

# The Empire Life Insurance Company

## **Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2019 Unaudited**

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
The Company's external auditors have not performed a review of these condensed interim unaudited consolidated financial statements of The Empire Life Insurance Company.



**This page has been left blank intentionally.**

# Table of Contents

---

|  |    |
|--|----|
| Interim Consolidated Statements of Financial Position            | 4  |
| Interim Consolidated Statements of Operations                    | 5  |
| Interim Consolidated Statements of Comprehensive Income          | 6  |
| Interim Consolidated Statements of Changes in Equity             | 7  |
| Interim Consolidated Statements of Cash Flows                    | 8  |
| Condensed Notes to the Interim Consolidated Financial Statements | 9  |
| 1. Description of Company and Summary of Operations              | 9  |
| 2. Significant Accounting Policies                               | 9  |
| 3. Financial Instruments   | 12 |
| 4. Segregated Funds  | 15 |
| 5. Insurance Premiums  | 16 |
| 6. Benefits and Expenses   | 17 |
| 7. Income Taxes included in Other Comprehensive Income (Loss)    | 18 |
| 8. Earnings Per Share  | 19 |
| 9. Capital Stock   | 19 |
| 10. Dividends  | 20 |
| 11. Segmented Information  | 21 |
| 12. Investment Commitments                                       | 23 |
| 13. Subordinated Debt  | 23 |
| 14. Capital Management   | 23 |
| 15. Risk Management  | 23 |
| Glossary of Terms  | 27 |

# Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

| As at   | March 31, 2019       | December 31, 2018    |
|---|----------------------|----------------------|
| <b>Assets</b>                                   |                      |                      |
| Cash and cash equivalents (Note 3)              | \$ 203,869           | \$ 204,921           |
| Investments                                     |                      |                      |
| Short-term investments (Note 3)                 | 51,807               | 27,959               |
| Bonds (Note 3)                                  | 7,039,830            | 6,530,080            |
| Preferred shares (Note 3)                       | 405,218              | 395,860              |
| Common shares (Note 3)                          | 839,300              | 795,123              |
| Derivative assets (Note 3)                      | 4,088                | 10,424               |
| Mortgages (Note 3)                              | 190,048              | 193,074              |
| Loans on policies (Note 3)                      | 52,891               | 51,949               |
| Policy contract loans (Note 3)                  | 66,489               | 69,180               |
| Total cash and cash equivalents and investments | 8,853,540            | 8,278,570            |
| Accrued investment income                       | 46,589               | 35,388               |
| Insurance receivables                           | 31,226               | 46,701               |
| Current income taxes                            | 4,480                | 23,666               |
| Other assets                                    | 38,212               | 20,202               |
| Property and equipment                          | 28,625               | 24,576               |
| Intangible assets                               | 18,409               | 17,804               |
| Segregated fund assets (Note 4)                 | 8,410,686            | 7,822,790            |
| <b>Total assets</b>                             | <b>\$ 17,431,767</b> | <b>\$ 16,269,697</b> |
| <b>Liabilities</b>                              |                      |                      |
| Accounts payable and other liabilities          | \$ 144,005           | \$ 105,171           |
| Insurance payables                              | 94,965               | 93,548               |
| Reinsurance liabilities                         | 833,239              | 788,801              |
| Insurance contract liabilities                  | 5,593,429            | 5,176,423            |
| Investment contract liabilities                 | 27,132               | 25,154               |
| Policyholders' funds on deposit                 | 33,993               | 34,031               |
| Provision for profits to policyholders          | 32,539               | 32,008               |
| Deferred income taxes                           | 10,715               | 10,288               |
| Subordinated debt                               | 398,848              | 398,767              |
| Segregated fund policy liabilities              | 8,410,686            | 7,822,790            |
| Total liabilities                               | 15,579,551           | 14,486,981           |
| <b>Equity</b>                                   |                      |                      |
| Preferred shares (Note 9)                       | 249,500              | 249,500              |
| Common shares (Note 9)                          | 985                  | 985                  |
| Contributed surplus                             | 19,387               | 19,387               |
| Retained earnings                               | 1,550,429            | 1,527,712            |
| Accumulated other comprehensive income          | 31,915               | (14,868)             |
| Total equity                                    | 1,852,216            | 1,782,716            |
| <b>Total liabilities and equity</b>             | <b>\$ 17,431,767</b> | <b>\$ 16,269,697</b> |



**Duncan N. R. Jackman**  
Chairman of the Board



**Mark Sylvia**  
President and Chief Executive Officer

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

# Interim Consolidated Statements of Operations

(unaudited, in thousands of Canadian dollars except per share amounts)

|   | For the three months ended |                  |
|---|----------------------------|------------------|
|   | March 31, 2019             | March 31, 2018   |
| <b>Revenue</b>  |                            |                  |
| Gross premiums (Note 5)   | \$ 275,185                 | \$ 243,225       |
| Premiums ceded to reinsurers (Note 5)   | (37,299)                   | (32,234)         |
| Net premiums (Note 5)   | 237,886                    | 210,991          |
| Investment income   | 74,682                     | 67,304           |
| Fair value change in fair value through profit or loss assets                               | 402,752                    | (81,667)         |
| Realized gain (loss) on fair value through profit or loss assets sold                       | 8,938                      | 3,709            |
| Realized gain (loss) on available for sale assets including impairment write downs (Note 3) | (75)                       | (2,010)          |
| Fee income  | 63,833                     | 65,459           |
| Total revenue   | 788,016                    | 263,786          |
| <b>Benefits and expenses</b>  |                            |                  |
| Gross benefits and claims paid (Note 6)   | 185,722                    | 169,552          |
| Claims recovery from reinsurers (Note 6)  | (21,285)                   | (24,079)         |
| Gross change in insurance contract liabilities (Note 6)                                     | 417,005                    | (32,515)         |
| Change in insurance contract liabilities ceded (Note 6)                                     | 44,438                     | (5,683)          |
| Change in investment contracts provision  | 106                        | 91               |
| Policy dividends  | 7,235                      | 7,138            |
| Operating expenses  | 41,501                     | 38,310           |
| Commissions   | 51,158                     | 48,476           |
| Commission recovery from reinsurers   | (2,453)                    | (896)            |
| Interest expense  | 3,556                      | 5,770            |
| Total benefits and expenses   | 726,983                    | 206,164          |
| Premium tax   | 5,212                      | 5,010            |
| Investment and capital tax  | 950                        | 900              |
| <b>Net income before income taxes</b>   | <b>54,871</b>              | <b>51,712</b>    |
| Income taxes  | 11,599                     | 11,078           |
| <b>Net income</b>   | <b>\$ 43,272</b>           | <b>\$ 40,634</b> |
| Less: net income (loss) attributable to participating policyholders                         | (3,038)                    | (1,455)          |
| Shareholders' net income (loss)   | 46,310                     | 42,089           |
| Less: preferred share dividends declared (Note 10)  | 3,374                      | 3,374            |
| <b>Common shareholders' net income</b>  | <b>\$ 42,936</b>           | <b>\$ 38,715</b> |
| Earnings per share - basic and diluted (Note 8)   | \$ 43.59                   | \$ 39.30         |
| (2,000,000 shares authorized; 985,076 shares outstanding)                                   |                            |                  |

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

# Interim Consolidated Statements of Comprehensive Income

(unaudited, in thousands of Canadian dollars)

|   | For the three months ended |                |
|---|----------------------------|----------------|
|   | March 31, 2019             | March 31, 2018 |
| <b>Net income</b>   | \$ 43,272                  | \$ 40,634      |
| <b>Other comprehensive income (loss), net of income taxes:</b>  |                            |                |
| Items that may be reclassified subsequently to net income:  |                            |                |
| Unrealized fair value change on available for sale investments (Note 7)   | 47,004                     | (7,715)        |
| Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7) | 45                         | 934            |
| Net unrealized fair value increase (decrease)   | 47,049                     | (6,781)        |
| Items that will not be reclassified to net income:  |                            |                |
| Remeasurements of post-employment benefit liabilities (Note 7)  | (266)                      | (4,268)        |
| Total other comprehensive income (loss)   | 46,783                     | (11,049)       |
| <b>Comprehensive income (loss)</b>  | \$ 90,055                  | \$ 29,585      |
| <b>Comprehensive income (loss) attributable to:</b>   |                            |                |
| Participating policyholders   | \$ 581                     | \$ (3,232)     |
| Shareholders  | 89,474                     | 32,817         |
| Total   | \$ 90,055                  | \$ 29,585      |

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

# Interim Consolidated Statements of Changes in Equity

(unaudited, in thousands of Canadian dollars)

|   | For the three months ended<br>March 31, 2019 |                |              | For the three months ended<br>March 31, 2018 |                |              |
|---|--|----------------|--------------|--|----------------|--------------|
|   | Shareholders'                                | Policyholders' | Total        | Shareholders'                                | Policyholders' | Total        |
| <b>Preferred shares (Note 9)</b>  | \$ 249,500                                   | \$ —           | \$ 249,500   | \$ 249,500                                   | \$ —           | \$ 249,500   |
| <b>Common shares (Note 9)</b>   | 985  | —              | 985          | 985  | —              | 985          |
| <b>Contributed surplus</b>  | 19,387                                       | —              | 19,387       | 19,387                                       | —              | 19,387       |
| <b>Retained earnings</b>  |  |                |              |  |                |              |
| Retained earnings - beginning of period   | 1,492,447                                    | 35,265         | 1,527,712    | 1,395,002                                    | 38,317         | 1,433,319    |
| Net income (loss)   | 46,310                                       | (3,038)        | 43,272       | 42,089                                       | (1,455)        | 40,634       |
| Common share dividends declared   | (17,181)                                     | —              | (17,181)     | (10,000)                                     | —              | (10,000)     |
| Preferred share dividends declared  | (3,374)                                      | —              | (3,374)      | (3,374)                                      | —              | (3,374)      |
| Retained earnings - end of period   | 1,518,202                                    | 32,227         | 1,550,429    | 1,423,717                                    | 36,862         | 1,460,579    |
| <b>Accumulated other comprehensive income (loss)</b>                                |  |                |              |  |                |              |
| Accumulated other comprehensive income (loss) - beginning of period                 | (15,766)                                     | 898            | (14,868)     | 12,486                                       | 4,904          | 17,390       |
| Other comprehensive income (loss)   | 43,164                                       | 3,619          | 46,783       | (9,272)                                      | (1,777)        | (11,049)     |
| Accumulated other comprehensive income (loss) - end of period                       | 27,398                                       | 4,517          | 31,915       | 3,214  | 3,127          | 6,341        |
| <b>Total equity</b>   | \$ 1,815,472                                 | \$ 36,744      | \$ 1,852,216 | \$ 1,696,803                                 | \$ 39,989      | \$ 1,736,792 |
| <b>Composition of accumulated other comprehensive income (loss) - end of period</b> |  |                |              |  |                |              |
| Unrealized gain (loss) on available for sale financial assets                       | \$ 40,322                                    | \$ 5,842       | \$ 46,164    | \$ 15,865                                    | \$ 4,132       | \$ 19,997    |
| Remeasurements of post-employment benefit liabilities                               | (13,539)                                     | (710)          | (14,249)     | (12,976)                                     | (680)          | (13,656)     |
| Shareholder portion of policyholders' accumulated other comprehensive income        | 615  | (615)          | —            | 325  | (325)          | —            |
| Total accumulated other comprehensive income (loss)                                 | \$ 27,398                                    | \$ 4,517       | \$ 31,915    | \$ 3,214                                     | \$ 3,127       | \$ 6,341     |

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

# Interim Consolidated Statements of Cash Flows

(unaudited, in thousands of Canadian dollars)

|  | For the three months ended |                   |
|--|----------------------------|-------------------|
|  | March 31, 2019             | March 31, 2018    |
| <b>Operating activities</b>  |                            |                   |
| Net income   | \$ 43,272                  | \$ 40,634         |
| Non-cash items affecting net income:   |                            |                   |
| Change in contract liabilities   | 417,111                    | (32,424)          |
| Change in reinsurance liability  | 44,438                     | (5,683)           |
| Fair value change in fair value through profit or loss assets                                | (402,752)                  | 81,667            |
| Realized (gain) loss on assets including impairment write downs on available for sale assets | (8,863)                    | (1,699)           |
| Amortization related to discount on debt instruments   | (20,048)                   | (16,816)          |
| Amortization related to property and equipment and intangible assets                         | 2,325                      | 2,070             |
| Deferred income taxes  | 524                        | 147               |
| Other items  | 19,659                     | (1,031)           |
| Cash provided from (used for) operating activities   | 95,666                     | 66,865            |
| <b>Investing activities</b>  |                            |                   |
| Portfolio investments  |                            |                   |
| Purchases and advances   | (475,682)                  | (540,033)         |
| Sales and maturities   | 415,070                    | 363,082           |
| Loans on policies  |                            |                   |
| Advances   | (2,489)                    | (1,842)           |
| Repayments   | 4,248                      | 2,526             |
| (Increase) decrease in short-term investments  | (23,848)                   | 63,045            |
| Purchase of property and equipment and intangible assets                                     | (6,979)                    | (1,178)           |
| Cash provided from (used for) investing activities   | (89,680)                   | (114,400)         |
| <b>Financing activities</b>  |                            |                   |
| Dividends paid to preferred shareholders (Note 10)   | (3,374)                    | (3,183)           |
| Interest paid on subordinated debt   | (3,664)                    | (3,664)           |
| Cash provided from (used for) financing activities   | (7,038)                    | (6,847)           |
| <b>Net change in cash and cash equivalents</b>   | <b>(1,052)</b>             | <b>(54,382)</b>   |
| <b>Cash and cash equivalents - beginning of period (Note 3)</b>                              | <b>204,921</b>             | <b>294,238</b>    |
| <b>Cash and cash equivalents - end of period (Note 3)</b>                                    | <b>\$ 203,869</b>          | <b>\$ 239,856</b> |
| Supplementary cash flow information related to operating activities:                         |                            |                   |
| Income taxes paid, net of (refunds)  | \$ 9,040                   | \$ 15,780         |
| Interest income received   | 34,033                     | 41,034            |
| Dividend income received   | 10,058                     | 9,663             |

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



# Condensed Notes to the Interim Consolidated Financial Statements

(unaudited, 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 Interim Consolidated Financial Statements were approved by the Company's Board of Directors (the Board) on May 2, 2019.

## 2. Significant Accounting Policies

### (a) Basis of preparation

These unaudited condensed Interim Consolidated Financial Statements are prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and follow the same accounting policies and methods of computation as the most recent annual financial statements. These condensed Interim Consolidated Financial Statements do not include all of the disclosures required under International Financial Reporting Standards (IFRS) for annual financial statements and should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the year ended December 31, 2018.

### (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) Accounting changes

#### (i) New accounting pronouncements adopted in 2019

##### (1) 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 adoption of IFRS 16 on January 1, 2019 did not have a significant impact on the Company's Consolidated Financial Statements.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (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 fair value through profit or loss (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 other comprehensive income (OCI).

In September 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.

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 annually 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 did not have SPPI qualifying cash flows as at December 31, 2018 included bonds and mortgages with fair values of \$20.2 million and \$11.5 million, respectively.

The Company is currently evaluating the impact of IFRS 9 and related amendment to IFRS 17 on its Consolidated Financial Statements.

### (2) IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. The IFRS 17 standard has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flow statement. The standard establishes the principles for recognition, measurement, presentation and disclosure. It defines a general measurement model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities, and it defines a specific model for contracts of one year or less.

# Condensed Notes to the Interim Consolidated Financial Statements

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

The provisions of this new standard will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements.

IFRS 17 is tentatively effective (subject to IASB due process for the approval of a 1 year deferral) for reporting periods beginning on or after January 1, 2022, with comparative figures required to be restated. The Company is currently evaluating the impact this standard will have on presentation, disclosure and measurement of the insurance contracts in the Consolidated Financial Statements.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 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  | March 31, 2019                    |                     |                      | December 31, 2018                 |                     |                      |
|--|-----------------------------------|---------------------|----------------------|-----------------------------------|---------------------|----------------------|
| Asset category                                 | Fair value through profit or loss | Available for sale  | Total carrying value | Fair value through profit or loss | Available for sale  | Total carrying value |
| <b>Cash and cash equivalents</b>               |                                   |                     |                      |                                   |                     |                      |
| Cash   | \$ 22,070                         | \$ —                | \$ 22,070            | \$ 11,418                         | \$ —                | \$ 11,418            |
| Cash equivalents                               | 181,799                           | —                   | 181,799              | 193,503                           | —                   | 193,503              |
| <b>Total cash and cash equivalents</b>         | <b>203,869</b>                    | <b>—</b>            | <b>203,869</b>       | <b>204,921</b>                    | <b>—</b>            | <b>204,921</b>       |
| <b>Short-term investments</b>                  |                                   |                     |                      |                                   |                     |                      |
| Canadian federal government                    | 18,877                            | 14,929              | 33,806               | 9,990                             | —                   | 9,990                |
| Canadian provincial governments                | 5,999                             | 3,999               | 9,998                | 5,983                             | 3,989               | 9,972                |
| Corporate                                      | 8,003                             | —                   | 8,003                | 7,997                             | —                   | 7,997                |
| <b>Total short-term investments</b>            | <b>32,879</b>                     | <b>18,928</b>       | <b>51,807</b>        | <b>23,970</b>                     | <b>3,989</b>        | <b>27,959</b>        |
| <b>Bonds</b>                                   |                                   |                     |                      |                                   |                     |                      |
| Canadian federal government                    | 96,692                            | 203,848             | 300,540              | 89,389                            | 184,088             | 273,477              |
| Canadian provincial governments                | 3,396,748                         | 488,864             | 3,885,612            | 3,109,456                         | 490,369             | 3,599,825            |
| Canadian municipal governments                 | 103,456                           | 96,596              | 200,052              | 97,472                            | 77,965              | 175,437              |
| <b>Total Canadian government bonds</b>         | <b>3,596,896</b>                  | <b>789,308</b>      | <b>4,386,204</b>     | <b>3,296,317</b>                  | <b>752,422</b>      | <b>4,048,739</b>     |
| Canadian corporate bonds by industry sector:   |                                   |                     |                      |                                   |                     |                      |
| Energy   | 84,003                            | 76,752              | 160,755              | 70,013                            | 69,565              | 139,578              |
| Materials                                      | 10,655                            | 4,207               | 14,862               | 10,321                            | —                   | 10,321               |
| Industrials                                    | 93,951                            | 66,551              | 160,502              | 81,682                            | 69,933              | 151,615              |
| Consumer discretionary                         | 21,736                            | 16,783              | 38,519               | 21,223                            | 19,024              | 40,247               |
| Consumer staples                               | 125,506                           | 69,944              | 195,450              | 113,693                           | 79,978              | 193,671              |
| Health care                                    | 83,560                            | 21,971              | 105,531              | 78,384                            | 21,183              | 99,567               |
| Financial services                             | 603,939                           | 317,250             | 921,189              | 571,147                           | 323,960             | 895,107              |
| Communication services                         | 127,345                           | 78,874              | 206,219              | 108,548                           | 76,251              | 184,799              |
| Utilities                                      | 412,173                           | 87,733              | 499,906              | 362,577                           | 67,710              | 430,287              |
| Real estate                                    | 6,933                             | 28,644              | 35,577               | 6,549                             | 31,956              | 38,505               |
| Infrastructure                                 | 280,417                           | 24,967              | 305,384              | 265,320                           | 23,378              | 288,698              |
| <b>Total Canadian corporate bonds</b>          | <b>1,850,218</b>                  | <b>793,676</b>      | <b>2,643,894</b>     | <b>1,689,457</b>                  | <b>782,938</b>      | <b>2,472,395</b>     |
| <b>Total foreign bonds</b>                     | <b>9,732</b>                      | <b>—</b>            | <b>9,732</b>         | <b>8,946</b>                      | <b>—</b>            | <b>8,946</b>         |
| <b>Total bonds</b>                             | <b>5,456,846</b>                  | <b>1,582,984</b>    | <b>7,039,830</b>     | <b>4,994,720</b>                  | <b>1,535,360</b>    | <b>6,530,080</b>     |
| <b>Total preferred shares - Canadian</b>       | <b>394,683</b>                    | <b>10,535</b>       | <b>405,218</b>       | <b>384,760</b>                    | <b>11,100</b>       | <b>395,860</b>       |
| <b>Common shares</b>                           |                                   |                     |                      |                                   |                     |                      |
| Canadian                                       |                                   |                     |                      |                                   |                     |                      |
| Canadian common shares                         | 583,953                           | 56,294              | 640,247              | 553,337                           | 51,813              | 605,150              |
| Canadian real estate limited partnership units | 111,224                           | —                   | 111,224              | 110,324                           | —                   | 110,324              |
| U.S.   | 39,556                            | —                   | 39,556               | 37,439                            | 55                  | 37,494               |
| Other  | 47,442                            | 831                 | 48,273               | 41,503                            | 652                 | 42,155               |
| <b>Total common shares</b>                     | <b>782,175</b>                    | <b>57,125</b>       | <b>839,300</b>       | <b>742,603</b>                    | <b>52,520</b>       | <b>795,123</b>       |
| <b>Total derivative assets</b>                 | <b>4,088</b>                      | <b>—</b>            | <b>4,088</b>         | <b>10,424</b>                     | <b>—</b>            | <b>10,424</b>        |
| <b>Loans and receivables</b>                   |                                   |                     |                      |                                   |                     |                      |
| Mortgages                                      | —                                 | —                   | 190,048              | —                                 | —                   | 193,074              |
| Loans on policies                              | —                                 | —                   | 52,891               | —                                 | —                   | 51,949               |
| Policy contract loans                          | —                                 | —                   | 66,489               | —                                 | —                   | 69,180               |
| <b>Total financial instruments</b>             | <b>\$ 6,874,540</b>               | <b>\$ 1,669,572</b> | <b>\$ 8,553,540</b>  | <b>\$ 6,361,398</b>               | <b>\$ 1,602,969</b> | <b>\$ 8,278,570</b>  |

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

| As at                              | March 31, 2019      |                     |                     | December 31, 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          | \$ 22,070           | \$ 181,799          | \$ 203,869          | \$ 11,418           | \$ 193,503          | \$ 204,921          |
| Short-term investments             | —                   | 32,879              | 32,879              | —                   | 23,970              | 23,970              |
| Bonds                              | —                   | 5,456,846           | 5,456,846           | —                   | 4,994,720           | 4,994,720           |
| Preferred shares                   | 394,683             | —                   | 394,683             | 384,760             | —                   | 384,760             |
| Common shares                      | 670,596             | 111,579             | 782,175             | 631,961             | 110,642             | 742,603             |
| Derivative assets                  | 4,088               | —                   | 4,088               | 9,760               | 664                 | 10,424              |
| Available for sale:                |                     |                     |                     |                     |                     |                     |
| Short-term investments             | —                   | 18,928              | 18,928              | —                   | 3,989               | 3,989               |
| Bonds                              | —                   | 1,582,984           | 1,582,984           | —                   | 1,535,360           | 1,535,360           |
| Preferred shares                   | 10,535              | —                   | 10,535              | 11,100              | —                   | 11,100              |
| Common shares                      | 57,125              | —                   | 57,125              | 52,520              | —                   | 52,520              |
| Loans and Receivables              |                     |                     |                     |                     |                     |                     |
| Mortgages                          | —                   | 195,068             | 195,068             | —                   | 193,391             | 193,391             |
| Loans on policies                  | —                   | 52,891              | 52,891              | —                   | 51,949              | 51,949              |
| Policy contract loans              | —                   | 66,489              | 66,489              | —                   | 69,180              | 69,180              |
| <b>Total</b>                       | <b>\$ 1,159,097</b> | <b>\$ 7,699,463</b> | <b>\$ 8,858,560</b> | <b>\$ 1,101,519</b> | <b>\$ 7,177,368</b> | <b>\$ 8,278,887</b> |

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 period ended March 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 15.

## (b) Impairments

For the three months ended March 31, 2019, the Company reclassified a pre-tax loss of \$nil from OCI to net income due to write downs of impaired available for sale (AFS) common and preferred shares (for the three months ended March 31, 2018, \$nil). 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 15.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (c) 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                     | March 31, 2019     |                   |                        | December 31, 2018  |                   |                        |
|---------------------------|--------------------|-------------------|------------------------|--------------------|-------------------|------------------------|
|                           | Notional principal | Fair value assets | Fair value liabilities | Notional principal | Fair value assets | Fair value liabilities |
| Exchange-traded           |                    |                   |                        |                    |                   |                        |
| Equity index futures      | \$ 45,192          | \$ 590            | \$ 5                   | \$ 42,968          | \$ 458            | \$ 53                  |
| Equity options            | 509,405            | 3,362             | —                      | 431,459            | 9,302             | —                      |
| Over-the-counter          |                    |                   |                        |                    |                   |                        |
| Foreign currency forwards | 32,513             | 136               | 43                     | 32,896             | 664               | —                      |
| Cross currency swaps      | 16,839             | —                 | 410                    | 16,839             | —                 | 707                    |
| <b>Total</b>              | <b>\$ 603,949</b>  | <b>\$ 4,088</b>   | <b>\$ 458</b>          | <b>\$ 524,162</b>  | <b>\$ 10,424</b>  | <b>\$ 760</b>          |

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 15.

## (d) 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.

# Condensed Notes to the Interim Consolidated Financial Statements

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

As at March 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                        | March 31, 2019 |                  |              | December 31, 2018 |                  |              |
|------------------------------|----------------|------------------|--------------|-------------------|------------------|--------------|
|                              | General Funds  | Segregated Funds | Total        | General Funds     | Segregated Funds | Total        |
| Value of securities loaned   | \$ 967,701     | \$ 1,359,400     | \$ 2,327,101 | \$ 989,557        | \$ 1,282,600     | \$ 2,272,157 |
| Value of collateral received | \$ 987,331     | \$ 1,386,708     | \$ 2,374,039 | \$ 1,009,925      | \$ 1,308,299     | \$ 2,318,224 |

## 4. Segregated Funds

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

| As at  | March 31, 2019      | December 31, 2018   |
|--|---------------------|---------------------|
| Cash and cash equivalents                                  | \$ 7,015            | \$ 22,220           |
| Short-term investments                                     | 671,776             | 496,849             |
| Bonds  | 1,605,959           | 1,512,174           |
| Common and preferred shares                                | 6,173,751           | 5,832,553           |
| Other net assets   | 18,084              | 19,418              |
|  | <b>8,476,585</b>    | <b>7,883,214</b>    |
| Less segregated funds held within general fund investments | (65,899)            | (60,424)            |
| <b>Total</b>   | <b>\$ 8,410,686</b> | <b>\$ 7,822,790</b> |

(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                       | March 31, 2019      |                     |                     | December 31, 2018   |                     |                     |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                             | Level 1             | Level 2             | Total               | Level 1             | Level 2             | Total               |
| Cash and cash equivalents   | \$ 7,015            | \$ —                | \$ 7,015            | \$ 22,220           | \$ —                | \$ 22,220           |
| Short-term investments      | —                   | 671,776             | 671,776             | —                   | 496,849             | 496,849             |
| Bonds                       | —                   | 1,605,959           | 1,605,959           | —                   | 1,512,174           | 1,512,174           |
| Common and preferred shares | 6,173,751           | —                   | 6,173,751           | 5,829,250           | 3,303               | 5,832,553           |
| <b>Total</b>                | <b>\$ 6,180,766</b> | <b>\$ 2,277,735</b> | <b>\$ 8,458,501</b> | <b>\$ 5,851,470</b> | <b>\$ 2,012,326</b> | <b>\$ 7,863,796</b> |

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2019 or during the year ended December 31, 2018. There were no level 3 investments as at March 31, 2019 or December 31, 2018.

# Condensed Notes to the Interim Consolidated Financial Statements

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

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

|   | For the three months ended |                |
|---|----------------------------|----------------|
|   | March 31, 2019             | March 31, 2018 |
| Segregated fund assets - beginning of period                        | \$ 7,822,790               | \$ 8,681,892   |
| Additions to segregated funds:                                      |                            |                |
| Amount received from policyholders                                  | 227,515                    | 275,091        |
| Interest  | 15,703                     | 12,490         |
| Dividends   | 32,894                     | 30,583         |
| Other income  | 6,089                      | 46,358         |
| Net realized gains on sale of investments                           | 45,388                     | 23,629         |
| Net unrealized increase in fair value of investments                | 629,100                    | —              |
|   | 956,689                    | 388,151        |
| Deductions from segregated funds:                                   |                            |                |
| Amounts withdrawn or transferred by policyholders                   | 311,700                    | 310,415        |
| Net unrealized decrease in fair value of investments                | —                          | 297,237        |
| Management fees and other operating costs                           | 51,618                     | 56,883         |
|   | 363,318                    | 664,535        |
| Net change in segregated funds held within general fund investments | (5,475)                    | (25)           |
| Segregated fund assets - end of period                              | \$ 8,410,686               | \$ 8,405,483   |

## (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. The impact of market risk in segregated funds on shareholders' net income is disclosed in Note 15.

## 5. Insurance Premiums

|                                | For the three months ended |                   |            | For the three months ended |                   |            |
|--------------------------------|----------------------------|-------------------|------------|----------------------------|-------------------|------------|
|                                | March 31, 2019             |                   |            | March 31, 2018             |                   |            |
|                                | Gross                      | Reinsurance ceded | Net        | Gross                      | Reinsurance ceded | Net        |
| Life premiums                  | \$ 126,561                 | \$ (27,019)       | \$ 99,542  | \$ 121,217                 | \$ (24,327)       | \$ 96,890  |
| Health premiums                | 95,268                     | (10,581)          | 84,687     | 90,164                     | (7,865)           | 82,299     |
| Total life and health premiums | 221,829                    | (37,600)          | 184,229    | 211,381                    | (32,192)          | 179,189    |
| Annuity premiums               | 53,356                     | 301               | 53,657     | 31,844                     | (42)              | 31,802     |
| Total insurance premiums       | \$ 275,185                 | \$ (37,299)       | \$ 237,886 | \$ 243,225                 | \$ (32,234)       | \$ 210,991 |



# Condensed Notes to the Interim Consolidated Financial Statements

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

## 6. Benefits and Expenses

### (a) Insurance contract benefits and claims paid

|                              | For the three months ended<br>March 31, 2019 |                      |            | For the three months ended<br>March 31, 2018 |                      |            |
|------------------------------|--|----------------------|------------|--|----------------------|------------|
|                              | Gross  | Reinsurance<br>ceded | Net        | Gross  | Reinsurance<br>ceded | Net        |
| Life claims                  | \$ 55,642                                    | \$ (15,258)          | \$ 40,384  | \$ 54,651                                    | \$ (19,373)          | \$ 35,278  |
| Health claims                | 64,618                                       | (5,225)              | 59,393     | 61,710                                       | (4,028)              | 57,682     |
| Total life and health claims | 120,260                                      | (20,483)             | 99,777     | 116,361                                      | (23,401)             | 92,960     |
| Annuity benefits             | 65,462                                       | (802)                | 64,660     | 53,191                                       | (678)                | 52,513     |
| Benefits and claims paid     | \$ 185,722                                   | \$ (21,285)          | \$ 164,437 | \$ 169,552                                   | \$ (24,079)          | \$ 145,473 |

### (b) Change in insurance contract liabilities and reinsurance ceded

|  | For the three months ended<br>March 31, 2019 |                      |            | For the three months ended<br>March 31, 2018 |                      |             |
|--|--|----------------------|------------|--|----------------------|-------------|
|  | Gross  | Reinsurance<br>ceded | Net        | Gross  | Reinsurance<br>ceded | Net         |
| Life                                     | \$ 380,239                                   | \$ 47,829            | \$ 428,068 | \$ (13,921)                                  | \$ (4,296)           | \$ (18,217) |
| Health                                   | 23,243                                       | (3,217)              | 20,026     | (2,829)                                      | (24)                 | (2,853)     |
| Total life and health                    | 403,482                                      | 44,612               | 448,094    | (16,750)                                     | (4,320)              | (21,070)    |
| Annuity                                  | 13,523                                       | (174)                | 13,349     | (15,765)                                     | (1,363)              | (17,128)    |
| Change in insurance contract liabilities | \$ 417,005                                   | \$ 44,438            | \$ 461,443 | \$ (32,515)                                  | \$ (5,683)           | \$ (38,198) |
| Change attributable to:                  |  |                      |            |  |                      |             |
| Normal changes - New Business            | 24,210                                       | (309)                | 23,901     | 9,042  | (205)                | 8,837       |
| - In-Force Business                      | 392,795                                      | 44,747               | 437,542    | (41,557)                                     | (5,478)              | (47,035)    |
| Change in insurance contract liabilities | \$ 417,005                                   | \$ 44,438            | \$ 461,443 | \$ (32,515)                                  | \$ (5,683)           | \$ (38,198) |

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 7. Income Taxes included in Other Comprehensive Income (Loss)

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 three months ended<br>March 31, 2019 |                             |                  | For the three months ended<br>March 31, 2018 |                             |                    |
|--|--|-----------------------------|------------------|--|-----------------------------|--------------------|
|  | Before tax                                   | Tax provision<br>(recovery) | After tax        | Before tax                                   | Tax provision<br>(recovery) | After tax          |
| Unrealized fair value change on available for sale investments   | \$ 64,134                                    | \$ 17,130                   | \$ 47,004        | \$ (10,532)                                  | \$ (2,817)                  | \$ (7,715)         |
| Fair value change on available for sale investments reclassified to net income, including impairment write downs | 73   | 28                          | 45               | 1,342  | 408                         | 934                |
| Remeasurements of post-employment benefit liabilities  | (363)  | (97)                        | (266)            | (5,820)                                      | (1,552)                     | (4,268)            |
| <b>Total other comprehensive income (loss)</b>   | <b>\$ 63,844</b>                             | <b>\$ 17,061</b>            | <b>\$ 46,783</b> | <b>\$ (15,010)</b>                           | <b>\$ (3,961)</b>           | <b>\$ (11,049)</b> |

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

|  | For the three months ended<br>March 31, 2019 |                             |                  | For the three months ended<br>March 31, 2018 |                             |                   |
|--|--|-----------------------------|------------------|--|-----------------------------|-------------------|
|  | Before tax                                   | Tax provision<br>(recovery) | After tax        | Before tax                                   | Tax provision<br>(recovery) | After tax         |
| Unrealized fair value change on available for sale investments   | \$ 58,653                                    | \$ 15,666                   | \$ 42,987        | \$ (8,324)                                   | \$ (2,226)                  | \$ (6,098)        |
| Fair value change on available for sale investments reclassified to net income, including impairment write downs | 206  | 63                          | 143              | 1,474  | 445                         | 1,029             |
| Remeasurements of post-employment benefit liabilities  | (349)  | (93)                        | (256)            | (5,554)                                      | (1,481)                     | (4,073)           |
| Shareholder portion of policyholder other comprehensive income (loss)  | 396  | 106                         | 290              | (179)  | (49)                        | (130)             |
| <b>Total other comprehensive income (loss)</b>   | <b>\$ 58,906</b>                             | <b>\$ 15,742</b>            | <b>\$ 43,164</b> | <b>\$ (12,583)</b>                           | <b>\$ (3,311)</b>           | <b>\$ (9,272)</b> |

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

|  | For the three months ended<br>March 31, 2019 |                             |                 | For the three months ended<br>March 31, 2018 |                             |                   |
|--|--|-----------------------------|-----------------|--|-----------------------------|-------------------|
|  | Before tax                                   | Tax provision<br>(recovery) | After tax       | Before tax                                   | Tax provision<br>(recovery) | After tax         |
| Unrealized fair value change on available for sale investments   | \$ 5,481                                     | \$ 1,464                    | \$ 4,017        | \$ (2,208)                                   | \$ (591)                    | \$ (1,617)        |
| Fair value change on available for sale investments reclassified to net income, including impairment write downs | (133)  | (35)                        | (98)            | (132)  | (37)                        | (95)              |
| Remeasurements of post-employment benefit liabilities  | (14)   | (4)                         | (10)            | (266)  | (71)                        | (195)             |
| Shareholder portion of policyholder other comprehensive income (loss)  | (396)  | (106)                       | (290)           | 179  | 49                          | 130               |
| <b>Total other comprehensive income (loss)</b>   | <b>\$ 4,938</b>                              | <b>\$ 1,319</b>             | <b>\$ 3,619</b> | <b>\$ (2,427)</b>                            | <b>\$ (650)</b>             | <b>\$ (1,777)</b> |

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 8. Earnings Per Share

Earnings per share (EPS) is calculated by dividing common shareholders' net income by the weighted average number of common shares outstanding. The preferred shares do not dilute EPS as the shares are not convertible into common shares.

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

|  | For the three months ended |                |
|--|----------------------------|----------------|
|  | March 31, 2019             | March 31, 2018 |
| Basic and diluted EPS                                |                            |                |
| Common shareholders' net income                      | \$ 42,936                  | \$ 38,715      |
| Weighted average number of common shares outstanding | 985,076                    | 985,076        |
| Basic and diluted EPS                                | \$ 43.59                   | \$ 39.30       |

## 9. Capital Stock

| As at            | March 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.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 10. Dividends

|  | Dividend declaration date | Shares issued and outstanding | Dividend rate per share | Total dividend (\$ 000's) | Dividend payment date |
|--|---------------------------|-------------------------------|-------------------------|---------------------------|-----------------------|
| <b>Common shareholder dividends</b>    |                           |                               |                         |                           |                       |
| <b>Common shares</b>                   | February 27, 2019         | 985,076 \$                    | 17.440800 \$            | 17,181                    | 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         |
| <b>Preferred shareholder dividends</b> |                           |                               |                         |                           |                       |
| <b>Series 1</b>                        | 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        |
| <b>Series 3</b>                        | 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 May 2, 2019, subsequent to the date of these Interim Consolidated Financial Statements, the Board approved the following cash dividends:

- \$17,181 (\$17.4408 per share) on the issued and outstanding Common Shares, payable on June 11, 2019.
- \$2,149 (\$0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on July 17, 2019.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on July 17, 2019.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 11. 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 and fixed annuities.

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 three months ended March 31, 2019 |                   |                      |                   |            |
|--|---|-------------------|----------------------|-------------------|------------|
|  | Wealth Management                         | Employee Benefits | Individual Insurance | Capital & Surplus | Total      |
| Net premiums from external customers   | \$ 53,657                                 | \$ 88,151         | \$ 96,078            | \$ —              | \$ 237,886 |
| Interest income  | 7,701                                     | 1,738             | 42,047               | 13,857            | 65,343     |
| Total investment income  | 9,859                                     | 1,054             | 47,807               | 15,962            | 74,682     |
| Fair value change in fair value through profit or loss assets                      | 20,175                                    | 1,101             | 383,751              | (2,275)           | 402,752    |
| Realized gain (loss) on fair value through profit or loss assets                   | (841)                                     | 255               | 10,995               | (1,471)           | 8,938      |
| Realized gain (loss) on available for sale assets including impairment write downs | —   | —                 | 89                   | (164)             | (75)       |
| Fee income from external customers   | 60,963                                    | 2,849             | 105                  | (84)              | 63,833     |
| Net benefits and claims  | 64,660                                    | 60,610            | 39,167               | —                 | 164,437    |
| Net change in insurance contract liabilities                                       | 13,349                                    | 3,362             | 444,732              | —                 | 461,443    |
| Change in investment contract provision  | 106                                       | —                 | —                    | —                 | 106        |
| Policy dividends   | —   | —                 | 7,235                | —                 | 7,235      |
| Amortization of property and equipment and intangibles                             | 590                                       | 582               | 1,153                | —                 | 2,325      |
| Total operating expenses   | 16,272                                    | 11,731            | 13,139               | 359               | 41,501     |
| Net commission expense   | 20,980                                    | 9,741             | 17,984               | —                 | 48,705     |
| Interest expense   | —   | —                 | —                    | 3,556             | 3,556      |
| Premium tax  | —   | 2,234             | 2,978                | —                 | 5,212      |
| Investment and capital tax   | —   | —                 | 950                  | —                 | 950        |
| Income tax expense (recovery)  | 7,101                                     | 1,482             | 1,417                | 1,599             | 11,599     |
| Net income (loss) after tax  | 21,345                                    | 4,250             | 11,223               | 6,454             | 43,272     |

# Condensed Notes to the Interim Consolidated Financial Statements

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

|  | For the three months ended March 31, 2018 |                   |                      |                   |            |
|--|---|-------------------|----------------------|-------------------|------------|
|  | Wealth Management                         | Employee Benefits | Individual Insurance | Capital & Surplus | Total      |
| Net premiums from external customers   | \$ 31,802                                 | \$ 85,592         | \$ 93,597            | \$ —              | \$ 210,991 |
| Interest income  | 7,330                                     | 1,321             | 37,138               | 12,620            | 58,409     |
| Total investment income  | 9,359                                     | 902               | 42,100               | 14,943            | 67,304     |
| Fair value change in fair value through profit or loss assets                      | (4,910)                                   | (358)             | (74,514)             | (1,885)           | (81,667)   |
| Realized gain (loss) on fair value through profit or loss assets                   | (62)                                      | —                 | 3,771                | —                 | 3,709      |
| Realized gain (loss) on available for sale assets including impairment write downs | 4   | 4                 | (40)                 | (1,978)           | (2,010)    |
| Fee income from external customers   | 62,698                                    | 2,629             | 115                  | 17                | 65,459     |
| Net benefits and claims  | 52,513                                    | 59,025            | 33,935               | —                 | 145,473    |
| Net change in insurance contract liabilities                                       | (17,128)                                  | (3,842)           | (17,228)             | —                 | (38,198)   |
| Change in investment contract provision  | 91  | —                 | —                    | —                 | 91         |
| Policy dividends   | —   | —                 | 7,138                | —                 | 7,138      |
| Amortization of property and equipment and intangibles                             | 515                                       | 472               | 1,083                | —                 | 2,070      |
| Total operating expenses   | 14,520                                    | 10,603            | 12,839               | 348               | 38,310     |
| Net commission expense   | 23,436                                    | 9,066             | 15,078               | —                 | 47,580     |
| Interest expense   | —   | —                 | —                    | 5,770             | 5,770      |
| Premium tax  | —   | 2,150             | 2,860                | —                 | 5,010      |
| Investment and capital tax   | —   | —                 | 900                  | —                 | 900        |
| Income tax expense (recovery)  | 6,458                                     | 3,294             | 585                  | 741               | 11,078     |
| Net income (loss) after tax  | 19,001                                    | 8,473             | 8,922                | 4,238             | 40,634     |

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

| As at                             | March 31, 2019      |                   |                      |                     |                      |
|-----------------------------------|---------------------|-------------------|----------------------|---------------------|----------------------|
|                                   | Wealth Management   | Employee Benefits | Individual Insurance | Capital & Surplus   | Total                |
| Assets excluding segregated funds | \$ 968,974          | \$ 156,887        | \$ 5,530,064         | \$ 2,365,156        | \$ 9,021,081         |
| Segregated funds                  | 8,392,299           | —                 | 18,387               | —                   | 8,410,686            |
| <b>Total assets</b>               | <b>\$ 9,361,273</b> | <b>\$ 156,887</b> | <b>\$ 5,548,451</b>  | <b>\$ 2,365,156</b> | <b>\$ 17,431,767</b> |

| As at                             | 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            |
| <b>Total assets</b>               | <b>\$ 8,750,124</b> | <b>\$ 153,194</b> | <b>\$ 5,074,974</b>  | <b>\$ 2,291,405</b> | <b>\$ 16,269,697</b> |

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.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## 12. Investment Commitments

In the normal course of business, outstanding investment commitments are not reflected in the Consolidated Financial Statements. There was \$28,000 (December 31, 2018, \$13,000) of outstanding commitments as at March 31, 2019. These outstanding commitments are payable at any time up to and including April 30, 2021.

## 13. Subordinated Debt

On May 31, 2018, the Company redeemed all of the outstanding 2.870% subordinated debentures due May 31, 2023 for 100% of their principal amount of \$300,000 plus accrued interest to the redemption date.

## 14. Capital Management

The Company manages 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 capital ratios as determined under the LICAT framework are not comparable to the ratios as determined under the previous capital regime. The regulator has established a Supervisory Target Total Ratio of 100% and a Supervisory Target Core Ratio of 70%. As at March 31, 2019, the Company was in compliance with these ratios.

## 15. Risk Management

The Company is exposed to risks arising from its investing activities and its insurance operations and to general reputational risk associated with these activities and its ability to manage specific risks. The 2018 Annual Report describes the Company's enterprise risk management framework including 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 may differ materially from these estimates for a variety of reasons, including the interaction among these factors when more than one factor changes; changes in actuarial and investment return and future investment activity assumptions; actual experience differing from the assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of the Company's internal models used for purposes of these calculations. Changes due to new sales or maturities, asset purchases/sales, or other management actions could also result in material changes to these reported sensitivities. For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined, and should not be viewed as predictors for the Company's future net income, OCI, and capital sensitivities. Changes in risk variables in excess of the ranges illustrated may result in other than proportionate impacts.

### (a) Market risk

The Company's most significant market risks are equity risk, interest rate risk and foreign exchange rate risk. Information related to market risk sensitivities should be read in conjunction with the information contained in the Risk Management section of the Company's 2018 Annual Report.

# Condensed Notes to the Interim Consolidated Financial Statements

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

## (1) Equity risk

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. For segregated fund guarantees the level of sensitivity is highly dependent on the level of the stock market at the time of performing the estimate. If period end equity markets are high relative to market levels at the time that segregated fund policies were issued, the sensitivity is reduced. If period end equity markets are low relative to market levels at the time that segregated fund policies were issued, the sensitivity is increased. The amounts shown below for segregated fund guarantees represent the impact on shareholders' net income.

|  | As at March 31, 2019 |              |              |              |
|--|----------------------|--------------|--------------|--------------|
|  | 10% Increase         | 10% Decrease | 20% Increase | 20% Decrease |
| Shareholders' net income (including segregated fund guarantees)* | \$ 16,325            | \$ (19,520)  | \$ 36,299    | \$ (62,595)  |
| Policyholders' net income  | \$ nil               | \$ nil       | \$ nil       | \$ nil       |
| Shareholders' other comprehensive income                         | \$ 2,786             | \$ (2,786)   | \$ 5,572     | \$ (5,572)   |
| Policyholders' other comprehensive income                        | \$ 1,401             | \$ (1,401)   | \$ 2,802     | \$ (2,802)   |

  

|  | As at March 31, 2018 |              |              |              |
|--|----------------------|--------------|--------------|--------------|
|  | 10% Increase         | 10% Decrease | 20% Increase | 20% Decrease |
| Shareholders' net income (including segregated fund guarantees)* | \$ 2,025             | \$ (14,880)  | \$ 8,195     | \$ (128,225) |
| Policyholders' net income  | \$ nil               | \$ nil       | \$ nil       | \$ nil       |
| Shareholders' other comprehensive income                         | \$ 2,205             | \$ (2,205)   | \$ 4,410     | \$ (4,410)   |
| Policyholders' other comprehensive income                        | \$ 1,764             | \$ (1,764)   | \$ 3,527     | \$ (3,527)   |

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

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

| As at  | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| Holdings of common equities in the 10 issuers to which the Company had the greatest exposure | \$ 364,532     | \$ 352,369        |
| Percentage of total cash and investments   | 4.1%           | 4.3%              |
| Exposure to the largest single issuer of common equities                                     | \$ 111,224     | \$ 110,324        |
| Percentage of total cash and investments   | 1.3%           | 1.3%              |

## (2) Interest rate risk

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 March 31, 2019 |                 |                  |                  |
|---|----------------------|-----------------|------------------|------------------|
|   | 50 bps Increase      | 50 bps Decrease | 100 bps Increase | 100 bps Decrease |
| Shareholders' net income                  | \$ 7,101             | \$ (7,801)      | \$ 13,574        | \$ (16,381)      |
| Policyholders' net income                 | \$ 223               | \$ (243)        | \$ 428           | \$ (509)         |
| Shareholders' other comprehensive income  | \$ (41,505)          | \$ 49,240       | \$ (75,276)      | \$ 106,214       |
| Policyholders' other comprehensive income | \$ (1,865)           | \$ 2,059        | \$ (3,537)       | \$ 4,311         |



# Condensed Notes to the Interim Consolidated Financial Statements

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

|   | As at March 31, 2018 |                 |                  |                  |
|---|----------------------|-----------------|------------------|------------------|
|   | 50 bps Increase      | 50 bps Decrease | 100 bps Increase | 100 bps Decrease |
| Shareholders' net income                  | \$ 12,774            | \$ (14,228)     | \$ 24,261        | \$ (30,102)      |
| Policyholders' net income                 | \$ 172               | \$ (187)        | \$ 329           | \$ (392)         |
| Shareholders' other comprehensive income  | \$ (41,148)          | \$ 48,531       | \$ (74,914)      | \$ 104,444       |
| Policyholders' other comprehensive income | \$ (1,772)           | \$ 1,954        | \$ (3,361)       | \$ 4,091         |

### (3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at March 31, 2019, a 10% fluctuation in the US dollar would have an impact of approximately \$nil (March 31, 2018, \$nil) on net income, \$nil (March 31, 2018, \$nil) on shareholders' OCI and \$nil (March 31, 2018, \$nil) on policyholders' OCI. The Company's exposure to foreign currency risk in its financial liabilities is not material.

### (b) Credit risk

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

| As at                     | March 31, 2019      | December 31, 2018   |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 203,869          | \$ 204,921          |
| Short-term investments    | 51,807              | 27,959              |
| Bonds                     | 7,039,830           | 6,530,080           |
| Preferred shares          | 405,218             | 395,860             |
| Derivative assets         | 4,088               | 10,424              |
| Mortgages                 | 190,048             | 193,074             |
| Reinsurance               | 99,418              | 95,975              |
| Loans on policies         | 52,891              | 51,949              |
| Policy contract loans     | 66,489              | 69,180              |
| Accrued investment income | 46,589              | 35,388              |
| Insurance receivables     | 31,226              | 46,701              |
| Trade accounts receivable | 32,875              | 14,326              |
| <b>Total</b>              | <b>\$ 8,224,348</b> | <b>\$ 7,675,837</b> |

The Company participates in a securities lending program with its custodian. For further information on the program, refer to Note 3(d).

### Concentration of credit risk

#### (1) Bonds and debentures

The concentration of the Company's bond portfolio by investment grade is as follows:

| As at                   | March 31, 2019      |                 | December 31, 2018   |                 |
|-------------------------|---------------------|-----------------|---------------------|-----------------|
|                         | Fair value          | % of Fair value | Fair value          | % of Fair value |
| AAA                     | \$ 307,865          | 4%              | \$ 281,470          | 4%              |
| AA                      | 668,151             | 9%              | 628,471             | 10%             |
| A                       | 4,939,758           | 71%             | 4,561,261           | 70%             |
| BBB (and lower ratings) | 1,124,056           | 16%             | 1,058,878           | 16%             |
| <b>Total</b>            | <b>\$ 7,039,830</b> | <b>100%</b>     | <b>\$ 6,530,080</b> | <b>100%</b>     |

# Condensed Notes to the Interim Consolidated Financial Statements

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

Credit ratings are normally obtained from Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). In the event of a split rating, the lower rating is used. Issues not rated by a recognized rating agency (i.e. S&P, DBRS, or Moody's) are rated internally by the Investment Department. The internal rating assessment is documented referencing suitable comparable investments rated by recognized rating agencies and/or methodologies used by recognized rating agencies.

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

| As at                             | March 31, 2019 |           | December 31, 2018 |           |
|-----------------------------------|----------------|-----------|-------------------|-----------|
| Provincial bond holdings          | \$             | 3,885,612 | \$                | 3,599,825 |
| Percentage of total bond holdings |                | 55.2%     |                   | 55.1%     |

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

| As at          | March 31, 2019      |                 | December 31, 2018   |                 |
|----------------|---------------------|-----------------|---------------------|-----------------|
|                | Fair value          | % of Fair value | Fair value          | % of Fair value |
| 1 year or less | \$ 100,798          | 1%              | \$ 87,560           | 1%              |
| 1 - 5 years    | 819,210             | 12%             | 810,260             | 12%             |
| 5 - 10 years   | 739,290             | 11%             | 743,107             | 11%             |
| Over 10 years  | 5,380,532           | 76%             | 4,889,153           | 76%             |
| <b>Total</b>   | <b>\$ 7,039,830</b> | <b>100%</b>     | <b>\$ 6,530,080</b> | <b>100%</b>     |

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   | March 31, 2019 |           | December 31, 2018 |           |
|---|----------------|-----------|-------------------|-----------|
| Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure | \$             | 4,513,714 | \$                | 4,248,837 |
| Percentage of total cash and investments  |                | 51.0%     |                   | 51.3%     |
| Exposure to the largest single issuer of corporate bonds  | \$             | 190,933   | \$                | 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% (December 31, 2018, 1%) of these investments rated as P1 and the remaining 99% (December 31, 2018, 99%) rated as P2.

## (3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$188,636 or 99% (December 31, 2018, \$193,074 or 100%) of the total mortgage portfolio.

# 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.

# Glossary of Terms

(unaudited)

## Experience Gains and Losses

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

## Fair Value Through Profit or Loss (FVTPL)

Invested assets are classified as financial instruments at FVTPL if they are held for trading, or if they are designated by management under the fair value option. Most financial assets supporting insurance contract liabilities and investment contract liabilities are classified as FVTPL.

## Impact on New Business

Writing new business typically adds economic value to a life insurance company. At the point of sale, new business may have a positive or negative impact on earnings. A negative impact (new business strain) will result when the provision for adverse deviation included in the actuarial liabilities at the point of sale exceeds the expected profit margin in the product pricing. The impact of new business also includes any excess acquisition expenses not covered by product pricing at the point of issue.

## International Financial Reporting Standards (IFRS)

Refers to the international accounting standards that were adopted in Canada, effective January 1, 2011; these are now Canadian Generally Accepted Accounting Principles (CGAAP) for publicly accountable enterprises.

## 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.

## 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.

**This page has been left blank intentionally.**

# EMPIRE LIFE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Empire Life is among the top 10 life insurance companies in Canada<sup>1</sup> and is rated A (Excellent) by A.M. Best Company<sup>2</sup>. 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.

Follow Empire Life on Twitter @EmpireLife or visit our website, [www.empire.ca](http://www.empire.ca) for more information.

<sup>1</sup> Globe and Mail Report on Business, June 2018, based on revenue

<sup>2</sup> As at June 7, 2018. For the latest rating, access [www.ambest.com](http://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](http://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](mailto: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.

© Registered trademark of **The Empire Life Insurance Company**.

™ Trademark of The Empire Life Insurance Company.

Policies are issued by The Empire Life Insurance Company.

Insurance & Investments - Simple. Fast. Easy®  
[www.empire.ca](http://www.empire.ca) [info@empire.ca](mailto:info@empire.ca)



A-0004-ENG-05/19