interest rate and stock market movements on net change in insurance contract liabilities. Major benefit and expense items are discussed below.

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

Net change in insurance contract liabilities varies with many factors including new business sold, claims incurred, surrender and lapse experience, assumptions about the future, and changes in the market value of assets matching insurance contract liabilities. For the quarter and full year, the main reason for the large change from 2014 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.

For the quarter and full year net commissions decreased year over year primarily due to the decrease in Wealth Management product sales.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Interest expense decreased for the full year in 2015 relative to 2014 due to the redemption of $200 million 6.73% subordinated debentures on May 20, 2014.

Product Line Results - Wealth Management

(in millions of dollars)	As at December 31 2015	2014
Assets under management[4]		
General fund annuities	**$ 959**	$ 1,063
Segregated funds	**7,347**	6,926
Mutual funds	**171**	109

(in millions of dollars)	Fourth quarter 2015	2014	Year 2015	2014
Selected financial information				
Net fixed interest annuity premiums	**$ 32**	$ 45	**$ 144**	$ 186
Segregated fund gross sales[4]	**279**	404	**1,120**	1,312
Segregated fund net sales[4]	**65**	184	**272**	479
Segregated fund fee income	**52**	46	**202**	175
Mutual fund gross sales[4]	**13**	23	**79**	68
Mutual fund net sales[4]	**7**	19	**62**	62
Mutual fund fee income	**1**	—	**2**	1
Net income after tax	**$ 10**	$ 12	**$ 59**	$ 42

Assets in Empire Life general fund annuities decreased by 10%, while segregated fund assets increased by 6% during the last 12 months. The decrease in the last 12 months for general fund annuities is related primarily to weak demand for fixed interest deferred annuities due to the low interest rate environment. The increase over the last 12 months for segregated funds was attributable primarily to strong net sales described below.

Premium revenue for the Wealth Management product line is comprised solely of new deposits on fixed interest annuities and excludes deposits on the segregated fund and mutual fund products. For the fourth quarter and year, fixed interest annuity premiums were down 28% and 23% respectively compared to 2014 resulting from the low interest rate environment..

For the fourth quarter and year, segregated fund gross sales were down 31% and 15% respectively compared to 2014. For the fourth quarter and year, this decrease was primarily due to lower GMWB sales and lower 75% maturity guarantee product sales which decreased by $83 million and $43 million for the quarter and by $195 million and $38 million for the year, respectively. These decreases were partly offset by increased sales of 100% maturity guarantee products, which increased by $2 million and $44 million in the fourth quarter and year respectively compared to 2014. In the fourth quarter of 2014, Empire Life made significant changes to its segregated funds product line. Empire Life closed its existing segregated funds products to new policies effective October 31, 2014. In addition, on November 3, 2014 Empire Life launched a new suite of investment products including a new segregated funds family called Empire Life Guaranteed Investment Funds (“GIF”), as well as a stand-alone Guaranteed Interest Contract (“GIC”) and a new version of its GMWB product. Fees charged to the customer on the new product line are higher than the former product line. The new product line’s pricing and features are Empire Life’s response to the economic, regulatory and competitive landscape in the segregated fund product marketplace. On April 20, 2015, Empire Life added to this new family of products by launching a new series of Empire Life GIFs and a new segregated fund, Empire Life Monthly Income GIF. While 2015 sales were down from last year (as described above), the launch of these new segregated fund products has gone well, achieving gross sales of $227 million for the fourth quarter and $844 million for the full year which represented 81% and 75% of segregated fund gross sales respectively.

Segregated fund net sales for the quarter and full year were down 65% and 43% respectively compared to 2014 primarily due to the above mentioned gross sales result.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Mutual fund gross sales improved on a full year basis, but are still a small component of our Wealth Management assets under management. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

For the quarter and full year, segregated fund fee income increased by 13% and 15% respectively in 2015 relative to 2014. The increase was due to growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. Despite the recent drop in stock markets in 2015, many of Empire Life's segregated funds have performed well. The improvement in fee income relative to 2014 was due to positive segregated fund net sales in the last 12 months, product price increases and the positive impact of the above mentioned segregated fund performance. The strong net sales and performance had a positive impact on average assets under management and management fees earned.

During the fourth quarter earnings from this product line decreased, while full year earnings increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of increase (decrease)		
2014 loss from update of policy liability assumptions	**$ 2**	**$ 2**
2015 loss from update of policy liability assumptions	**(4)**	**(4)**
Increase in inforce profit margins	**5**	**21**
Lower new business strain	**2**	**3**
Worsened annuitant mortality experience	**(3)**	**(2)**
Worsened investment experience	**(4)**	**(3)**
Total	**$ (2)**	**$ 17**

In both 2014 and 2015, the update of policy liability assumptions was unfavourable. In both years there were unfavourable updates for general fund annuities. In 2014 this primarily related to annuitant mortality assumptions. In 2015 this primarily related to investment return assumptions.

Higher net income on in-force business in 2015 was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related GMWB products (as described above).

Higher net income from lower new business strain was primarily due to the decrease in segregated fund gross sales.

Annuitant mortality experience was close to levels expected in actuarial assumptions but worsened from 2014 levels related to the fixed interest immediate annuity business.

Investment experience was favourable in both years, but worsened from 2014 levels due to market interest rate movements and the availability of assets at attractive yields for matching fixed interest annuity contract liabilities.

Product Line Results - Employee Benefits

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Selected financial information				
Annualized premium sales[5]	**$ 12**	$ 9	**$ 44**	$ 42
Net premium revenue	**82**	80	**325**	319
Net (loss) income after tax	**$ (2)**	$ 2	**$ 6**	$ 9

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

For the quarter and full year, annualized premium sales in this product line increased by 36% and 5% respectively in 2015 relative to 2014. The 2015 level of sales is a strong achievement particularly given the weak economic conditions in Canada. The economic weakness contributed to this product line's slow in-force premium revenue growth.

During the fourth quarter and full year earnings from this product line decreased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of decrease		
2014 gain from update of policy liability assumptions	**$ (3)**	**$ (3)**
Worsened claims experience	**(1)**	**(1)**
Increase in inforce profit margins	**—**	**1**
Total	**$ (4)**	**$ (3)**

In 2014, there was a favourable update of group life policy liability assumptions which did not recur in 2015.

In 2015 worsened claims experience primarily related to health claims partly offset by improved long-term disability results.

Product Line Results - Individual Insurance

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Selected financial information				
Annualized premium sales[6]	**$ 11**	$ 14	**$ 51**	$ 59
Net premium revenue	**92**	91	**366**	362
Net income (loss) after tax				
Net income (loss) after tax shareholders' portion	**$ 2**	$ (1)	**$ 6**	$ 25
Net income (loss) after tax policyholders' portion	**(1)**	8	**(8)**	2
Net income (loss) after tax	**$ 1**	$ 7	**$ (2)**	$ 27

For the fourth quarter and full year, annualized premium sales in this product line decreased by 18% and 13% respectively compared to 2014. This product line's fourth quarter and full year sales result is attributable primarily to decreased sales of universal life policies. The decrease in universal life sales primarily related to the investment fund component within these products as opposed to insurance annualized premium sales. This decline in sales was partly offset by increased sales of participating products. Empire Life's recently launched EstateMax participating product contributed to this increase in participating product sales. EstateMax is distributed through professional financial advisors aimed at providing simple estate planning solutions to Canadian baby boomers. Empire Life believes that the market response has been favourable based on sales achieved and applications received in 2015. In recent years (beginning in 2011), Empire Life has been shifting its product mix toward shorter term products such as term life, while increasing prices on long-term products, due to the low long-term interest rate environment.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

During the fourth quarter and full year earnings from this product line decreased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of decrease		
2014 gain from update of policy liability assumptions	$ (5)	$ (5)
2015 loss from update of policy liability assumptions	(15)	(15)
2014 favourable legal settlement	—	(6)
Improved (worsened) mortality, surrender, lapse and other experience	5	(23)
2014 Quebec premium tax increase	5	5
Improved investment experience	4	15
Total	$ (6)	$ (29)

In 2014, the update of policy liability assumptions was favourable by $5 million.

In 2015, the update of policy liability assumptions was unfavourable by $15 million. The following table provides a breakdown of the components of this amount:

Components of income decrease from update of policy liability assumptions	Year
Lapse	$ (56)
Net re-investment assumptions	39
Mortality	8
Other	(6)
Total 2015 loss from update of policy liability assumptions	$ (15)

The refinements to lapse rate assumptions for 2015 are primarily related to an update of Empire Life’s Term-to-100 and Universal Life level cost of insurance ultimate lapse rate assumptions to reflect the Canadian Institute of Actuaries (“CIA”) Research Committee’s research papers on Lapse Experience Under Term-to-100 Insurance Policies and Lapse Experience under Universal Life Level Cost of Insurance Policies released September 2015.

The update in investment return assumptions for 2015 was primarily related to a refinement of the projected amount of equities backing individual life liabilities. In addition, there were several refinements to the Canadian Asset Liability Method (“CALM’) model for future reinvestment assumptions.

During the second quarter of 2014 a favourable settlement on a lawsuit resulted in a $6 million gain after tax for Empire Life.

For the fourth quarter, mortality, surrender and lapse experience was favourable compared to the fourth quarter of 2014. For the full year, mortality, surrender and lapse experience was unfavourable compared to favourable results in 2014.

During the fourth quarter of 2014, the province of Quebec increased premium tax rates on both in-force policies and new policies sold. Some in-force policies allow for an adjustment to prices or charges to cover the cost of the additional tax. However, some in-force policies are fully guaranteed and cannot be adjusted, resulting in a strengthening of reserves of $5 million after tax in 2014.

There was a gain from investment experience in the fourth quarter of both 2015 and 2014, and the gain improved in 2015 compared to 2014. In the fourth quarter of 2015 the gain was primarily from the increase in interest rate spreads on provincial and corporate bonds.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

There was a gain from investment experience for the full year for 2015 compared to a loss for the comparable period in 2014. While 30 year Canadian federal bond yields decreased in 2015, there was an increase in interest rate spreads on provincial and corporate bonds during 2015 which had a favourable impact on 2015 net income more than offsetting the federal rate decline (as shown in the table below). For full year 2014 the loss was primarily from unfavourable interest rate movements in 2014 (as demonstrated using 30 year bond yields in the following table).

	Fourth quarter		Year	
	2015	2014	**2015**	2014
Interest rate movement				
30 year Canadian federal government bond yield				
End of period	**2.16 %**	2.36 %	**2.16 %**	2.36 %
Beginning of period	**2.20 %**	2.67 %	**2.36 %**	3.24 %
Change during period	**(0.04)%**	(0.31)%	**(0.20)%**	(0.88)%
30 year Province of Ontario spread				
End of period	**1.05 %**	0.95 %	**1.05 %**	0.95 %
Beginning of period	**1.00 %**	0.90 %	**0.95 %**	0.90 %
Change during period	**0.05 %**	0.05 %	**0.10 %**	0.05 %
30 year A rated corporate spread				
End of period	**1.92 %**	1.52 %	**1.92 %**	1.52 %
Beginning of period	**1.85 %**	1.40 %	**1.52 %**	1.39 %
Change during period	**0.07 %**	0.12 %	**0.40 %**	0.13 %

Interest rate movements impact both bond asset fair value and insurance contract liabilities. In 2015 the increase in interest rates (including spreads described above) caused lower bond prices which resulted in a bond asset fair value loss. However these losses were more than offset by decreased insurance contract liabilities resulting from these increases in market interest rates. 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.

Results - Capital and Surplus

	Fourth quarter		Year	
(in millions of dollars)	**2015**	2014	**2015**	2014
Net income after tax				
Net income after tax shareholders' portion	**$ 5**	$ 6	**$ 37**	$ 22
Net income after tax policyholders' portion	**—**	1	**2**	7
Net income after tax	**$ 5**	$ 7	**$ 39**	$ 29

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.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

During the fourth quarter earnings from this product line decreased, while full year earnings increased relative to 2014. The following table provides a breakdown of the components of this year over year change in net income.

(in millions of dollars)	Fourth quarter	Year
Components of increase (decrease)		
Increased (decreased) net income from sale of investments	**$ (1)**	**$ 5**
Lower interest expense	**—**	**4**
Lower investment income	**—**	**(1)**
Increased (lower) net income on hedging instruments	**(1)**	**2**
Total	**$ (2)**	**$ 10**

Increased net income from sale of investments was primarily due to gains from the sale of AFS bonds in 2015.

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

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

During the full year of 2015 Empire Life experienced a gain of $2 million after tax on its hedging program (discussed in the Risk Management section later in this report).

Total Cash Flow

	Year	
(in millions of dollars)	**2015**	2014
Cash Flow provided from (used for)		
Operating activities	**$ 149**	$ 152
Investing activities	**(179)**	119
Financing activities	**(9)**	(249)
Net change in cash and cash equivalents	**$ (39)**	$ 22

Cash provided from operating activities in 2015 was close to 2014 levels.

The decrease in cash provided from investing activities during 2015 relative to 2014 was primarily driven by financing activities and the timing of portfolio investment transactions. In 2014 cash provided from investing activities included the sale of investments to fund Empire Life's May 20, 2014 redemption of $200 million of subordinated debentures (described below).

The decrease in cash used for financing activities during 2015 relative to 2014 was primarily due to Empire Life's 2014 redemption of its $200 million 6.73% subordinated debentures at par on May 20, 2014. In addition there was payment of $34 million of dividends to common shareholders by Empire Life in 2014 which did not recur in 2015. The Board of Directors takes a number of factors into consideration in determining the amount of the dividends, if any, including the financial performance of Empire Life, regulatory solvency requirements, capital ratios and growth opportunities. Based on the assessment of these factors, Empire Life did not pay a dividend to common shareholders in 2015.

For an analysis of liquidity for Empire Life, see note 10(e) and note 28(b) to the 2015 consolidated financial statements.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Instruments

Empire Life buys investment quality bonds to support, to a very large extent, the liabilities under the insurance and annuity policies of Empire Life. Empire Life'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 financial instruments are intended to match the liquidity requirements of Empire Life's policies, within the limits prescribed by Empire Life. Empire Life is subject to market risk on these financial instruments.

Empire Life is also subject to credit risk on these financial instruments which could result in a financial loss should the other party fail to discharge an obligation. This credit risk is derived primarily from investments in bonds, debentures, preferred shares, short-term investments and mortgages. Empire Life manages market risk exposure mainly through investment limits and oversight of its in-house investment managers and external investment firms by the Chief Investment Officer, Asset Management Committee and Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix. Empire Life has a semi-static hedging program as part of its approach to managing this risk. Empire Life manages credit risk by applying its investment guidelines 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 Empire Life's Board on the credit risk to which the portfolio is exposed.

Empire Life manages credit risk with respect to derivatives 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 $100 million. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 28 to the audited consolidated financial statements for the year ended December 31, 2015.

Capital Resources

	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
MCCSR Ratio	**201%**	202%	202%	190%	197%

Empire Life continues to maintain a strong balance sheet and capital position. The 2013 Debentures are rated by DBRS Limited ("DBRS") and A.M. Best Company, Inc. ("A.M. Best"). On December 17, 2015, DBRS confirmed its ratings of Empire Life including its issuer rating of "A" (sixth highest of 20 categories), its subordinated debt rating of "A (low)" (seventh highest of 20 categories) and its financial strength rating of "A" (sixth highest of 22 categories). On February 16, 2016, DBRS assigned a rating on Empire Life's $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares of Pfd-2 (fifth highest of 18 categories). All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's smaller scale, full suite of products, participation in niche markets that reward company strengths and improving levels of profitability and fixed charge coverage.

On May 19, 2015, A.M. Best confirmed its ratings of Empire Life including its issuer rating of "a" (sixth highest of 21 categories), its subordinated debt rating of "bbb+" (eighth highest of 21 categories) and its financial strength rating of "A (Excellent)" (third highest of 16 categories). On February 16, 2016, A.M. Best assigned a rating on Empire Life's $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares of "bbb" (ninth highest of 21 categories). All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's favourable risk-adjusted capital position, continued earnings growth and sustainable market presence in Canada with multiple lines of business.

Empire Life's risk-based regulatory capital ratio, as measured by MCCSR, of 201% as at December 31, 2015 continued to be above the requirements set by the Office of the Superintendent of Financial Institutions ("OSFI") as well as Empire Life's minimum internal targets.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The MCCSR ratio was stable, decreasing 1 point from the previous quarter and increasing by 4 points for the full year. The change was due to increases in available regulatory capital offset by increases in required regulatory capital for the quarter and for the full year, as shown in the table below.

(millions of dollars)		**Dec 31 2015**		Sep 30 2015		Jun 30 2015		Mar 31 2015		Dec 31 2014
Available regulatory capital										
Tier 1	**$**	**918**	$	935	$	929	$	883	$	872
Tier 2		**504**		476		464		466		452
Total	**$**	**1,422**	$	1,411	$	1,393	$	1,349	$	1,324
Required regulatory capital	**$**	**708**	$	699	$	691	$	709	$	671

The decrease in Tier 1 available regulatory capital from the previous quarter was primarily due to an increase in negative reserves which decrease Tier 1 (but increase Tier 2 as described below). The increase in Tier 1 available regulatory capital for the full year was primarily due to net income. This was partly offset by an increase in negative reserves which decrease Tier 1 (but increase Tier 2 as described below).

Tier 2 available regulatory capital increased from the previous quarter and for the full year primarily due to an increase in negative reserves which increase Tier 2 (but decrease Tier 1 as described above).

Regulatory capital requirements increased from the previous quarter and for the full year. The increase for the quarter was primarily due to increased requirements related to asset default, segregated fund guarantees and interest rate risk. The increase for the full year was primarily due to increased requirements related to segregated fund guarantees.

On January 28, 2016 the Company announced a $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares. Empire Life intends to use the net proceeds from the offering for regulatory capital and general corporate purposes. The offering closed on February 16, 2016 and commenced trading on the Toronto Stock Exchange under the ticker symbol EML.PR.A. Empire Life has granted the underwriters an option to purchase up to $19.5 million of additional preferred shares exercisable at any time up to a period of 30 days from the date of closing. Holders of the preferred shares will be entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%. On a pro forma basis, after giving effect to the preferred share issue (but assuming no exercise of the over-allotment option), the Company estimates that, as at December 31, 2015, its MCCSR would have increased by 17 points from 201% to 218%

Other Comprehensive Income

		Fourth quarter				**Year**		
(in millions of dollars)		**2015**		2014		**2015**		2014
Other comprehensive income (loss)	**$**	**3.2**	$	20.6	**$**	**(12.8)**	$	32.7
Less: Participating Policyholders		**(0.5)**		(1.4)		**1.1**		(0.5)
Other comprehensive income (loss), attributable to shareholders	**$**	**2.7**	$	19.2	**$**	**(11.7)**	$	32.2

Other comprehensive income (OCI) decreased in the fourth quarter and full year of 2015 relative to the comparable periods of 2014. For the fourth quarter this was primarily due to remeasurement of the liability component of post-employment defined benefit (“DB”) plans (described below). For the full year this was primarily due to lower unrealized fair value increases relating to AFS bonds in 2015 compared to 2014 primarily due to interest rate movements.

OCI includes the remeasurement of DB plans which had a loss for the full year in 2015 compared to a gain in 2014. The 2015 result for DB plans was primarily due to losses on DB plan liabilities partly offset by gains on DB plan assets. The full year 2014 result for DB plans was primarily due to gains on DB plan assets partly offset by losses on DB plan liabilities.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Unrealized fair value increases and decreases on AFS bonds in OCI do not impact MCCSR. Remeasurement of DB plans does 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 approximately six per cent or less market share in all three of its product lines. To be priced competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized company, must find a way to continue to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on achieving profitable growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to broadly focused competitors, management believes these solid relationships will enable profitable growth.

The Wealth Management product line at Empire Life is comprised of segregated fund products, guaranteed interest products and mutual funds. These products compete against products offered by a variety of financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has focused on developing long-term performance in the fund marketplace. Management is expecting to grow market share through this long-term performance along with broadened distribution reach and the addition of new funds and fund products such as the new segregated funds family called Empire Life Guaranteed Investment Funds launched in the fourth quarter of 2014. Empire Life achieved strong growth in assets under management from its segregated fund business in 2015. However, Empire Life has taken several steps to limit GMWB risk exposure. The above mentioned fourth quarter 2014 product launch by Empire included a new version of its GMWB product. The new version commands a higher price and reduces the amount of risk Empire Life is taking on, while still offering a competitive guaranteed income solution to customers. Empire Life will continue to monitor the competitive landscape for this product.

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

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

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

term financial contribution. Empire Life has been reviewing its Individual Insurance products to improve profitability, reduce interest rate risk, reduce required regulatory capital, develop web based products and processes, and improve the customer and advisor experience.

Risk Management

Empire Life is a financial institution offering Wealth Management, Employee Benefits and Individual Insurance products. The Company is exposed to a number of risks as a result of its business activities. The goal of the Company's risk management process is to ensure that the operations that expose it to risk are consistent with the Company's strategy, business objectives and risk philosophy while maintaining an appropriate risk/reward balance and enhancing stakeholder value. When making decisions about risk taking and risk management, Empire Life considers:

- The need to meet the expectations of its customers, shareholders and creditors and to protect the commitments that have been made to them;
- The need to be adequately compensated for the capital deployed to support business activities and strategic objectives;
- The need to protect its brand; and
- The need to maintain its targeted financial strength rating.

Empire Life's risk management framework is structured based on a number of guiding principles:

- Due to the long term nature of the majority of its commitments, the Company accepts capital market risk provided it is managed within specific risk tolerances and limits. The Company takes a low risk, value oriented approach to managing its investments - it accepts credit and alternative asset risk provided it is rewarded through appropriately enhanced returns;
- The Company manages liquidity across the business to provide a high level of confidence that all obligations (to customers, creditors and shareholders) will be met when they fall due;
- The Company accepts insurance risks provided they are properly priced and managed in order to deliver value to its customers and shareholders;
- The Company is forward-looking in its business planning and takes a prudent approach to capital management. It strives to have a high level of confidence that capital is sufficient to support planned activities into the future;
- Management is active in industry committees and, through a network of oversight functions, monitors the landscape so that the Company is appropriately positioned to manage regulatory, tax, accounting and actuarial changes;
- The Company accepts that operational risks are a part of doing business and knows that risk management is a key part of decision-making. It protects its business and customers by engaging in cost effective risk mitigation; and
- The Company expects ethical conduct by all of its employees and acts with integrity at all times.

The Board of Directors oversees and monitors the Company's risk management framework, processes and practices and reviews and approves the Company's Enterprise Risk Management Policy and overall risk appetite. Senior management shares responsibility and accountability for risk management across the organization. This enables a cross-functional perspective on risk management, enhanced by the frequency of contact across the management team. The Company has an Asset Management Committee with responsibility for overseeing the management of corporate policies established by both the Investment Committee and Risk and Capital Committee of the Board. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2015 annual report. Risk management policy development is centralized under the leadership of the Chief Risk Officer and applies to all business units. The Chief Risk Officer is a member of the Asset Management Committee and has Board reporting responsibility with respect to risk and capital management. All risk management policies and procedures are regularly reviewed for relevance and changes in the risk environment. Accountability, application, day-to-day management and procedural elements are the responsibility of area management, supported by business unit compliance officers and the risk management department. There is senior management representation and oversight on various interdisciplinary risk control committees. The Company formally establishes and documents its values and risk tolerances through several company-wide policies including a Code of Ethics, Corporate Disclosure principles, enterprise risk management, capital management and whistleblower policies. The Company's strategic risk management policies (including those related to product design and pricing, investment policies and capital management) are also approved by its Board, or a Board committee.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Caution Related to Sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Market Risk

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, 2015 Empire Life had $7.4 billion of segregated fund assets and liabilities. Of this amount, approximately $7.1 billion have guarantees. The following table provides a percentage breakdown by type of guarantee:

	Dec 31 2015	Dec 31 2014
Percentage of segregated fund liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	**0.4%**	—%
75% maturity guarantee and a 100% death benefit guarantee	**51.5%**	53.2%
100% maturity and death benefit guarantees (with a minimum of 15 years between deposit and maturity date)	**5.9%**	5.4%
100% maturity and death benefit guarantees (guaranteed minimum withdrawal benefit (GMWB))	**42.2%**	41.4%

All Empire Life segregated fund guarantees are policy based (not deposit-based), thereby generally lowering Empire Life's stock market sensitivity relative to products with deposit-based guarantees. Policy-based guarantees consider all of the deposits in the customer's policy (whether the fund value is below or above the guaranteed amount) to arrive at an overall net guarantee payment, whereas deposit-based guarantees consider only the deposits where the fund value is below the guaranteed amount and ignores all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, generally policy based guarantees pay less than 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. The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e. negative amounts are not permitted so zero is used instead as described below) and other regulatory constraints, and this often makes the sensitivity impacts non-linear. In the first table below, Empire Life discloses the sensitivity of net income to changes in segregated fund guarantee insurance contract liabilities. There is a net loss resulting from a 20% decrease at December 31, 2015, but otherwise the amounts shown in the table are nil. These liabilities (present value of future benefits and expenses minus the present value of future fee revenue) are calculated using stochastic modeling techniques based on a range of future economic scenarios. The liabilities are the greater of: (i) the average of the amounts determined in the worst 20% of the scenarios; and (ii) zero. For the nil amounts shown in this table, the liability for Empire Life was negative. Therefore, the alternative level of zero is applied in these tests (zero floor) resulting in a net income impact of nil. Based on stock market levels at December 31 for 2015 and 2014, 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:

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity To Segregated Fund Guarantees:				
December 31, 2015 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ (10)**
December 31, 2014 Shareholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**

The impact of stock market changes is not linear. Based on stock market levels at December 31, 2015 the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from a 20% decrease in stock markets is a net loss of $10 million as illustrated in the table above. At a 30% decrease in stock markets the net loss at December 31, 2015 would be $109 million. At December 31, 2015 a 20% and 30% decrease in stock markets would result in an increase in net income by $35 million to a net gain of $25 million and by $58 million to a net loss of $51 million respectively from gains on equity hedging instruments. Based on stock market levels at December 31, 2014 the sensitivity of shareholders' net income to changes in segregated fund guarantee insurance contract liabilities resulting from a 20% decrease in stock markets is nil as illustrated in the table above. At December 31, 2014, a decrease in stock markets of 20.2% or more would result in a net loss greater than nil. At December 31, 2014 a 30% decrease in stock markets would result in a net loss of $76 million. At December 31, 2014 a 20.2% and 30% decrease in stock markets would result in an increase in net income by $9 million to $9 million and by $17 million to a net loss of $59 million respectively from gains on equity hedging instruments.

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life had been considering implementing a partial economic hedging program for some time. In the fourth quarter of 2014, Empire Life strengthened its stochastic model, which impacted its base capital position as well as its capital position under sensitivity tests. This encouraged Empire Life to begin implementation of the hedging program in November 2014. Therefore, during the fourth quarter of 2014, Empire initiated a semi-static hedging program, and expanded this program during the first half of 2015. The objective of the hedging program is to partially protect Empire Life from possible future MCCSR ratio declines that might result from adverse stock market price changes. The hedging program presently employs put options and short positions on key equity indices. Empire Life aims to protect 10% to 20% of overall income and MCCSR equity risk through the semi-static hedging program.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for MCCSR purposes related to segregated fund guarantees, but does not have policy liabilities related to these guarantees on its balance sheet. Therefore a by-product of hedging MCCSR exposure is income statement volatility, as the gains or losses from hedging instruments are not offset by changes in policy liabilities related to segregated fund guarantees on the income statement. During the full year of 2015 Empire Life experienced a gain of $2 million after tax on its hedging program. During 2016 and subsequent years, Empire Life expects to expand its hedging program and expects an increase in income statement volatility as a result.

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 (excluding the effect of Empire Life's equity risk hedging program):

Excluding Equity Risk Hedge	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity To Stock Markets:				
December 31, 2015 MCCSR Ratio	**0.7%**	**(13.9)%**	**1.2%**	**(31.6)%**
December 31, 2014 MCCSR Ratio	**9.0%**	**(11.6)%**	**15.3%**	**(25.5)%**

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The December 31, 2015 and 2014 amounts in the following table include the effect of Empire Life's equity risk hedging program (described below):

Including Equity Risk Hedge	10% Increase	10% Decrease	20% Increase	20% Decrease
Sensitivity To Stock Markets:				
December 31, 2015 MCCSR Ratio	**(1.8)%**	**(10.6)%**	**(3.0)%**	**(24.8)%**
December 31, 2014 MCCSR Ratio	**8.8 %**	**(11.2)%**	**14.9 %**	**(24.4)%**

As of December 2014, the equity hedging program was only partially implemented. It provided $4 million of relief in the 10% stock market decrease scenario and $9 million of relief in the 20% stock market decrease scenario. As at December 31, 2015, it provided $15 million of relief in the 10% stock market decrease scenario and $35 million of relief in the 20% stock market decrease scenario. The full program provides roughly 2.5 times the December 2014 level of protection.

Based on stock market levels as at December 31, 2015 and 2014, the sensitivity of shareholders' net income (excluding changes in segregated fund guarantee insurance contract liabilities) resulting from stock market increases and decreases is as follows (excluding the effect of Empire Life's equity risk hedging program):

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Excluding Equity Risk Hedge				
December 31, 2015 Shareholders' net income*	**$ 22**	**$ (22)**	**$ 44**	**$ (44)**
December 31, 2014 Shareholders' net income*	**$ 17**	**$ (17)**	**$ 33**	**$ (33)**

*Includes the estimated impact on fee revenue net of trailer commissions after tax for a three month period.

The December 31, 2015 and 2014 amounts in the following table include the effect of Empire Life's equity risk hedging program (described above):

(in millions of dollars)	10% Increase	10% Decrease	20% Increase	20% Decrease
Including Equity Risk Hedge				
December 31, 2015 Shareholders' net income*	**$ 12**	**$ (7)**	**$ 27**	**$ (9)**
December 31, 2014 Shareholders' net income*	**$ 14**	**$ (13)**	**$ 29**	**$ (24)**

*Includes the estimated impact on fee revenue net of trailer commissions after tax for a three month period.

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

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

Segregated Funds	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Actuarial	MCCSR
(in millions of dollars)	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Liabilities	Required Capital
December 31, 2015	**$ 2,343**	**$ 593**	**$ 124**	**$ 4**	**$ 1,415**	**$ 17**	**$ nil**	**$ 130**
December 31, 2014	$ 2,053	$ 384	$ 49	$ 2	$ 360	$ 7	$ nil	$ 102

The first six columns of the above table show all segregated fund policies where the future withdrawal benefit, future maturity guarantee, or future death benefit guarantee, is greater than the fund value. The amount at risk represents the

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

excess of the future withdrawal benefit, future maturity guarantee or future death benefit guarantee amount over the fund value for these policies. The withdrawal benefit amounts in the above table relate to GMWB products. The GMWB withdrawal benefit 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. As at December 31, 2015, the aggregate amount at risk for these three categories of risk (reported in the above table) was $614 million, an increase from the aggregate amount at risk of $393 million as at December 31, 2014.

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 in the above table 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 on future payments to GMWB policyholders, or upon future maturity of the segregated fund policies, or upon future death of the segregated fund policyholders. The amounts at risk in December 2015 increased from the December 2014 levels for GMWB withdrawal benefit exposure, fund value guarantee exposure and death benefit guarantee exposure due primarily to the recent decrease in many global stock markets. The quarterly update of segregated fund policy data on our stochastic model resulted in an increase in required regulatory capital.

In addition, Empire Life's MCCSR ratio is sensitive to changes in market interest rates. The impact of an immediate 50 basis point decrease in interest rates, and a 50 basis point decrease in assumed initial reinvestment rate (IRR) for nonparticipating insurance business and segregated fund guarantees, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR). The first column below excludes the impact of market value changes in available for sale (AFS) bonds. The AFS bonds provide a natural economic offset to the interest rate risk arising from our product liabilities. The second column below shows the impact if the AFS bonds were sold to realize the gains from a 50 basis point decrease in interest rates.

	Before The Sale of AFS Assets **50 bps Decrease**	**After The Sale of AFS Assets** **50 bps Decrease**
Sensitivity To Market Interest Rates:		
December 31, 2015 MCCSR Ratio	**(17)%**	**(13)%**
December 31, 2014 MCCSR Ratio	**(24)%**	**(21)%**

Operational Risk

Operational risk relates to the uncertainty arising from larger than expected losses or damages as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk is naturally present in all of the Company's business activities and encompasses a broad range of risks, including legal disputes, regulatory compliance failures, technology failures, business interruption, information security and privacy breaches, human resources management failures, processing errors, modelling errors, theft and fraud, and damage to physical assets. The following is a further description of key operational risks and their associated risk management strategies.

(1) Legal and Regulatory Risk

The Company is governed by the Insurance Companies Act ("ICA") and supervised by OSFI and is also subject to various requirements imposed by legislation and regulation in each of the provinces and territories of Canada applicable to insurance companies and companies providing other financial services. Material changes in the regulatory framework could have an adverse effect on the Company. Failure to comply with regulatory requirements or public expectations could adversely impact the Company's reputation and ability to conduct business. The Company is subject to litigation from time to time, in the normal course of business, and currently has a number of outstanding lawsuits. There can be no assurance that the present or any future litigation will not have a material adverse effect on the Company.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

The Company's corporate compliance department, headed by the Chief Compliance Officer, oversees the regulatory compliance framework. This framework promotes risk-based management of compliance and regulatory risk and includes Company-wide policies, operating guidelines, programs to promote awareness of laws and regulations impacting the Company, ongoing monitoring of emerging legal issues and regulatory changes and employee education programs that include anti-money laundering and anti-terrorist financing, privacy and information security risk management as well as reporting breaches and the Company's code of ethics. The framework is supported by a network of business unit compliance officers as well as the corporate legal services department. The Chief Compliance Officer reports regularly to the Audit Committee of the Board on the state of compliance, key compliance risks and emerging regulatory trends. General Counsel reports regularly to the Audit Committee of the Board on litigation activity.

(2) Model Risk

The Company uses models to support many business functions including investment analysis, product development and pricing, valuation of policy liabilities, planning, asset/liability management, capital management, project management and risk management. The risk of inappropriate use or interpretation of the Company's models or their output, or the use of deficient models, data or assumptions could result in financial losses or inappropriate decision making. The Company has developed management and mitigation processes related to model use and oversight of models to limit financial, operational and strategic impacts from an error or misinterpretation of model results. Senior management has overall responsibility and accountability for models in use to support activities within their business area.

(3) Human Resources Risk

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If the Company is unable to retain and attract qualified employees and executives, the results of its operations and financial condition, including its competitive position, could be adversely affected. To mitigate this risk, the Company has a number of human resources policies, processes and practices in place. Management reports regularly to the Human Resources Committee of the Board on succession planning and employee development programs as well as compensation practices and programs, all of which are designed to attract, motivate and retain high-performing and high-potential employees.

(4) Third Party Risk

The Company obtains many different types of services from a number of third party services providers and has outsourced certain business functions or processes to third parties. Should these third parties fail to deliver services in compliance with contractual or other service arrangements, the Company's business may be adversely impacted. To mitigate this risk, the Company has established a Company-wide outsourcing policy that provides guidance when considering, entering into or managing existing outsourcing arrangements commensurate with the risks associated with the service provider and the nature of the arrangement. Annually, management reports to the Conduct Review Committee of the Board on outsourcing activities including details on those arrangements deemed to be most material to the Company.

(5) Technology, Information Security and Business Continuity Risk

The Company relies on technology in virtually all aspects of its business and operations including the creation and support of new products and services, and the nature of life insurance business necessitates a substantial investment in technology. Operational integrity, data integrity and security of information and systems infrastructure are all relied upon for normal business operations. Disruptions due to system failure, information security breaches, privacy breaches, cyber-attacks, human errors, natural disasters, criminal activity, fraud or the loss of certain software licensing agreements could have a material adverse impact on the Company.

The Company has an enterprise wide business continuity and disaster recovery program overseen by the Business Continuity Planning Team and the Chief Technology Officer. The program includes policies, plans and procedures designed so that, to the extent practically possible, key business functions can continue and normal operations can resume effectively and efficiently should a major disruption occur. Each business unit is accountable for preparing and maintaining detailed business continuity plans and processes. The Company establishes and regularly tests business

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

continuity and disaster recovery plans and maintains off-site backup facilities and failover capability designed to minimize downtime and accelerate system recovery.

Information security breaches, including various forms of cyber-attack, could occur and may result in inappropriate disclosure or use of personal or confidential information. To mitigate this risk, the Company has an information security program overseen by the Chief Technology Officer. This program consists of a number of standards, procedures and guidelines focused on protecting information and computer systems. An incident management process is in place for monitoring and managing security events.

Privacy breaches could occur and may result in unauthorized disclosure or use of private and confidential information. To manage this risk, the Company has a privacy program overseen by the Chief Privacy Officer. The program includes policies and standards, ongoing monitoring of emerging privacy legislation and a network of business unit privacy officers. Processes have been established to provide guidance to employees on the handling of personal information and the reporting of privacy incidents and issues to appropriate management for response and resolution.

Business Risk

Business risk relates to the uncertainty in future earnings and capital related to the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, manage distribution or adapt to changes in business environment, such as the competitive landscape, regulatory and tax changes or changes in accounting and actuarial standards. The Company regularly reviews and adapts its business strategies and plans in consideration of changes in the external business environment, economic, political and regulatory environment. The Company’s financial performance is dependent upon its ability to implement and execute business strategies and plans for growth.

The Company’s business strategies and plans are designed to align with risk appetite, capital position and financial performance objectives. The Company periodically reassesses risk appetite taking into consideration the economic, regulatory and competitive environments in which it operates. The current environment requires the Company to adapt rapidly to new opportunities and challenges and to refine its strategies accordingly. If the Company fails to revise its strategies on a timely basis or adapt to the changing environment, it may not be able to achieve its growth objectives.

The Company’s business strategies and plans are dependent on the successful execution of organizational and strategic initiatives designed to support the growth of its business. The ability to effectively manage these changes and prioritize initiatives directly affects the Company’s ability to execute these strategies. Identifying and implementing the right set of initiatives is critical to achieving the Company’s business plan targets. Failure to implement these initiatives could also lead to cost structure challenges.

Successful execution of the Company’s business strategies and plans depends on a number of factors including its ability to (i) generate sufficient earnings to maintain an adequate level of capital; (ii) generate sustained investment performance; (iii) meet regulatory requirements; (iv) manage risk exposures effectively; (v) attract and retain customers and distributors; (vi) have the right set of products; and (vii) reduce operating expenses while maintaining the ability to hire, retain and motivate key personnel. The Company’s business and strategic plans are reviewed and discussed by its senior management team and are subject to approval by the Board of Directors, which also receives regular updates on implementation progress against key business plan objectives. The Board and its subcommittees receive regular updates on key risks.

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 Empire Life’s Annual Information Form available at www.sedar.com. Additional disclosures of Empire Life’s sensitivity to risks are included in note 28 to the 2015 consolidated financial statements.

Disclosure Controls and Procedures

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

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Company's disclosure controls and procedures as of December 31, 2015. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as at December 31, 2015.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Under the supervision of management, an evaluation of the Company's internal control over financial reporting was carried out as at December 31, 2015. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2015. No changes were made in the Company's internal control over financial reporting during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 28 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 2(d), 3(a), 3(b), and 10(c).

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 2(j), 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,

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

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 2015 Canada's economy experienced weak growth. 2015 headlines in Canada were filled with economic concerns about commodity prices, over-valued housing markets, stock market declines, low interest rates, weak Canadian dollar and high consumer debt levels. Global concerns in 2015 primarily focused on slowing growth in China, low energy prices, stock market volatility, low interest rates and weak currencies. The U.S. economy was one of the few bright spots with its improvements in many key areas including job market, consumer confidence, increase in interest rates, and strong currency. Canadian long-term interest rates increased in 2015 due to an increase in interest rate spreads on provincial and corporate bonds, bringing some relief after the significant decrease in interest rates that occurred in 2014. Interest rates have now been lower than typical levels for 5 years. 2015 Global stock markets remained volatile, and most significant markets declined in 2015. While the Canadian resource heavy stock market saw significant declines in 2015, the U.S. stock market was down only slightly for the year. The weakening Canadian dollar resulted in strong performance for assets denominated in U.S. dollars which contributed to the performance of many of Empire Life's segregated funds. Stock market conditions mainly impact in-force 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 cautious about stock market exposure and Empire Life is well positioned with segregated fund, mutual fund and fixed interest annuity product offerings to satisfy demand for lower risk investments.

While Canada fared well during the 2008 financial crisis compared to many other countries, Canada's economy grew slowly in 2015 and there continues to be uncertainty resulting in mixed economic indicators. Western Canada has major economic concerns due to the large sustained drop in world oil prices. There are emerging credit concerns with Canadian oil company bonds. Lower gas prices and a weaker Canadian dollar are expected to improve growth in Ontario and Quebec. The federal government has plans to stimulate the economy through infrastructure spending across Canada. As a result businesses across Canada remain cautious and this could cause pressure in the near term on growth prospects for the Employee Benefits product line. Until oil prices recover, Western Canada is expected to remain weak which could result in weak sales in Western Canada for all of Empire Life's product lines.

A key issue for the Individual Insurance product line since 2011 has been the low long-term interest rate environment that followed the financial crisis. This has impacted the entire industry resulting in price increases for individual insurance products by Empire Life and many of our competitors. While market long-term interest rates recovered somewhat in 2015, there was significant volatility which has continued so far in 2016. Empire Life has also decreased its emphasis on long-term products in favour of shorter term products, such as 10 year renewable term life insurance. Long-term interest rates, product mix and product pricing are expected to continue to be issues for Empire Life's Individual Insurance product line in 2016.

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

Longer term accounting standard changes are expected by 2019 or later IFRS for Insurance Contracts. In a parallel process, capital adequacy standards are also becoming more aligned with international frameworks. Both of these changes aim at consistent measurement. For Insurance Contracts accounting the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. For capital adequacy standards the goal is consistent treatment of risk within insurance companies from a capital adequacy perspective regardless of the type of business. These two items could have a material impact on Empire Life's future net income and capital ratios, however, much remains unknown.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

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. Empire Life is not aware of any plans by OSFI to make similar changes for life insurance companies.

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

Regulatory change is also occurring for Managing General Agents ("MGAs"). Life insurance companies, including Empire Life, commonly contract with MGAs as a key component of the distribution chain for insurance and wealth management products. In 2013 the Canadian Life and Health Insurance Association ("CLHIA") 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.

Government pension reform including the Federal Pooled Registration Pension Plan program and the proposed Ontario Registered Pension Plan are expected to reduce future demand for private sector retirement savings products, having an adverse impact on banks, mutual fund companies, life insurance companies and advisors.

Changes to tax rules that deal with the exemption status of certain life insurance policies will come into effect on January 1, 2017. The exemption test aims to distinguish between (and tax differently) policies that are designed as protection versus those that are primarily investments. The new rules represent a change to the tax regime that has existed over the past 30 years. These changes represent a significant change to the policy-holder tax regime, will require all life insurance companies to review and potentially re-price and redesign their product offerings and will impact policies issued after December 31, 2016.

Quarterly Results

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

(in millions of dollars, except earnings per share)	**Dec 31 2015**	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014
Revenue	**$ 391**	$ 212	$ 41	$ 643	$ 541	$ 381	$ 480	$ 524
Shareholders' Net income	**$ 16**	$ 22	$ 44	$ 26	$ 18	$ 24	$ 38	$ 18
Earnings per share - basic and diluted	**$ 16.43**	$ 22.49	$ 45.34	$ 25.97	$ 18.44	$ 24.49	$ 39.22	$ 18.05

For the fourth quarter of 2015, total revenue at Empire Life decreased by 28% to $391 million compared to $541 million in the fourth quarter of 2014. The decrease was primarily due to a lower gain in the fourth quarter on FVTPL investments in 2015 compared to large net gains for the same period in 2014. In the fourth quarter of 2015 the decrease was primarily due to the decline of major stock markets. In the fourth quarter of 2014 interest rates decreased resulting in an increase in bond prices (see Total Revenue section earlier in this report). Revenue volatility during the most recent eight quarters was primarily driven by the impact of market interest rate movements on Fair value change in FVTPL investments. The impact of this on net income is largely reduced due to a corresponding change in insurance contract liabilities.

For the fourth quarter of 2015, net income was lower relative to the fourth quarter of 2014 primarily due to lower profit from the Employee Benefits product line. The decreased profit from this product line primarily resulted from the 2014 favourable update of policy liability assumptions for group life, which did not recur in 2015. See Product Line Results sections earlier in this report for further information on quarterly results.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Net income variability during the most recent eight quarters was primarily driven by long-term interest rate movements. Long-term interest rates decreased resulting in unfavourable net income in the individual insurance product line during the quarter ending March 31, 2015 and all 2014 quarters. Long-term interest rates increased, resulting in favourable net income in the individual insurance product line during the second, third and fourth quarters of 2015. During the first three quarters of 2015 and all 2014 quarters, Empire Life achieved strong year over year growth in the Wealth Management product line net income. This product line's strong result was primarily due to the growth in segregated fund management fees and growth in segregated fund guarantee fees related to GMWB products. Strong fee income was primarily due to the positive impact of favourable stock market conditions on management fees earned, strong segregated fund sales and higher GMWB prices.

Forward-looking Statements and Information

Certain statements in this MD&A about the Company's current and future plans, expectations and intentions, results, market share growth and profitability, strategic objectives or any other future events or developments constitute forward-looking statements and information within the meaning of applicable securities laws. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements and information. Although management believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because there can be no assurance that they will prove to be correct. By their nature, such forward-looking statements and information are subject to various risks and uncertainties, which could cause the actual results and expectations to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, market risks including equity risks, hedging risks, interest rate risks, foreign exchange rate risks; liquidity risks; credit risks includingcounterparty risks; insurance risks including mortality risks, policyholder behaviour risks, expense risks, morbidity risks, product design and pricing risks, underwriting and claims risks, reinsurance risks; operational risks, including legal and regulatory risks, model risks, human resources risks, third party risks, technology, information security and business continuity risks; and business risks, including risks with respect to competition, risks with respect to financial strength, capital adequacy risks, risks with respect to distribution channels, risks with respect to changes to applicable income tax legislation, risks with respect to litigation, risks with respect to reputation, risks with respect to risk management policies, risks with respect to intellectual property, risks with respect to significant ownership of common shares. Please see the section titled "Risk Factors" in Empire Life's Annual Information Form available at www.sedar.com for more details on these risks.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements and information include that the general economy remains stable; assumptions on interest rates, mortality rates and policy liabilities; and capital markets continue to provide access to capital. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents reproduced herein.

To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks within the meaning of securities laws, such information is being provided to demonstrate potential benefits and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks are, without limitation, based on the assumptions and subject to the risks set out above.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. When relying on the Company's forward-looking statements and information to make decisions, investors and others should carefully consider the foregoing factors, assumptions and other uncertainties and potential events. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof or the date indicated, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking statements and information, whether as a result of new information, future events or otherwise after the date of this document, except as required by law.

[1, 2, 3, 4, 5, 6] See Non-GAAP Measures

Non-GAAP Measures

The Company uses non-GAAP measures including source of earnings, annualized premium sales, assets under management, mutual fund gross and net sales and segregated fund gross and net sales to provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. The Company's management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

Sources of earnings breaks down Empire Life earnings into several categories which are useful to assess the performance of the business. These categories include expected profit from in-force business, impact of new business, experience gains and losses, management actions and changes in assumptions, and earnings on surplus. The source of earnings components are reconciled to net income, see Overview section earlier in this report.

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. Mutual fund gross and net sales and segregated fund gross and net sales are also used as measures of sales volume. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

Assets under management is a non-GAAP measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. They represent the total assets of Empire Life and the assets its customers invest in. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

The following table provides a reconciliation of assets under management to total assets in Empire Life's financial statements.

Reconciliation of Assets Under Management

		As at December 31		
(in millions of dollars)		**2015**		2014
Assets under management				
General fund assets	**$**	**6,996**	$	6,780
Segregated fund assets		**7,368**		6,948
Total assets per financial statements		**14,364**		13,728
Mutual fund assets		**171**		109
Assets under management	**$**	**14,535**	$	13,837

The above table includes the following amounts held by Empire Life's DB plans.

		As at December 31		
(in millions of dollars)		**2015**		2014
DB Plan Assets				
Segregated fund assets	**$**	**183**	$	175
Mutual fund assets		**11**		10

1, 2, 3, 4, 5, 6 See Non-GAAP Measures

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 (IFRS) and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada (OSFI).

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 (IFRS). 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, 2015. Based on that evaluation, management concluded that the Company’s internal control over financial reporting was effective as at December 31, 2015.

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.

Mark Sylvia	Gary J. McCabe
President and Chief Executive Officer	*Senior Vice-President and Chief Financial Officer*
Kingston, Ontario	Kingston, Ontario
February 25, 2016	February 25, 2016

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, 2015 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 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, 2015 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, 2016

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, 2015 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, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31	2015	2014
Assets		
Cash and cash equivalents (Note 3)	**$ 199,770**	$ 239,102
Investments		
Short-term investments (Note 3)	**33,652**	26,892
Bonds (Note 3)	**5,193,439**	4,958,086
Preferred shares (Note 3)	**194,680**	196,179
Common shares (Note 3)	**801,778**	789,515
Derivative assets (Note 3)	**14,649**	3,375
Mortgages (Note 3)	**289,221**	323,117
Loans on policies (Note 3)	**46,925**	46,434
Policy contract loans (Note 3)	**84,921**	86,698
Total cash and cash equivalents and investments	**6,859,035**	6,669,398
Accrued investment income	**26,023**	25,048
Insurance receivables (Note 4)	**47,909**	41,743
Current income taxes	**3,361**	—
Other assets (Note 5)	**26,257**	17,920
Property and equipment (Note 6)	**23,911**	21,125
Intangible assets (Note 7)	**9,225**	4,832
Segregated fund assets (Note 8)	**7,367,823**	6,948,475
Total assets	**$ 14,363,544**	$ 13,728,541
Liabilities		
Accounts payable and other liabilities (Note 11)	**$ 59,145**	$ 57,359
Insurance payables (Note 9)	**77,337**	73,710
Current income taxes payable	**—**	7,804
Reinsurance liabilities (Note 10)	**530,826**	490,575
Insurance contract liabilities (Note 10)	**4,798,683**	4,713,462
Investment contract liabilities	**11,241**	11,626
Policyholders' funds on deposit	**32,599**	31,332
Provision for profits to policyholders	**26,951**	24,913
Deferred income taxes (Note 18)	**7,910**	8,243
Subordinated debt (Note 13)	**299,112**	298,763
Segregated fund policy liabilities	**7,367,823**	6,948,475
	13,211,627	12,666,262
Equity		
Capital stock (Note 20)	**985**	985
Contributed surplus	**19,387**	19,387
Retained earnings (Note 22)	**1,121,542**	1,019,084
Accumulated other comprehensive income	**10,003**	22,823
	1,151,917	1,062,279
Total liabilities and equity	**$ 14,363,544**	$ 13,728,541

Duncan N. R. Jackman
Chairman of the Board

Mark Sylvia
President and Chief Executive Officer

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Canadian dollars except per share amounts and shares authorized and outstanding)

For the year ended December 31		2015		2014
Revenue				
Gross premiums (Note 14)	**$**	**947,037**	$	971,552
Premiums ceded to reinsurers (Note 14)		**(111,821)**		(104,059)
Net premiums (Note 14)		**835,216**		867,493
Investment income (Note 3)		**259,210**		245,881
Fair value change in fair value through profit or loss assets		**(85,677)**		538,036
Realized gain (loss) on fair value through profit or loss assets sold		**42,233**		74,469
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)		**19,128**		12,621
Fee income (Note 15)		**216,818**		187,516
Total revenue		**1,286,928**		1,926,016
Benefits and expenses				
Gross benefits and claims paid (Note 16)		**727,319**		726,219
Claims recovery from reinsurers (Note 16)		**(84,988)**		(80,881)
Gross change in insurance contract liabilities (Note 16)		**85,221**		538,224
Change in insurance contract liabilities ceded (Note 16)		**40,251**		205,948
Change in investment contracts provision		**426**		2,282
Policy dividends		**25,991**		23,898
Operating expenses (Note 17)		**147,165**		146,969
Commissions		**190,769**		195,588
Commission recovery from reinsurers		**(2,361)**		(2,447)
Interest expense		**8,959**		14,180
Total benefits and expenses		**1,138,752**		1,769,980
Premium tax		**14,226**		14,259
Investment and capital tax		**4,000**		4,100
Net income before income taxes		**129,950**		137,677
Income taxes (Note 18)		**27,492**		30,301
Net income	**$**	**102,458**	$	107,376
Net income (loss) attributable to:				
Participating policyholders		**(6,119)**		8,670
Shareholders		**108,577**		98,706
Total	**$**	**102,458**	$	107,376
Earnings per share - basic and diluted (Note 19)	**$**	**110.22**	$	100.20
(2,000,000 shares authorized; 985,076 shares outstanding)				

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		2015		2014
Net income	**$**	**102,458**	$	107,376
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)		**4,118**		38,349
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 18)		**(13,922)**		(8,975)
Net unrealized fair value increase (decrease)		**(9,804)**		29,374
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income (Note 18)		**—**		233
Items that will not be reclassified to net income:				
Remeasurements of post-employment benefit liabilities (Note 18)		**(3,016)**		3,182
Total other comprehensive income (loss)		**(12,820)**		32,789
Comprehensive income (loss)	**$**	**89,638**	$	140,165
Comprehensive income (loss) attributable to:				
Participating policyholders	**$**	**(7,203)**	$	9,218
Shareholders		**96,841**		130,947
Total	**$**	**89,638**	$	140,165

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

For the year ended December 31	2015			2014		
	Shareholders'	**Policyholders'**	**Total**	Shareholders'	Policyholders'	Total
Capital stock	**$ 985**	**$ —**	**$ 985**	$ 985	$ —	$ 985
Contributed surplus	**19,387**	**—**	**19,387**	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	**966,543**	**52,541**	**1,019,084**	901,821	43,871	945,692
Net income (loss)	**108,577**	**(6,119)**	**102,458**	98,706	8,670	107,376
Dividends to common shareholders	**—**	**—**	**—**	(33,984)	—	(33,984)
Retained earnings - end of period	**1,075,120**	**46,422**	**1,121,542**	966,543	52,541	1,019,084
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	**15,324**	**7,499**	**22,823**	(16,917)	6,951	(9,966)
Other comprehensive income (loss)	**(11,736)**	**(1,084)**	**(12,820)**	32,241	548	32,789
Accumulated other comprehensive income (loss) - end of period	**3,588**	**6,415**	**10,003**	15,324	7,499	22,823
Total equity	**$ 1,099,080**	**$ 52,837**	**$ 1,151,917**	$ 1,002,239	$ 60,040	$ 1,062,279
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	**$ 15,148**	**$ 7,644**	**$ 22,792**	$ 23,889	$ 8,707	$ 32,596
Remeasurements of post-employment benefit liabilities	**(12,163)**	**(626)**	**(12,789)**	(9,287)	(486)	(9,773)
Shareholder portion of policyholders' accumulated other comprehensive income	**603**	**(603)**	**—**	722	(722)	—
Total accumulated other comprehensive income (loss)	**$ 3,588**	**$ 6,415**	**$ 10,003**	$ 15,324	$ 7,499	$ 22,823

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	2015	2014
Operating activities		
Net income	**$ 102,458**	$ 107,376
Non-cash items affecting net income:		
Change in contract liabilities	**85,647**	540,506
Change in reinsurance liability	**40,251**	205,948
Fair value change in fair value through profit or loss assets	**85,677**	(538,036)
Realized (gain) loss on assets including impairment write downs on available for sale assets	**(61,361)**	(87,090)
Amortization related to discount on debt instruments	**(73,515)**	(71,714)
Amortization related to property and equipment and intangible assets (Notes 6 & 7)	**4,369**	4,720
Deferred income taxes (Note 18)	**761**	9,496
Other items	**(35,723)**	(19,359)
Cash provided from (used for) operating activities	**148,564**	151,847
Investing activities		
Portfolio investments		
Purchases and advances	**(2,081,180)**	(1,543,975)
Sales and maturities	**1,918,878**	1,659,452
Loans on policies		
Advances	**(7,333)**	(12,017)
Repayments	**8,657**	21,530
(Increase) decrease in short-term investments	**(6,760)**	(1,444)
Purchase of property and equipment and intangible assets (Notes 6 & 7)	**(11,548)**	(4,317)
Cash provided from (used for) investing activities	**(179,286)**	119,229
Financing activities		
Dividends to common shareholders (Note 21)	**—**	(33,984)
Interest paid on subordinated debt	**(8,610)**	(15,340)
Debt repayment (Note 13)	**—**	(200,000)
Cash provided from (used for) financing activities	**(8,610)**	(249,324)
Net change in cash and cash equivalents	**(39,332)**	21,752
Cash and cash equivalents - beginning of period (Note 3)	**239,102**	217,350
Cash and cash equivalents - end of period (Note 3)	**$ 199,770**	$ 239,102
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	**$ 34,185**	$ 32,566
Interest income received	**149,988**	147,293
Dividend income received	**37,764**	30,353

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). Empire Life became a public company on August 5, 2015 and registered as a public issuer with the Ontario Securities Commission. 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 (the Board) on February 25, 2016.

2. Significant Accounting Policies

(a) Basis of preparation

The annual Consolidated Financial Statements of the Company for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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, none of which are an exception to IFRS.

(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, ELII. The Company owns 100% of the voting shares and maintains control of its subsidiary. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The 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 the Consolidated Financial Statements, in accordance with IFRS, 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 (CALM), 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(e), 2(k),10 and 28.

(ii) Financial instruments 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(d), 3(a), 3(b) 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(j) and 12.

(iv) Impairment
AFS 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 AFS 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(d), 3(b), 10(c) and 28(c).

(d) 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 exchange traded common and preferred shares and derivatives.

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 cash equivalents, government bonds, certain corporate and private bonds, short-term investments, certain common shares (real estate limited partnership units) and over the counter derivatives.

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 cash equivalents and investments

Cash and cash equivalents 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.

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 and cash equivalents, 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 Statements 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 Statements 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 Statements 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 rate 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) Derivative financial instruments
The Company uses derivative financial instruments to manage exposure to foreign currency, equity and other market risks associated with certain assets and liabilities. Derivative financial assets and liabilities are classified as FVTPL. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value as at each reporting date. Derivative financial instruments with a positive fair value are disclosed as derivative assets while derivative financial instruments with a negative fair value are disclosed as other liabilities. Changes in fair value are recorded, in Fair value change in FVTPL assets, in the Consolidated Statements of Operations.

(iv) 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 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 through Net income (loss). 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).

(v) 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.

(vi) Other
Insurance receivables and trade accounts 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 (excluding derivative 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 due to their short term nature.

(e) 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 Statements of Operations. Reinsurance recoveries on claims incurred are recorded as Claims recovery from reinsurers in the Consolidated Statements 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 Statements 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.

(f) Property and equipment
Property and equipment comprises own use land, buildings, 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 an 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 Statements 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.

(g) Intangible assets

Intangible assets include computer software, related licenses and software development costs, which are carried at cost less accumulated amortization and any impairment losses. Amortization of intangible assets is calculated using the straight-line method to allocate the costs over their estimated useful lives, which are generally between three and seven years. Amortization is included in Operating expenses in the Consolidated Statements of 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 Statements of Operations.

(h) 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. Segregated fund assets are not available to pay liabilities of the general fund. 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 Statements 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, maturity benefit and withdrawal 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 28(a)(1).

(i) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest rate method. Interest on subordinated debt is reported as Interest expense in the Consolidated Statements of Operations.

(j) 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 qualified 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 accumulated other comprehensive income (AOCI). Past-service costs are recognized immediately in net 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.

(k) 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 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 Statements 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 as at the date of the Consolidated Statements of Financial Position. 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 Gross change in insurance contract liabilities and/or Change in insurance contract liabilities ceded in the Consolidated Statements of Operations.

(2) Investment contracts
These contracts include annuity products that do not involve the transfer of significant insurance 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 Statements of Operations. Deposits and withdrawals are recorded in Investment contract liabilities on the Consolidated Statements 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 Statements of Financial Position. The costs deferred in the period and amortization of deferred costs form part of the Gross change in insurance contract liabilities on the Consolidated Statements of Operations.

(l) 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 recognized as Policy dividends expense in the Consolidated Statements 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 Accumulated other comprehensive income (AOCI) is reported separately in the Policyholders' equity section of the Consolidated Statements of Changes in Equity. Supplementary participating policyholder information is reported in Note 23.

(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 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 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 account, 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 account, income taxes are allocated to the participating account in proportion to total taxable income for the Company.

(m) Fee income

Fee income includes investment management, policy administration and guarantee fees that are recognized on an accrual basis, and surrender charges that are recognized as incurred. Fee income earned for investment management, administration and guarantees of the investment funds is based on the funds' closing net asset values.

(n) 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 Statements of Operations for all financial assets.

(o) Income taxes

Income tax expense for the period is comprised of current and deferred tax. Tax is recognized in the Consolidated Statements 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.

(p) Foreign currency translation

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

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

For monetary financial assets designated as AFS, translation differences are recognized in the Consolidated Statements 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 AOCI is recognized in the Consolidated Statements of Operations.

(q) 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 investments, 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.

(r) 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 as 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.

(s) 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.

(t) Earnings per share (EPS)

Basic EPS is calculated by dividing the Net income (loss) for the period attributable to common shareholders 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 EPS are the same as basic EPS.

(u) Accounting changes

(i) New accounting pronouncements adopted in 2015

(1) *Amendment to IAS 19 Employee Benefits*

The IASB amended IAS 19 to permit employee contributions that are independent of the number of years of service to be recognized as a reduction of service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. Retrospective adoption of the amendment on January 1, 2015 did not have a significant impact on the Consolidated Financial Statements.

(2) *IFRS Annual Improvements*

The IASB periodically issues improvements to clarify the requirements of IFRS and eliminate inconsistencies within and between standards. Adoption of the 2010-2012 and 2011-2013 improvements on January 1, 2015 in accordance with their respective transition provisions did not have a significant impact on the Consolidated Financial Statements.

(ii) New accounting pronouncements issued but not yet effective

(1) *IFRS Annual Improvements 2012-2014*

In September 2014 the IASB issued a limited number of amendments to clarify the requirements of four IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2016, with retrospective application. The Company is currently evaluating the impact of IFRS Annual Improvements 2012-2014 on its Consolidated Financial Statements.

(2) *IFRS 15 Revenue from Contracts with Customers*

In May 2014 the IASB published IFRS 15 which introduces a single model for recognizing revenue from contracts with customers. IFRS 15 excludes insurance contracts from its scope and is primarily applicable to the Company's non-insurance revenue. The standard is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is currently evaluating the impact of IFRS 15 on its Consolidated Financial Statements.

(3) *IFRS 9 Financial Instruments*

In July 2014 the IASB published the complete version of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Company is currently evaluating the impact of IFRS 9 on its Consolidated Financial Statements as well as the implementation options for insurers proposed in the December 2015 Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4)*

(4) *IFRS 16 Leases*

In January 2016, the IASB published IFRS 16 which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company is currently evaluating the impact of IFRS 16 on its Consolidated Financial Statements.

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

3. Financial Instruments

(a) Summary of Cash and cash equivalents and investments
The carrying values of cash and cash equivalents and investments are as follows:

As at December 31	2015			2014		
Asset category	**Fair value through profit or loss**	**Available for sale**	**Total carrying value**	Fair value through profit or loss	Available for sale	Total carrying value
Cash and cash equivalents						
Cash	**$ 21,390**	**$ —**	**$ 21,390**	$ 42,594	$ —	$ 42,594
Cash equivalents	**178,380**	**—**	**178,380**	196,508	—	196,508
Total cash and cash equivalents	**199,770**	**—**	**199,770**	239,102	—	239,102
Short-term investments						
Canadian federal government	**4,781**	**4,996**	**9,777**	3,310	4,961	8,271
Canadian provincial governments	**5,994**	**—**	**5,994**	1,782	—	1,782
Corporate	**17,881**	**—**	**17,881**	16,839	—	16,839
Total short-term investments	**28,656**	**4,996**	**33,652**	21,931	4,961	26,892
Bonds						
Canadian government bonds issued or guaranteed by:						
Federal government	**76,053**	**214,285**	**290,338**	72,626	165,921	238,547
Provincial & municipal governments	**2,575,792**	**392,143**	**2,967,935**	2,479,365	284,502	2,763,867
Total Canadian government bonds	**2,651,845**	**606,428**	**3,258,273**	2,551,991	450,423	3,002,414
Canadian corporate bonds by industry sector:						
Financial services	**475,027**	**386,044**	**861,071**	545,554	437,673	983,227
Infrastructure	**279,858**	**22,193**	**302,051**	241,371	20,079	261,450
Utilities	**274,431**	**33,070**	**307,501**	246,080	30,881	276,961
Communications	**1,484**	**24,444**	**25,928**	1,608	28,007	29,615
Energy	**40,999**	**53,352**	**94,351**	52,759	60,643	113,402
Consumer staples	**95,887**	**76,326**	**172,213**	78,546	68,319	146,865
Industrials	**61,790**	**15,650**	**77,440**	47,240	1,564	48,804
Health care	**70,821**	**13,001**	**83,822**	70,683	14,050	84,733
Materials	**10,789**	**—**	**10,789**	10,615	—	10,615
Total Canadian corporate bonds	**1,311,086**	**624,080**	**1,935,166**	1,294,456	661,216	1,955,672
Total bonds	**3,962,931**	**1,230,508**	**5,193,439**	3,846,447	1,111,639	4,958,086
Preferred shares						
Canadian	**189,645**	**5,035**	**194,680**	186,856	9,323	196,179
Total preferred shares	**189,645**	**5,035**	**194,680**	186,856	9,323	196,179
Common shares						
Canadian						
Common shares	**505,534**	**61,831**	**567,365**	526,613	61,481	588,094
Real estate limited partnership units	**60,396**	**—**	**60,396**	47,512	—	47,512
U.S.	**154,482**	**—**	**154,482**	139,988	—	139,988
Other	**19,535**	**—**	**19,535**	13,921	—	13,921
Total common shares	**739,947**	**61,831**	**801,778**	728,034	61,481	789,515
Derivative assets	**14,649**	**—**	**14,649**	3,375	—	3,375
Loans and receivables						
Mortgages	**—**	**—**	**289,221**	—	—	323,117
Loans on policies	**—**	**—**	**46,925**	—	—	46,434
Policy contract loans	**—**	**—**	**84,921**	—	—	86,698
Total	**$ 5,135,598**	**$ 1,302,370**	**$ 6,859,035**	$ 5,025,745	$ 1,187,404	$ 6,669,398

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

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

As at December 31	2015			2014		
	Level 1	**Level 2**	**Total fair value**	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	**$ 21,390**	**$ 178,380**	**$ 199,770**	$ 42,594	$ 196,508	$ 239,102
Short-term investments	**—**	**28,656**	**28,656**	—	21,931	21,931
Bonds	**—**	**3,962,931**	**3,962,931**	—	3,846,447	3,846,447
Preferred shares	**189,645**	**—**	**189,645**	186,856	—	186,856
Common shares	**679,551**	**60,396**	**739,947**	680,522	47,512	728,034
Derivative assets	**14,482**	**167**	**14,649**	2,791	584	3,375
Available for sale:						
Short-term investments	**—**	**4,996**	**4,996**	—	4,961	4,961
Bonds	**—**	**1,230,508**	**1,230,508**	—	1,111,639	1,111,639
Preferred shares	**5,035**	**—**	**5,035**	9,323	—	9,323
Common shares	**61,831**	**—**	**61,831**	61,481	—	61,481
Loans and Receivables						
Mortgages	**—**	**300,186**	**300,186**	—	338,160	338,160
Loans on policies	**—**	**46,925**	**46,925**	—	46,434	46,434
Policy contract loans	**—**	**84,921**	**84,921**	—	86,698	86,698
Total	**$ 971,934**	**$ 5,898,066**	**$ 6,870,000**	$ 983,567	$ 5,700,874	$ 6,684,441

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

The classification of a financial instrument into a level is based on the lowest level of input that is significant to the determination of the fair value. There were no transfers between Level 1 and Level 2 and there were no Level 3 investments during the year ended December 31, 2015 or during the year ended December 31, 2014.

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 Note 28 Risk Management.

(b) Impairments

(i) Loans and receivables

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

As at December 31	2015			2014		
Impaired Loans	**Recorded investment**	**Allowance for impairment**	**Carrying value**	Recorded investment	Allowance for impairment	Carrying value
Mortgages	**$ 5,963**	**$ 2,600**	**$ 3,363**	$ 6,303	$ 2,295	$ 4,008
Policy contract loans	**813**	**525**	**288**	813	541	272
Total	**$ 6,776**	**$ 3,125**	**$ 3,651**	$ 7,116	$ 2,836	$ 4,280

The Company holds collateral with a fair value of $3,370 (2014 $4,045) in respect of these mortgages and $288 (2014 $272) in respect of these policy contract loans as at December 31, 2015. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

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

Continuity of allowance for loan impairment:		2015		2014
Allowance - beginning of year	**$**	**2,836**	$	2,930
Provision for loan impairment		**545**		536
Write-off of loans		**(256)**		(630)
Allowance - end of year	**$**	**3,125**	$	2,836

The Company has recorded interest income of $858 (2014 $727) on these assets.

As at December 31, 2015 loans and receivables past due but not impaired are $ nil (2014 $ nil).

(ii) Available for sale
For the year-ended December 31, 2015, the Company reclassified a pre-tax loss of $2,379 from OCI to Net income due to write downs of impaired AFS common and preferred shares (2014 $221). 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 (a). For analysis of the Company's risks arising from financial instruments, refer to Note 28.

(c) Investment income
Investment income is comprised of the following:

For the year ended December 31		2015		2014
Interest income	**$**	**220,681**	$	215,036
Dividend income		**38,225**		30,583
Other		**849**		798
Provision for loan impairment		**(545)**		(536)
Investment income	**$**	**259,210**	$	245,881

Included in interest income is $63,449 (2014 $65,336) relating to assets not classified as FVTPL.

(d) 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.

As at December 31		2015						2014			
		Notional principal		**Fair value assets**		**Fair value liabilities**		Notional principal		Fair value assets		Fair value liabilities
Exchange-traded												
Equity index futures	**$**	**94,312**	**$**	**977**	**$**	**340**	$	51,773	$	869	$	1,201
Equity options		**299,876**		**13,505**		**—**		119,990		1,922		—
Over-the-counter												
Foreign currency forwards		**175,368**		**167**		**36**		151,731		584		137
Total	**$**	**569,556**	**$**	**14,649**	**$**	**376**	$	323,494	$	3,375	$	1,338

All contracts mature in less than one year. Fair value asset amounts are reported on the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported on the Consolidated Statements of Financial Position as part of Accounts payable and other liabilities. Fair value of exchange traded derivatives is determined based on Level 1 inputs. Foreign currency forward contracts are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

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

For analysis of the Company's risks arising from financial instruments, refer to Note 28.

4. Insurance Receivables

As at December 31		2015		2014
Due from policyholders	$	3,229	$	3,501
Due and accrued from reinsurers		22,810		16,530
Fees receivable		18,506		18,501
Other		3,364		3,211
Insurance receivables	$	47,909	$	41,743

All amounts are expected to be recovered within one year of the Consolidated Statements 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		2015		2014
Trade accounts receivable	$	20,803	$	13,294
Prepaid expenses		5,454		4,626
Other assets	$	26,257	$	17,920

All amounts are expected to be recovered within one year of the Consolidated Statements 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 and shares authorized and outstanding)

6. Property and Equipment

	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Cost					
As at January 1, 2014	$ 2,318	$ 12,873	$ 21,862	$ 6,629	$ 43,682
Additions	—	74	3,045	(288)	2,831
Disposals	—	—	—	—	—
As at December 31, 2014	2,318	12,947	24,907	6,341	46,513
Additions	—	91	5,899	56	6,046
Disposals	—	—	—	—	—
As at December 31, 2015	**$ 2,318**	**$ 13,038**	**$ 30,806**	**$ 6,397**	**$ 52,559**
Amortization					
As at January 1, 2014	—	$ (2,388)	$ (14,935)	$ (4,316)	$ (21,639)
Charge for the year	—	(524)	(2,385)	(840)	(3,749)
Disposals	—	—	—	—	—
As at December 31, 2014	—	(2,912)	(17,320)	(5,156)	(25,388)
Charge for the year	—	(498)	(2,205)	(557)	(3,260)
Disposals	—	—	—	—	—
As at December 31, 2015	**$ —**	**$ (3,410)**	**$ (19,525)**	**$ (5,713)**	**$ (28,648)**
Carrying amount					
December 31, 2014	$ 2,318	$ 10,035	$ 7,587	$ 1,185	$ 21,125
December 31, 2015	**$ 2,318**	**$ 9,628**	**$ 11,281**	**$ 684**	**$ 23,911**

There were no asset impairments in 2015 or 2014.

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

7. Intangible Assets

		Intangible assets
Cost		
As at January 1, 2014	$	42,851
Additions		1,486
Disposals		—
As at December 31, 2014		44,337
Additions		5,502
Disposals		—
As at December 31, 2015	**$**	**49,839**
Amortization		
As at January 1, 2014	$	(38,534)
Charge for the year		(971)
Disposals		—
As at December 31, 2014		(39,505)
Charge for the year		(1,109)
Disposals		—
As at December 31, 2015	**$**	**(40,614)**
Carrying amount		
December 31, 2014	$	4,832
December 31, 2015	**$**	**9,225**

The Company's total amount of research and development expenditure recognized as an expense during 2015 is $2,218 (2014 $3,658).

There were no asset impairments during 2015 or 2014.

8. Segregated Funds

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

As at December 31		2015		2014
Cash and cash equivalents	**$**	**301,764**	$	162,646
Short-term investments		**151,203**		152,395
Bonds		**1,528,873**		1,567,578
Common and preferred shares		**5,362,003**		5,067,181
Other assets		**59,085**		24,977
		7,402,928		6,974,777
Less segregated funds held within general fund investments		**(35,105)**		(26,302)
Total	**$**	**7,367,823**	$	6,948,475

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

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

As at December 31	2015			2014		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Cash and cash equivalents	**$ 42,827**	**$ 258,937**	**$ 301,764**	$ 26,829	$ 135,817	$ 162,646
Short-term investments	**—**	**151,203**	**151,203**	—	152,395	152,395
Bonds	**—**	**1,528,873**	**1,528,873**	—	1,567,578	1,567,578
Common and preferred shares	**5,362,003**	**—**	**5,362,003**	5,067,181	—	5,067,181
Total	**$ 5,404,830**	**$ 1,939,013**	**$ 7,343,843**	$ 5,094,010	$ 1,855,790	$ 6,949,800

There were no transfers between Level 1 and Level 2, and there were no Level 3 investments during the year ended December 31, 2015 or during the year ended December 31, 2014.

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

For the year ended December 31	2015	2014
Segregated fund assets - beginning of year	**$ 6,948,475**	$ 5,954,508
Additions to segregated funds:		
Amount received from policyholders	**1,521,736**	1,650,775
Interest	**63,259**	57,360
Dividends	**130,732**	123,868
Other income	**32,306**	29,743
Net realized gains on sale of investments	**412,110**	481,448
Net unrealized increase in fair value of investments	**—**	34,206
	2,160,143	2,377,400
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	**1,245,387**	1,242,284
Net unrealized decrease in fair value of investments	**262,012**	—
Management fees and other operating costs	**224,593**	203,259
	1,731,992	1,445,543
Net change in segregated funds held within general fund investments	**(8,803)**	62,110
Segregated fund assets - end of year	**$ 7,367,823**	$ 6,948,475

(d) Empire Life's exposure to segregated fund guarantee risk
Segregated fund products issued by Empire Life contain death, maturity, and withdrawal benefit guarantees. Market price fluctuations impact Empire Life's estimated liability for those guarantees. The impact of market price fluctuations in segregated funds on shareholders' net income is disclosed in the Risk Management Note 28(a)(1).

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

9. Insurance Payables

As at December 31		2015		2014
Claims due and accrued	**$**	**38,159**	$	27,771
Payable to agents		**11,297**		11,936
Premiums paid in advance		**2,267**		2,456
Due to reinsurance companies		**11,707**		10,804
Other		**13,907**		20,743
Insurance payables	**$**	**77,337**	$	73,710

Of the above total, $1,305 (2014 $1,280) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. Most of these financial instruments are short-term in nature and their fair value approximates carrying 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 assets (liabilities) are 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 table below shows 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 and shares authorized and outstanding)

Concentration of insurance contract liabilities and reinsurance assets/liabilities

As at December 31	2015			2014		
	Gross insurance contract liabilities	**Reinsurance (assets) liabilities**	**Net**	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Participating Individual						
Life	**$ 547,978**	**$ (2,111)**	**$ 545,867**	$ 523,424	$ 2,667	$ 526,091
Annuity	**192**	**—**	**192**	292	—	292
Non-participating Individual						
Life	**3,011,228**	**623,305**	**3,634,533**	2,842,061	584,900	3,426,961
Annuity	**908,073**	**(12,439)**	**895,634**	1,009,782	(14,617)	995,165
Health	**154,455**	**(9,274)**	**145,181**	141,503	(9,715)	131,788
Non-participating Group						
Life	**21,564**	**(626)**	**20,938**	22,194	(568)	21,626
Annuity	**56,398**	**—**	**56,398**	61,490	—	61,490
Health	**194,029**	**(68,029)**	**126,000**	202,641	(72,092)	130,549
Segregated fund deferred acquisition costs	**(95,234)**	**—**	**(95,234)**	(89,925)	—	(89,925)
Total	**$ 4,798,683**	**$ 530,826**	**$ 5,329,509**	$ 4,713,462	$ 490,575	$ 5,204,037

The Company expects to pay $4,710,118 (2014 $4,563,763) of Insurance contract liabilities and $529,604 (2014 $492,065) of Reinsurance liabilities more than one year after the Consolidated Statements of Financial Position date. The balance is expected to be settled within one year.

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

	2015	2014
Segregated funds deferred acquisition costs - beginning of year	**$ 89,925**	$ 77,489
Deferred during year	**38,551**	40,992
Amortized during year	**(33,242)**	(28,556)
Segregated funds deferred acquisition costs - end of year	**$ 95,234**	$ 89,925

Of the above total, $37,876 (2014 $36,364) is expected to be amortized during the next year.

(b) Change in insurance contract liabilities and reinsurance assets/liabilities

For the year ended December 31	2015			2014		
	Gross insurance contract liabilities	**Reinsurance (assets) liabilities**	**Net**	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance - beginning of year	**$ 4,713,462**	**$ 490,575**	**$ 5,204,037**	$ 4,175,238	$ 284,627	$ 4,459,865
Changes in methods and assumptions						
improvements in mortality/morbidity experience	**(45,126)**	**36,149**	**(8,977)**	(141,617)	113,471	(28,146)
lapse assumption updates	**67,282**	**8,364**	**75,646**	77,408	40,400	117,808
update of investment return assumptions	**(37,843)**	**(10,160)**	**(48,003)**	(88,465)	(4,607)	(93,072)
model enhancements	**—**	**—**	**—**	(5,882)	257	(5,625)
other changes	**8,599**	**(1,250)**	**7,349**	(16,331)	18,442	2,111
Normal changes						
new business	**77,241**	**(10,535)**	**66,706**	125,003	1,731	126,734
in-force business	**15,068**	**17,683**	**32,751**	588,108	36,254	624,362
Balance - end of year	**$ 4,798,683**	**$ 530,826**	**$ 5,329,509**	$ 4,713,462	$ 490,575	$ 5,204,037

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

The updates for mortality/morbidity experience for 2015 are primarily related to favourable mortality experience for individual life business.

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

The refinements to lapse rate assumptions for 2015 are primarily related to an update of Empire Life's Term-to-100 (T100) and Universal Life Level Cost of Insurance (UL LCOI) ultimate lapse rate assumptions to reflect the CIA Research Committee's research papers on Lapse Experience Under T100 Insurance Policies and Lapse Experience under UL LCOI Policies released September 2015 which was partially offset by an update to lapse rate margins to reflect more credible company and industry experience.

The refinements to lapse rate assumptions for 2014 are primarily related to emerging lapse rate experience for Empire Life's universal life ART 85 and VitaLink products as well as regular updates for Empire Life's other individual life insurance products.

The update in investment return assumptions for 2015 was primarily related to a refinement of the projected amount of equities backing individual life liabilities. In addition, there were several refinements to the CALM model for future reinvestment assumptions.

The update in investment return assumptions for 2014 was primarily due to revised Canadian actuarial standards of practice effective October 15, 2014. In addition, there were several refinements to the CALM model for future reinvestment assumptions.

There were no model enhancements for 2015.

The model enhancements for 2014 are related to refinements to the valuation models for group waiver of premium business.

Other changes for 2015 relate to lower expense unit costs that were offset by refinements to target fund value mix for universal life policies and other minor changes to assumptions and methodologies.

Other changes for 2014 relate to lower expense unit costs resulting from refinements to expense studies that were offset by refinements for modelling unearned reinsurance premiums and other minor changes to assumptions and methodologies.

The normal change for new business liabilities is primarily related to new deposits for annuity business, which are offset by negative reserves calculated for new sales of individual life business.

The increase in the normal change in in-force policy liabilities in 2015 primarily results from the maturing of in-force liabilities. Smaller changes in the in-force policy liabilities resulted from decreases in interest rates and experience gains and losses related to mortality and lapses.

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

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

(c) Mix of assets allocated to insurance, annuity, investment contract liabilities and equity

	As at December 31, 2015				
	Insurance liabilities	**Annuity liabilities**	**Investment contract liabilities**	**Equity and other liabilities**	**Total**
Cash and cash equivalents & Short-term investments	**$ 62,748**	**$ 20,676**	**$ 245**	**$ 149,753**	**$ 233,422**
Bonds	**3,518,901**	**480,695**	**5,700**	**1,188,143**	**5,193,439**
Mortgages	**46,811**	**239,569**	**2,841**	**—**	**289,221**
Preferred shares	**23,853**	**168,825**	**2,002**	**—**	**194,680**
Common shares	**739,948**	**—**	**—**	**61,830**	**801,778**
Derivative assets	**1,144**	**—**	**—**	**13,505**	**14,649**
Loans on policies	**46,925**	**—**	**—**	**—**	**46,925**
Policy contract loans	**318**	**33,444**	**397**	**50,762**	**84,921**
Other	**23,754**	**4,731**	**56**	**108,145**	**136,686**
Total	**$ 4,464,402**	**$ 947,940**	**$ 11,241**	**$ 1,572,138**	**$ 6,995,721**

	As at December 31, 2014				
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	$ 122,349	$ 3,919	$ 43	$ 139,683	$ 265,994
Bonds	3,318,781	578,019	6,393	1,054,893	4,958,086
Mortgages	56,852	263,352	2,913	—	323,117
Preferred shares	29,963	164,398	1,818	—	196,179
Common shares	728,034	—	—	61,481	789,515
Derivative assets	1,453	—	—	1,922	3,375
Loans on policies	46,434	—	—	—	46,434
Policy contract loans	296	35,925	397	50,080	86,698
Other	13,970	5,579	62	91,057	110,668
Total	$ 4,318,132	$ 1,051,192	$ 11,626	$ 1,399,116	$ 6,780,066

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are $163,500 (2014 $169,800)

(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.

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.

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

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		2015		2014
Assets:				
Cash and cash equivalents & Short-term investments	**$**	**233,422**	$	265,994
Canada and provincial bonds		**3,136,487**		2,869,167
Other readily-marketable bonds and stocks		**2,459,446**		2,514,664
Total liquid assets	**$**	**5,829,355**	$	5,649,825
Liabilities:				
Demand liabilities with fixed values	**$**	**586,695**	$	548,289
Demand liabilities with market value adjustments		**1,099,332**		1,125,761
Total liquidity needs	**$**	**1,686,027**	$	1,674,050

11. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

As at December 31		2015		2014
Accounts payable	**$**	**21,905**	$	23,574
Post-employment benefit liability (Note 12)		**23,685**		17,560
Accrued interest on subordinated debt		**767**		767
Derivative liabilities (Note 3d)		**376**		1,338
Other		**12,412**		14,120
Accounts payable and other liabilities	**$**	**59,145**	$	57,359

Of the above total, $23,685 (2014 $17,560) is expected to be settled more than one year after the Consolidated Statements of Financial Position date. In the absence of an active market for post-employment benefit liabilities, the actuarially determined value provides a reasonable approximation of fair value. Derivative liabilities are carried at fair value, as disclosed in Note 3(d). All other amounts are short-term in nature and their fair value approximates carrying 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 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 average salary pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' age, length of service and their salary in the final years leading up to retirement. Pensions generally do not receive inflationary increases once in payment. In the past, however, the Company has provided ad-hoc pension increases on its defined benefit staff pension plan. Increases take place at the discretion of the Board. The pension benefit payments are from trustee-administered funds.

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

The Company's staff pension 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 to the Human Resources Committee of the Board three times each year. The Audit Committee of the Board 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.

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

	Pension benefits		Other post-employment benefits	
As at December 31	**2015**	2014	**2015**	2014
Present value of obligations	**$ 209,311**	$ 192,948	**$ 9,684**	$ 10,531
Fair value of plan assets	**195,310**	185,919	**—**	—
Post-employment benefit asset (liability)	**$ (14,001)**	$ (7,029)	**$ (9,684)**	$ (10,531)

The post-employment benefit asset (liability), net of the cumulative impact of the asset ceiling, is included in the Consolidated Statements of Financial Position in Accounts payables and other liabilities (Note 11).

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

	Pension benefits		Other post-employment benefits	
As at December 31	**2015**	2014	**2015**	2014
Present value of defined benefit obligation - beginning of year	**$ 192,948**	$ 177,592	**$ 10,531**	$ 10,017
Current service cost	**6,817**	5,965	**29**	47
Past service cost	**—**	236	**—**	—
Interest expense	**8,038**	8,317	**400**	468
Decrease (increase) in net income before tax	**14,855**	14,518	**429**	515
Remeasurements				
(Gain) loss from changes in demographic assumptions	**—**	(2,354)	**(2,133)**	(500)
(Gain) loss from changes in financial assumptions	**(5,873)**	20,545	**(177)**	1,000
Actuarial (gain) loss from member experience	**12,992**	(10,638)	**1,384**	(181)
Decrease (increase) in OCI before tax	**7,119**	7,553	**(926)**	319
Employee contributions	**1,823**	1,929	**—**	—
Benefits paid	**(7,434)**	(8,644)	**(350)**	(320)
Present value of defined benefit obligation - end of year	**$ 209,311**	$ 192,948	**$ 9,684**	$ 10,531

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

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

	Pension benefits	
As at December 31	**2015**	2014
Fair value of defined benefit assets - at beginning of year	**$ 185,919**	$ 169,292
Interest income	**7,355**	8,082
Administrative expense	**(682)**	(635)
Increase (decrease) in net income before tax	**6,673**	7,447
Remeasurements		
Return on plan assets, excluding amounts included in interest income	**2,083**	12,201
Gain (loss) from changes in demographic assumptions	**—**	—
Gain (loss) from changes in financial assumptions	**—**	—
Actuarial gain (loss) from member experience	**—**	—
Change in effect of asset limit	**—**	—
Increase (decrease) in OCI before tax	**2,083**	12,201
Employer contributions	**6,246**	3,694
Employee contributions	**1,823**	1,929
Benefits paid	**(7,434)**	(8,644)
Fair value of defined benefit assets - end of year	**$ 195,310**	$ 185,919

The actual return on defined benefit assets net of administrative expense, for the year ended December 31, 2015 was a gain of $8,756 (2014 gain of $19,648).

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 December 31	**2015**	2014	**2015**	2014
Operating expense				
Current service cost	**$ 6,817**	$ 5,965	**$ 29**	$ 47
Past service cost	**—**	236	**—**	—
Interest expense	**8,038**	8,317	**400**	468
Interest income on plan assets	**(7,355)**	(8,082)	**—**	—
Administrative expense	**682**	635	**—**	—
Decrease (increase) in net income before tax	**$ 8,182**	$ 7,071	**$ 429**	$ 515
Remeasurements				
Return on plan assets, excluding amounts included in interest income	**$ (2,083)**	$ (12,201)	**$ —**	$ —
(Gain) loss from changes in demographic assumptions	**—**	(2,354)	**(2,133)**	(500)
(Gain) loss from changes in financial assumptions	**(5,873)**	20,545	**(177)**	1,000
Actuarial (gain) loss from member experience	**12,992**	(10,638)	**1,384**	(181)
Change in effect of asset limit	**—**	—	**—**	—
Decrease (increase) in OCI before tax (Note 18(d))	**$ 5,036**	$ (4,648)	**$ (926)**	$ 319

Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include $823 (2014 $670) of employer contributions related to the defined contribution component of the Plan.

Expected contributions (including both employer and employee amounts) to the Company's defined benefit pension plans for the year ending December 31, 2016 are approximately $5,112.

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

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		2015			2014	
Equity						
Canadian						
Consumer discretionary	$	**3,535**	**2%**	$	4,006	2%
Consumer staples		**6,301**	**3%**		8,504	5%
Energy		**6,988**	**3%**		13,169	7%
Financials		**18,863**	**9%**		23,096	12%
Industrials		**7,677**	**4%**		9,202	5%
Information technology		**5,876**	**3%**		7,251	4%
Materials		**1,057**	**1%**		682	—%
Telecom services		**5,088**	**3%**		3,188	2%
Utilities		**1,399**	**1%**		2,218	1%
Total Canadian		**56,784**	**29%**		71,316	38%
Foreign		**56,411**	**29%**		39,064	21%
Total equity		**113,195**	**58%**		110,380	59%
Debt						
Government of Canada		**10,336**	**5%**		6,469	3%
Provincial governments		**15,459**	**8%**		14,520	8%
Municipal governments		**1,167**	**1%**		1,920	1%
Canadian corporations		**32,778**	**17%**		33,213	18%
Total debt		**59,740**	**31%**		56,122	30%
Cash, cash equivalent, accruals		**5,512**	**3%**		5,261	3%
Mutual funds		**8,177**	**4%**		7,296	4%
Other		**8,686**	**4%**		6,860	4%
Total fair value of assets	$	**195,310**	**100%**	$	185,919	100%

Fair value is determined based on Level 1 inputs for equities and Level 2 inputs for debt.

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

The following weighted average assumptions were used in actuarial calculations:

	Pension benefits		Other post-employment benefits	
As at December 31	**2015**	2014	**2015**	2014
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	**4.2%**	4.0%	**4.0%**	3.9%
Inflation assumption	**2.0%**	2.0%	**n/a**	n/a
Rate of compensation increase	**3.5%**	3.5%	**n/a**	n/a
Future pension increases	**3.0%**	3.0%	**n/a**	n/a
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	**n/a**	n/a	**7.5%**	7.8%
Cost trend rate declines to	**n/a**	n/a	**4.5%**	4.5%
Year ultimate health care cost trend rate is reached	**n/a**	n/a	**2026**	2026

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

As at December 31	**2015**	2014
Males aged 65 at measurement date	**21.57**	21.49
Females aged 65 at measurement date	**24.02**	23.96
Males aged 40 at measurement date	**22.93**	22.88
Females aged 40 at measurement date	**25.22**	25.18

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 Consolidated Statements of Financial Position.

		Impact on pension benefits		Impact on other post employment benefits	
As at December 31, 2015	**Change in assumption**	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate	**1%**	**(24,832)**	**33,832**	**(969)**	**1,171**
Rate of compensation increase	**1%**	**10,444**	**(9,080)**	**n/a**	**n/a**
Health care cost increase	**1%**	**n/a**	**n/a**	**1,110**	**(955)**
Claim rate	**10%**	**n/a**	**n/a**	**894**	**(895)**
Life expectancy	**1 year**	**4,565**	**(4,690)**	**414**	**(407)**

		Impact on pension benefits		Impact on other post employment benefits	
As at December 31, 2014	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	1%	(22,545)	31,159	(1,337)	1,640
Rate of compensation increase	1%	9,593	(8,327)	n/a	n/a
Health care cost increase	1%	n/a	n/a	1,505	(1,255)
Claim rate	10%	n/a	n/a	998	(998)
Life expectancy	1 year	4,216	(4,330)	503	(491)

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

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

As at December 31	**2015**	2014
Staff pension plan	**14**	14
Supplemental employee retirement plan	**11**	11
Other post-employment benefits	**15**	15

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, 2015			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' other comprehensive income	**$ 8,641**	**$ (8,641)**	**$ 17,281**	**$ (17,281)**
Policyholders' other comprehensive income	**$ 410**	**$ (410)**	**$ 820**	**$ (820)**

	As at December 31, 2014			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' other comprehensive income	$ 8,460	$ (8,460)	$ 16,919	$ (16,919)
Policyholders' other comprehensive income	$ 404	$ (404)	$ 808	$ (808)

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, 2015			
	50 bps Increase	**50 bps Decrease**	**100 bps Increase**	**100 bps Decrease**
Shareholders' other comprehensive income	**$ (1,576)**	**$ 1,731**	**$ (2,993)**	**$ 3,620**
Policyholders' other comprehensive income	**$ (75)**	**$ 82**	**$ (142)**	**$ 172**

	As at December 31, 2014			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' other comprehensive income	$ (1,346)	$ 1,500	$ (2,538)	$ 3,154
Policyholders' other comprehensive income	$ (64)	$ 72	$ (121)	$ 151

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.

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

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

In case of the funded plans, the Pension Committee ensures that the investment positions are managed in accordance with the investment philosophy outlined in the investment policy approved by the Human Resources Committee of the Board. The fundamental philosophy is to achieve acceptably high investment return over the long term without jeopardizing the level of security of the members' benefits and without introducing too much volatility into the Company's future expense. The Company's objective is to match assets to the pension obligations by investing in equities as well as fixed interest securities. The Company 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.

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

13. 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 is 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 is equal to the 3-month Canadian Deposit Offering Rate plus 5.75%. Interest is payable semi-annually at May 20 and November 20 until May 20, 2014, quarterly thereafter with the first such payment on August 20, 2014. The Company redeemed these debentures on May 20, 2014 at par.

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

The fair value of these debentures is $305,244 as of December 31, 2015 (2014 $305,199), and is within level 2 of the fair value hierarchy. The fair value is provided by a third party bond pricing service.

14. Insurance Premiums

For the year ended December 31	2015			2014		
	Gross	**Reinsurance ceded**	**Net**	Gross	Reinsurance ceded	Net
Life premiums	**$ 460,324**	**$ (85,418)**	**$ 374,906**	$ 450,133	$ (78,702)	$ 371,431
Health premiums	**342,489**	**(26,170)**	**316,319**	335,044	(25,093)	309,951
Total life and health premiums	**802,813**	**(111,588)**	**691,225**	785,177	(103,795)	681,382
Annuity premiums	**144,224**	**(233)**	**143,991**	186,375	(264)	186,111
Total insurance premiums	**$ 947,037**	**$ (111,821)**	**$ 835,216**	$ 971,552	$ (104,059)	$ 867,493

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

15. Fee Income

For the year ended December 31		2015		2014
Investment management, policyholder administration and guarantee fees	$	**208,085**	$	179,537
Surrender charges and other miscellaneous fees		**8,733**		7,979
Fee income	$	**216,818**	$	187,516

16. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the year ended December 31		2015						2014				
		Gross		**Reinsurance ceded**		**Net**		Gross		Reinsurance ceded		Net
Life claims	$	**207,352**	$	**(67,549)**	$	**139,803**	$	192,165	$	(63,289)	$	128,876
Health claims		**257,559**		**(14,528)**		**243,031**		244,151		(14,399)		229,752
Total life and health claims		**464,911**		**(82,077)**		**382,834**		436,316		(77,688)		358,628
Annuity benefits		**262,408**		**(2,911)**		**259,497**		289,903		(3,193)		286,710
Benefits and claims paid	$	**727,319**	$	**(84,988)**	$	**642,331**	$	726,219	$	(80,881)	$	645,338

(b) Change in insurance contract liabilities and reinsurance ceded

For the year ended December 31		2015						2014				
		Gross		**Reinsurance ceded**		**Net**		Gross		Reinsurance ceded		Net
Life	$	**193,091**	$	**33,569**	$	**226,660**	$	526,875	$	213,350	$	740,225
Health		**4,340**		**4,504**		**8,844**		65,304		(8,024)		57,280
Total life and health		**197,431**		**38,073**		**235,504**		592,179		205,326		797,505
Annuity		**(112,210)**		**2,178**		**(110,032)**		(53,955)		622		(53,333)
Change in insurance contract liabilities	$	**85,221**	$	**40,251**	$	**125,472**	$	538,224	$	205,948	$	744,172

17. Operating Expenses

Operating expenses include the following:

For the year ended December 31		2015		2014
Salary and benefits expense	$	**83,301**	$	85,309
Professional services		**19,658**		14,914
Rent, leasing and maintenance		**11,290**		10,473
Amortization of property and equipment and intangibles		**4,369**		4,720
Other		**28,547**		31,553
Total	$	**147,165**	$	146,969

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

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

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		2015		2014
Current income tax expense	$	**26,731**	$	20,805
Deferred income tax expense (benefit)				
Relating to the origination and reversal of temporary differences		**761**		9,496
Income tax expense	$	**27,492**	$	30,301

During 2015 the Company paid income tax installments totaling $34,185 (2014 $32,566).

(b) Variance from statutory provision

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

For the year ended December 31		2015		2014
Net income before income taxes	$	**129,950**	$	137,677
Income tax provision at statutory rates		**34,580**		36,511
Increase (decrease) resulting from:				
Tax paid dividends on stocks		**(7,503)**		(6,494)
Miscellaneous		**415**		284
Income tax expense	$	**27,492**	$	30,301

The current enacted corporate tax rates as they impact the Company in 2015 stand at 26.61% (2014 26.52%). Expected future tax rates are as follows:

2016	26.68%
2017	26.65%
2018	26.63%
2019	26.60%
2020	26.57%

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 Statements of Financial Position. These differences arise in the following items:

As at December 31		2015		2014
Insurance contracts	$	**(8,485)**	$	(10,479)
Portfolio investments		**(5,896)**		(6,839)
Taxes recoverable in future years		**2,847**		6,011
Post-employment benefit plans		**6,300**		4,655
Other, net		**(2,676)**		(1,591)
Deferred income tax asset (liability)	$	**(7,910)**	$	(8,243)

Of the above total, $403 (2014 $4,304) is expected to be received (paid) more than one year after the Consolidated Statements of Financial Position date.

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

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

For the year ended December 31		2015		2014
Deferred income tax asset (liability) - beginning of year	$	**(8,243)**	$	2,400
Deferred income tax benefit (expense)				
Statement of operations		**(761)**		(9,496)
Other comprehensive Income		**1,094**		(1,147)
Deferred income tax asset (liability) - end of year	$	**(7,910)**	$	(8,243)

(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		2015										
		Before tax		**Tax provision (recovery)**		**After tax**		Before tax		Tax provision (recovery)		After tax
Unrealized fair value change on available for sale investments	$	**5,612**	$	**1,494**	$	**4,118**	$	52,187	$	13,838	$	38,349
Fair value change on available for sale investments reclassified to net income, including impairment write downs		**(19,128)**		**(5,206)**		**(13,922)**		(12,621)		(3,646)		(8,975)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income		**—**		**—**		**—**		344		111		233
Remeasurements of post-employment benefit liabilities (Note 12)		**(4,110)**		**(1,094)**		**(3,016)**		4,329		1,147		3,182
Total other comprehensive income (loss)	$	**(17,626)**	$	**(4,806)**	$	**(12,820)**	$	44,239	$	11,450	$	32,789

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

For the year ended December 31		2015						2014				
		Before tax		**Tax provision (recovery)**		**After tax**		Before tax		Tax provision (recovery)		After tax
Unrealized fair value change on available for sale investments	$	**5,775**	$	**1,537**	$	**4,238**	$	45,445	$	12,050	$	33,395
Fair value change on available for sale investments reclassified to net income, including impairment write downs		**(17,762)**		**(4,783)**		**(12,979)**		(6,047)		(1,755)		(4,292)
Amortization of loss on derivative investments designated as cash flow hedges reclassified to net income		**—**		**—**		**—**		344		111		233
Remeasurements of post-employment benefit liabilities (Note 12)		**(3,919)**		**(1,043)**		**(2,876)**		4,117		1,091		3,026
Shareholder portion of policyholder other comprehensive income (loss)		**(171)**		**(52)**		**(119)**		(75)		46		(121)
Total other comprehensive income (loss)	$	**(16,077)**	$	**(4,341)**	$	**(11,736)**	$	43,784	$	11,543	$	32,241

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

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

For the year ended December 31	2015			2014		
	Before tax	**Tax provision (recovery)**	**After tax**	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	$ **(163)**	$ **(43)**	$ **(120)**	$ 6,742	$ 1,788	$ 4,954
Fair value change on available for sale investments reclassified to net income, including impairment write downs	**(1,366)**	**(423)**	**(943)**	(6,574)	(1,891)	(4,683)
Remeasurements of post-employment benefit liabilities (Note 12)	**(191)**	**(51)**	**(140)**	212	56	156
Shareholder portion of policyholder other comprehensive income (loss) (Note 23)	**171**	**52**	**119**	75	(46)	121
Total other comprehensive income (loss)	$ **(1,549)**	$ **(465)**	$ **(1,084)**	$ 455	$ (93)	$ 548

19. Earnings Per Share

Earnings per share (EPS) is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred share offering announced on January 25, 2016 will not dilute EPS as the shares are not convertible into common shares.

Details of the calculation of the net income and the weighted average number of shares used in the EPS computations are as follows:

For the year ended December 31	2015	2014
Basic and diluted EPS		
Common shareholders' net income	$ **108,577**	$ 98,706
Weighted average number of common shares outstanding	**985,076**	985,076
Basic and diluted EPS	$ **110.22**	$ 100.20

20. Capital Stock

(a) Authorized
Common shares: 2,000,000 shares with no par value

(b) Issued and fully paid

As at December 31	2015	2014
Number of common shares: 985,076	$ **985**	$ 985

21. Dividends

Common shareholder dividends
Common shareholder dividends paid in 2015 and 2014 were $ nil and $33,984, respectively. This represents a dividend pay out rate of $ nil per share in 2015 and $34.4985 per share in 2014.

Preferred shareholder dividends
On February 25, 2016 the Board approved a cash dividend of $0.2402 per share on the issued and outstanding Non-Cumulative Rate Reset Preferred Shares, Series 1 of the Company, such dividend to be payable on the 17th day of April, 2016, to shareholders of record on the 14th day of March, 2016. (see Note 29).

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

22. Shareholders' Equity Entitlement

Shareholders' entitlement to $4,586 (2014 $5,478) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

23. Supplementary Participating Policyholder Information

As at December 31		2015		2014
Assets backing participating account equity	**$**	**52,837**	$	60,040
Assets backing participating account liabilities	**$**	**609,423**	$	579,832

Transfers to shareholders' account
In 2015, the Company transferred $2,057 (2014 $2,016), equal to 7.9% (2014 8.3%) of the distributable participating profits, from the participating account to the shareholders' account.

24. 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.

Capital and Surplus is made up of assets held in the shareholders' and participating policyholders' equity accounts and other corporate items not allocated to other segments.

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

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

	For the year ended December 31, 2015				
	Wealth Management	**Employee Benefits**	**Individual Insurance**	**Capital & Surplus**	**Total**
Net premiums from external customers	$ **143,991**	$ **325,223**	$ **366,002**	$ **—**	$ **835,216**
Interest income	**35,854**	**6,036**	**140,376**	**38,415**	**220,681**
Total investment income	**43,673**	**3,558**	**171,119**	**40,860**	**259,210**
Fair value change in fair value through profit or loss assets	**(28,153)**	**(2,137)**	**(56,408)**	**1,021**	**(85,677)**
Realized gain (loss) on fair value through profit or loss assets	**1,276**	**1,223**	**38,114**	**1,620**	**42,233**
Realized gain (loss) on available for sale assets including impairment write downs	**(30)**	**72**	**444**	**18,642**	**19,128**
Fee income from external customers	**205,957**	**9,265**	**1,338**	**258**	**216,818**
Net benefits and claims	**259,497**	**252,654**	**130,180**	**—**	**642,331**
Net change in insurance contract liabilities	**(110,032)**	**(5,238)**	**240,742**	**—**	**125,472**
Change in investment contract provision	**426**	**—**	**—**	**—**	**426**
Policy dividends	**—**	**—**	**25,991**	**—**	**25,991**
Amortization of property and equipment and intangibles	**1,748**	**1,039**	**1,582**	**—**	**4,369**
Total operating expenses	**52,604**	**41,976**	**51,586**	**999**	**147,165**
Net commission expense	**86,019**	**32,592**	**69,797**	**—**	**188,408**
Interest expense	**—**	**—**	**—**	**8,959**	**8,959**
Premium tax	**—**	**7,216**	**7,010**	**—**	**14,226**
Investment and capital tax	**—**	**—**	**4,000**	**—**	**4,000**
Income tax expense (recovery)	**18,980**	**2,219**	**(7,440)**	**13,733**	**27,492**
Net income (loss) after tax	**59,220**	**5,785**	**(1,257)**	**38,710**	**102,458**

	For the year ended December 31, 2014				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	$ 186,106	$ 318,942	$ 362,445	$ —	$ 867,493
Interest income	39,712	6,149	130,332	38,843	215,036
Total investment income	48,998	4,104	150,543	42,236	245,881
Fair value change in fair value through profit or loss assets	19,981	4,270	513,949	(164)	538,036
Realized gain (loss) on fair value through profit or loss assets	9,174	489	65,220	(414)	74,469
Realized gain (loss) on available for sale assets including impairment write downs	39	48	10	12,524	12,621
Fee income from external customers	177,368	8,571	1,327	250	187,516
Net benefits and claims	286,714	237,540	121,084	—	645,338
Net change in insurance contract liabilities	(53,330)	6,596	790,906	—	744,172
Change in investment contract provision	2,282	—	—	—	2,282
Policy dividends	—	—	23,898	—	23,898
Amortization of property and equipment and intangibles	1,939	1,183	1,598	—	4,720
Total operating expenses	61,087	41,826	42,637	1,419	146,969
Net commission expense	91,307	31,025	70,809	—	193,141
Interest expense	—	—	—	14,180	14,180
Premium tax	—	6,943	7,316	—	14,259
Investment and capital tax	—	—	4,100	—	4,100
Income tax expense (recovery)	11,733	3,475	5,219	9,874	30,301
Net income (loss) after tax	41,872	9,019	27,526	28,959	107,376

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

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

	As at December 31, 2015									
		Wealth Management		**Employee Benefits**		**Individual Insurance**		**Capital & Surplus**		**Total**
Assets excluding segregated funds	**$**	**959,181**	**$**	**162,597**	**$**	**4,301,805**	**$**	**1,572,138**	**$**	**6,995,721**
Segregated funds		**7,347,426**		**—**		**20,397**		**—**		**7,367,823**
Total assets	**$**	**8,306,607**	**$**	**162,597**	**$**	**4,322,202**	**$**	**1,572,138**	**$**	**14,363,544**

	As at December 31, 2014									
		Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total
Assets excluding segregated funds	$	1,062,818	$	160,465	$	4,157,667	$	1,399,116	$	6,780,066
Segregated funds		6,926,322		—		22,153		—		6,948,475
Total assets	$	7,989,140	$	160,465	$	4,179,820	$	1,399,116	$	13,728,541

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.

25. 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 2015 were $3,079 (2014 $3,026). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

		2015		2014
2015		**—**		2,466
2016		**2,662**		2,159
2017		**2,098**		1,914
2018		**1,840**		1,656
2019		**1,777**		1,593
2020 (and thereafter)		**761**		679
	$	**9,138**	$	10,467

Investment commitments

In the normal course of business, investment commitments are outstanding which are not reflected in the Consolidated Financial Statements. At December 31, 2015 there were $ nil (2014 $8,942) of outstanding cash calls to purchase units in a real estate limited partnership. On July 9, 2015, the 2014 commitment was settled with the purchase of additional units for $8,942.

In January 2016 the Company made a further $20 million commitment to purchase units in a real estate limited partnership. Draws on this commitment are payable on demand up to and including July 31, 2018.

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

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.

26. Related Party Transactions

The Company is a 98.3% owned subsidiary of E-L Financial Services Limited (ELFS) which in turn is a 100.0% owned subsidiary of E-L Financial Corporation Limited (E-L). E-L owns, directly and indirectly through ELFS, 99.2% of the common shares of Empire Life. 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 E-L and other companies under common control or common influence involving the leasing of office property, investment management services and miscellaneous office services. The amounts earned and expensed were not significant. Some directors and officers have insurance and investment 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		**2015**		2014
Salaries and other short-term employee benefits	**$**	**6,314**	$	6,829
Post-employment benefits		**616**		530
Total	**$**	**6,930**	$	7,359

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

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

27. 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, 2015 and December 31, 2014 the Company was in compliance with these ratios.

As at December 31	2015	2014
Tier 1 Regulatory Capital	$ **917,617**	$ 872,275
Tier 2 Regulatory Capital	**504,430**	452,203
Total Regulatory Capital	$ **1,422,047**	$ 1,324,478

28. Risk Management

The Company is exposed to risks arising from its investing activities and its insurance operations and to general reputation risk associated with these activities and its ability to manage specific risks. The following sections describe the principal risks and associated risk management strategies for the risks that management considers to be most significant in terms of likelihood and the potential adverse impact on the Company: market, liquidity, credit and insurance.

Caution related to sensitivities

In the sections that follow, the Company provides sensitivities and risk exposure measures for certain risks. These include sensitivities due to specific changes in market prices and interest rates, based on the market prices, interest rates, assets, liabilities and business mix in place as at the calculation dates. The sensitivities are calculated independently for each risk factor, assuming that all other risk variables remain constant. Actual results can differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future Net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

(a) 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 equities, real estate and other securities, credit spreads and foreign 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. Under the Canadian insurance accounting and regulatory regime the Company's results for any period reflect equity market values and interest rates at the end of the period through mark-to-market accounting. Consequently, a decline in public equity market values or changes in interest rates or spreads could result in material changes to net income attributed to shareholders, increases to regulatory capital requirements and reduction in the Company's capital ratios.

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 policies, 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 Minimum Continuing Capital and Surplus Requirements (MCCSR) position. Regulatory pressure to increase capital escalates as the MCCSR position 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.

The Company manages this risk exposure mainly through investment limits and oversight of its investment managers by the Chief Investment Officer, the Asset Management Committee, and the Investment Committee of the Board. The Investment Committee actively monitors the portfolio size and asset mix.

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 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 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 and the Company's investment managers report to the Investment Committee, and through the Investment Committee to the Board, on portfolio content, asset mix, the Company's matched position, the performance of general and segregated funds and compliance with the investment guidelines.

The Company has an Asset Management Committee, which meets regularly and reports at least quarterly to the Investment Committee of the Board. The mandate of the Asset Management Committee includes monitoring of the matched position of Empire's investments in relation to its liabilities within the various segments of the Company's operations. The matching process is designed to require that assets supporting policy liabilities closely match 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. Asset segmentation guidelines, which are reviewed regularly with the Investment Committee, have been established to govern these activities. The Asset Management Committee reports regularly to the Investment Committee on the Company's matched positions, asset mixes, and investment allocation decisions relative to the Company's asset segments.

The Company has established a Capital Management Policy, capital management levels that exceed regulatory minimums and Dynamic Capital Adequacy Testing (DCAT) 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 and liquidity. Management monitors its MCCSR position on a regular basis and reports at least quarterly to the Board on the Company's MCCSR.

For the Company, the most significant market risks are equity risk, interest rate risk and foreign exchange rate risk.

(1) Equity risk

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, and 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 is generally assumed by the policyholders and unit holders, respectively. 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, MCCSR position and results of operations. The Company has reinsured a portion of its segregated fund death benefit guarantee. During the fourth quarter of 2014, the Company initiated a semi-static, economic hedging program. The objective of the economic hedging program is to partially protect the Company from possible future MCCSR ratio declines that might result from adverse stock market price changes. The program presently employs put options and futures on key equity indices. 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 to all counterparties limited to $100 million.

The Company has an Equity Risk Hedging Policy to support general fund economic hedging programs. The policy outlines objectives, risk limits and authorities associated with its economic hedging activities. Management monitors its economic hedging activities on a regular basis and reports, at least quarterly, to the Risk and Capital Committee of the Board on the status of the economic hedging program.

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 Asset Management Committee reports quarterly to the Risk and Capital 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 following table summarizes the estimated 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. The amounts in the following table include the effect of Empire Life's general fund equity risk economic hedging program (described above). For segregated fund guarantees 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 guarantees represent the impact on shareholders' net income.

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

	As at December 31, 2015			
	10% Increase	**10% Decrease**	**20% Increase**	**20% Decrease**
Shareholders' net income (excludes segregated fund guarantees)*	**$ 11,804**	**$ (6,789)**	**$ 27,044**	**$ (8,958)**
Policyholders' net income	**$ nil**	**$ nil**	**$ nil**	**$ nil**
Shareholders' other comprehensive income	**$ 2,141**	**$ (2,141)**	**$ 4,282**	**$ (4,282)**
Policyholders' other comprehensive income	**$ 2,392**	**$ (2,392)**	**$ 4,784**	**$ (4,784)**
Shareholders' net income (due to segregated fund guarantees)	**$ nil**	**$ nil**	**$ nil**	**$ (10,031)**

	As at December 31, 2014			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (excludes segregated fund guarantees)*	$ 14,387	$ (13,149)	$ 29,310	$ (24,198)
Policyholders' net income	$ nil	$ nil	$ nil	$ nil
Shareholders' other comprehensive income	$ 2,088	$ (2,088)	$ 4,176	$ (4,176)
Policyholders' other comprehensive income	$ 2,425	$ (2,425)	$ 4,850	$ (4,850)
Shareholders' net income (due to segregated fund guarantees)	$ nil	$ nil	$ nil	$ nil

*Includes the estimated impact on fee income net of trailer commissions after tax for a three month period

For the life insurance business, the Company's policy is to use equity investments to cover estimated insurance liability cash flows of non-participating life and universal life products beyond 20 years following the balance sheet date. The value of the liabilities supported by these equities depends on assumptions about the future level of equity markets. The best estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 8.9% (2014 9.2%). The Company uses an assumption of 7.8% (2014 7.5%) 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 is described above. 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 $116,500 (2014 $91,900).

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

As at December 31	**2015**	2014
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	**$ 286,544**	$ 279,662
Percentage of total cash and investments	**4.2%**	4.2%
Exposure to the largest single issuer of common equities	**$ 60,396**	$ 47,512
Percentage of total cash and investments	**0.9%**	0.7%

(2) Interest rate risk
Interest rate risk arises when economic losses are incurred 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

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

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 to customers, thereby adversely affecting the Company's operating results.

Rapid declines in interest rates may result in, among other things, increased asset calls and mortgage prepayments and require reinvestment at significantly lower yields, which could adversely affect earnings. Additionally, during periods of declining interest rates, bond redemptions generally increase, resulting in the reinvestment of such funds at lower current rates. Rapid increases in interest rates may result in, among other things, increased surrenders. Fluctuations in interest rates may cause losses to 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 estimated immediate financial impact on Net income and OCI as a result of an immediate change in interest rates.

	As at December 31 2015			
	50 bps Increase	**50 bps Decrease**	**100 bps Increase**	**100 bps Decrease**
Shareholders' net income	**$ 8,640**	**$ (9,700)**	**$ 16,349**	**$ (20,608)**
Policyholders' net income	**$ 516**	**$ (565)**	**$ 987**	**$ (1,186)**
Shareholders' other comprehensive income	**$ (29,672)**	**$ 34,385**	**$ (54,631)**	**$ 73,483**
Policyholders' other comprehensive income	**$ (1,368)**	**$ 1,452**	**$ (2,652)**	**$ 2,987**

	As at December 31 2014			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	$ 7,977	$ (8,958)	$ 15,090	$ (19,035)
Policyholders' net income	$ 520	$ (572)	$ 993	$ (1,202)
Shareholders' other comprehensive income	$ (20,706)	$ 23,510	$ (38,603)	$ 49,818
Policyholders' other comprehensive income	$ (1,176)	$ 1,245	$ (2,280)	$ 2,559

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 from 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. In order to provide a margin that recognizes the mismatch of assets and liabilities, the cash flows are subjected to tests under a wide spectrum of possible reinvestment scenarios, and the policy liabilities are then adjusted to provide for credible adverse future scenarios.

In order to match the savings component of policy liabilities that vary with a variety of indices and currencies, 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 needs to reinvest net cash flows arising in the future to extend the duration of its assets. Under Canadian actuarial standards of practice, the yields assumed for these future reinvestments are related to current interest rates, the current economic outlook and the Company's expected future asset mix. The reinvestment assumption grades from the initial reinvestment rate (IRR) assumption to the ultimate reinvestment rate (URR) assumption over the rolling 40-year period following the balance sheet date.

The estimated impact of an immediate change in interest rates is described above. 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 interest rates would cause a decrease in reinvestment assumption for the next 40-years, resulting in an increase to policy liabilities thereby reducing net income by approximately $56,200 (2014 $57,000) . This assumes no change in the URR assumption.

For investment income expected to be earned on reinvestments beyond the rolling 40-year period, the Company uses an URR assumption. Under Canadian actuarial standards of practice, the URR assumption is prescribed as a long-term ultimate risk-free reinvestment rate of 3.3% plus a maximum amount for credit spreads minus asset default rates of 0.8%. The prescribed level of the URR assumption may be periodically changed by the actuarial standards setting body. As interest rates are currently lower than they were when the current URR assumptions were set, there may be a downward bias if the rates were to be updated.

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 4.0% (2014 4.0%) to adjust for credible adverse scenarios.

For annuity business, where the timing and amount of the benefit obligations can be more readily determined, the matching of the asset and liability cash flows is tightly controlled. A sudden increase or decrease in interest rates would have a negligible effect on future profits from annuity business currently in force. For annuity business, the impact a 1% decrease in assumed IRR has on policy liabilities and subsequently on Net income is negligible as a result of the matching process described above.

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 Asset Management 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 exchange rate risk

Foreign exchange rate risk arises when the fair value of cash flows of a financial instrument fluctuate due to changes in exchange rates. This can 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 $ nil (2014 $ nil) on Net income, $ nil (2014 $ nil) on shareholders' OCI and $ nil (2014 $ nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

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 to all counterparties limited to $100 million.

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

(b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to fund all cash outflow commitments or obligations as they fall due or that, in order to fund commitments, an entity may have to sell assets at depressed prices resulting in losses at time of sale. Cash outflows could be in the form of benefit payments to policyholders, expenses, asset purchases and interest on debt. 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 13 - 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. 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 Asset Management 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). 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 2015 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.

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

	As at December 31, 2015				
	1 year or less	**1 - 5 years**	**5 - 10 years**	**Over 10 years**	**Total**
Insurance contract liabilities	**$ 90,776**	**$ 191,264**	**$ 473,493**	**$ 17,495,346**	**$ 18,250,879**
Investment contract liabilities	**2,263**	**6,061**	**3,468**	**3,373**	**15,165**
Subordinated debt	**8,610**	**24,210**	**311,238**	**—**	**344,058**
Other liabilities	**168,734**	**6,050**	**23,174**	**—**	**197,958**
Total liabilities	**270,383**	**227,585**	**811,373**	**17,498,719**	**18,808,060**
Operating lease commitments	**2,662**	**6,476**	**—**	**—**	**9,138**
Total	**$ 273,045**	**$ 234,061**	**$ 811,373**	**$ 17,498,719**	**$ 18,817,198**

	As at December 31, 2014				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	$ 150,297	$ 186,989	$ 418,045	$ 15,967,863	$ 16,723,194
Investment contract liabilities	1,983	6,739	3,964	3,189	15,875
Subordinated debt	8,610	30,094	320,039	—	358,743
Other liabilities	164,583	6,461	17,560	—	188,604
Total liabilities	325,473	230,283	759,608	15,971,052	17,286,416
Operating lease commitments	2,466	7,322	679	—	10,467
Total	$ 327,939	$ 237,605	$ 760,287	$ 15,971,052	$ 17,296,883

The Asset Management 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, 2015, 3.4% (2014 4.0%) of cash and investments were held in these shorter duration investments.

(c) Credit risk

Credit risk is the possibility of loss from amounts either owed by financial counterparties, such as debtors, reinsurers and other financial institutions, or in connection with issuers of securities held in an asset portfolio. 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, mortgages and from reinsurers under reinsurance agreements.

The Company manages this risk by applying its investment guidelines and product design and pricing risk management policy established by the Investment Committee and Risk and Capital Committee of the Board respectively. 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 in the interest rate assumption.

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

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

As at December 31	2015	2014
Cash and cash equivalents	**$ 199,770**	$ 239,102
Short-term investments	**33,652**	26,892
Bonds	**5,193,439**	4,958,086
Preferred shares	**194,680**	196,179
Derivative assets	**14,649**	3,375
Mortgages	**289,221**	323,117
Reinsurance	**94,922**	99,707
Loans on policies	**46,925**	46,434
Policy contract loans	**84,921**	86,698
Accrued investment income	**26,023**	25,048
Insurance receivables	**47,909**	41,743
Trade accounts receivable	**20,803**	13,294
Total	**$ 6,246,914**	$ 6,059,675

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

The Company has made provision in its Consolidated Statements 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	2015		2014	
	Fair value	**% of Fair value**	Fair value	% of Fair value
AAA	**$ 308,435**	**6%**	$ 269,223	5%
AA	**524,546**	**10%**	1,395,341	28%
A	**3,628,158**	**70%**	2,578,045	53%
BBB	**731,738**	**14%**	714,717	14%
BB (and lower ratings)	**562**	**—%**	760	—%
Total	**$ 5,193,439**	**100%**	$ 4,958,086	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 comparable investments 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 and shares authorized and outstanding)

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

As at December 31	2015	2014
Provincial bond holdings	**$ 2,845,599**	$ 2,630,620
Percentage of total bond holdings	**55.0%**	53.0%

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

As at December 31	2015		2014	
	Fair value	**% of Fair value**	Fair value	% of Fair value
1 year or less	**$ 66,769**	**1%**	$ 106,297	2%
1 - 5 years	**560,124**	**11%**	671,657	14%
5 - 10 years	**571,599**	**11%**	489,124	10%
Over 10 years	**3,994,947**	**77%**	3,691,008	74%
Total	**$ 5,193,439**	**100%**	$ 4,958,086	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	2015	2014
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	**$ 3,480,719**	$ 3,242,685
Percentage of total cash and investments	**50.8%**	48.6%
Exposure to the largest single issuer of corporate bonds	**$ 151,859**	$ 131,066
Percentage of total cash and investments	**2.2%**	2.0%

*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 4% (2014 10%) of these investments rated as P1 and the remaining 96% (2014 90%) rated as P2.

(3) Mortgages
Mortgages in the province of Ontario represent the largest concentration with $288,622 or 99% (2014 $320,262 or 99%) of the total mortgage portfolio.

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

(d) 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:

(millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
For the year ended December 31	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Net premium income	**$ 144**	$ 186	**$ 325**	$ 319	**$ 366**	$ 362	**$ —**	$ —	**$ 835**	$ 867
Fee and other income	**206**	178	**9**	9	**2**	1	**—**	—	**217**	188
Total	**$ 350**	$ 364	**$ 334**	$ 328	**$ 368**	$ 363	**$ —**	$ —	**$ 1,052**	$ 1,055

Insurance risk is the risk that actual experience related to claims, benefit payments, expenses, cost of embedded product options and cost of guarantees associated with insurance risks, does not emerge as expected. The Company is exposed to various insurance risks as a result of the business it writes, including: mortality, policyholder behaviour (termination or lapse), expenses, morbidity, longevity, product design and pricing risk, underwriting and claims risk and reinsurance risk.

The Company regularly evaluates its exposure to foreseeable risks through stress testing techniques including DCAT analysis.

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, longevity, 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 CIA. A correspondingly larger margin is included in the insurance contract liabilities if an assumption is susceptible to change or if there is more uncertainty about the best estimate assumption. Each margin is reviewed annually for continued appropriateness.

Policy liability assumptions are reviewed and updated at least annually by the Company’s Appointed Actuary. The impact of changes in those assumptions is reflected in earnings in the year of the change. Details related to the changes in assumptions are also discussed with the Audit Committee of the Board. 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, 2015. 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 $11,900 (2014 $11,800).

For annuity business, lower mortality (or longevity) is financially adverse so a 2% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately $4,500 (2014 $4,100).

(2) Policyholder behaviour (termination or 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 $113,500 (2014 $113,100). 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.

(3) 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 $5,500 (2014 $5,800).

(4) 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 $6,300 (2014 $6,500).

(5) 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 as follows. 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 DCAT and reports annually to the 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 Risk Management Policy for each of its major product lines. This policy, which is established by management and approved by the Risk and Capital Committee of the Board, 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.

(6) 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 Risk Management Policy for each of its major product lines. This policy is established by management and approved by the Risk and Capital Committee of the Board. Together, these policies define the Company's underwriting and claims management philosophy. These policies also set out product line insurance risk tolerances, underwriting criteria, underwriting and liability concentration limits, claims approval requirements, underwriting and claims processes and controls, approval authorities and limits, and ongoing risk monitoring requirements. 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.

(7) Reinsurance risk
The Company is subject to the risk of financial loss due to inadequate 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 reinsurance market conditions, both in terms of price and availability, which can also affect earnings.

The Reinsurance Risk Management Policy establishes reinsurance objectives and limits, and requires ongoing evaluation of reinsurers for financial soundness. As reinsurance does not release a company from its primary commitments to its policyholders, an ongoing oversight process is critical. Management reports annually to the Risk and Capital Committee of the Board on reinsurance activities. Most of the Company's individual life reinsurance (with the exception of its renewable term 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 renewable term 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. A portion of Empire Life's segregated fund death benefit exposure is reinsured. All Empire Life segregated fund policyholders with death benefit guarantees of at least $2 million are included in this agreement.

As a result of this reinsurance strategy, 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.

29. Subsequent Event - Preferred Share Offering

On January 28, 2016 the Company announced a $130 million Canadian public offering of Non-Cumulative Rate Reset Preferred Shares. The offering closed on February 16, 2016. Empire Life has granted the underwriters an option to purchase up to $19.5 million of additional preferred shares exercisable at any time up to a period of 30 days from the date of closing.

Holders of the preferred shares will be entitled to receive fixed non-cumulative quarterly dividends yielding 5.75% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including April 17, 2021. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 4.99%.

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.

Active Market

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

Available For Sale (AFS) Finance Assets

Non-derivative financial assets that are designated as AFS 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 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.

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 dependents. The industry develops guidelines, voluntarily and proactively, to respond to emerging issues and to ensure consumer interests are protected.

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.

Earnings on Surplus

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

Effective Interest Method

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

Expected Profit from In-Force Business

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

GLOSSARY OF TERMS (unaudited)

Experience Gains and Losses
This source of earnings represents gains or losses due to the difference between actual experience and the best estimate assumptions.

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 FVTPL.

Impact on New Business
Writing new business typically adds economic value to a life insurance company. At 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.

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) for publicly accountable enterprises.

Management Actions and Changes in Assumptions
This source of earnings 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.

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

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

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

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

Return on Shareholders' Equity (ROE)
A profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

Purpose

The Participating Account Management Policy sets out the management objectives for oversight of the participating account of The Empire Life Insurance Company ("Empire Life" or the "Company").

Scope

This policy applies to all policies issued in the participating account of Empire Life that entitle its policyholder 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.

Policy

Description of the Participating Account and its Policies

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. The participating account includes all policies issued by Empire Life that entitle its policyholders to participate in the profits of the participating accounting.

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 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 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 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.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

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 centers 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.

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 Shareholder Accounts

It is Empire Life's intention to transfer the full permitted percentage of distributable participating profits to the shareholder accounts as allowed by section 461 of the Insurance Companies Act.

Appointed Actuary

Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

Process to Approve (and Frequency)

This policy is reviewed annually by the Vice President & Product Actuary. All non-material amendments must be approved by the Chief Actuary. Material amendments must be approved by 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.

This policy will also be reviewed if the Company decides to stop accepting new business in the participating account.

PARTICIPATING POLICYHOLDER DIVIDENDS AND BONUS POLICY

Purpose

The Participating Policyholder Dividends and Bonus Policy (the “dividend policy”) sets out the process for determining, recommending and declaring dividends for policies issued in the participating account of The Empire Life Insurance Company (“Empire Life” or the “Company”).

Scope

This dividend policy applies to all policies issued in the participating account of Empire Life that entitle its policyholder 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.

Policy 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. 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 coverages, 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.

Company management will review the underlying experience, assumptions and procedures for participating dividend scales annually. Material changes in actual experience will be passed through to participating policyholders within two years of the experience change to the extent that they are not anticipated in the current dividend scale. Company management will prepare a written report which describes the underlying experience, assumptions and procedures for the proposed dividend scale recommendations.

PARTICIPATING POLICYHOLDER DIVIDENDS AND BONUS POLICY

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.

Appointed Actuary

Annually, the Board will consider the Appointed Actuary's opinion on the continuing fairness of this policy to participating policyholders.

Process to Approve (and Frequency)

This policy is reviewed annually by the Vice President & Product Actuary. All non-material amendments must be approved by the Chief Actuary. Material amendments must be approved by 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.

This policy will also be reviewed if the Company decides to stop accepting new business in the participating account.

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, internal risk management, 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 and an internal risk management department, led by the Chief Risk Officer, that supports enterprise risk management activities across the Company. 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 2015 and is scheduled to meet at least six times in 2016.

The risk management functions overseen by the Board include those relating to market risk (including interest rate risk, equity risk, real estate risk and foreign exchange rate risk), liquidity risk, credit risk, insurance risk (including mortality risk, policyholder behavior (termination or lapse) risk, expense risk, morbidity risk as well as product design and pricing risk, underwriting and claims risk and reinsurance risk), operational risk (including legal and regulatory risk, model risk, human resources risk, third party risk and technology, information security and business continuity risk) and business risk. Primary responsibility for oversight of some of these risks is delegated to five 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 five 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.

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 the Company's asset/liability management activities.

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.

The Risk and Capital Committee is responsible for oversight of the Company's risk and capital management activities. The Committee also monitors capital utilization as well as risk identification and assessment in accordance with approved risk management policies and the approved risk appetite framework.

CORPORATE INFORMATION

Corporate Head Office

259 King Street East
Kingston, Ontario
Canada K7L 3A8
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

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

Vancouver Group Sales Office
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

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
500-2550 Victoria Park Avenue
Toronto, Ontario M2J 5A9
416 494-6834
1 800 361-7980

Ottawa Group Sales Office
Northwood Executive Centre
43 Auriga Street, Suite 129
Nepean, Ontario K2E 7Y8
613 548-1881 ext. 8636
1 877 548-1881 ext. 8636

London Group Sales Office
380 Wellington Street, Suite 658
London, Ontario N6A 5B5
519 438-1751

QUEBEC

Montréal Group Sales Office
1600A-600 de Maisonneuve Boulevard W.
Montréal, Quebec H3A 3J2
514 842-0003
1 800 561-3738

BOARD OF DIRECTORS

SHAREHOLDERS' DIRECTORS

John F. Brierley [1, 5]
Corporate Director

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

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

Clive P. Rowe [2, 5]
Partner
Oskie Capital

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

Mark M. Taylor [1, 2]
Corporate Director

Jacques Tremblay [3, 5]
Partner
Oliver Wyman Actuarial Consulting

Jonathan J. Yates [5]
Corporate Director

POLICYHOLDERS' DIRECTORS

Mark J. Fuller [2, 3, 4]
President and Chief Executive Officer
Ontario Pension Board

Harold W. Hillier [2, 4]
Corporate Director

Richard E. Rooney [2, 3]
President
Burgundy Asset Management Ltd.

Mark Sylvia [5]
President and Chief Executive Officer
The Empire Life Insurance Company

Douglas C. Townsend [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 Risk and Capital Committee

HONORARY CHAIRMAN

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

HONORARY DIRECTOR

The Right Honourable John N. Turner

CORPORATE MANAGEMENT

Mark Sylvia
President and Chief Executive Officer

Richard Cleaver
Senior Vice-President and Chief Technology Officer

J. Edward Gibson
Senior Vice-President and Chief Actuary

Sean E. Kilburn
Senior Vice-President, Retail

Gary J. McCabe
Senior Vice-President and Chief Financial Officer

Gaelen Morphet
Senior Vice-President and Chief Investment Officer

Natalie A. Ochrym
General Counsel and Senior Vice-President, Human Resources and Communications

Steve S. Pong
Senior Vice-President, Group Solutions

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EMPIRE LIFE ANNUAL REPORT 2015

The Empire Life Insurance Company (Empire Life) is a proud Canadian company that has been in business since 1923. We offer individual and group life and health insurance, investment and retirement products, including mutual funds through our wholly-owned subsidiary Empire Life Investments Inc.

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 mission is to make it simple, fast and easy for Canadians to build wealth, generate income, and get the insurance and group benefits coverage they need.

Follow Empire Life on Twitter @EmpireLife or visit our website, www.empire.ca for more information.

[1] *The Globe and Mail Report on Business*, June 2015, based on revenue
[2] As at May 19, 2015

Reporting Procedure for Accounting and Auditing Matters

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

Mr. John Brierley
The Empire Life Insurance Company
259 King Street East
Kingston, ON, K7L 3A8
Email: jfbrierley@sympatico.ca
Phone: 905-338-7290

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

Insurance & Investments – Simple. Fast. Easy.™
www.empire.ca info@empire.ca

Empire Life®

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