

Empire Life reports fourth quarter and full year 2019 results

All numbers expressed in millions of dollars, except per share amounts and as otherwise indicated.

Q4 2019 highlights (compared to Q4 2018)

- Increase in common shareholders' net income to \$76 compared to \$6
- Earnings per share (basic and diluted) of \$77.25 compared to \$6.36
- Return on common shareholders' equity¹ ("ROE") of 18.7% compared to 1.7%

2019 full year highlights (compared to full year 2018)

- Increase in common shareholders' net income to \$174 compared to \$137
- Earnings per share (basic and diluted) of \$176.58 compared to \$139.53
- Return on common shareholders' equity¹ ("ROE") of 11.1% compared to 9.4%
- Assets under management¹ increased 10% to \$18.1 billion

(Kingston, ON – February 26, 2020) – The Empire Life Insurance Company ("Empire Life") (TSX: EML.PR.A) today reported common shareholders' net income of \$76 million for the fourth quarter of 2019, compared to \$6 million in 2018. For the year, common shareholders' net income was \$174 million compared to \$137 million in 2018.

Empire Life reported fourth quarter common shareholders' net income of \$76 million for 2019, compared to \$6 million for 2018. In the fourth quarter of 2019, the Company enacted significant changes to its reinsurance program, which included a significant increase in the Company's individual life insurance retention level, along with a recapture of a significant amount of reinsured business. The net income impact of this reinsurance recapture initiative was \$78 million. Full year common shareholders' net income was \$174 million compared to \$137 million in 2018. The increase in earnings was primarily a result of the recapture initiative, partly offset by unfavourable assumption updates in the Wealth Management and Individual Insurance lines and a deterioration of long term disability (LTD) experience in the Employee Benefits line.

"We are very pleased with the results we have delivered to those who place their trust in us—our customers, our business partners and our shareholders," said Mark Sylvia, President and Chief Executive Officer.

"The volatility of the capital markets over the past decade or so continues to reinforce our commitment to diversification across three lines of business. As we enter a new decade, every member of our team understands that what we do makes a difference in the lives of our customers. We remain focused on helping them build wealth and protect their financial security, and on being there when they need us most."

¹ See non-IFRS Measures

Financial highlights

(in millions of dollars except per share amounts)	Fourth quarter		Year	
	2019	2018	2019	2018
Common shareholders' net income	\$ 76	\$ 6	\$ 174	\$ 137
Earnings per share - basic and diluted	77.25	6.36	176.58	139.53
Return on common shareholders' equity (quarterly annualized)¹	18.7%	1.7%	11.1%	9.4%

Sources of Earnings ¹ (in millions of dollars)	Fourth quarter		Year	
	2019	2018	2019	2018
Expected profit on in-force business	\$ 47	\$ 51	\$ 190	194
Impact of new business	(7)	(12)	(28)	(16)
Experience gains (losses)	5	(26)	(6)	(3)
Management actions and changes in assumptions	48	(22)	37	(20)
Earnings on operations before income taxes	94	(9)	194	154
Earnings on surplus	16	15	54	37
Income before income tax	\$ 110	\$ 7	\$ 247	191
Income taxes	30	(3)	60	40
Shareholders' net income	\$ 79	\$ 10	\$ 187	151
Dividends on preferred shares	(3)	(3)	(13)	13
Common shareholders' net income	\$ 76	\$ 6	\$ 174	137

The expected profit on in-force business for the fourth quarter and for the year decreased by 8% and 2% respectively, due to lower than expected average assets under management in the Wealth Management line.

The impact of new business for the fourth quarter was primarily driven by lower new business strain in the Wealth Management and Employee Benefits lines, partially offset by higher strain in the Individual Insurance product line. Lower sales of fixed annuities in the fourth quarter of 2019 relative to the fourth quarter of 2018 were the primary contributor to lower strain in the Wealth Management product line. For the year, the impact of new business was higher than 2018, primarily due to higher strain in the Employee Benefits product line as block transfers from new specialty partners were added in the first and second quarters of 2019.

The experience gains for the fourth quarter of 2019 compared to losses in the fourth quarter of 2018 were mainly driven by lower investment losses in the Individual Insurance and Wealth Management product lines. For the year, higher experience gains from strong growth in segregated fund assets were offset by higher experience losses in the Individual Insurance product line from fixed income investments which contributed to higher overall experience losses in 2019 relative to 2018.

Management actions and changes in assumptions in the fourth quarter of 2019 were higher than 2018 due to the favourable impact of the reinsurance recapture initiative. For the year, this favourable impact was partly offset by updates to methodology and assumptions on policy liabilities and by deterioration in long term disability claims experience in 2019 relative to 2018.

Earnings on surplus were higher for the year primarily due to realized gains on AFS assets and lower interest expense as a result of a lower level of subordinated debt, partially offset by higher hedge costs.

¹ See non-IFRS Measures

Empire Life's Life Insurance Capital Adequacy Test (LICAT) total ratio was 155% at December 31, 2019, well above the requirements set by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as Empire Life's minimum internal targets.

Non-IFRS measures

Empire Life uses non-IFRS measures including return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities 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. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers.

Additional information

All amounts are in Canadian dollars and are based on the audited consolidated financial results of Empire Life for the period ended December 31, 2019. Additional information about Empire Life can be found in Empire Life's latest Management's Discussion & Analysis and Annual Information Form. These documents are filed on Empire Life's profile available at www.sedar.com. Empire Life's preferred shares are listed on the Toronto Stock Exchange as EML.PR.A (TSX: EML.PR.A).

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 December 31, 2019, Empire Life had total assets under management of \$18.1 billion. Follow Empire Life on Twitter @EmpireLife or visit www.empire.ca for more information.

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¹ See non-IFRS Measures