

The Empire Life Insurance Company

Annual Report 2019



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2019 FINANCIAL HIGHLIGHTS

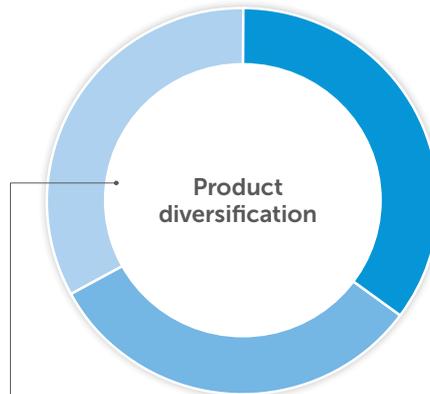


Strength of our capital base

Our Life Insurance Capital Adequacy Test (LICAT) ratio is well above the minimum requirements set by the industry regulator. A high LICAT ratio demonstrates our long-term ability to pay claims and our prudent capital management.

What is an LICAT ratio?

The LICAT is intended to measure the life insurer's solvency position by recognizing the long-term economics of the life insurance business. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.



Product diversification

by premium and fee income for the 12 months ended December 31, 2019

Empire Life is well-diversified across three product lines:



Common Shareholders' Net Income
2019 (in millions)

\$174

Common Shareholders' Net Income
2018 (in millions): \$137

Net Premium and Fee Income
2019 (in millions)

\$1,172

Net Premium and Fee Income
2018 (in millions): \$1,138

Total Assets Under Management
2019 (in millions)

\$18,100

Total Assets Under Management
2018 (in millions): \$16,415

Financial ratings

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

A (Excellent)

A.M. Best Company (As at June 14, 2019)

Financial Strength Rating: A

Issuer Rating: A

Subordinated Debt Rating: A (low)

DBRS (as at May 27, 2019.)

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 2019 Annual Report.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

There is a well-known saying: hindsight is 20/20. It means it's easy to know the right thing to do after something has happened, but it's hard to predict the future.

To me, the mark of a truly successful company is one that doesn't worry about predicting short-term events, but focuses on doing the right things for its customers over the long-term.

As we enter a new decade in 2020, it is evident that the vision of Empire Life is clear and the company is doing all the right things to be competitive and relevant in an ever-changing industry.

In May, the Board was given the opportunity to see first-hand some of the excellent work the teams are doing in the areas of digital and data to transform the business. The Board was very impressed with the passion with which team members talked about their work, and how they are developing and using technology to meet the changing preferences of consumers and to create a positive customer experience.

Increasingly, Canadians are concerned about the use of their personal information. With the pervasive use of technology, companies need to be more vigilant than ever in protecting their customers' information. For these reasons, data security and privacy have become a key area of focus, and the Board will continue to provide the necessary oversight to make sure the company is doing the right things to protect people's privacy and personal information.

The insurance industry continues to sail against the headwinds of the low interest rate environment, increasing regulation and geo-political threats never seen before. Within this larger context, it will be imperative for companies to practice sound expense management and continuously improve to achieve cost savings.

In May, Scott Ewert and Patricia Volker joined our Board of Directors, bringing with them valuable financial and accounting expertise. After serving many years on the Board, Mark Taylor did not stand for re-election. On behalf of the Board, we thank Mark for always being a steady voice and guiding force in the growth and success of Empire Life during his lengthy service.

It is indeed hard to predict what the next decade will bring, but this I know. Empire Life has always thrived by focusing on the right things, and most of all, by focusing on people. It is in this realm where the company shines, and I am confident the people of Empire Life will do their utmost to ensure it continues to be their greatest competitive advantage for decades to come.



Duncan N. R. Jackman
Chairman of the Board
February 26, 2020

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

As we move into a new decade, the life insurance industry continues to be impacted by four major trends: lower interest rates, demographic shift, digital technology, and increased regulation.

The continuing lower interest rate environment has significant implications for life insurers. At this time last year, economists forecasted that rates would increase in 2019; that did not happen. While lower interest rates are good for consumer debt holders, they are not positive for insurers, like us, with large fixed income portfolios that benefit from higher yields. We rely on solid fixed income returns to build assets and fund guarantees within our products.

Our Chief Investment Officer, Ian Hardacre, reminds us of the importance of separating the economy and the market. We've seen the longest economic expansion on record and it could be in the last phase of the cycle. But the path of markets is not linear, and markets are much more volatile—events such as conflict in the Middle East, global trade, Brexit and the post-Brexit transition, Coronavirus, and the looming U.S. presidential election have meant continued volatility.

Equity markets are becoming more complex with the introduction of exchange-traded funds (ETFs) and other synthetic instruments. We continue to execute on our disciplined, value-oriented approach to managing our customers' investments with a focus on downside protection. In fact, two of our funds celebrated significant anniversaries in 2019; 25 years for Empire Life Asset Allocation Fund and 50 years for the Empire Life Elite Equity Fund.

Studies show that Canadians are living longer and their biggest fear is outliving their investments. The baby boomer generation are either retired or are in the process of preparing for retirement. Our Class Plus 3.0 investment product continues to be relevant because it provides guaranteed income for life. We are uniquely positioned to support our customers' retirement income needs and grow our business.

But it is also important that we address the needs of younger customers who are looking for the income and lifestyle protection that insurance products provide. We continue to build on our industry-leading digital capability that enables us to respond to younger digital native consumers. They want to buy easy to understand life and health insurance products online. We can deliver.

We have been able to use digital technology to improve our customer service. We have automated our business processes. This has freed up customer support teams so they can answer customer questions. Over the past four years, we have reduced our average call answering time by 95%, down to just 13 seconds. We have also invested in developing our online portals so advisors and customers can access their data and our systems 24/7.

With great power comes great responsibility; with digital progress comes an increased need to protect the data we are trusted with. Our customers count on us to responsibly manage and protect their information. We are constantly evaluating and strengthening our data security and privacy protection processes and systems to meet or exceed those expectations.

The resources required to manage increasing regulation at international, federal and provincial levels continue to be of significant concern for insurers. We are facing far more aggressive consumer regulation and financial solvency regulation than in the past, much of which increases operating costs dramatically without any offsetting revenue gains. Nonetheless, it is a necessary part of our business. We are constantly measuring, monitoring and managing risk to ensure we manage our business responsibly.

Business developments

We are pleased to report that Empire Life was once again named Life and Health Insurer of the Year at the 2019 Insurance Business Canada Awards. This is the third time in the past four years we have been so honoured.

We launched a new suite of six segregated funds combining passive and active management and added two new standalone funds to our Guaranteed Investments Funds (GIF) contract: the Empire Life Global Dividend Growth GIF and the Empire Life Short-Term High Income GIF. Our new multi-strategy GIFs provide exposure to ETFs and actively-managed investments from third-party managers within one segregated fund solution.

We launched our interactive Retirement and Savings Tool which helps Canadians determine if they're on track to meet their savings goals.

For the fifth consecutive year, Empire Life segregated funds were recognized for their risk-adjusted performance, winning three Fundata FundGrade A+ Awards.

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

We added a new 10-pay option for our EstateMax® and Optimax Wealth® participating life insurance portfolios to offer consumers affordable, lifetime participating life insurance protection paid up in only 10 years. This product enables advisors to satisfy the needs of even more consumers looking for flexible, guaranteed lifetime protection.

We added more functionality to our plan member and administrator portals. We also enhanced our direct billing offering through a partnership with providerConnect, a web portal that allows service providers in Canada to submit claims, accept payment or pay the patient, and view statements and claims reports online.

Fighting fraud continues to be a focus for the group benefits industry and the Canadian Life and Health Insurance Association (CLHIA). In 2019, we created a new Find-a-Provider tool to help plan members find approved providers in their area for services like physiotherapy, massage and naturopathy. Not only does the tool make it simple, fast and easy for our plan members, but it also helps us mitigate benefits fraud, which affects our business results and, in turn, can increase costs for administrators and plan members.

Financial results

At year-end 2019, our Life Insurance Capital Adequacy Test (LICAT) ratio was 155%, exceeding all prescribed and recommended target levels. The LICAT is intended to improve the measurement of a life insurer's solvency position by recognizing the long-term economics of the business. The Office of the Superintendent of Financial Institutions (OSFI) has established supervisory target levels of 70% for Core and 100% for Total LICAT capital.

Our assets under management, including segregated funds, mutual funds, participating insurance policies and general assets, increased in 2019 to \$18 billion, from \$16 billion the previous year. Common shareholders' net income increased to \$174 million, compared to \$137 million in 2018, resulting in earnings per share (basic and diluted) of \$176.58 compared to \$139.53 the previous year. These 2019 results were primarily due to significant changes in the Company's reinsurance program relative to unfavourable assumption updates and experience losses last year.

Our results remain solid and reinforce our strategy of diversification across three lines of business. Net income for the individual life and health insurance product line was \$65 million, up from \$19 million in 2018. In the wealth management line, net income for 2019 was \$74 million, up from \$73 million in 2018.

In our employee benefit product line, net income decreased to \$7 million, down from \$24 million in 2018. Our results in 2019 reflect our continued efforts in growing sales and adding new strategic partners building a solid foundation for future success.

Our people and our purpose

One thing that has remained constant over the last decade is our focus on helping Canadians build wealth and protect their financial security. Every member of our team understands that what we do every day makes a difference in the lives of our customers. It is our responsibility to be there when they need us most.

As a company we are focused on continuous improvement. That means getting better at everything we do every day. In order to make this possible we must invest in our employees and enable them to increase their skills and embrace the future with optimism. Great teams accomplish great things.

We were honoured to be named one of Forbes' Best Employers in Canada in 2019, and again in 2020. We will continue our focus on being an employer of choice.

Looking to the future

Empire Life will celebrate its 100th anniversary in 2023. We will reach this milestone through the support of our advisors who trust us to provide our products and services to their clients. We appreciate their faith in us and will continue to work to serve our customers.



Mark Sylvia

President and Chief Executive Officer

February 26, 2020

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 Empire Life'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 assumptions used in determining the profits in the actuarial liabilities at the point of sale exceeds the expected profit margin assumed in the product pricing. The impact of new business also includes 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. Possible areas of variances include benefit claims, policy persistency, expenses, investment income and others.

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 twelve months ended December 31 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Expected profit on in-force business	\$ 113	\$ 121	\$ 25	\$ 22	\$ 52	\$ 50			\$ 190	\$ 194
Impact of new business	(12)	(11)	(17)	(13)	2	7			(28)	(16)
Experience gains & losses	13	(9)	—	19	(19)	(14)			(6)	(3)
Management actions and changes in assumptions	(16)	(5)	2	4	51	(19)			37	(20)
Earnings on operations before income taxes	98	97	9	32	86	24	—	—	194	154
Earnings on surplus	—	—	—	—	—	—	54	37	54	37
Income before income tax	\$ 98	\$ 97	\$ 9	\$ 32	\$ 86	\$ 24	\$ 54	\$ 37	\$ 247	\$ 191
Income taxes	24	24	2	8	19	1	15	7	60	40
Shareholders' net income	\$ 74	\$ 73	\$ 7	\$ 24	\$ 67	\$ 24	\$ 39	\$ 30	\$ 187	\$ 151

SOURCES OF EARNINGS

Wealth Management

Wealth Management's 2019 earnings on operations were generally consistent with the level achieved in 2018. Expected profit on in-force business was lower in 2019 due to lower fee income anticipated from a lower starting point for assets under management (AUM) in 2019 compared to 2018. The impact of new business was primarily driven by higher sales of fixed annuities partially offset by lower segregated fund and mutual fund sales. Experience gains in 2019 were primarily related to strong AUM growth in the segregated fund line fueled by strong equity market returns. Experience losses in 2019 were driven by low AUM growth on the segregated fund line combined with investment losses on the fixed annuity line. Losses from management actions and changes in assumptions were primarily driven by unfavourable assumption updates in the fixed annuities line in each of 2019 and 2018.

Employee Benefits

Employee Benefit's earnings on operations were lower than the level achieved in 2018. Expected profit on in-force business was higher in 2019 due to the growth in the in-force block from strong sales activity in 2018. The impact of new business was higher than 2018 levels as a result of on-going growth in sales in this line. Experience gains and losses were nil in 2019, compared to 2018 where the line benefited from favourable health and disability claims results.

Individual Insurance

The increase in Individual Insurance earnings on operations was primarily due to the favourable impact of updates to policy liabilities related to changes in the Company's reinsurance programs, partially offset by more unfavourable updates for policy liability methodology and assumptions, higher experience losses and a less favourable impact of new business in 2019 relative to 2018.

Capital & Surplus

Earnings from Capital and Surplus in 2019 were higher than 2018 primarily from realized investment gains on assets held in this segment. Interest expenses were also lower level due to the redemption of some of the Company's subordinated debt in 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 26, 2020

This document provides 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, 2019 and 2018. This MD&A should be read in conjunction with the Company's December 31, 2019 consolidated financial statements, which form part of The Empire Life Insurance Company 2019 Annual Report dated February 26, 2020. Unless otherwise noted, both the consolidated financial statements and this MD&A are expressed in Canadian dollars. Some variances may not reconcile and analysis of components may not sum to the analysis for the grouped components due to rounding.

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 forward-looking information. See the Forward-Looking Statements and Information section in this report.

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), which is generally accepted accounting principles as set out in the Handbook of the Chartered Professional Accountants of Canada. This MD&A makes reference to certain non-IFRS 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 under IFRS. See the Non-IFRS Measures section in this report. Note that certain comparative amounts have been reclassified and restated to conform with the presentation adopted in the current period.

Financial Analysis Overview

(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%

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 an 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.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 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 line. For the year, the impact of new business was higher than 2018 primarily due to higher strain in the Employee Benefits 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 lines. For the year, higher experience gains from strong growth in segregated fund assets were offset by higher experience losses in the Individual Insurance 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 LTD claims experience in 2019 relative to 2018.

Earnings on surplus were higher for the year primarily due to realized gains on Available for sale (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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Information

Income Statement Financial Information (in millions of dollars)	For the years ended December 31		
	2019	2018	2017
Revenue			
Net premium income	\$ 910	\$ 874	\$ 834
Fee income	262	264	257
Investment income	326	308	281
Realized gain on FVTPL investments	105	12	57
Realized gain on AFS investments including impairment write downs	22	(1)	6
Fair value change in FVTPL investments	490	(318)	239
Total revenue	2,115	1,138	1,675
Expenses			
Benefits and expenses	\$ 1,843	\$ 931	\$ 1,425
Income and other taxes	81	60	74
Total expenses	1,924	991	1,499
Net income (loss) after tax	191	148	176
Participating policyholders' portion	3	(3)	(5)
Shareholders' net income	\$ 187	\$ 151	\$ 181
Dividends on preferred shares	13	13	10
Common shareholders' net income	\$ 174	\$ 137	\$ 171
Return on common shareholders' equity	11.1%	9.4%	12.8%

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

Balance Sheet Financial Information (in millions of dollars)	As at December 31		
	2019	2018	2017
Assets			
Total cash and investments	\$ 9,293	\$ 8,278	\$ 8,559
Other assets	169	168	153
Segregated fund assets	8,499	7,823	8,682
Total assets	\$ 17,961	\$ 16,270	\$ 17,395
Liabilities			
Insurance contract liabilities	\$ 6,074	\$ 5,176	\$ 5,365
Reinsurance liabilities	698	789	651
Subordinated debt	399	399	698
Other liabilities	351	300	278
Segregated fund policy liabilities	8,499	7,823	8,682
Total liabilities	16,021	14,487	15,674
Total equity	1,940	1,783	1,721
Total liabilities and equity	\$ 17,961	\$ 16,270	\$ 17,395

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Financial Information (in millions of dollars)	As at December 31		
	2019	2018	2017
Assets under management¹			
General fund assets ¹	\$ 9,462	\$ 8,447	\$ 8,713
Segregated fund assets ¹	8,499	7,823	8,682
Mutual fund assets ¹	139	145	184
Subordinated debt	399	399	698
Preferred shares	250	250	250
Available regulatory capital			
Tier 1	\$ 1,616	\$ 1,476	\$ 1,409
Tier 2	669	653	932
Total	2,285	2,129	2,341
Surplus allowance and eligible deposits	\$ 1,109	\$ 887	N/A
Base solvency buffer	\$ 2,191	\$ 2,029	N/A
Required regulatory capital	N/A	N/A	\$ 831
LICAT total ratio	155%	149%	N/A
LICAT core ratio	109%	103%	N/A
MCCSR ratio	N/A	N/A	282%
	For the years ended December 31		
	2019	2018	2017
Cash dividends per share			
Preferred shares series 1	\$ 1.4375	\$ 1.4375	\$ 1.4375
Preferred shares series 3	\$ 1.2250	\$ 1.2250	\$ 0.2584
Common shares	\$ 69.7632	\$ 40.6060	\$ —

Improvements to core and total capital were primarily driven by strong net income and strong growth in the Surplus allowance. The Surplus allowance reflects the value of conservative margins in the insurance contract liabilities. The Base solvency buffer increased due to overall growth in inforce business, as well as an increase related to the changes in the Company's reinsurance program.

Effective January 1, 2018, Minimum Continuing Capital and Surplus Requirements (MCCSR) was replaced by the Life Insurance Capital Adequacy Test (LICAT).

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results by Major Product Line

The following tables provide a summary of Empire Life results by major product line for the three months ended December 31 and year for 2019 and 2018. A discussion of results is provided in the Product Line section of the MD&A.

For the three months ended December 31 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue										
Net premiums	\$ 35	\$ 53	\$ 93	\$ 86	\$ 101	\$ 99	\$ —	\$ —	\$ 229	\$ 237
Investment income	9	10	1	1	57	53	17	18	84	82
Fair value change in FVTPL investments	(6)	(18)	—	1	(194)	(70)	—	2	(200)	(86)
Realized gain (loss) on FVTPL investments	1	—	—	—	60	(6)	(2)	(1)	59	(7)
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	—	—	10	(2)	10	(1)
Fee income	63	62	3	3	—	—	—	—	66	65
Total revenue	102	106	97	91	24	76	25	17	249	289
Expenses										
Net benefits and claims	51	45	69	60	37	36	—	—	157	141
Net change in insurance and investment contract liabilities	4	8	2	3	(147)	12	—	—	(141)	23
Policy dividends	—	—	—	—	8	9	—	—	8	9
Operating, commission and interest expenses	37	40	23	22	34	38	4	1	99	101
Policy dividends	2	3	3	3	27	(4)	8	3	40	5
Total expenses	94	96	97	88	(42)	91	12	4	162	278
Net income (loss) after tax	\$ 8	\$ 11	\$ —	\$ 3	\$ 66	\$ (15)	\$ 13	\$ 13	\$ 87	\$ 11
Participating policyholders' portion									8	1
Dividends on preferred shares									3	3
Common shareholders' net income									\$ 76	\$ 6

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31 (in millions of dollars)	Wealth Management		Employee Benefits		Individual Insurance		Capital and Surplus		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue										
Net premiums	\$ 159	\$ 155	\$ 360	\$ 340	\$ 390	\$ 379	\$ —	\$ —	\$ 910	\$ 874
Investment income	40	39	5	4	215	199	66	66	326	308
Fair value change in FVTPL investments	18	(35)	4	(1)	473	(279)	(5)	(3)	490	(318)
Realized gain (loss) on FVTPL investments	1	1	—	—	111	15	(7)	(4)	105	12
Realized gain (loss) on AFS investments including impairment write downs	—	—	—	—	1	—	21	(2)	22	(1)
Fee income	249	253	13	11	—	—	—	—	262	264
Total revenue	467	412	382	354	1,190	314	76	58	2,115	1,138
Expenses										
Net benefits and claims	206	185	256	230	156	154	—	—	618	570
Net change in insurance and investment contract liabilities	18	(17)	18	1	773	(34)	—	—	808	(50)
Policy dividends	—	—	—	—	31	30	—	—	31	30
Operating, commission and interest expenses	144	147	91	82	134	132	16	20	386	381
Income and other taxes	24	24	11	17	31	12	16	7	81	60
Total expenses	393	339	375	330	1,125	295	32	27	1,924	991
Net income (loss) after tax	\$ 74	\$ 73	\$ 7	\$ 24	\$ 65	\$ 19	\$ 44	\$ 31	\$ 191	\$ 148
Participating policyholders' portion									3	(3)
Dividends on preferred shares									13	13
Common shareholders' net income									\$ 174	\$ 137

Total Revenue

Net premiums for the fourth quarter were lower relative to the same period in 2018 primarily due to lower sales of fixed annuity products in the Wealth Management line. For the full year, net premiums were higher relative to 2018 reflecting growth in all product lines.

Investment income for the year increased relative to 2018 primarily due to asset mix changes made in 2018 to incorporate higher yielding securities.

Assets classified as Fair value through profit or loss (FVTPL) experienced a larger net loss in the fourth quarter relative to the same quarter in 2018 primarily due to increases in market interest rates during the fourth quarter of 2019. For the year, assets classified as FVTPL experienced a gain primarily due to decreases in market interest rates from their December 2018 values. For the same period in 2018, market interest rates increased, contributing to the net loss in assets valued as FVTPL.

Fee income for the fourth quarter and the year increased by 2% and decreased by 1% respectively relative to the same period in 2018 primarily related to segregated fund management and guarantee fees from changes in assets under management. This is discussed in the Product Line Results - Wealth Management section later in this report.

Total Expenses

A substantial portion of the Net benefits and expenses changes are driven by the impact that market interest rate movements have on the net change in insurance contract liabilities. Net benefits and claims increased for the fourth quarter and the year by 11% and 8% respectively driven primarily by fixed annuities in the Wealth Management and higher health benefit claims in the Employee Benefits line. Net benefits and claims variability is dependent on claims incurred. Generally, claims rise year over year due to growth of the insurance blocks. Variability in claims amounts

¹ See Non-IFRS Measures

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does not, in isolation, impact net income as insurance contract liabilities are released when claims occur. The insurance contract liabilities released may be larger or smaller than the claims incurred depending on whether claims experience has been more or less than what was estimated for in the insurance contract liabilities. Claims experience is a combination of claims incurred compared to claims expected in product pricing and in insurance contract liabilities.

Operating expenses, commissions and interest expenses decreased for the fourth quarter compared to 2018 primarily due to lower operating expenses in the Individual Insurance line. For the year, operating expenses, commissions and interest expenses were 1% higher than 2018 primarily due to higher operating expenses in the Employee Benefits line.

Product Line Results - Wealth Management

(in millions of dollars)	Fourth quarter		Year	
	2019	2018	2019	2018
Fixed Annuities				
Assets under management ¹	\$ 958	\$ 944	\$ 958	944
Gross sales ¹	35	53	159	155
Net sales ¹	—	23	13	32
Segregated Funds				
Assets under management ¹	8,480	7,806	8,480	7,806
Gross sales ¹	243	244	856	908
Net sales ¹	(83)	(18)	(329)	(118)
Fee income	62	61	246	249
Mutual Funds				
Assets under management ¹	139	145	139	145
Gross sales ¹	2	2	8	16
Net sales ¹	(7)	(8)	(28)	(27)
Fee income	—	1	2	3
Net income after tax	\$ 8	\$ 11	\$ 74	73

Fixed annuities assets under management increased by 1% during the last 12 months. Gross sales in the fourth quarter were 34% lower as customers shifted away from fixed income products. For the year, gross sales were 3% higher compared to 2018, reflecting strong sales in this segment during the first three quarters of the year.

Segregated fund assets under management increased by 9% during the last 12 months primarily due an increase in stock markets during the first quarter after a significant decline in the fourth quarter of 2018. Gross sales in the fourth quarter were consistent with the fourth quarter of 2018 and lower for the full year primarily due to lower sales of traditional segregated fund products, partially offset by an increase in sales of the Guaranteed Minimum Withdrawal Benefit (GMWB) product. On October 23, 2019, Empire Life launched six new Multi-Strategy GIF segregated funds, to offer customers a mix of investment management styles and greater diversification. The Company also launched a new Short Term High Income GIF and reopened the Global Dividend Growth GIF. On November 12, 2018, Empire Life launched a new No Load purchase option within the GIF and Class Plus 3.0 product lines, and added four global fund options to Class Plus 3.0. The No Load option gives clients full access to their investments without any surrender charges. On May 28, 2018, Empire Life introduced seven new global funds, a fee for service option and a preferred pricing program to provide clients with more global and lower cost investment options within the GIF product line of segregated funds.

Segregated fund fee income increased by 2% for the fourth quarter of 2019 and decreased by 1% for the full year primarily due to lower average assets under management relative to the same periods in 2018.

¹ See Non-IFRS Measures

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Mutual fund assets under management decreased during the last 12 months due to lower mutual fund sales. Empire Life continues to explore various strategic alternatives with respect to its mutual fund business.

Product Line Results - Employee Benefits

(in millions of dollars)	Fourth quarter		Year	
	2019	2018	2019	2018
Selected financial information				
Annualized premium sales ¹	\$ 21	\$ 12	\$ 104	\$ 59
Net premiums	93	86	360	340
Net income (loss) after tax	\$ —	\$ 3	\$ 7	\$ 24

For the fourth quarter and year, annualized premium sales for Employee Benefits increased by 75% and 76% respectively, relative to 2018. This is primarily due to large block transfers from new strategic distribution partners in the first quarter of 2019, in addition to continued growth of the small to medium-sized business owner market. Over the last two years, Empire Life has entered into a number of strategic partnerships to expand market share.

Net premiums for the fourth quarter and year increased by 8% and 6% respectively compared to the same period in 2018. Empire Life continues to focus on profitable sales in the employee benefits market where price competition continues for all major product lines.

Net income declined in the fourth quarter of 2019 and full year relative to 2018 primarily due to a deterioration of long-term disability experience as the experience gains observed in 2018 did not recur.

Product Line Results - Individual Insurance

(in millions of dollars)	Fourth quarter		Year	
	2019	2018	2019	2018
Shareholders'				
Shareholders' annualized premium sales ¹	\$ 5	\$ 6	\$ 21	\$ 23
Shareholders' net premiums	69	69	274	278
Benefits and Expenses	(87)	59	916	173
Net income (loss) after tax	62	(16)	67	24
Policyholders'				
Policyholders' annualized premium sales ¹	5	5	18	16
Policyholders' net premiums	32	29	116	101
Benefits and Expenses	19	36	178	109
Net income (loss) after tax	4	1	(1)	(4)
Net income (loss) after tax	\$ 66	\$ (15)	\$ 65	\$ 19

Shareholders' annualized premium sales declined for the fourth quarter and the year compared to 2018 primarily due to lower sales of term life products. Policyholders' annualized premium sales were consistent with the fourth quarter of the prior year and 13% higher for the full year from increased sales of the Company's participating life products. Shareholders' total net premiums in the fourth quarter was consistent with the same quarter in 2018 and 1% lower for the full year. Policyholders' net premiums were 10% and 15% higher for the fourth quarter and full year respectively, compared to 2018 primarily due to the stronger sales of the Company's participating life products in 2019.

Shareholders' net income was higher for the fourth quarter and full year compared to 2018 primarily due to the impact of the reinsurance recapture initiative and mortality table update, partially offset by changes in net the net investment assumptions, as explained in more detail in the following table.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in millions of dollars)	Year	
	2019	2018
Components of pre-tax income increase from update of policy liability assumptions		
Lapse/premium assumptions	\$ (27)	\$ (59)
Net investment assumptions	(120)	(3)
Mortality experience	12	28
Mortality table update	155	—
Reinsurance recapture	107	—
Other	(69)	(3)
Total gain (loss) from update of policy liability assumptions (excludes policyholders' portion)	\$ 57	\$ (38)

In 2019 the lapse/premium assumption change primarily related to updates of assumed lapse rates on renewable term policies. The refinement to lapse/premium assumptions for 2018 were primarily related to the adjustment of the lapse assumption on 10-year renewable term products and the enhancement of universal life lapse assumptions.

The primary drivers of the net investment assumptions change for 2019 were decreases to the initial reinvestment rate (IRR) and ultimate reinvestment rate (URR) used in the valuation of liabilities. Updates were also made to the equity investment return assumption, the planned level of equities matching policy liabilities, and to the maturity assumptions for preferred shares. However, these items had a less significant impact when compared with the IRR and URR updates. In 2018 the change due to net investment assumptions was minimal.

Updates to the mortality experience in 2019 were primarily related to revised projected assumptions for the individual life business. In 2018, mortality assumption changes included updates for mortality experience and a revised mortality improvement scale which is in line with the Canadian Institute of Actuaries promulgated mortality improvement scale.

In 2019 the individual insurance mortality tables were replaced by more recent industry tables. The updated tables provide a more appropriate mortality projection, specifically at older ages. Actual/expected ratios were updated based on a combination of Company and industry experience.

In 2019, the Company enacted significant changes to its reinsurance programs. Specifically, the reinsurers of the Company's individual life policies were notified that in 2020 the Company will increase its individual life retention from \$500,000 to \$1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. The recapture resulted in a substantial net liability decrease on both the universal life and non-participating blocks of business as the present value of future reinsurance premiums was greater than the estimated future claims.

Several model enhancements were implemented in 2019. These enhancements include updates to return of premium assumptions on universal life policies, reinsurance model refinements, and refinements to the mortality projection. Other policy liability updates for 2018 were primarily related to refinements to the modelling of reinsurance treaties.

Results - Capital and Surplus

(in millions of dollars)	Fourth quarter		Year	
	2019	2018	2019	2018
Net income (loss) after tax				
Net income (loss) after tax shareholders' portion	\$ 10	\$ 12	\$ 39	\$ 30
Net income (loss) after tax policyholders' portion	4	—	5	1
Net income (loss) after tax	\$ 13	\$ 13	\$ 44	\$ 31

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.

Net income from the shareholders' portion of capital & surplus was lower than the fourth quarter of 2018 primarily due to a loss on hedging instruments in this portfolio relative to gains recorded in December 2018 from equity market

¹ See Non-IFRS Measures

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volatility, partially offset by higher realized gains on AFS assets. For the year, shareholders' net income was higher than 2018 primarily due to higher realized gains on AFS assets, positive fair value changes in FVTPL assets and lower interest expenses relative to 2018, partially offset by higher losses on hedging instruments. The interest expense for 2018 was higher prior to the redemption of \$300 million subordinated debentures in May 2018.

Shareholder Dividends

The declaration and payment of common shareholder dividends and the amounts thereof are at the discretion of the Board of Directors.

Common shareholder dividends are reviewed on a quarterly basis and will depend upon various factors, including the results of operations, the economic environment and the financial condition of Empire Life taking into account regulatory restrictions on the payment of shareholder dividends, as well as any other factors deemed relevant by the Board of Directors.

The Board of Directors declared a dividend of \$113.435853 per common share on February 26, 2020 to all common shareholders of record March 16, 2020 payable April 8, 2020. This dividend includes a regular quarterly dividend of \$22.0724 and an additional dividend of \$91.363453 per common share, which was enabled by the strong capital position of the Company at December 31, 2019.

The following table provides details of the amounts and dates for Empire Life's per share common and preferred share dividends.

	Amount of Dividend per share	Payable Date	Record Date
Common shares	\$ 113.435853	April 8, 2020	March 16, 2020
Non-Cumulative Rate Reset Preferred Shares, Series 1 (TSX: EML.PR.A)	\$ 0.359375	April 17, 2020	March 18, 2020
Non-Cumulative Rate Reset Preferred Shares, Series 3	\$ 0.306250	April 17, 2020	March 18, 2020

Empire Life advises that the above referenced dividends are eligible dividends for the purposes of the Income Tax Act, Canada and any similar provincial tax legislation.

Total Cash Flow

(in millions of dollars)	Year	
	2019	2018
Cash flow provided from (used for)		
Operating activities	\$ 368	\$ 346
Investing activities	(337)	(68)
Financing activities	(96)	(367)
Net change in cash and cash equivalents	\$ (65)	\$ (89)

Net change in cash and cash equivalents decreased by \$65 million, made up of the following items:

- The increase in cash provided from operating activities in 2019 relative to 2018 was primarily due to lower cash outflows related to changes in working capital levels.
- The increase in cash used for investing activities in 2019 relative to 2018 was primarily due to management actions to deploy excess cash into higher yield investments in order to enhance investment income.
- The decrease in cash used for financing activities in 2019 relative to 2018 was due to the redemption of \$300 million subordinated debentures on May 31, 2018.

For an analysis of liquidity for Empire Life, see note 10(e) and note 27(b) to the 2019 consolidated financial statements.

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 common

¹ See Non-IFRS Measures

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stocks or exchange-traded funds (ETFs) 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 reviews 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 and credit rating restrictions 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. Additional information regarding financial instruments is included in notes 2(d), 3, 10(c), and 27 to the audited consolidated financial statements for the year ended December 31, 2019.

Sources of Capital

Empire Life has issued private and public securities to strengthen its capital position and fund new business growth. The securities outstanding are summarized in the following table.

(in millions of dollars)	As at	
	December 31, 2019	December 31, 2018
Subordinated debentures	\$ 400	\$ 400
Equity		
Preferred shares	\$ 250	\$ 250
Common shares	\$ 1	\$ 1
Total Equity	\$ 251	\$ 251

Details of the Company's outstanding preferred shares and subordinated debt are as follows:

Preferred Shares				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	December 31, 2019	December 31, 2018
Preferred shares	January 2016	April 17, 2021	5.75%	\$ 150	\$ 150
Preferred shares	November 2017	January 17, 2023	4.90%	\$ 100	\$ 100

				As at	
(in millions of dollars)	Date Issued	Earliest Redemption Date	Yield	December 31, 2019	December 31, 2018
Subordinated debentures ^(a)	December 2016	December 16, 2021	3.383%	\$ 200	\$ 200
Subordinated debentures ^(b)	September 2017	March 15, 2023	3.664%	\$ 200	\$ 200

^(a) Series 2016-1 Subordinated 3.383% Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate (CDOR).

^(b) Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

Empire Life's debentures and preferred shares are rated by DBRS Limited (DBRS) and A.M. Best Company, Inc. (A.M. Best). Empire Life's DBRS issuer rating is "A", its subordinated debt rating is "A (low)", its financial strength

¹ See Non-IFRS Measures

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rating is "A" and its Preferred Share rating is Pfd-2. All ratings have a stable trend. According to DBRS, the assigned ratings reflect Empire Life's position as a consistently performing life insurer with a proven track record of generating stable earnings while maintaining a conservative risk profile.

A.M. Best ratings of Empire Life are "A Excellent" financial strength rating, "a" long-term issuer credit rating, "bbb+" Subordinated Debt rating, and "bbb" Preferred Share rating. All ratings have a stable trend. According to A.M. Best, the ratings reflect Empire Life's balance sheet strength, which A.M. Best categorizes as very strong, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Regulatory Capital

The Life Insurance Capital Adequacy Test (LICAT) is intended to improve the measurement of the life insurer's solvency position by recognizing the long-term economics of the life insurance business. The Company continues to have a strong capital position under the LICAT framework. Empire Life is required to maintain a minimum Core Ratio of 55% and a Total Ratio of 90%. OSFI has established supervisory target levels of 70% for Core and 100% for Total capital.

LICAT	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
(in millions of dollars)	2019	2019	2019	2019	2018
Available capital					
Tier 1	\$ 1,616	\$ 1,562	\$ 1,549	\$ 1,507	\$ 1,476
Tier 2	669	681	674	692	653
Total	\$ 2,285	\$ 2,243	\$ 2,223	\$ 2,200	\$ 2,129
Surplus allowance and eligible deposits	1,109	944	937	921	887
Base solvency buffer	2,191	2,133	2,115	2,083	2,029
LICAT total ratio	155%	149%	149%	150%	149%
LICAT core ratio	109%	104%	104%	103%	103%

Other Comprehensive Income

(in millions of dollars)	Fourth quarter		Year	
	2019	2018	2019	2018
OCI, attributable to shareholders	\$ (16)	\$ (7)	\$ 48	\$ (28)
OCI, attributable to policyholders	(4)	(3)	1	(4)
Total other comprehensive income	\$ (20)	\$ (10)	\$ 49	\$ (32)

Other comprehensive income (OCI) decreased in the fourth quarter primarily due to unrealized fair value losses on AFS investments compared to a small gain in the fourth quarter of 2018 partially offset by a gain on remeasurement of post-employment benefit liabilities. For the year, OCI increased relative to 2018 primarily due to unrealized fair value gains on AFS assets in 2019 relative to unrealized fair value losses on AFS assets in 2018, and a lower loss on remeasurement of the liability component of post-employment DB plans relative to 2018.

Remeasurement of defined benefit pension plans does not immediately impact LICAT as each quarter's remeasurement gain or loss is amortized over twelve quarters for LICAT 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, product pricing, 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 administrative and

¹ See Non-IFRS Measures

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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 10 largest life insurance companies in Canada. Empire Life has approximately 7% market share of segregated funds, 1% market share for employee benefits and 2% market share for new life insurance premiums. 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 its 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. In 2019, the Company acquired a minority interest in The Gryphin Advantage Inc. as part of its continuing commitment to ensuring consumers have the availability of independent advice in the marketplace.

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 will continue to improve competitiveness by focusing on long-term performance, providing low cost products to customers along with broadened distribution reach. Empire Life continued to achieve strong growth in assets under management from its segregated fund business as a result of net new sales and equity market appreciation. Empire Life is continuing to monitor and manage GMWB risk exposure and the competitive landscape for this product.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group employer market with fewer than 200 employees representing the majority of Canadian companies. 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. At current reinsurance price levels in the Canadian market place, a company may reduce new business strain and improve profitability in the short term by opting to increase the amount of insurance risk reinsured to third parties. 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. 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. Because of the reasonable long-term returns of this product line, management continues to focus on steady growth, technology development and process improvement in order to continue to have a cost structure that allows us to compete while generating an acceptable long-term financial contribution. Empire Life is continuously reviewing its Individual Insurance product mix 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 its

¹ See Non-IFRS Measures

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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 it deploys to support business activities and strategic objectives;
- The need to protect its brand; and
- The need to maintain (or improve) its targeted financial strength rating.

Empire Life's risk appetite defines the aggregate level of risk the Company is willing to take to achieve its business strategies. The risk appetite supports the pursuit of shareholder value but does not compromise the Company's ability to pay claims and fulfil policyholder commitments.

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 future activities;
- 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 it acts with integrity at all times.

The Board of Directors oversees and monitors Empire Life's risk management framework, processes and practices, and reviews and approves the Company's Enterprise Risk Management Framework 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, with specific focus on market, credit and liquidity risk including asset/liability management as well as capital management. The Product Management Review Committee is responsible for overseeing management of corporate policy established by the Risk and Capital Committee of the Board, with specific focus on insurance. Activities not delegated to one of these two committees remain under the oversight of senior management. More information related to governance can be found under the Corporate Governance over Risk Management section of Empire Life's 2019 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 Product Management Review 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 business conduct, 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 and capital management) are also approved by its Board, or a Board committee.

¹ See Non-IFRS Measures

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Caution Related to Sensitivities

In the sections that follow, Empire Life 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 Empire Life'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 Empire Life's future net income, OCI, and capital sensitivities. Given the nature of these calculations, Empire Life cannot provide assurance that actual impact will be consistent with the estimates provided. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

Market Risk

Empire Life has equity market risk related to its segregated fund products and from equity assets backing life insurance liabilities. Empire Life has a semi-static hedging program. The hedging program may employ derivatives positions including put options and futures. The extent of derivatives used is monitored and managed on an ongoing basis, giving consideration to equity risk and the level of available capital.

There is income statement volatility from this hedging program. Based on current equity market levels, Empire Life has required capital for LICAT purposes and policy liabilities on the statement of financial position related to segregated fund guarantees. Therefore a by-product of hedging LICAT exposure is net income volatility, as the gains or losses from hedging instruments are not necessarily offset by changes in policy liabilities related to segregated fund guarantee risk. During the fourth quarter and for the year, Empire Life experienced a loss of \$2 million and \$11 million after tax respectively on its hedging program primarily due to rising Canadian stock indices. This compares to a hedging program gain of \$6 million and \$2 million respectively for the comparable periods in 2018 primarily due to a decline in Canadian stock prices in December 2018.

Empire Life's LICAT ratio is also sensitive to stock market volatility, due primarily to liability and capital requirements related to segregated fund guarantees. As of December 31, 2019, Empire Life had \$8.5 billion of segregated fund assets and liabilities. Of this amount, approximately \$8.2 billion have guarantees. The following table provides a percentage breakdown by type of guarantee.

	Dec 31 2019	Dec 31 2018
Percentage of Segregated Fund Liabilities with:		
75% maturity guarantee and a 75% death benefit guarantee	4%	3%
75% maturity guarantee and a 100% death benefit guarantee	46%	47%
100% maturity and death benefit guarantee (with a minimum of 15 years between deposit and maturity date)	7%	7%
Guaranteed minimum withdrawal benefit (GMWB)	43%	43%

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 ignore all the deposits in the customer's policy where the fund value is above the guaranteed amount. Therefore, policy-based guarantees generally 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 are issued, the sensitivity is reduced. If period-end stock

¹ See Non-IFRS Measures

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markets are low relative to market levels at the time that segregated fund policies are issued, the sensitivity is increased.

The segregated fund regulatory capital and liability framework includes the use of "zero floors" (i.e., negative liability 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. The liabilities are the greater of: (i) the average of the amounts determined by averaging the results from adverse economic scenarios; and (ii) zero.

Empire Life also has equity market risk related to its equity assets backing life insurance liabilities. Based on stock market levels as at December 31, 2019 and December 31, 2018, the sensitivity of Empire Life shareholders' net income and LICAT ratio resulting from stock market increases and decreases is provided in the following table.

Sensitivity to equity risk: Impact on net income (in millions of dollars after tax)	Increase		Decrease		
	20%	10%	10%	20%	30%
as at December 31, 2019					
Segregated fund guarantees	\$ —	\$ —	\$ (10)	\$ (76)	\$ (229)
Other equity risk	33	15	(12)	(20)	(65)
Equity hedge	(2)	(1)	4	16	38
Total	\$ 31	\$ 14	\$ (18)	\$ (80)	\$ (256)

as at December 31, 2018

Segregated fund guarantees	\$ 3	\$ 3	\$ (11)	\$ (129)	\$ (269)
Other equity risk	38	18	(15)	(46)	(118)
Equity hedge	(6)	(4)	9	26	50
Total	\$ 35	\$ 16	\$ (16)	\$ (150)	\$ (337)

Sensitivity to equity risk: Impact on LICAT	Increase		Decrease		
	20 %	10 %	10 %	20 %	30 %
as at December 31, 2019					
Segregated fund guarantees	3 %	— %	(6)%	(16)%	(22)%
Other equity risk	(1)%	(1)%	— %	1 %	1 %
Equity hedge	(3)%	(2)%	1 %	3 %	3 %
Total	(1)%	(2)%	(4)%	(12)%	(18)%

as at December 31, 2018

Segregated fund guarantees	3 %	— %	(10)%	(16)%	(22)%
Other equity risk	— %	(1)%	— %	— %	(2)%
Equity hedge	(2)%	(1)%	1 %	2 %	3 %
Total	1 %	(1)%	(9)%	(14)%	(21)%

Empire Life's equity market sensitivity for segregated fund guarantees in a 20% and 30% stock market decline decreased primarily as a result of improved equity markets during the 2019. The segregated fund guarantee liability became positive at December 31, 2018 after an equity market decline in the fourth quarter. This increased net income sensitivity as any changes to the liability when it is above a zero floor will flow through net income.

In 2019, the Company updated the methodology for calculating equity risk sensitivities. The new method refines the assumptions used in calculating the baseline LICAT equity requirements as at the reporting date. In the table above,

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

figures presented for the impact of equity risk on LICAT as at December 31, 2018 are restated to conform with the updated methodology.

The amount at risk related to segregated fund maturity guarantees and segregated fund death benefit guarantees, and the resulting policy liabilities and LICAT base solvency buffer for Empire Life's segregated funds is provided in the following table.

Segregated Funds (in millions of dollars)	Withdrawal Benefit > Fund Value		Maturity Guarantee > Fund Value		Death Benefit > Fund Value		Policy Liabilities	LICAT Capital
	Fund Value	Amount At Risk	Fund Value	Amount At Risk	Fund Value	Amount At Risk		
December 31, 2019	\$ 2,701	\$ 882	\$ 51	\$ 2	\$ 650	\$ 6	—	465
December 31, 2018	\$ 2,689	\$ 1,057	\$ 301	\$ 24	\$ 3,789	\$ 165	4	433

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 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, 2019, the aggregate amount at risk for all three categories of risk was \$890 million. At December 31, 2018, the aggregate amount at risk for these three categories of risk was \$1,246 million. 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 policy 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.

In addition, Empire Life considers the sensitivity of its LICAT ratio 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 non-participating insurance business and segregated fund guarantees for December 31, 2019 and December 31, 2018, is shown in the table below. This assumes no change in the ultimate reinvestment rate (URR). The AFS bonds provide a natural economic offset to the interest rate risk attributable to Empire Life's product liabilities.

Sensitivity to Market Interest Rates LICAT	Impact of 50 bps Decrease
December 31, 2019 LICAT total ratio	1 %
December 31, 2018 LICAT total ratio	(5)%

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 Empire Life'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. If not managed effectively, operational risk can impact Empire Life's ability to manage other risks. The following is a further description of some operational risks and their associated risk management strategies.

(1) Legal and Regulatory Compliance Risk

Empire Life is governed by the Insurance Companies Act 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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

insurance companies and companies providing other financial services. Material changes in the regulatory framework could have an adverse effect on Empire Life. Failure to comply with regulatory requirements or public expectations could adversely impact Empire Life's reputation and ability to conduct business. Empire Life 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 Empire Life.

Empire Life's corporate compliance department, headed by the Chief Compliance Officer, oversees the regulatory compliance framework. This framework promotes risk-based management of regulatory compliance risk and includes Company-wide policies, operating guidelines, programs to promote awareness of laws and regulations impacting Empire Life, 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 Empire Life's code of business conduct. 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 Conduct Review Committee of the Board on the state of compliance, key compliance risks and emerging regulatory trends. The General Counsel reports regularly to the Audit Committee of the Board on litigation activity.

(2) *Model Risk*

Empire Life uses models to support many business functions including investment analysis, product development and pricing, valuation of policy liabilities, financial planning, asset/liability management, capital management, project management and risk management. The risk of inappropriate use or interpretation of Empire Life's models or their output, or the use of deficient models, data or assumptions could result in financial losses or inappropriate business decisions. Empire Life 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. The Chief Risk Officer reports regularly to the Risk and Capital Committee of the Board on model use and related oversight activities.

(3) *Human Resources Risk*

Competition for qualified employees, including executives, is intense both in the financial services industry and non-financial industries. If Empire Life 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, Empire Life 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*

Empire Life obtains many different types of services from a number of third-party service 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, Empire Life's business may be adversely impacted. To mitigate this risk, Empire Life has established contracting guidelines as well as a Company-wide outsourcing risk management 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 Empire Life.

(5) *Technology, Information Security and Business Continuity Risk*

Empire Life 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 Empire Life.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Empire Life has an enterprise-wide business continuity and disaster recovery program overseen by the Business Continuity Planning Team and senior management. 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. Empire Life establishes and regularly tests business continuity and disaster recovery plans and maintains off-site system facilities and other related services 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, Empire Life has an information security program overseen by the VP Enterprise Services and Security, who reports at least annually to the Risk and Capital Committee of the Board. This program consists of a number of standards, procedures and guidelines focused on management of cybersecurity risk and maintenance of the security and integrity of the data entrusted to Empire Life. 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, Empire Life 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. The Chief Privacy Officer reports regularly to the Conduct Review Committee of the Board on privacy and data security risks and emerging trends.

Business and Strategic Risk

Business and strategic 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. Empire Life regularly reviews and adapts its business strategies and plans in consideration of changes in the external business environment, economic, political and regulatory environment. Empire Life's financial performance is dependent upon its ability to implement and execute business strategies and plans for growth.

Empire Life's business strategies and plans are designed to align with risk appetite, capital position and financial performance objectives. Empire Life periodically reassesses risk appetite taking into consideration the economic, regulatory and competitive environments in which it operates. The current environment requires Empire Life to adapt rapidly to new opportunities and challenges and to refine its strategies accordingly. If Empire Life 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.

Empire Life'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 Empire Life's ability to execute these strategies. Identifying and implementing the right set of initiatives is critical to achieving Empire Life's business plan targets. Failure to implement these initiatives could also lead to cost structure challenges.

Successful execution of Empire Life'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. Empire Life'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.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 27 to the 2019 consolidated financial statements.

Disclosure Controls and Procedures

Empire Life's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Empire Life 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 Empire Life's disclosure controls and procedures as of December 31, 2019. Based on that evaluation, management concluded that Empire Life's disclosure controls and procedures were effective as at December 31, 2019.

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 Empire Life's internal control over financial reporting was carried out as at December 31, 2019. Based on that evaluation, management concluded that Empire Life's internal control over financial reporting was effective as at December 31, 2019. No changes were made in Empire Life's internal control over financial reporting during the year ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, Empire Life'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 sensitivities to risks related to policy liabilities are included in note 27 to the consolidated financial statements.

Financial Instrument Classification

Management judgment is used to classify financial instruments as fair value through profit or loss, available for sale 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

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

recorded in OCI. Additional information regarding pension and other employee future benefits is included in notes 2(k), and 12.

Provision for Impaired Investments

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

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

Outlook

The Canadian economy performed largely as expected in 2019 with GDP growth estimated at 1.6% for the full year, the Canadian dollar weakened slightly to 1.32 (annual average) per U.S. dollar and annual unemployment was stable at 5.6%, the lowest it has been since the 1970's. Consumer spending has slowed down gradually throughout the year and business investment in machinery and equipment has slowed significantly after a strong first quarter in 2018. A number of uncertainties will continue in 2020 which may negatively impact the Canadian economy including slower global demand, on-going trade tensions, geopolitical concerns (e.g. North Korea, Iran, Brexit, Italy), and central bank monetary policy.

The Bank of Canada left the overnight rate unchanged in 2019, sitting at 1.75%. The Canadian Federal Bond yield curve shifted down with the 5-year rate decreasing from 1.88% to 1.68% in 2019 and the 30-year rate decreasing from 2.18% to 1.76% in 2019. Corporate and provincial bond spreads tightened during 2019. Interest rates have generally been lower than typical levels for several years.

Global equity markets performed well in 2019 with the MSCI up over 27% for the year. The S&P 500 stock index was up 28.9% and the S&P/TSX composite index was up 19.1% for the year. Stock market conditions impact the in-force profit margins and new business growth for the segregated fund and mutual fund portions of Empire Life's Wealth Management product line.

Looking forward to 2020, the global economy is expected to have moderate growth. The Canadian economy is expected to continue to grow at a slower pace than in 2019 with forecast GDP of 1.6% slightly below the estimated 2% in 2019. The western provinces are expected to continue to grow, with British Columbia benefiting from the natural gas projects. Provinces in central Canada are expected to experience slower growth with oil production cuts and pull back on capital spending plans. The Atlantic Provinces are expected to grow at a more moderate pace. Short-term interest rates are expected to continue to rise in the U.S. as well as in Canada but at a much slower pace and likely in the second half of the year. Overall the Canadian economy is well positioned to support continued growth of all Empire Life's product lines.

The individual insurance market continues to grow modestly even with the challenge of the persistent low long-term interest rate environment that followed the financial crisis. Empire Life has decreased its emphasis on long-term life insurance products in favor 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 challenges for Empire Life's Individual Insurance product line. The segregated fund product line saw a decline in net sales while experience positive market returns in 2019; fees will likely be impacted by competition going forward. Empire Life will continue to develop low cost efficient products delivered digitally to satisfy consumer needs. Within the employee benefits product line, although highly concentrated Empire Life will continue to penetrate its niche market to grow the business.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

As noted under the Regulatory Capital section, OSFI implemented its Life Insurance Capital Adequacy Test (LICAT) Guidelines on January 1, 2018. This new Guideline established a new risk based regulatory capital framework for life insurance companies and replaced the previous MCCSR Guideline. LICAT is intended to improve the quality of capital available and provide a better alignment of risk measures with the long-term economics of the insurance business. This new Guideline was developed in consultation with the Life Insurance Industry and OSFI. OSFI is also reviewing the overall approach for determining capital requirements for segregated fund guarantee risks. Changes to the capital required for products with guaranteed income may ultimately impact the industry's ability to offer these products at reasonable prices to the consumer. OSFI has indicated that the effective date for the Guideline for segregated fund guarantee will be implemented at the same time as IFRS 17. OSFI is continuing to review the application of Non-Viable Contingent Capital (NVCC) for life insurance companies. If NVCC applied, new preferred shares and subordinated debentures issued after the transition date would have to be compliant with the new regime to qualify as capital.

The International Accounting Standards Board (IASB) issued IFRS 17, Accounting Standards for Insurance Contracts, in May 2017. IFRS 17 will include fundamental changes from the CALM method (equivalent to IFRS 4 Insurance Contracts) that Empire Life currently applies for the valuation of insurance contracts and revenue recognition. The IASB has also granted a temporary exemption from the application of IFRS 9 Financial Instruments to allow insurance companies the ability to implement both IFRS 17 and IFRS 9 concurrently. IFRS 9 applies to the measurement of financial assets, the expected credit loss model and hedge accounting. For insurance contracts and financial instruments accounting, the goal is global consistency under IFRS as opposed to the differing approaches in each country that exist today. Preparing for the adoption of IFRS 17 and IFRS 9 is a significant initiative for Empire Life and for the industry. Empire Life is currently assessing the impact that IFRS 17 and IFRS 9 will have on Empire Life's consolidated financial statements as well as developing a plan to implement the changes required to be ready to report under the new standards when they take effect.

The Canadian Securities Administrators (CSA) has increased disclosure requirements for mutual fund companies, including point of sale requirements and customer relationship model initiatives. Mutual fund fees continue to be an area of interest for Canadian securities regulators. The CSA 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 monitor these developments and assess the possible impact to the insurance industry at some future date.

The industry is also improving the oversight of Managing General Agents (MGAs) and their advisors. 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, including, 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. The industry is also considering establishing a licensing regime for all distribution firms. The licensing of distribution firms would clarify the accountability for the distribution partners to adhere to the insurer's code of conduct and provide on-going monitoring of the advisors activities.

Quarterly Results

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

	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
(in millions of dollars, except per share amounts)	2019	2019	2019	2019	2018	2018	2018	2018
Revenue	\$ 249	\$ 475	\$ 603	\$ 788	\$ 289	\$ 197	\$ 388	\$ 264
Common shareholder's net income	\$ 76	\$ 35	\$ 20	\$ 43	\$ 6	\$ 35	\$ 57	\$ 39
Earnings per share - basic and diluted	\$ 77.25	\$ 35.29	\$ 20.45	\$ 43.59	\$ 6.36	\$ 35.73	\$ 58.14	\$ 39.30

Forward-Looking Statements and Information

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain statements in this MD&A about Empire Life'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 risk including equity risk, hedging risk, interest rate risk, foreign exchange rate risk; liquidity risk; credit risk including counterparty risk; insurance risk including mortality risk, policyholder behaviour risk, expense risk, morbidity risk, product design and pricing risk, underwriting and claims risk, reinsurance risk; operational risk, including legal and regulatory compliance risk, model risk, human resources risk, third-party risk, technology, information security and business continuity risk; and business risk and strategic, including risk with respect to competition, risk with respect to financial strength, capital adequacy risk, risk with respect to distribution channels, risk with respect to changes to applicable income tax legislation, risk with respect to litigation, risk with respect to reputation, risk with respect to risk management policies, risk with respect to intellectual property, risk 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 Empire Life; 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 Empire Life'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. Empire Life 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.

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 IFRS financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Empire Life's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Empire Life believes that these measures provide information useful to its shareholders and policyholders in evaluating Empire Life's underlying financial results.

¹ See Non-IFRS Measures

MANAGEMENT'S DISCUSSION AND ANALYSIS

Return on common shareholders' equity is a profitability measure that presents the net income available to common shareholders as a percentage of the average capital deployed to earn the income.

Sources of earnings breaks down Empire Life's 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 sources of earnings components are reconciled to net income. See the 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.

Assets under management is a non-IFRS measure of the assets managed by Empire Life, which includes general fund assets, mutual fund assets and segregated fund assets. It represents the total assets of Empire Life and the assets its customers invest in.

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 (in millions of dollars)	December 31, 2019	December 31, 2018
Assets Under Management		
General fund assets	\$ 9,462	\$ 8,447
Segregated fund assets	8,499	7,823
Total assets per financial statements	17,961	16,270
Mutual fund assets	139	145
Assets under management	\$ 18,100	\$ 16,415

The above table includes the following amounts held by Empire Life's defined benefit (DB) pension plans.

As at (in millions of dollars)	December 31, 2019	December 31, 2018
DB plan assets		
Segregated fund assets	\$ 203	\$ 182
Mutual fund assets	14	12

¹ See Non-IFRS 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, 2019. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2019.

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

President and Chief Executive Officer

Kingston, Ontario
February 26, 2020



Edward Gibson

*Senior Vice-President, Chief Financial Officer and
Chief Actuary*

Kingston, Ontario
February 26, 2020

INDEPENDENT AUDITOR'S REPORT

To the Policyholders and Shareholders of The Empire Life Insurance Company

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Empire Life Insurance Company and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Owen Thomas.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

February 26, 2020

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, 2019 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.



Dan Doyle, FSA, FCIA, MAAA

Fellow, Canadian Institute of Actuaries

Kingston, Ontario

February 26, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31	2019	2018
Assets		
Cash and cash equivalents (Note 3)	\$ 140,333	\$ 204,921
Investments		
Short-term investments (Note 3)	32,384	27,959
Bonds (Note 3)	7,509,652	6,530,080
Preferred shares (Note 3)	474,029	395,860
Common shares (Note 3)	842,029	795,123
Derivative assets (Note 3)	2,930	10,424
Mortgages (Note 3)	169,827	193,074
Loans on policies (Note 3)	55,363	51,949
Policy contract loans (Note 3)	66,520	69,180
Total cash and cash equivalents and investments	9,293,067	8,278,570
Accrued investment income	35,401	35,388
Insurance receivables (Note 4)	48,728	46,701
Current income taxes	—	23,666
Other assets (Note 5)	23,096	20,202
Property and equipment (Note 6)	22,016	24,576
Intangible assets (Note 7)	22,357	17,804
Investment in associate	17,541	—
Segregated fund assets (Note 8)	8,498,583	7,822,790
Total assets	\$ 17,960,789	\$ 16,269,697
Liabilities		
Accounts payable and other liabilities (Note 11)	\$ 106,037	\$ 105,171
Insurance payables (Note 9)	95,578	93,548
Current income taxes payable	44,592	—
Reinsurance liabilities (Note 10)	698,372	788,801
Insurance contract liabilities (Note 10)	6,073,868	5,176,423
Investment contract liabilities	28,866	25,154
Policyholders' funds on deposit	34,224	34,031
Provision for profits to policyholders	32,924	32,008
Deferred income taxes (Note 18)	8,805	10,288
Subordinated debt (Note 13)	399,098	398,767
Segregated fund policy liabilities	8,498,583	7,822,790
Total liabilities	16,020,947	14,486,981
Equity		
Preferred shares (Note 20)	249,500	249,500
Common shares (Note 20)	985	985
Contributed surplus	19,387	19,387
Retained earnings	1,636,152	1,527,712
Accumulated other comprehensive income	33,818	(14,868)
Total equity	1,939,842	1,782,716
Total liabilities and equity	\$ 17,960,789	\$ 16,269,697



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	2019	2018
Revenue		
Gross premiums (Note 14)	\$ 1,091,828	\$ 1,020,640
Premiums ceded to reinsurers (Note 14)	(181,987)	(147,035)
Net premiums (Note 14)	909,841	873,605
Investment income (Note 3)	325,717	308,428
Fair value change in fair value through profit or loss assets	490,381	(318,039)
Realized gain (loss) on fair value through profit or loss assets sold	105,331	11,900
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	21,886	(1,411)
Fee income (Note 15)	261,745	263,941
Total revenue	2,114,901	1,138,424
Benefits and expenses		
Gross benefits and claims paid (Note 16)	720,316	670,256
Claims recovery from reinsurers (Note 16)	(102,055)	(100,496)
Gross change in insurance contract liabilities (Note 16)	897,445	(188,442)
Change in insurance contract liabilities ceded (Note 16)	(90,429)	138,000
Change in investment contracts provision	937	85
Policy dividends	31,438	30,124
Operating expenses (Note 17)	172,470	164,656
Commissions	214,263	202,395
Commission recovery from reinsurers	(15,509)	(4,198)
Interest expense	14,425	18,132
Total benefits and expenses	1,843,301	930,512
Premium tax	18,675	19,037
Investment and capital tax	3,770	3,922
Net income before income taxes	249,155	184,953
Income taxes (Note 18)	58,497	37,064
Net income	\$ 190,658	\$ 147,889
Less: net income (loss) attributable to participating policyholders	3,219	(3,052)
Shareholders' net income (loss)	187,439	150,941
Less: preferred share dividends declared (Note 21)	13,496	13,496
Common shareholders' net income	\$ 173,943	\$ 137,445
Earnings per share - basic and diluted (Note 19)	\$ 176.58	\$ 139.53
(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	2019	2018
Net income	\$ 190,658	\$ 147,889
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)	65,612	(28,312)
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 18)	(16,002)	649
Net unrealized fair value increase (decrease)	49,610	(27,663)
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 18)	(924)	(4,595)
Total other comprehensive income (loss)	48,686	(32,258)
Comprehensive income (loss)	\$ 239,344	\$ 115,631
Comprehensive income (loss) attributable to:		
Participating policyholders	\$ 3,949	\$ (7,058)
Shareholders	235,395	122,689
Total	\$ 239,344	\$ 115,631

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	2019			2018		
	Shareholders'	Policyholders'	Total	Shareholders'	Policyholders'	Total
Preferred shares (Note 20)	\$ 249,500	\$ —	\$ 249,500	\$ 249,500	\$ —	\$ 249,500
Common shares (Note 20)	985	—	985	985	—	985
Contributed surplus	19,387	—	19,387	19,387	—	19,387
Retained earnings						
Retained earnings - beginning of year	1,492,447	35,265	1,527,712	1,395,002	38,317	1,433,319
Net income (loss)	187,439	3,219	190,658	150,941	(3,052)	147,889
Preferred share dividends declared	(13,496)	—	(13,496)	(13,496)	—	(13,496)
Common share dividends declared	(68,722)	—	(68,722)	(40,000)	—	(40,000)
Retained earnings - end of period	1,597,668	38,484	1,636,152	1,492,447	35,265	1,527,712
Accumulated other comprehensive income (loss)						
Accumulated other comprehensive income (loss) - beginning of year	(15,766)	898	(14,868)	12,486	4,904	17,390
Other comprehensive income (loss)	47,956	730	48,686	(28,252)	(4,006)	(32,258)
Accumulated other comprehensive income (loss) - end of period	32,190	1,628	33,818	(15,766)	898	(14,868)
Total equity	\$ 1,899,730	\$ 40,112	\$ 1,939,842	\$ 1,746,553	\$ 36,163	\$ 1,782,716
Composition of accumulated other comprehensive income (loss) - end of period						
Unrealized gain (loss) on available for sale financial assets	\$ 46,212	\$ 2,513	\$ 48,725	\$ (2,605)	\$ 1,720	\$ (885)
Remeasurements of post-employment benefit liabilities	(14,167)	(740)	(14,907)	(13,283)	(700)	(13,983)
Shareholder portion of policyholders' accumulated other comprehensive income	145	(145)	—	122	(122)	—
Total accumulated other comprehensive income (loss)	\$ 32,190	\$ 1,628	\$ 33,818	\$ (15,766)	\$ 898	\$ (14,868)

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	2019	2018
Operating activities		
Net income	\$ 190,658	\$ 147,889
Non-cash items affecting net income:		
Change in contract liabilities	898,382	(188,357)
Change in reinsurance liabilities	(90,429)	138,000
Fair value change in fair value through profit or loss assets	(490,381)	318,039
Realized (gain) loss on assets including impairment write downs on available for sale assets	(127,217)	(10,489)
Amortization related to discount on debt instruments	(88,161)	(85,178)
Amortization related to property and equipment and intangible assets (Notes 6 & 7)	9,975	9,461
Deferred income taxes (Note 18)	(1,147)	(1,806)
Other items	66,729	18,810
Cash provided from (used for) operating activities	368,409	346,369
Investing activities		
Portfolio investments		
Purchases and advances	(2,298,947)	(1,679,078)
Sales and maturities	1,996,910	1,512,761
Loans on policies		
Advances	(10,738)	(10,093)
Repayments	10,024	15,327
(Increase) decrease in short-term investments	(4,425)	99,783
Purchases of property and equipment and intangible assets (Notes 6 & 7)	(11,968)	(6,986)
Investment in associate	(17,541)	—
Cash provided from (used for) investing activities	(336,685)	(68,286)
Financing activities		
Dividends paid to common shareholders (Note 21)	(68,722)	(40,000)
Dividends paid to preferred shareholders (Note 21)	(13,496)	(13,306)
Interest paid on subordinated debt	(14,094)	(14,094)
Redemption of subordinated debt (Note 13)	—	(300,000)
Cash provided from (used for) financing activities	(96,312)	(367,400)
Net change in cash and cash equivalents	(64,588)	(89,317)
Cash and cash equivalents - beginning of year (Note 3)	204,921	294,238
Cash and cash equivalents - end of year (Note 3)	\$ 140,333	\$ 204,921
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 28,729	\$ 54,590
Interest income received	190,431	189,652
Dividend income received	51,072	46,901

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 26, 2020.

2. Significant Accounting Policies

(a) Basis of preparation

The annual Consolidated Financial Statements of the Company for the year ended December 31, 2019 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 ELII 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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(l), 10 and 27.

(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(k) 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. 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 27(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(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 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 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 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. Impairment losses previously recorded in Net income are reversed if the fair value subsequently increases and can be objectively related to an event occurring after the impairment loss was recognized.

(2) AFS equity instruments

Objective evidence of impairment of an equity instrument 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 is the same as described for AFS debt instruments above with the exception that impairment losses previously recognized in Net income cannot be subsequently reversed through Net income. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 or 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. 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.

(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.

(vii) Securities lending

The Company engages in securities lending through its custodian as lending agent. Loaned securities are not derecognized and continue to be reported within Investments in the Consolidated Statements of Financial Position, as the Company retains substantial risks and rewards and economic benefits related to the loaned securities. For further details, refer to Note 3(e).

(e) Reinsurance

The Company enters into reinsurance agreements 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 Statements 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 is written down to its recoverable amount and the impairment loss is recorded in the Consolidated Statements of Operations.

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

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(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 Statements 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.

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(h) Investment in Associates

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

The Company's share of post-acquisition income or loss is recognized in the Consolidated Statements of Operations, and its share of OCI is recognized in the Consolidated Statements of Comprehensive Income. The Company determines at each reporting date whether there is any objective evidence that each investment in associates is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as share of income (loss) of associates in the Consolidated Statements of Operations. Income and losses resulting from transactions between the Company and its associates are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

(i) Segregated funds

Certain insurance contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. Although the underlying assets are registered in the Company's name and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. 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 27(a)(1).

(j) Subordinated debt

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

(k) Employee benefits

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

(i) Pension benefits

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of the defined benefit component is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit

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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 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.

(I) 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 IFRS 15 *Revenue from Contracts with Customers*. 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.

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(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 premium 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. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that insurance contract liabilities are adequate to pay future benefits. The resulting provisions for adverse deviation have the effect of increasing insurance contract liabilities and decreasing the income that otherwise would have been recognized at policy inception. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in Gross change in insurance contract liabilities and/or Change in insurance contract liabilities ceded 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.

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(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, policy 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.

(m) Participating policies

The Company maintains an account in respect of participating policies ("participating account"), separate from those maintained in respect of other policies, in the form and manner determined by OSFI under sections 456-464 of the *Insurance Companies Act*. The participating account includes all policies issued by the Company that entitle its policyholders to participate in the profits of the participating account. The Company has discretion as to the amount and timing of dividend payments which take into consideration the continuing solvency of the participating account. Dividends are paid annually, with a few older plans paying dividends every five years as per contractual provisions. Participating policyholder dividends are 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 attributable to participating policyholders is shown on the Consolidated Statements of Operations. Comprehensive income attributable to participating policyholders is shown on the Consolidated Statements of Comprehensive Income. The portion of Retained earnings and Accumulated other comprehensive income (AOCI) in respect of participating policies is reported separately in the Policyholders' equity section of the Consolidated Statements of Changes in Equity.

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(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.

(n) 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.

(o) Investment income

Interest income is recognized using the effective interest rate method. Fees that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the effective interest rate of the instrument.

Dividend income is recognized when the right to receive payment is established, which is usually the ex-dividend date.

Interest income and dividend income are included in Investment income in the Consolidated Statements of Operations for all financial assets.

(p) Income taxes

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

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

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

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

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

(q) Foreign currency translation

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

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

(r) Comprehensive income

Comprehensive income consists of Net income and OCI. OCI includes items that may be reclassified subsequently to Net income: Unrealized fair value change on AFS 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.

(s) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote. Any change in estimate of a provision is recorded in Net income. Provisions are not recognized for future operating losses. Provisions are measured 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.

(t) Leases

The Company leases certain property and equipment. When the Company enters into a lease as a lessee, a right-of-use asset and a lease liability is recognized in the Statements of Financial Position. The initial lease liability is computed based on the present value of the lease payments, discounted at the Company's incremental borrowing rate. Subsequent to the initial recognition the lease liability is measured at the amortized cost using the effective interest rate method and is included in Accounts payable and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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other liabilities. Interest expense is included in operating expenses. The depreciation on the corresponding right-of-use asset is included in operating expenses.

The Company has elected to apply the option to recognize lease payments for short-term and low level assets on a straight-line basis over the lease term in operating expenses.

(u) Earnings per share (EPS)

Basic EPS is calculated by dividing the Net income 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.

(v) Accounting changes

(i) New accounting pronouncements adopted in 2019

IFRS 16 Leases

The Company adopted IFRS 16 effective January 1, 2019. The standard requires the capitalization of 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 elected to adopt IFRS 16 using the modified retrospective approach and comparative amounts have not been restated. The comparative information remains as previously reported under IAS 17. The adoption of IFRS 16 on January 1, 2019 did not have a significant impact on the Company's Consolidated Financial Statements.

(ii) New accounting pronouncements issued but not yet effective

(1) IFRS 9 Financial Instruments

IFRS 9, effective for periods beginning on or after January 1, 2018 with retrospective application replaces IAS 39 *Financial Instruments: Recognition and Measurement* with a new mixed measurement model having three measurement categories of amortized cost, fair value through other comprehensive income (FVTOCI) and FVTPL for financial assets.

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost, FVTOCI or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTOCI or FVTPL. A debt instrument will be measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest. For financial liabilities designated as FVTPL, the change in the fair value attributable to changes in the liability's credit risk will be recognized in OCI.

On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts* (which will be subsequently changed to IFRS 17 *Insurance Contracts*). The amendment provides two options for insurance companies relating to IFRS 9:

- a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level);
- and the 'overlay approach'.

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2022, which allows continued application of IAS 39 instead of adopting IFRS 9, if the Company's activities are 'predominantly connected with insurance'. OSFI has also mandated that all Federally Regulated Life Insurance Companies defer the application of IFRS 9 until IFRS 17 is adopted.

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Per the amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, companies applying the temporary exemption are required to disclose fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Note 3(a) include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2019 and December 31, 2018 include mortgages with fair values of \$10.4 million and \$11.5 million, respectively.

The Company is currently evaluating the impact of IFRS 9 on its Consolidated Financial Statements.

(2) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, which provides a comprehensive principle-based framework for the recognition, measurement, presentation and disclosures of all insurance contracts. The new standard will replace IFRS 4 Insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment cash flows and for revenue to be recognized as the service is provided over the coverage period.

This new standard is expected to be effective for Empire Life on January 1, 2022 and is required to be adopted retrospectively, if this is impracticable, the modified retrospective or fair value method may be used.

In June 2019, the IASB issued an exposure draft to amend IFRS 17, including deferral of the effective date by one year (to January 1, 2022). The exposure draft comment period ended on September 24, 2019 and the IASB plans to publish a final standard by mid-2020. The Company will continue to monitor the IASB's developments. The Company is currently assessing the impact of adopting this standard and the proposed amendments on its Consolidated Financial Statements.

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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	2019			2018		
	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	\$ 20,698	\$ —	\$ 20,698	\$ 11,418	\$ —	\$ 11,418
Cash equivalents	119,635	—	119,635	193,503	—	193,503
Total cash and cash equivalents	140,333	—	140,333	204,921	—	204,921
Short-term investments						
Canadian federal government	13,988	—	13,988	9,990	—	9,990
Canadian provincial governments	6,463	—	6,463	5,983	3,989	9,972
Canadian municipal governments	897	—	897	—	—	—
Corporate	11,036	—	11,036	7,997	—	7,997
Total short-term investments	32,384	—	32,384	23,970	3,989	27,959
Bonds						
Canadian federal government	106,106	226,594	332,700	89,389	184,088	273,477
Canadian provincial governments	3,706,755	475,970	4,182,725	3,109,456	490,369	3,599,825
Canadian municipal governments	106,418	102,340	208,758	97,472	77,965	175,437
Total Canadian government bonds	3,919,279	804,904	4,724,183	3,296,317	752,422	4,048,739
Canadian corporate bonds by industry sector:						
Energy	107,996	60,018	168,014	70,013	69,565	139,578
Materials	15,799	6,822	22,621	10,321	—	10,321
Industrials	61,155	66,411	127,566	81,682	69,933	151,615
Consumer discretionary	15,263	991	16,254	21,223	19,024	40,247
Consumer staples	130,116	65,905	196,021	113,693	79,978	193,671
Health care	87,721	22,081	109,802	78,384	21,183	99,567
Financial services	615,089	296,760	911,849	571,147	323,960	895,107
Communication services	181,108	75,261	256,369	108,548	76,251	184,799
Utilities	479,903	99,925	579,828	362,577	67,710	430,287
Real estate	18,145	18,591	36,736	6,549	31,956	38,505
Infrastructure	319,442	30,810	350,252	265,320	23,378	288,698
Total Canadian corporate bonds	2,031,737	743,575	2,775,312	1,689,457	782,938	2,472,395
Total foreign bonds	10,157	—	10,157	8,946	—	8,946
Total bonds	5,961,173	1,548,479	7,509,652	4,994,720	1,535,360	6,530,080
Total preferred shares - Canadian	463,826	10,203	474,029	384,760	11,100	395,860
Common shares						
Canadian common shares	111,461	44,247	155,708	553,337	51,813	605,150
Exchange-traded funds	494,131	—	494,131	—	—	—
Canadian real estate limited partnership units	120,884	—	120,884	110,324	—	110,324
U.S.	42,306	—	42,306	37,439	55	37,494
Other	29,000	—	29,000	41,503	652	42,155
Total common shares	797,782	44,247	842,029	742,603	52,520	795,123
Total derivative assets	2,930	—	2,930	10,424	—	10,424

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Loans and receivables						
Mortgages	—	—	169,827	—	—	193,074
Loans on policies	—	—	55,363	—	—	51,949
Policy contract loans	—	—	66,520	—	—	69,180
Total financial instruments	\$ 7,398,428	\$ 1,602,929	\$ 9,293,067	\$ 6,361,398	\$ 1,602,969	\$ 8,278,570

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

As at December 31	2019			2018		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
Fair value through profit or loss:						
Cash and cash equivalents	\$ 20,698	\$ 119,635	\$ 140,333	\$ 11,418	\$ 193,503	\$ 204,921
Short-term investments	—	32,384	32,384	—	23,970	23,970
Bonds	—	5,961,173	5,961,173	—	4,994,720	4,994,720
Preferred shares	463,826	—	463,826	384,760	—	384,760
Common shares	676,858	120,924	797,782	631,961	110,642	742,603
Derivative assets	2,928	2	2,930	9,760	664	10,424
Available for sale:						
Short-term investments	—	—	—	—	3,989	3,989
Bonds	—	1,548,479	1,548,479	—	1,535,360	1,535,360
Preferred shares	10,203	—	10,203	11,100	—	11,100
Common shares	44,247	—	44,247	52,520	—	52,520
Loans and Receivables						
Mortgages	—	175,229	175,229	—	193,391	193,391
Loans on policies	—	55,363	55,363	—	51,949	51,949
Policy contract loans	—	66,520	66,520	—	69,180	69,180
Total	\$ 1,218,760	\$ 8,079,709	\$ 9,298,469	\$ 1,101,519	\$ 7,177,368	\$ 8,278,887

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, 2019 or during the year ended December 31, 2018.

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 27 Risk Management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(b) Impairments

(i) Loans and receivables

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

As at December 31	2019			2018		
	Recorded investment	Allowance for impairment	Carrying value	Recorded investment	Allowance for impairment	Carrying value
Impaired Loans						
Mortgages	\$ 5,531	\$ 2,678	\$ 2,853	\$ 6,424	\$ 2,896	\$ 3,528
Policy contract loans	813	460	353	813	478	335
Total	\$ 6,344	\$ 3,138	\$ 3,206	\$ 7,237	\$ 3,374	\$ 3,863

The Company holds collateral with a fair value of \$2,854 (2018 \$3,590) in respect of these mortgages and \$353 (2018 \$335) in respect of these policy contract loans as at December 31, 2019. Mortgage loans are secured by real estate, and policy contract loans are secured by life insurance.

For the year ended December 31	2019	2018
Continuity of allowance for loan impairment:		
Allowance - beginning of year	\$ 3,374	\$ 3,474
Provision for loan impairment	634	333
Write-off of loans	(870)	(433)
Allowance - end of year	\$ 3,138	\$ 3,374

The Company has recorded interest income of \$669 (2018 \$753) on these assets.

(ii) Available for sale

For the year-ended December 31, 2019, the Company reclassified a pre-tax loss of \$1,811 (2018 \$1,658) from OCI to Net income due to write downs of impaired AFS common and preferred shares. 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 27.

(c) Investment income

Investment income is comprised of the following:

For the year ended December 31	2019	2018
Interest income	\$ 276,364	\$ 261,218
Dividend income	49,592	46,987
Other	395	556
Provision for loan impairment	(634)	(333)
Investment income	\$ 325,717	\$ 308,428

Interest income includes \$66,265 (2018 \$64,893) relating to assets not classified as FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(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	2019			2018		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 49,964	\$ 585	\$ 28	\$ 42,968	\$ 458	\$ 53
Equity options	537,772	2,342	—	431,459	9,302	—
Over-the-counter						
Foreign currency forwards	37,103	3	402	32,896	664	—
Cross currency swaps	20,980	—	1,610	16,839	—	707
Total	\$ 645,819	\$ 2,930	\$ 2,040	\$ 524,162	\$ 10,424	\$ 760

All contracts mature in less than one year. Fair value asset amounts are reported in the Consolidated Statements of Financial Position as Derivative assets. Fair value liability amounts are reported in 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.

Cross currency swaps are valued by discounting the future cash flows for both legs at the underlying market interest rate curves in each currency applicable at the valuation date. The sum of the cash flows denoted in the foreign currency is converted with the spot rate applicable at that time. The foreign currency leg, where Empire Life owes interest and principal, produces a negative fair value to Empire Life while the Canadian dollar leg produces a positive fair value to Empire Life. The net of these amounts represents the reported fair value of the cross currency swap. 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.

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

(e) Securities Lending

The Company has a securities lending agreement with its custodian. Under this agreement, the custodian may lend securities from the Company's portfolio to other institutions, as approved by the Company, for periods of time. In addition to a fee, the Company receives collateral which exceeds the market value of the loaned securities, which is retained by the Company until the underlying security has been returned to the Company. In the event that any of the loaned securities are not returned to the custodian, at its option the custodian may either restore to the Company securities identical to the loaned securities or it will pay to the Company the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned (Valuation Date) to the custodian. If the collateral is not sufficient to allow the custodian to pay such market value to the Company, the custodian shall indemnify the Company only for the difference between the market value of the securities and the value of such collateral on the Valuation Date. As a result, there is no significant exposure to credit risk associated with this securities lending agreement.

Income recognized from securities lending activities was as follows:

For the year ended December 31	2019	2018
General funds	\$ 986	\$ 856
Segregated funds	1,706	1,756
Total	\$ 2,692	\$ 2,612

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As at December 31, 2019 and December 31, 2018, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at December 31	2019			2018		
	General Funds	Segregated Funds	Total	General Funds	Segregated Funds	Total
Value of securities loaned	\$ 1,184,675	\$ 1,511,859	\$ 2,696,534	\$ 989,557	\$ 1,282,600	\$ 2,272,157
Value of collateral received	\$ 1,208,397	\$ 1,542,231	\$ 2,750,628	\$ 1,009,925	\$ 1,308,299	\$ 2,318,224

4. Insurance Receivables

As at December 31	2019	2018
Due from policyholders	\$ 3,047	\$ 3,711
Due and accrued from reinsurers	17,927	20,351
Fees receivable	15,512	16,231
Other	12,242	6,408
Insurance receivables	\$ 48,728	\$ 46,701

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 values.

5. Other Assets

Other assets consist of the following:

As at December 31	2019	2018
Trade accounts receivable	\$ 13,180	\$ 14,326
Prepaid expenses	6,231	5,876
Right-of-use assets	3,685	—
Other assets	\$ 23,096	\$ 20,202

All amounts are expected to be recovered within one year of the Consolidated Statements of Financial Position date except for right-of-use assets of \$3,685 (2018 \$nil). These financial instruments are short-term in nature and their fair values approximate carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. Property and Equipment

		Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Cost						
As at January 1, 2018	\$	2,318	\$ 13,038	\$ 40,877	\$ 8,056	64,289
Additions		—	—	2,889	235	3,124
Disposals		—	—	—	—	—
As at December 31, 2018		2,318	13,038	43,766	8,291	67,413
Additions		—	1	2,255	719	2,975
Disposals		—	—	—	—	—
As at December 31, 2019	\$	2,318	\$ 13,039	\$ 46,021	\$ 9,010	70,388
Amortization						
As at January 1, 2018	\$	—	\$ (4,344)	\$ (26,771)	\$ (6,629)	(37,744)
Charge for the year		—	(435)	(4,346)	(312)	(5,093)
Disposals		—	—	—	—	—
As at December 31, 2018		—	(4,779)	(31,117)	(6,941)	(42,837)
Charge for the year		—	(413)	(4,780)	(342)	(5,535)
Disposals		—	—	—	—	—
As at December 31, 2019	\$	—	\$ (5,192)	\$ (35,897)	\$ (7,283)	(48,372)
Carrying amount						
December 31, 2019	\$	2,318	\$ 7,847	\$ 10,124	\$ 1,727	22,016
December 31, 2018	\$	2,318	\$ 8,259	\$ 12,649	\$ 1,350	24,576

There were no asset impairments in 2019 or 2018.

7. Intangible Assets

		Intangible assets
Cost		
As at January 1, 2018	\$	62,892
Additions		3,862
Disposals		—
As at December 31, 2018		66,754
Additions		8,993
Disposals		—
As at December 31, 2019	\$	75,747
Amortization		
As at January 1, 2018	\$	(44,582)
Charge for the year		(4,368)
Disposals		—
As at December 31, 2018		(48,950)
Charge for the year		(4,440)
Disposals		—
As at December 31, 2019	\$	(53,390)
Carrying amount		
December 31, 2019	\$	22,357
December 31, 2018	\$	17,804

There were no asset impairments during 2019 or 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. Segregated Funds

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

As at December 31	2019	2018
Cash	\$ 8,482	\$ 22,220
Short-term investments	595,621	496,849
Bonds	1,857,955	1,512,174
Common and preferred shares	6,100,714	5,832,553
Other assets	13,577	19,418
	8,576,349	7,883,214
Less segregated funds held within general fund investments	(77,766)	(60,424)
Total	\$ 8,498,583	\$ 7,822,790

(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	2019			2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash	\$ 8,482	\$ —	\$ 8,482	\$ 22,220	\$ —	\$ 22,220
Short-term investments	—	595,621	595,621	—	496,849	496,849
Bonds	—	1,857,955	1,857,955	—	1,512,174	1,512,174
Common and preferred shares	6,100,714	—	6,100,714	5,829,250	3,303	5,832,553
Total	\$ 6,109,196	\$ 2,453,576	\$ 8,562,772	\$ 5,851,470	\$ 2,012,326	\$ 7,863,796

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2019 and December 31, 2018. There were no level 3 investments as at December 31, 2019 and December 31, 2018.

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

For the year ended December 31	2019	2018
Segregated fund assets - beginning of year	\$ 7,822,790	\$ 8,681,892
Additions to segregated funds:		
Amount received from policyholders	1,245,819	1,267,114
Interest	64,909	59,600
Dividends	165,247	176,659
Other income	23,061	29,832
Net realized gains on sale of investments	251,403	179,498
Net unrealized increase in fair value of investments	756,655	—
	2,507,094	1,712,703
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	1,571,091	1,387,872
Net unrealized decrease in fair value of investments	—	913,433
Management fees and other operating costs	242,868	249,859
	1,813,959	2,551,164
Net change in segregated funds held within general fund investments	(17,342)	(20,641)
Segregated fund assets - end of year	\$ 8,498,583	\$ 7,822,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(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 the Company's estimated liability for those guarantees.

9. Insurance Payables

As at December 31		2019	2018
Claims due and accrued	\$	37,551	\$ 49,284
Payable to agents		16,688	14,103
Premiums paid in advance		2,456	2,401
Due to reinsurance companies		15,902	5,479
Other		22,981	22,281
Insurance payables	\$	95,578	\$ 93,548

Of the above total, \$969 (2018 \$674) 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 values.

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 an estimate of the amount that, together with estimated future premiums and investment income, will be sufficient to pay future benefits, dividends, expenses, and premium 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 due to the excess of future premiums payable over the expected benefit of reinsurance. The change in reinsurance liabilities 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.

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

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:

As at December 31	2019			2018		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Participating Individual						
Life	\$ 701,185	\$ 10,313	\$ 711,498	\$ 621,201	\$ 5,297	\$ 626,498
Annuity	138	—	138	134	—	134
Non-participating Individual						
Life	4,013,248	797,015	4,810,263	3,286,264	875,443	4,161,707
Health	243,562	(8,476)	235,086	204,459	(8,332)	196,127
Annuity	902,530	(8,875)	893,655	891,048	(10,689)	880,359
Non-participating Group						
Life	28,499	(1,345)	27,154	23,548	(915)	22,633
Health	223,926	(90,260)	133,666	192,597	(72,003)	120,594
Annuity	44,838	—	44,838	44,689	—	44,689
Segregated fund deferred acquisition costs	(84,058)	—	(84,058)	(87,517)	—	(87,517)
Total	\$ 6,073,868	\$ 698,372	\$ 6,772,240	\$ 5,176,423	\$ 788,801	\$ 5,965,224

The Company expects to pay \$5,996,977 (2018 \$5,085,826) of Insurance contract liabilities and \$704,339 (2018 \$784,507) of Reinsurance liabilities more than one year after the Consolidated Statements of Financial Position date. The remaining balance is expected to be settled within one year.

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

	2019	2018
Segregated funds deferred acquisition costs - beginning of year	\$ 87,517	\$ 94,329
Deferred during year	25,872	26,213
Amortized during year	(29,331)	(33,025)
Segregated funds deferred acquisition costs - end of year	\$ 84,058	\$ 87,517

Of the above total, \$30,576 (2018 \$31,610) is expected to be amortized during the next year.

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

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

For the year ended December 31	2019			2018		
	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net	Gross insurance contract liabilities	Reinsurance (assets) liabilities	Net
Balance - beginning of year	\$ 5,176,423	\$ 788,801	\$ 5,965,224	\$ 5,364,865	\$ 650,801	\$ 6,015,666
Changes in methods and assumptions						
Non-participating policies						
Changes for expected mortality/morbidity	(60,206)	47,618	(12,588)	(152,206)	127,213	(24,993)
Update of mortality table	137,622	(292,750)	(155,128)	—	—	—
Lapse/premium assumption updates	31,968	(5,393)	26,575	36,584	22,823	59,407
Update of investment return assumptions	119,718	16,964	136,682	(3,900)	7,386	3,486
Model enhancements and other changes	59,077	10,783	69,860	(6,797)	6,753	(44)
Reinsurance recapture	(3,084)	(103,486)	(106,570)	—	—	—
Participating policies						
Model enhancements and other changes	(9,634)	3,967	(5,667)	(12,896)	3,436	(9,460)
Normal changes						
New business	31,649	2,292	33,941	41,738	4,357	46,095
In-force business	590,335	229,576	819,911	(90,965)	(33,968)	(124,933)
Balance - end of year	\$ 6,073,868	\$ 698,372	\$ 6,772,240	\$ 5,176,423	\$ 788,801	\$ 5,965,224

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

Changes for expected mortality in 2019 are primarily related to revisions of the projected assumptions for individual life business, along with a smaller benefit from group long-term disability business. Changes in 2018 were due to similar updates, but were slightly offset by a small deterioration in mortality for immediate annuities.

In 2019 the individual insurance mortality tables were replaced by more recent industry tables. The multipliers which are applied to the industry table were also updated based on a combination of Company and industry experience. This update results in a significant decrease to net liabilities.

In 2019 the lapse/premium assumption change is primarily related to updates of assumed lapse rates on renewable term policies. In 2018 the lapse/premium assumption change was primarily related to refinements in expected policyholder persistency for universal life policies and updates in expected lapse rates on renewable term policies.

The primary drivers of the update of investment return assumptions for 2019 were promulgated updates to the initial reinvestment rate (IRR) and ultimate reinvestment rate (URR) used in the valuation of policy liabilities. Updates were also made to the equity investment return assumption, the planned level of equities matching policy liabilities and to the maturity assumptions for preferred shares.

The primary changes in the net investment return assumptions for 2018 were due to a refinement to the projection of equity assets backing the non-participating liability segment valuation at 2018 year-end, to reflect a reduced reliance on these assets in the future, with a corresponding increased reliance on fixed income instruments. This assumption change results in lower overall future yields and greater policy liabilities. This is offset by improved projected returns on related to reinvestment assumptions on projected future investable cash flows.

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Several model enhancements were implemented in 2019. These enhancements include updates to return of premium assumptions on Trilogy and Concordia policies, reinsurance model refinements, and refinements to the mortality projection.

Model enhancements and other changes for 2018 are primarily related to enhancements to the modeling of reinsurance for individual life insurance as well as an update in the unit maintenance expense assumptions used in our projections.

In 2019 Empire Life notified the reinsurers of our individual life policies that in 2020 the Company will increase its individual life retention from \$500,000 to \$1.5 million and the recapture provisions of all eligible reinsurance treaties would be enacted. Updates to the production valuation model to reflect the recapture resulted in a net liability decrease on both the universal life and non-participating blocks of business.

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

As at December 31, 2019					
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	\$ 119,451	\$ 7,956	\$ 1,816	\$ 43,494	\$ 172,717
Bonds	4,860,681	605,503	156,599	1,886,869	7,509,652
Mortgages	24,083	139,158	6,586	—	169,827
Preferred shares	103,865	176,915	4,854	188,395	474,029
Common shares	797,783	—	—	44,246	842,029
Derivative assets	588	—	—	2,342	2,930
Loans on policies	54,695	—	668	—	55,363
Policy contract loans	425	23,697	—	42,398	66,520
Other	20,940	5,251	643	142,305	169,139
Total	\$ 5,982,511	\$ 958,480	\$ 171,166	\$ 2,350,049	\$ 9,462,206

As at December 31, 2018					
	Insurance liabilities	Annuity liabilities	Investment contract liabilities	Equity and other liabilities	Total
Cash and cash equivalents & Short-term investments	\$ 169,279	\$ 9,491	\$ 260	\$ 53,850	\$ 232,880
Bonds	4,158,384	544,822	14,908	1,811,966	6,530,080
Mortgages	33,214	149,767	4,098	5,995	193,074
Preferred shares	33,978	177,337	4,852	179,693	395,860
Common shares	761,181	—	—	33,942	795,123
Derivative assets	1,122	—	—	9,302	10,424
Loans on policies	51,949	—	—	—	51,949
Policy contract loans	1,495	22,758	623	44,304	69,180
Other	22,874	5,083	139	140,241	168,337
Total	\$ 5,233,476	\$ 909,258	\$ 24,880	\$ 2,279,293	\$ 8,446,907

Provisions made for anticipated future losses of principal and interest on investments and included as a component of policy liabilities are \$215,400 (2018 \$189,300).

(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.

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(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 the reporting date.

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

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

As at December 31	2019	2018
Assets:		
Cash and cash equivalents & Short-term investments	\$ 172,717	\$ 232,880
Canadian federal and provincial bonds	4,515,425	3,873,302
Other readily-marketable bonds and stocks	3,484,991	3,129,406
Total liquid assets	\$ 8,173,133	\$ 7,235,588
Liabilities:		
Demand liabilities with fixed values	\$ 753,579	\$ 702,440
Demand liabilities with market value adjustments	1,219,282	1,169,807
Total liquidity needs	\$ 1,972,861	\$ 1,872,247

11. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

As at December 31	2019	2018
Accounts payable	\$ 39,011	\$ 49,579
Post-employment benefit liability (Note 12)	42,616	36,466
Accrued interest on subordinated debt	2,554	2,554
Derivative liabilities (Note 3d)	2,040	760
Lease liabilities	3,683	—
Other	16,133	15,812
Accounts payable and other liabilities	\$ 106,037	\$ 105,171

Of the above total, \$42,616 (2018 \$36,466) 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.

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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.

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:

As at December 31	Pension benefits		Other post-employment benefits	
	2019	2018	2019	2018
Present value of obligations	\$ 249,494	\$ 220,129	\$ 8,656	\$ 8,352
Fair value of plan assets	215,534	192,015	—	—
Post-employment benefit asset (liability)	\$ (33,960)	\$ (28,114)	\$ (8,656)	\$ (8,352)

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).

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

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

As at December 31	Pension benefits		Other post-employment benefits	
	2019	2018	2019	2018
Present value of defined benefit obligation - beginning of year	\$ 220,129	\$ 227,019	\$ 8,352	\$ 9,697
Current service cost	5,978	6,597	—	—
Past service cost	3,967	—	—	—
Interest expense	8,331	8,040	299	329
Decrease (increase) in net income before tax	18,276	14,637	299	329
Remeasurements				
(Gain) loss from changes in demographic assumptions	—	—	—	66
(Gain) loss from changes in financial assumptions	22,878	(8,891)	570	(638)
Actuarial (gain) loss from member experience	(116)	(681)	(282)	(613)
Decrease (increase) in OCI before tax	22,762	(9,572)	288	(1,185)
Employee contributions	1,397	1,481	—	—
Benefits paid	(13,070)	(13,436)	(283)	(489)
Present value of defined benefit obligation - end of year	\$ 249,494	\$ 220,129	\$ 8,656	\$ 8,352

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

As at December 31	Pension benefits	
	2019	2018
Fair value of defined benefit assets - at beginning of year	\$ 192,015	\$ 210,126
Interest income	7,339	7,515
Administrative expense	(243)	(195)
Increase (decrease) in net income before tax	7,096	7,320
Remeasurements		
Return on plan assets, excluding amounts included in interest income	21,790	(17,030)
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	21,790	(17,030)
Plan transfers / curtailments		
Employer contributions	6,306	3,554
Employee contributions	1,397	1,481
Benefits paid	(13,070)	(13,436)
Fair value of defined benefit assets - end of year	\$ 215,534	\$ 192,015

The actual return on defined benefit assets net of administrative expense, for the year ended December 31, 2019 was a gain of \$28,886 (2018 loss of \$9,710).

Defined benefit plan expense is recognized in Operating expenses. Remeasurements in the defined benefit plan are included in OCI. Operating expenses also include \$2,057 (2018 \$1,691) 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, 2020 are approximately \$4,721.

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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	2019		2018	
Equity				
Canadian	\$ 75,336	35%	\$ 66,692	34%
Foreign	50,977	24%	41,367	22%
Total equity	126,313	59%	108,059	56%
Debt				
Canadian	65,194	30%	61,171	32%
Cash, cash equivalent, accruals	6,711	3%	7,425	4%
Mutual funds	8,312	4%	7,400	4%
Other	9,005	4%	\$ 7,960	4%
Total fair value of assets	\$ 215,535	100%	192,015	100%

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

The following weighted average assumptions were used in actuarial calculations:

As at December 31	Pension benefits		Other post-employment benefits	
	2019	2018	2019	2018
Defined benefit obligation as at December 31:				
Discount rate - defined benefit obligation	3.15%	3.85%	3.05%	3.70%
Discount rate - net interest	3.85%	3.60%	3.70%	3.50%
Rate of compensation increase	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	5.5%	6.7%
Cost trend rate declines to	n/a	n/a	4.0%	4.0%
Year ultimate health care cost trend rate is reached	n/a	n/a	2040	2040

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	2019	2018
Males aged 65 at measurement date	21.97	21.89
Females aged 65 at measurement date	24.66	24.59
Males aged 40 at measurement date	23.83	23.76
Females aged 40 at measurement date	26.34	26.28

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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.

As at December 31, 2019	Change in assumption	Impact on Pension Benefit Obligation		Impact on Other Post Employment Benefit Obligations	
		Increase	Decrease	Increase	Decrease
Discount rate	1% \$	(32,260) \$	42,785 \$	(838) \$	1,003
Rate of compensation increase	1% \$	12,660 \$	(11,262)	n/a	n/a
Health care cost increase	1%	n/a	n/a \$	965 \$	(817)
Life expectancy	1 year \$	6,685 \$	(6,887) \$	410 \$	(398)

As at December 31, 2018	Change in assumption	Impact on pension benefits		Impact on other post employment benefits	
		Increase	Decrease	Increase	Decrease
Discount rate	1% \$	(26,633) \$	36,824 \$	(791) \$	944
Rate of compensation increase	1% \$	10,509 \$	(9,074)	n/a	n/a
Health care cost increase	1%	n/a	n/a \$	885 \$	(754)
Life expectancy	1 year \$	5,403 \$	(5,397) \$	400 \$	(390)

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

As at December 31	2019	2018
Staff pension plan	15	14
Supplemental employee retirement plan	12	13
Other post-employment benefits	11	11

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 November 2018, as at December 31, 2017. The next triennial valuation will be completed in 2021, as at December 31, 2020.

13. Subordinated Debt

The table below presents the obligations included in Subordinated debt as at December 31.

As at December 31				2019	2018
	Interest rate	Earliest par call or redemption Date	Maturity	Carrying value	Carrying value
Series 2016-1 ⁽¹⁾	3.383%	December 16, 2021	2026	199,639	199,463
Series 2017-1 ⁽²⁾	3.664%	March 15, 2023	2028	199,459	199,304
Total Subordinated Debt				\$ 399,098	\$ 398,767
Fair Value				\$ 410,142	\$ 400,820

⁽¹⁾ Series 2016-1 Subordinated 3.383% Unsecured Debentures due 2026. From December 16, 2021, interest is payable at 1.95% over the 3-month Canadian Deposit Offering Rate (CDOR).

⁽²⁾ Series 2017-1 Subordinated 3.664% Unsecured Debentures due 2028. From March 15, 2023, interest is payable at 1.53% over CDOR.

14. Insurance Premiums

For the year ended December 31	2019			2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 525,273	\$ (120,236)	\$ 405,037	\$ 502,456	\$ (110,326)	\$ 392,130
Health premiums	407,262	(61,573)	345,689	363,144	(36,529)	326,615
Total life and health premiums	932,535	(181,809)	750,726	865,600	(146,855)	718,745
Annuity premiums	159,293	(178)	159,115	155,040	(180)	154,860
Total insurance premiums	\$ 1,091,828	\$ (181,987)	\$ 909,841	\$ 1,020,640	\$ (147,035)	\$ 873,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. Fee Income

For the year ended December 31	2019	2018
Investment management, policyholder administration and guarantee fees	\$ 249,714	\$ 253,990
Surrender charges and other miscellaneous fees	12,031	9,951
Fee income	\$ 261,745	\$ 263,941

16. Benefits and Expenses

(a) Insurance contract benefits and claims paid

For the year ended December 31	2019			2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 231,237	\$ (67,615)	\$ 163,622	\$ 243,402	\$ (82,585)	\$ 160,817
Health claims	279,398	(31,146)	248,252	240,346	(16,505)	223,841
Total life and health claims	510,635	(98,761)	411,874	483,748	(99,090)	384,658
Annuity benefits	209,681	(3,294)	206,387	186,508	(1,406)	185,102
Benefits and claims paid	\$ 720,316	\$ (102,055)	\$ 618,261	\$ 670,256	\$ (100,496)	\$ 569,760

(b) Change in insurance contract liabilities and reinsurance ceded

For the year ended December 31	2019			2018		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ 811,912	\$ (73,845)	\$ 738,067	\$ (194,523)	\$ 147,164	\$ (47,359)
Health	70,437	(18,398)	52,039	22,188	(8,392)	13,796
Total life and health	882,349	(92,243)	790,106	(172,335)	138,772	(33,563)
Annuity	15,096	1,814	16,910	(16,107)	(772)	(16,879)
Change in insurance contract liabilities	\$ 897,445	\$ (90,429)	\$ 807,016	\$ (188,442)	\$ 138,000	\$ (50,442)

17. Operating Expenses

Operating expenses include the following:

For the year ended December 31	2019	2018
Salary and benefits expense	\$ 102,869	\$ 98,444
Professional services	16,922	16,888
Rent, maintenance and amortization of right-of-use assets	15,281	12,624
Amortization of property and equipment and intangibles	9,975	9,461
Other	27,423	27,239
Total	\$ 172,470	\$ 164,656

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

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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	2019	2018
Current income tax expense	\$ 59,644	\$ 38,870
Deferred income tax expense (benefit)		
Relating to the origination and reversal of temporary differences	(1,147)	(1,806)
Income tax expense	\$ 58,497	\$ 37,064

During 2019 the Company paid income tax installments totaling \$28,729 (2018 \$54,590).

(b) Variance from statutory provision

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

For the year ended December 31	2019	2018
Net income before income taxes	\$ 249,156	\$ 184,953
Income tax provision at statutory rates	66,450	49,474
Increase (decrease) resulting from:		
Tax paid on dividends	(10,360)	(10,152)
Miscellaneous	2,407	(2,258)
Income tax expense	\$ 58,497	\$ 37,064

The current enacted corporate tax rates as they impact the Company in 2019 stand at 26.67% (2018 26.75%). Expected future tax rates are as follows:

2020	26.53%
2021	26.46%
2022	26.38%
2023	26.38%
2024	26.38%

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	2019	2018
Insurance contracts	\$ (10,882)	\$ (9,867)
Portfolio investments	(6,009)	(5,527)
Post-employment benefit plans	11,169	9,957
Other, net	(3,083)	(4,851)
Deferred income tax asset (liability)	\$ (8,805)	\$ (10,288)

Of the above total, \$7,222 is expected to be paid (2018 \$8,002 paid) more than one year after the Consolidated Statements of Financial Position date.

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

For the year ended December 31	2019	2018
Deferred income tax asset (liability) - beginning of year	\$ (10,288)	\$ (13,766)
Deferred income tax benefit (expense)		
Statement of operations	1,147	1,806
Other comprehensive income	336	1,672
Deferred income tax asset (liability) - end of year	\$ (8,805)	\$ (10,288)

(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	2019			2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 89,474	\$ 23,862	\$ 65,612	\$ (38,651)	\$ (10,339)	\$ (28,312)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(21,886)	(5,884)	(16,002)	1,411	762	649
Remeasurements of post-employment benefit liabilities	(1,260)	(336)	(924)	(6,267)	(1,672)	(4,595)
Total other comprehensive income (loss)	\$ 66,328	\$ 17,642	\$ 48,686	\$ (43,507)	\$ (11,249)	\$ (32,258)

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

For the year ended December 31	2019			2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 83,481	\$ 22,264	\$ 61,217	\$ (33,305)	\$ (8,909)	\$ (24,396)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(16,920)	(4,520)	(12,400)	1,728	871	857
Remeasurements of post-employment benefit liabilities	(1,205)	(321)	(884)	(5,973)	(1,593)	(4,380)
Shareholder portion of policyholder other comprehensive income (loss)	30	7	23	(458)	(125)	(333)
Total other comprehensive income (loss)	\$ 65,386	\$ 17,430	\$ 47,956	\$ (38,008)	\$ (9,756)	\$ (28,252)

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

For the year ended December 31	2019			2018		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ 5,993	\$ 1,598	\$ 4,395	\$ (5,346)	\$ (1,430)	\$ (3,916)
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(4,966)	(1,364)	(3,602)	(317)	(109)	(208)
Remeasurements of post-employment benefit liabilities	(55)	(15)	(40)	(294)	(79)	(215)
Shareholder portion of policyholder other comprehensive income (loss) (Note 23)	(30)	(7)	(23)	458	125	333
Total other comprehensive income (loss)	\$ 942	\$ 212	\$ 730	\$ (5,499)	\$ (1,493)	\$ (4,006)

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19. Earnings Per Share

Earnings per share is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares issued (refer to Note 20) do not dilute EPS as the preferred 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	2019	2018
Basic and diluted EPS		
Common shareholders' net income	\$ 173,943	\$ 137,445
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ 176.58	\$ 139.53

20. Capital Stock

As at	December 31, 2019			December 31, 2018		
	Shares authorized	Shares issued and outstanding	Amount	Shares authorized	Shares issued and outstanding	Amount
Preferred shares						
Series 1	unlimited	5,980,000	\$ 149,500	unlimited	5,980,000	\$ 149,500
Series 3	unlimited	4,000,000	\$ 100,000	unlimited	4,000,000	\$ 100,000
Common shares	2,000,000	985,076	\$ 985	2,000,000	985,076	\$ 985

In the fourth quarter of 2017, Empire Life issued to E-L Financial Corporation Limited 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 (Series 3 Preferred Shares) at \$25 per share. Holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative quarterly dividends yielding 4.90% annually, as and when declared by the Board of Directors of Empire Life, for the initial period ending on and including January 17, 2023. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 3.24%. Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 4 (Series 4 Preferred Shares), subject to certain conditions, on January 17, 2023 and on January 17 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 3.24%.

In the first quarter of 2016, Empire Life issued to the public 5,980,000 Non-Cumulative Rate Reset Preferred Shares, Series 1 (Series 1 Preferred Shares) at \$25 per share. Holders of Series 1 Preferred Shares are 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%. Holders of Series 1 Preferred Shares will have the right, at their option, to convert their shares into Non-Cumulative Floating Rate Preferred Shares, Series 2 (Series 2 Preferred Shares), subject to certain conditions, on April 17, 2021 and on April 17 every five years thereafter. Holders of the Series 2 Preferred Shares will be entitled to receive non-cumulative quarterly floating dividends, as and when declared by the Board of Directors of Empire Life, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.99%.

The cost of issuance of the Series 1 Preferred Shares, \$5,150 less \$1,375 of income tax, was charged to retained earnings.

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21. Dividends

	Dividend declaration date	Shares issued and outstanding	Dividend rate per share	Total dividend (\$ 000's)	Dividend payment date
Common shareholder dividends					
Common shares	October 30, 2019	985,076	\$ 17.440800	\$ 17,181	December 10, 2019
	August 1, 2019	985,076	\$ 17.440800	\$ 17,180	September 12, 2019
	May 2, 2019	985,076	\$ 17.440800	\$ 17,181	June 11, 2019
	February 27, 2019	985,076	\$ 17.440800	\$ 17,180	April 4, 2019
	October 31, 2018	985,076	\$ 10.151501	\$ 10,000	December 5, 2018
	August 3, 2018	985,076	\$ 10.151501	\$ 10,000	September 12, 2018
	May 3, 2018	985,076	\$ 10.151501	\$ 10,000	June 8, 2018
	February 27, 2018	985,076	\$ 10.151501	\$ 10,000	April 3, 2018
Preferred shareholder dividends					
Series 1	October 30, 2019	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2020
	August 1, 2019	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2019
	May 2, 2019	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2019
	February 27, 2019	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2019
	October 31, 2018	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2019
	August 3, 2018	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2018
	May 3, 2018	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2018
	February 27, 2018	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2018
Series 3	October 30, 2019	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2020
	August 1, 2019	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2019
	May 2, 2019	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2019
	February 27, 2019	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2019
	October 31, 2018	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2019
	August 3, 2018	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2018
	May 3, 2018	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2018
	February 27, 2018	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2018

On February 26, 2020, subsequent to the date of these Consolidated Financial Statements, the Board approved the following cash dividends:

- \$111,743 (\$113.435853 per share) on the issued and outstanding Common Shares, payable on April 8, 2020.
- \$2,149 (\$0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on April 17, 2020.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on April 17, 2020.

22. Shareholders' Equity Entitlement

Shareholders' entitlement to \$3,369 (2018 \$3,137) of shareholders' equity is contingent upon future payment of dividends to participating policyholders.

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23. 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.

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

	For the year ended December 31, 2019				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 159,115	\$ 360,383	\$ 390,343	\$ —	\$ 909,841
Interest income	30,202	6,445	183,162	56,555	276,364
Total investment income	39,656	4,520	215,123	66,418	325,717
Fair value change in fair value through profit or loss assets	17,772	4,313	473,402	(5,106)	490,381
Realized gain (loss) on fair value through profit or loss assets	1,147	181	110,575	(6,572)	105,331
Realized gain (loss) on available for sale assets including impairment write downs	101	85	502	21,198	21,886
Fee income from external customers	249,018	12,528	228	(29)	261,745
Net benefits and claims	206,387	255,856	156,018	—	618,261
Net change in insurance contract liabilities	16,910	17,569	772,537	—	807,016
Change in investment contract provision	937	—	—	—	937
Policy dividends	—	—	31,438	—	31,438
Amortization of property and equipment and intangibles	1,965	2,890	5,120	—	9,975
Total operating expenses	61,333	50,351	59,233	1,553	172,470
Net commission expense	83,162	40,641	74,951	—	198,754
Interest expense	—	—	—	14,425	14,425
Premium tax	—	8,109	10,566	—	18,675
Investment and capital tax	—	—	3,770	—	3,770
Income tax expense (recovery)	23,898	2,525	16,192	15,882	58,497
Net income (loss) after tax	74,182	6,959	65,468	44,049	190,658

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	For the year ended December 31, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 154,860	\$ 339,852	\$ 378,893	\$ —	\$ 873,605
Interest income	31,166	5,870	168,194	55,988	261,218
Total investment income	38,776	4,059	199,215	66,378	308,428
Fair value change in fair value through profit or loss assets	(35,073)	(964)	(279,132)	(2,870)	(318,039)
Realized gain (loss) on fair value through profit or loss assets	816	9	14,635	(3,560)	11,900
Realized gain (loss) on available for sale assets including impairment write downs	227	206	48	(1,892)	(1,411)
Fee income from external customers	252,878	10,613	388	62	263,941
Net benefits and claims	185,102	230,428	154,230	—	569,760
Net change in insurance contract liabilities	(16,880)	727	(34,289)	—	(50,442)
Change in investment contract provision	85	—	—	—	85
Policy dividends	—	—	30,124	—	30,124
Amortization of property and equipment and intangibles	1,930	2,138	5,393	—	9,461
Total operating expenses	59,368	45,595	58,248	1,445	164,656
Net commission expense	87,936	36,328	73,933	—	198,197
Interest expense	—	—	—	18,132	18,132
Premium tax	—	8,354	10,683	—	19,037
Investment and capital tax	—	—	3,922	—	3,922
Income tax expense (recovery)	23,594	8,483	(2,119)	7,106	37,064
Net income (loss) after tax	73,279	23,860	19,315	31,435	147,889

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

	For the year ended December 31, 2019				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 958,480	\$ 171,166	\$ 5,982,511	\$ 2,350,049	\$ 9,462,206
Segregated funds	8,480,294	—	18,289	—	8,498,583
Total assets	\$ 9,438,774	\$ 171,166	\$ 6,000,800	\$ 2,350,049	\$ 17,960,789

	For the year ended December 31, 2018				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 944,448	\$ 153,194	\$ 5,057,860	\$ 2,291,405	\$ 8,446,907
Segregated funds	7,805,676	—	17,114	—	7,822,790
Total assets	\$ 8,750,124	\$ 153,194	\$ 5,074,974	\$ 2,291,405	\$ 16,269,697

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.

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24. Commitments and Contingencies

Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There was \$22,867 (December 31, 2018, \$13,000) of outstanding commitments as at December 31, 2019. The outstanding commitment is payable at any time up to and including April 30, 2021.

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.

25. Related Party Transactions

The Company is a 98.4% 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, 99.4% 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.

In the fourth quarter of 2017, the Company issued 4,000,000 Non-Cumulative Rate Reset Preferred Shares, Series 3 to E-L Financial Corporation Limited at \$25 per share. Refer to Note 20 for further details.

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	2019	2018
Salaries and other short-term and long-term employee benefits	\$ 6,140	\$ 6,866
Post-employment benefits	398	535
Total	\$ 6,538	\$ 7,401

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. 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. Effective January 1, 2018, OSFI has implemented the new Life Insurance Capital Adequacy Test (LICAT) framework. Under this framework, the Company's capital adequacy will be measured as a ratio of Available Capital plus Surplus Allowance and Eligible Deposits divided by a Base Solvency Buffer. The components of the LICAT ratio are determined in accordance with the guidelines defined by OSFI. The regulator has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at December 31, 2019 and December 31, 2018 the Company was in compliance with the applicable regulatory capital ratios.

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27. 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. Given the nature of these calculations, the Company cannot provide assurance that actual impact will be consistent with the estimates provided. 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 common stocks or exchange-traded funds (ETFs) 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 LICAT position. Regulatory pressure to increase capital escalates as the LICAT 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.

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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 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. Investments and asset/liability management 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 LICAT position on a regular basis and reports at least quarterly to the Board on the Company's LICAT.

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, LICAT position and results of operations. The Company has reinsured a portion of its segregated fund death benefit guarantee. The Company also has a semi-static, economic hedging program. The objective of the economic hedging program is to partially protect the Company from possible future LICAT 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

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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.

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 Chief Risk Officer 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 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.

As at December 31, 2019					
	10% Increase	10% Decrease	20% Increase	20% Decrease	
Shareholders' net income (including segregated fund guarantees)*	\$ 13,800	\$ (17,521)	\$ 31,350	\$ (80,143)	
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	
Shareholders' other comprehensive income	\$ 3,245	\$ (3,245)	\$ 6,490	\$ (6,490)	
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil	

As at December 31, 2018					
	10% Increase	10% Decrease	20% Increase	20% Decrease	
Shareholders' net income (including segregated fund guarantees)*	\$ 16,371	\$ (15,902)	\$ 34,749	\$ (149,572)	
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil	
Shareholders' other comprehensive income	\$ 2,590	\$ (2,590)	\$ 5,180	\$ (5,180)	
Policyholders' other comprehensive income	\$ 1,257	\$ (1,257)	\$ 2,514	\$ (2,514)	

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

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For the life insurance business, the Company's policy is to use equity investments to cover a portion of the 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 equity investments depends on assumptions about the future level of equity markets. The best-estimate return assumptions for equities are primarily based on long-term historical averages of total returns (including dividends) for the Canadian equity market, which is 9.0% (2018 8.8%). The Company uses an assumption of 7.7% (2018 8.0%) 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 1.0% decrease in future equity market returns would result in an increase to policy liabilities thereby reducing Net income by approximately \$127,300 (2018 \$110,500).

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

As at December 31		2019	2018
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$	648,049	\$ 352,369
Percentage of total cash and investments		7.0%	4.3%
Exposure to the largest single issuer of common equities	\$	444,366	\$ 110,324
Percentage of total cash and investments		4.8%	1.3%

(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 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.

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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, 2019			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 20,751	\$ (22,972)	\$ 39,524	\$ (48,444)
Policyholders' net income	\$ 233	\$ (254)	\$ 446	\$ (531)
Shareholders' other comprehensive income	\$ (45,776)	\$ 54,420	\$ (82,907)	\$ 117,484
Policyholders' other comprehensive income	\$ (1,288)	\$ 1,422	\$ (2,442)	\$ 2,979

	As at December 31, 2018			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 8,361	\$ (9,248)	\$ 15,932	\$ (19,494)
Policyholders' net income	\$ 204	\$ (222)	\$ 391	\$ (463)
Shareholders' other comprehensive income	\$ (39,075)	\$ 46,055	\$ (71,171)	\$ 99,089
Policyholders' other comprehensive income	\$ (1,905)	\$ 2,101	\$ (3,614)	\$ 4,399

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 will need 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 1.0% 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 \$52,500 (2018 \$38,000). This assumes no change in the URR assumption.

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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 3.1% (2018 3.2%) plus a maximum amount for credit spreads minus asset default rates of 0.8% (2018 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 3.9% (2018 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, much closer matching of the asset and liability cash flows is possible which helps mitigate the potential impact on the business from a sudden increase or decrease in interest rates. For annuity business, the impact a 1.0% 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 (2018 \$ nil) on shareholders' Net income, \$ nil (2018 \$ nil) on policyholder's Net income, \$ nil (2018 \$ nil) on shareholders' OCI and \$ nil (2018 \$ 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.

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 Risk and Capital Committee of the Board.

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(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. Subordinated debt that are not due at a single maturity date are included in the tables in the year of final maturity. Actual maturities could differ from contractual maturities because of the borrower's right to call or extend prepay obligations, with or without prepayment penalties. 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 2019 Consolidated Financial Statements are based on the present value of the estimated cash flows. Due to the use of assumptions, actual cash flows will differ from these estimates.

	As at December 31, 2019				
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years	Total
Insurance contract liabilities	\$ 71,689	\$ 162,523	\$ 513,593	\$ 23,596,531	\$ 24,344,336
Investment contract liabilities	3,823	12,418	11,665	9,882	37,788
Subordinated debt	14,094	51,294	439,960	—	505,348
Preferred shares	13,496	232,280	—	—	245,776
Accounts payable and Other liabilities	227,908	7,044	42,616	—	277,568
Total liabilities	331,010	465,559	1,007,834	23,606,413	25,410,816
Operating lease commitments	115	—	—	—	115
Total	\$ 331,125	\$ 465,559	\$ 1,007,834	\$ 23,606,413	\$ 25,410,931

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	As at December 31, 2018					Total
	1 year or less	1 - 5 years	5 - 10 years	Over 10 years		
Insurance contract liabilities	\$ 96,260	\$ 189,647	\$ 492,727	\$ 23,285,372	\$	24,064,006
Investment contract liabilities	4,084	10,685	9,704	8,714		33,187
Subordinated debt	14,094	51,708	453,240	—		519,042
Preferred shares	13,496	245,776	—	—		259,272
Accounts payable and Other liabilities	230,291	8,230	36,525	—		275,046
Total liabilities	358,225	506,046	992,196	23,294,086		25,150,553
Operating lease commitments	3,106	5,884	3,129	—		12,119
Total	\$ 361,331	\$ 511,930	\$ 995,325	\$ 23,294,086	\$	25,162,672

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, 2019, 1.9% (2018 2.8%) 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 long-term 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.

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

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

As at December 31		2019	2018
Cash and cash equivalents	\$	140,333	\$ 204,921
Short-term investments		32,384	27,959
Bonds		7,509,652	6,530,080
Preferred shares		474,029	395,860
Derivative assets		2,930	10,424
Mortgages		169,827	193,074
Reinsurance		113,107	95,975
Loans on policies		55,363	51,949
Policy contract loans		66,520	69,180
Accrued investment income		35,401	35,388
Insurance receivables		48,728	46,701
Trade accounts receivable		13,180	14,326
Total	\$	8,661,454	\$ 7,675,837

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	2019		2018	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 348,815	5%	\$ 281,470	4%
AA	1,167,357	16%	628,471	10%
A	4,831,528	64%	4,561,261	70%
BBB (and lower ratings)	1,161,952	15%	1,058,878	16%
Total	\$ 7,509,652	100%	\$ 6,530,080	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 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.

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

As at December 31		2019	2018
Provincial bond holdings	\$	4,182,725	\$ 3,599,325
Percentage of total bond holdings		55.7%	55.1%

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

As at December 31	2019		2018	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 75,119	1%	\$ 87,560	1%
1 - 5 years	769,237	10%	810,260	12%
5 - 10 years	700,976	9%	743,107	11%
Over 10 years	5,964,320	80%	4,889,153	76%
Total	\$ 7,509,652	100%	\$ 6,530,080	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	2019	2018
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$ 4,744,433	\$ 4,248,837
Percentage of total cash and investments	51.1%	51.3%
Exposure to the largest single issuer of corporate bonds	\$ 199,877	\$ 181,684
Percentage of total cash and investments	2.2%	2.2%

*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 1% (2018 1%) rated as P1, 97% rated as P2 (2018 99%) and the remaining 2% (2018 nil %) rated as P3.

(3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$169,058 or 99% (2018 \$193,074 or 100%) of the total mortgage portfolio.

(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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net premium income	\$ 159.1	\$ 154.9	\$ 360.4	\$ 339.8	\$ 390.3	\$ 378.9	\$ —	\$ —	\$ 909.8	\$ 873.6
Fee and other income	249.0	252.9	12.5	10.6	0.2	0.4	—	—	261.7	263.9
Total	\$ 408.1	\$ 407.8	\$ 372.9	\$ 350.4	\$ 390.5	\$ 379.3	\$ —	\$ —	\$ 1,171.5	\$ 1,137.5

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2019. 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 2.0% increase in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately \$15,800 (2018 \$12,300).

For annuity business, lower mortality (or longevity) is financially adverse so a 2.0% decrease in the best estimate mortality assumption would increase policy liabilities thereby decreasing Net income by approximately \$3,300 (2018 \$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.

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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 10.0% adverse change in the lapse assumption would result in an increase to policy liabilities thereby decreasing Net income by approximately \$152,300 (2018 \$132,800). 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 \$6,300 (2018 \$6,900).

(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 \$7,900 (2018 \$6,700).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 a Product Design and Pricing Risk Management Policy governing all of its major product lines. This policy, which is established by the Product Management Review Committee ("PMRC") 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 principles for prudent 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 which governs each of its major product lines. This policy is established by the PMRC and approved by the Risk and Capital Committee of the Board. It defines the Company's underwriting and claims management philosophy and sets out principles for prudent underwriting and claims management including, underwriting classification claims requirements, approval authorities and limits, and ongoing risk monitoring. The Company uses reinsurance to mitigate excessive exposure to adverse mortality and morbidity experience. The PMRC reviews and establishes retention limits for its various product lines and the Risk and Capital Committee of the Board recommends changes to these retention limits for approval by the board.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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. The PMRC 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.

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 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.

Experience Gains and Losses

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

GLOSSARY OF TERMS (unaudited)

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.

Life Insurance Capital Adequacy Test (LICAT)

The LICAT measures the capital adequacy of an insurer and is one of several indicators used by OSFI to assess an insurer's financial condition. The LICAT Ratio is the ratio of eligible capital to the base solvency buffer, each as calculated under OSFI's published guidelines.

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 Common 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 policyholders to participate in the profits of the participating account. Most policies are credited with dividends annually, while a few older plans receive the dividends every five years as per contractual provisions.

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 account.

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. 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.

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

Investment Income Allocation

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

Expense Allocation

General expenses are allocated to the participating account using cost centre methods. Expenses associated directly with the participating account are so charged. Expenses arising from or varying directly with various functional activities are charged to the participating account in proportion to statistics appropriate to each cost centre. Expenses incurred by overhead cost 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.

PARTICIPATING ACCOUNT MANAGEMENT POLICY

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 Product Management Review Committee. Material amendments must be approved by the Product Management Review Committee and 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 each policy issued in the participating account of Empire Life that entitles 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.

PARTICIPATING POLICYHOLDER DIVIDENDS AND BONUS POLICY

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.

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 Product Management Review Committee. Material amendments must be approved by the Product Management Review Committee and 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 ACCOUNT FINANCIAL DISCLOSURE

	2019	2018
Participating Surplus		
Surplus and Accumulated OCI - beginning of year	\$ 36,163	\$ 43,221
Net Income and OCI, before dividends	38,086	25,166
Amounts transferred to shareholders per S.461 of the ICA	—	—
Amounts transferred to shareholders per S.462(a) of the ICA, if included in net income	(2,699)	(2,100)
Net Income and OCI	35,387	23,066
Policyholder dividends, excluding ERRs	(31,438)	(30,124)
Surplus and Accumulated OCI - end of year	40,112	36,163
Total Participating Assets		
	\$ 780,330	\$ 692,355
Section 462 transfer as a % of Distributable Profits	7.61%	7.62%

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 senior management level risk committees, which report to the Board of Directors and/or its Committees and an internal risk management department, led by the Chief Risk Officer, which 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 seven times in 2019 and is scheduled to meet at least six times in 2020.

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 compliance risk, model risk, human resources risk, third party risk and technology, information security and business continuity risk) and business and strategic risk. Please see the section titled “Risk Factors” in the Company’s Annual Information Form available at www.sedar.com for more details on these risks. 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, succession planning, workforce 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 the Company’s Code of Business Conduct, conflicts of interest, the Company’s personal trading policy, confidentiality of information, consumer complaints, privacy, regulatory compliance and outsourcing.

The Risk and Capital Committee is responsible for oversight of the Company’s risk and capital management activities.

The Committee also assists the Board in its oversight role with respect to the management of the Company’s enterprise risk management framework and risk appetite framework; the identification, review and assessment of the Company’s primary risks; the review and assessment of the Company’s risk management strategies; and the deployment and use of capital.

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. Assuris is the not for profit organization that protects Canadian policyholders if their life insurance company fails.

Details about Assuris' protection are available at www.assuris.ca or by 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

310-1167 Kensington
Calgary, Alberta T2N 1X7
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

307-5500 North Service Road
Burlington, Ontario L7L 6W6
905 335-6558
1 888 548-4729

Toronto Retail Sales Office

200 -36 York Mills Road
Toronto, Ontario M2P 2E9
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

310-1167 Kensington
Calgary, Alberta T2N 1X7
403 262-6386
1 888 263-6386

ONTARIO

Burlington Group Sales Office

307-5500 North Service Road
Burlington, Ontario L7L 6W6
905 335-6558
1 800 663-9984

Toronto Group Sales Office

200-36 York Mills Road
Toronto, Ontario M2P 2E9
416 494-6834
1 800 361-7980

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, 2, 5}

Corporate Director

Scott F. Ewert^{1, 4, 5}

Vice President and Chief Financial Officer
E-L Financial Corporation Limited

Edward M. Iacobucci^{1, 2, 3}

Dean, Faculty of Law
University of Toronto

Duncan N.R. Jackman⁵

Chairman of the Board
The Empire Life Insurance Company

Clive P. Rowe^{4, 5}

Partner
Oskie Capital

Patricia M. Volker¹

Corporate Director

POLICYHOLDERS' DIRECTORS

Mark J. Fuller^{2, 3, 5}

President and Chief Executive Officer
Ontario Pension Board

Harold W. Hillier^{1, 2, 3, 4}

Corporate Director

Mark Sylvia

President and Chief Executive Officer
The Empire Life Insurance Company

Jacques Tremblay^{3, 5}

Partner
Oliver Wyman Actuarial Consulting

¹ Member of Audit Committee

² Member of Conduct Review Committee

³ Member of Human Resources Committee

⁴ Member of Investment 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 Carty

General Counsel and Senior Vice-President, Human Resources

Edward Gibson

Senior Vice-President, Chief Financial Officer and Chief Actuary

Ian Hardacre

Senior Vice-President and Chief Investment Officer

Michael Perry

Senior Vice-President, Group Solutions

Steve Pong

Senior Vice-President, Retail

Kathy Thompson

Senior Vice-President and Chief Risk Officer

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EMPIRE LIFE ANNUAL REPORT 2019

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 Canada¹ and is rated A (Excellent) by A.M. Best Company². Our mission is to make it simple, fast and easy for Canadians to build wealth, generate income, and achieve financial security.

Follow us on social media @EmpireLife or visit www.empire.ca for more information.

¹ Based on total assets as reported in December 31, 2018 OSFI filings

² As at June 14, 2019. For the latest rating, access www.ambest.com.

Transfer Agent and Registrar

AST Trust Company (Canada)
1 Toronto Street, Suite 1200
Toronto, Ontario, M5C 2V6
Phone 416-682-3860
Toll Free 800-387-0825
www.astfinancial.com/ca-en

Stock Exchange Listing

Preferred Shares, Series 1 EML.PR.A

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.

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Insurance & Investments – Simple. Fast. Easy.®
empire.ca info@empire.ca 1 877 548-1881

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