



Empire Life announces Second Quarter 2016 results

(Kingston, ON – July 28, 2016) – The Empire Life Insurance Company (“Empire Life”) (TSX: EML.PR.A) today reported second quarter common shareholders’ net income of \$24.8 million for 2016, compared to \$44.6 million for 2015. Year to date common shareholders’ net income was \$62.1 million compared to \$70.2 million in 2015.

(millions of dollars except per share amounts)	Second quarter		Year to date	
	2016	2015	2016	2015
Common shareholders’ net income	\$ 24.8	\$ 44.6	\$ 62.1	\$ 70.2
Earnings per share - basic and diluted	\$ 25.21	\$ 45.34	\$ 63.02	\$ 71.30
Return on shareholders’ equity (annualized) (“ROE”)	8.7%	18.9%	11.0%	13.5%

The following table provides a breakdown of the sources of earnings¹ for the second quarter and year to date.

Sources of Earnings (millions of dollars)	Second quarter		Year to date	
	2016	2015	2016	2015
Expected profit on in-force business	\$ 37.5	\$ 39.0	\$ 73.8	\$ 76.4
Impact of new business	(3.1)	(7.0)	(4.4)	(14.4)
Experience gains (losses)	(15.3)	11.7	(11.6)	3.2
Management actions and changes in assumptions	15.9	-	27.1	-
Other	-	-	-	-
Earnings on operations before income taxes	35.0	43.7	84.9	65.2
Earnings on surplus	0.7	13.7	3.0	25.7
Income before income tax	\$ 35.7	\$ 57.4	\$ 87.9	\$ 90.9
Income taxes	8.7	12.8	22.2	20.7
Shareholders’ net income	\$ 27.0	\$ 44.6	\$ 65.7	\$ 70.2
Dividends on preferred shares	2.2	-	3.6	-
Common shareholders’ net income	\$ 24.8	\$ 44.6	\$ 62.1	\$ 70.2

Second quarter and year to date common shareholders’ net income and ROE were lower relative to 2015 primarily due to higher net losses on hedging instruments, lower profit from the Employee Benefits product line and the payment of preferred share dividends in 2016. The hedging instruments result was due to the increase in stock markets in 2016. The Employee Benefits product line result was primarily due to less favourable long-term disability results in 2016.

For the year to date these items were partly offset by increased profit from the Individual Insurance product line primarily attributable to management actions to improve asset/liability matching in 2016. Empire Life improved its matching position in the first and second quarters of 2016 by increasing its investment in real estate limited partnership units and by making changes to its bond investments. The improved matching position resulted in a gain in both the first and second quarters of 2016.

The impact of new business improved relative to 2015 primarily due to lower first and second quarter segregated fund sales and lower Wealth Management expenses.

The impact of experience gains (losses) relative to the second quarter of 2015 was primarily due to the rising interest rates in the second quarter of 2015 which had a favourable impact on the Individual Insurance product line in the second quarter of 2015. The impact of experience gains (losses) relative to the 2015 year to date period was

¹ See non-GAAP Measures

primarily due to less favourable Employee Benefits product line long-term disability results in 2016 and unfavourable surrender and lapse experience in the Individual Insurance product line in 2016.

Earnings on surplus decreased primarily due to hedging costs which resulted from the increase in stock markets in 2016 and higher notional principal amounts for the second quarter of 2016 compared to 2015.

“We continued to make progress on improving our asset/liability matching in the second quarter of 2016 which helped offset headwinds we are facing from continuing volatility of market interest rates,” said Mark Sylvia, President and Chief Executive Officer of Empire Life.

Other Results (compared to second quarter 2015 unless indicated otherwise)

- Assets under management¹ (including segregated fund and mutual fund assets) increased 7.4% over June 30, 2015 levels to reach \$15.3 billion.
- Second quarter net premium revenue increased by 3.7% to \$211 million primarily due to increased demand for fixed interest annuity products.
- Second quarter fee income increased by 3.5% to reach \$56 million primarily due to growth in segregated fund guarantee fees related to Guaranteed Minimum Withdrawal Benefit (GMWB) products.
- Second quarter segregated fund gross sales¹ decreased 22% primarily due to lower 75% maturity guarantee product sales.
- Second quarter Individual Insurance annualized premium sales¹ decreased 31% primarily due to decreased sales of universal life products.
- Second quarter Employee Benefits annualized premium sales¹ increased by 14% despite weak economic conditions in Canada.
- Empire Life’s Minimum Continuing Capital and Surplus Requirements (“MCCSR”) ratio was 213% (June 30, 2016) compared to 219% at March 31, 2016 and 201% at December 31, 2015. The change for the year to date was primarily due to Empire Life’s issuance of \$149.5 million of Non-Cumulative Rate Reset Preferred Shares during the first quarter of 2016 which increased Empire Life’s MCCSR ratio by 20 points. In addition, the ratio improved from increased available capital from net income. These favourable items were partly offset by increased required capital primarily due to increased requirements related to lapse risk, asset default risk, segregated fund guarantees and interest rate risk.

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 International Financial Reporting Standards financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers.

Additional Information

The information contained in this document concerning the second quarter of 2016 is based on the unaudited financial results of Empire Life for the period ended June 30, 2016. Additional information about Empire Life can be found in our long-form non-offering prospectus dated August 5, 2015, our short-form prospectus dated February 5, 2016, our financial filings for the year ended December 31, 2015 and our Annual Information Form. These documents are filed with the Ontario Securities Commission and are available at www.sedar.com.

About Empire Life

Established in 1923 and a subsidiary of E-L Financial Corporation Limited, Empire Life provides individual and group life and health insurance, investment and retirement products to Canadians. Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security. As of June 30, 2016 Empire Life had total assets under management of \$15.3 billion. Follow Empire Life on Twitter @EmpireLife or visit www.empire.ca for more information.

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¹ See non-GAAP Measures