



Empire Life reports fourth quarter and full year 2018 results

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

Q4 2018 highlights (compared to Q4 2017)

- Decrease in common shareholders' net income to \$6 compared to \$48
- Earnings per share (basic and diluted) of \$6.36 compared to \$49.03
- Return on common shareholders' equity¹ ("ROE") of 1.7% compared to 13.8%

2018 full year highlights (compared to full year 2017)

- Decrease in common shareholders' net income to \$137 compared to \$171
- Earnings per share (basic and diluted) of \$139.53 compared to \$173.53
- Return on common shareholders' equity¹ ("ROE") of 9.4% compared to 12.8%
- Assets under management¹ decreased 7% to \$16.4 billion

(Kingston, ON – February 27, 2019) – The Empire Life Insurance Company ("Empire Life") (TSX: EML.PR.A) today reported common shareholders' net income of \$6 million for the fourth quarter of 2018, compared to \$48 million in 2017. For the year, common shareholders' net income was \$137 million compared to \$171 million in 2017.

The decrease in earnings for the fourth quarter of 2018 was primarily a result of unfavourable assumption updates, experience losses relative to gains last year, and lower gains from management actions in the Individual Insurance product line and the operating performance in the Wealth Management product line.

The full year decrease in earnings was primarily due to unfavourable assumption updates, lower gains from management actions in the Individual Insurance product line relative to last year and experience losses relative to gains last year in the Wealth Management product line. These were partially offset by the improved operating performance in the Individual Insurance and Employee Benefits product lines.

"Late in 2018, we experienced an unusual equity market decline and falling interest rates. Despite these challenges, we experienced positive growth in 2018. Although it was not at the same level as 2017—a year of record profits—our results were solid and reinforced our strategy of diversification across three lines of business," said Mark Sylvia, President and Chief Executive Officer. "We stay true to our promise to be there when our customers need us most and to make it simple, fast and easy for them to get the insurance, investments and benefits coverage they need."

Financial highlights

(in millions of dollars except per share amounts)	Fourth quarter		Year	
	2018	2017	2018	2017
Common shareholders' net income	\$ 6	\$ 48	\$ 137	\$ 171
Earnings per share - basic and diluted	\$ 6.36	\$ 49.03	\$ 139.53	\$ 173.53
Return on common shareholders' equity (quarterly annualized) ¹	1.7%	13.8%	9.4%	12.8%

¹ See non-IFRS Measures

(in millions of dollars)	Fourth quarter		Year	
	2018	2017	2018	2017
Expected profit on in-force business	\$ 51	\$ 53	\$ 194	\$ 183
Impact of new business	(12)	(8)	(16)	(22)
Experience gains (losses)	(26)	8	(3)	16
Management actions and changes in assumptions	(22)	4	(20)	32
Earnings on operations before income taxes	(9)	58	154	209
Earnings on surplus	15	9	37	28
Income before income tax	\$ 7	\$ 66	\$ 191	\$ 236
Income taxes	(3)	15	40	56
Shareholders' net income	\$ 10	\$ 52	\$ 151	\$ 181
Dividends on preferred shares	3	3	13	10
Common shareholders' net income	\$ 6	\$ 48	\$ 137	\$ 171

The expected profit on in-force business for the fourth quarter decreased by 4% due to a decline in the Wealth Management product line, partially offset by growth in the Individual Insurance product line. For the year, expected profit increased by 6% primarily due to growth in the Individual Insurance and Wealth Management product lines.

The impact of new business for the fourth quarter was primarily driven by higher new business strain related to the Individual Insurance product line, and higher sales for fixed annuities in the Wealth Management product line relative to 2017. For the year, overall lower new business strain was related to lower overall sales in the Wealth Management product line, primarily due to lower segregated fund sales.

The experience losses for the fourth quarter were mainly driven by higher investment losses in the Individual Insurance and Wealth Management product lines. For the year, lower experience gains relative to 2017 were mainly driven by higher investment losses in the Wealth Management and Individual Insurance product lines, partially offset by improved health and long-term disability claims results in the Employee Benefits product line and improved surrender and lapse experience in the Individual Insurance product line.

Management actions in the fourth quarter and the year for each of 2018 and 2017 included improved matching of assets and liabilities in the Individual Insurance product line. During the first and second quarters of 2018 and first quarter of 2017, there was an increase in investment in real estate limited partnership units which resulted in a gain from updating insurance contract liabilities.

Changes in assumptions refers to the impact on actuarial reserves of changing projected assumptions related to policyholder behaviour, mortality, investment returns, expenses and other factors. Empire Life regularly reviews assumptions and updates them to reflect current company and industry experience. For the fourth quarter and the year, the change was mainly due to the increase in insurance contract liabilities to reflect the impact of changing assumptions related to policyholder behaviour on inforce universal life policies and renewable term policies.

Earnings on surplus increased for the fourth quarter and the year primarily due to gains on the Company's hedging program and lower interest expense as a result of a lower level of subordinated debt, partially offset by fair value losses on fair value through profit or loss (FVTPL) investments.

Empire Life's Life Insurance Capital Adequacy Test (LICAT) total ratio was 149% at December 31, 2018, well above the requirements set by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as Empire Life's minimum internal targets.

¹ See non-IFRS Measures

Non-IFRS measures

Empire Life uses non-IFRS measures including return on common shareholders' equity, source of earnings, assets under management, annualized premium sales, gross and net sales for mutual funds, segregated funds and fixed annuities to provide investors with supplemental measures of its operating performance and to highlight trends in its core business that may not otherwise be apparent when relying solely on International Financial Reporting Standards financial measures. Empire Life also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers.

Additional information

All amounts are in Canadian dollars and are based on the audited consolidated financial results of Empire Life for the period ended December 31, 2018. Additional information about Empire Life can be found in Empire Life's latest Management's Discussion & Analysis and Annual Information Form. These documents are filed on Empire Life's profile available at www.sedar.com. Empire Life's preferred shares are listed on the Toronto Stock Exchange as EML.PR.A (TSX: EML.PR.A).

About Empire Life

Established in 1923 and a subsidiary of E-L Financial Corporation Limited, Empire Life provides individual and group life and health insurance, investment and retirement products to Canadians. Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security. As of December 31, 2018, Empire Life had total assets under management of \$16.4 billion. Follow Empire Life on Twitter @EmpireLife or visit www.empire.ca for more information.

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¹ See non-IFRS Measures