

# The Empire Life Insurance Company

## **Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 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	11
4. Segregated Funds	14
5. Insurance Premiums	15
6. Benefits and Expenses	16
7. Income Taxes included in Other Comprehensive Income (Loss)	17
8. Earnings Per Share	18
9. Capital Stock	18
10. Dividends	19
11. Segmented Information	20
12. Investment Commitments	22
13. Capital Management	22
14. Risk Management	22
Glossary of Terms	26

# Interim Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

As at	March 31, 2020	December 31, 2019
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 152,073	\$ 140,333
Investments		
Short-term investments (Note 3)	5,999	32,384
Bonds (Note 3)	7,331,629	7,509,652
Preferred shares (Note 3)	419,018	474,029
Common shares (Note 3)	715,470	842,029
Derivative assets (Note 3)	32,032	2,930
Mortgages (Note 3)	165,330	169,827
Loans on policies (Note 3)	55,881	55,363
Policy contract loans (Note 3)	66,730	66,520
<b>Total cash and cash equivalents and investments</b>	<b>8,944,162</b>	<b>9,293,067</b>
Accrued investment income	47,038	35,401
Insurance receivables	38,948	48,728
Current income taxes	34,191	—
Other assets	34,630	23,096
Property and equipment	21,473	22,016
Intangible assets	22,927	22,357
Investment in associate	18,132	17,541
Segregated fund assets (Note 4)	7,065,012	8,498,583
<b>Total assets</b>	<b>\$ 16,226,513</b>	<b>\$ 17,960,789</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 211,217	\$ 106,037
Insurance payables	114,245	95,578
Current income taxes payable	—	44,592
Reinsurance liabilities	668,482	698,372
Insurance contract liabilities	5,890,663	6,073,868
Investment contract liabilities	28,815	28,866
Policyholders' funds on deposit	34,507	34,224
Provision for profits to policyholders	33,397	32,924
Deferred income taxes	8,368	8,805
Subordinated debt	399,183	399,098
Segregated fund policy liabilities	7,065,012	8,498,583
<b>Total liabilities</b>	<b>14,453,889</b>	<b>16,020,947</b>
<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	1,487,646	1,636,152
Accumulated other comprehensive income	15,106	33,818
<b>Total equity</b>	<b>1,772,624</b>	<b>1,939,842</b>
<b>Total liabilities and equity</b>	<b>\$ 16,226,513</b>	<b>\$ 17,960,789</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, 2020	March 31, 2019
<b>Revenue</b>		
Gross premiums (Note 5)	\$ 270,702	\$ 275,185
Premiums ceded to reinsurers (Note 5)	(54,904)	(37,299)
Net premiums (Note 5)	215,798	237,886
Investment income	80,951	74,682
Fair value change in fair value through profit or loss assets	(398,594)	402,752
Realized gain (loss) on fair value through profit or loss assets sold	33,728	8,938
Realized gain (loss) on available for sale assets including impairment write downs (Note 3)	4,674	(75)
Fee income	65,285	63,833
Total revenue	1,842	788,016
<b>Benefits and expenses</b>		
Gross benefits and claims paid (Note 6)	183,000	185,722
Claims recovery from reinsurers (Note 6)	(28,545)	(21,285)
Gross change in insurance contract liabilities (Note 6)	(183,205)	417,005
Change in insurance contract liabilities ceded (Note 6)	(29,890)	44,438
Change in investment contracts provision	333	106
Policy dividends	7,412	7,235
Operating expenses	42,503	41,501
Commissions	57,056	51,158
Commission recovery from reinsurers	(8,284)	(2,453)
Interest expense	3,560	3,556
Total benefits and expenses	43,940	726,983
Premium tax	4,650	5,212
Investment and capital tax	825	950
<b>Net income before income taxes</b>	<b>(47,573)</b>	<b>54,871</b>
Income taxes	(14,184)	11,599
<b>Net income</b>	<b>\$ (33,389)</b>	<b>\$ 43,272</b>
Less: net income (loss) attributable to participating policyholders	(5,189)	(3,038)
Shareholders' net income (loss)	(28,200)	46,310
Less: preferred share dividends declared (Note 10)	3,374	3,374
<b>Common shareholders' net income</b>	<b>\$ (31,574)</b>	<b>\$ 42,936</b>
Earnings per share - basic and diluted (Note 8)	\$ (32.05)	\$ 43.59
(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, 2020	March 31, 2019
<b>Net income</b>	\$ (33,389)	\$ 43,272
<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)	(16,181)	47,004
Fair value change on available for sale investments reclassified to net income, including impairment write downs (Note 7)	(3,430)	45
Net unrealized fair value increase (decrease)	(19,611)	47,049
Items that will not be reclassified to net income:		
Remeasurements of post-employment benefit liabilities (Note 7)	899	(266)
Total other comprehensive income (loss)	(18,712)	46,783
<b>Comprehensive income (loss)</b>	\$ (52,101)	\$ 90,055
<b>Comprehensive income (loss) attributable to:</b>		
Participating policyholders	\$ (6,338)	\$ 581
Shareholders	(45,763)	89,474
Total	\$ (52,101)	\$ 90,055

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 March 31, 2020			For the three months ended March 31, 2019		
	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	1,597,668	38,484	1,636,152	1,492,447	35,265	1,527,712
Net income (loss)	(28,200)	(5,189)	(33,389)	46,310	(3,038)	43,272
Common share dividends declared	(111,743)	—	(111,743)	(17,181)	—	(17,181)
Preferred share dividends declared	(3,374)	—	(3,374)	(3,374)	—	(3,374)
Retained earnings - end of period	1,454,351	33,295	1,487,646	1,518,202	32,227	1,550,429
<b>Accumulated other comprehensive income (loss)</b>						
Accumulated other comprehensive income (loss) - beginning of period	32,190	1,628	33,818	(15,766)	898	(14,868)
Other comprehensive income (loss)	(17,563)	(1,149)	(18,712)	43,164	3,619	46,783
Accumulated other comprehensive income (loss) - end of period	14,627	479	15,106	27,398	4,517	31,915
<b>Total equity</b>	\$ 1,738,850	\$ 33,774	\$ 1,772,624	\$ 1,815,472	\$ 36,744	\$ 1,852,216
<b>Composition of accumulated other comprehensive income (loss) - end of period</b>						
Unrealized gain (loss) on available for sale financial assets	\$ 27,851	\$ 1,263	\$ 29,114	\$ 40,322	\$ 5,842	\$ 46,164
Remeasurements of post-employment benefit liabilities	(13,307)	(701)	(14,008)	(13,539)	(710)	(14,249)
Shareholder portion of policyholders' accumulated other comprehensive income	83	(83)	—	615	(615)	—
Total accumulated other comprehensive income (loss)	\$ 14,627	\$ 479	\$ 15,106	\$ 27,398	\$ 4,517	\$ 31,915

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, 2020	March 31, 2019
<b>Operating activities</b>		
Net income	\$ (33,389)	\$ 43,272
Non-cash items affecting net income:		
Change in contract liabilities	(182,872)	417,111
Change in reinsurance liability	(29,890)	44,438
Fair value change in fair value through profit or loss assets	398,594	(402,752)
Realized (gain) loss on assets including impairment write downs on available for sale assets	(38,402)	(8,863)
Amortization related to discount on debt instruments	(21,677)	(20,048)
Amortization related to property and equipment and intangible assets	2,662	2,325
Deferred income taxes	(762)	524
Other items	(72,204)	19,659
Cash provided from (used for) operating activities	22,060	95,666
<b>Investing activities</b>		
Portfolio investments		
Purchases and advances	(518,660)	(475,682)
Sales and maturities	492,382	415,070
Loans on policies		
Advances	(2,616)	(2,489)
Repayments	1,916	4,248
(Increase) decrease in short-term investments	26,385	(23,848)
Purchase of property and equipment and intangible assets	(2,689)	(6,979)
Cash provided from (used for) investing activities	(3,282)	(89,680)
<b>Financing activities</b>		
Dividends paid to preferred shareholders (Note 10)	(3,374)	(3,374)
Interest paid on subordinated debt	(3,664)	(3,664)
Cash provided from (used for) financing activities	(7,038)	(7,038)
<b>Net change in cash and cash equivalents</b>	<b>11,740</b>	<b>(1,052)</b>
<b>Cash and cash equivalents - beginning of period (Note 3)</b>	<b>140,333</b>	<b>204,921</b>
<b>Cash and cash equivalents - end of period (Note 3)</b>	<b>\$ 152,073</b>	<b>\$ 203,869</b>
Supplementary cash flow information related to operating activities:		
Income taxes paid, net of (refunds)	\$ 56,850	\$ 9,040
Interest income received	36,610	34,033
Dividend income received	11,205	10,058

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 April 30, 2020.

## 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, 2019.

### (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

#### New accounting pronouncements issued but not yet effective

##### (1) IFRS 9 *Financial Instruments*

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

Under IFRS 9, all financial assets currently within the scope of IAS 39 will be measured at either amortized cost, FVTOCI or FVTPL. Classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at FVTOCI or FVTPL. A debt instrument will be measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest. For financial liabilities

# 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)

designated as FVTPL, the change in the fair value attributable to changes in the liability's credit risk will be recognized in OCI.

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

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

The Company has evaluated the criteria and will apply the temporary exemption for periods beginning before January 1, 2023, 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 fair value information with respect to their investments in financial assets whose contractual cash flows reflect solely payments of principal and interest on the principal amount outstanding (SPPI), to enable users of financial statements to compare insurers applying the temporary exemption with entities applying IFRS 9. The Company's fixed income invested assets presented in Note 3(a) include cash equivalents, short-term investments, bonds, mortgages, loans on policies and policy contract loans and primarily have cash flows that qualify as SPPI. Fixed income invested assets which do not have SPPI qualifying cash flows as at December 31, 2019 and December 31, 2018 include mortgages with fair values of \$10.4 million and \$11.5 million, respectively.

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

## (2) **IFRS 17 Insurance Contracts**

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

This new standard is required to be adopted retrospectively, if this is impracticable, the modified retrospective or fair value method may be used.

The IASB issued an exposure draft to amend IFRS 17 in June of 2019. The exposure draft comment period ended on September 24, 2019 and the IASB plans to publish a final standard by mid-2020. In March 2020, the IASB voted to defer the effective date to reporting periods beginning on or after January 1, 2023. The Company will continue to monitor the IASB's developments. The Company is currently assessing the impact of adopting this standard and the proposed amendments on its Consolidated Financial Statements.

# 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 follow

As at	March 31, 2020			December 31, 2019		
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
Cash and cash equivalents						
Cash	\$ 54,506	\$ —	\$ 54,506	\$ 20,698	\$ —	\$ 20,698
Cash equivalents	97,567	—	97,567	119,635	—	119,635
<b>Total cash and cash equivalents</b>	<b>152,073</b>	<b>—</b>	<b>152,073</b>	<b>140,333</b>	<b>—</b>	<b>140,333</b>
Short-term investments						
Canadian federal government	2,999	—	2,999	13,988	—	13,988
Canadian provincial governments	—	—	—	6,463	—	6,463
Canadian municipal governments	—	—	—	897	—	897
Corporate	3,000	—	3,000	11,036	—	11,036
<b>Total short-term investments</b>	<b>5,999</b>	<b>—</b>	<b>5,999</b>	<b>32,384</b>	<b>—</b>	<b>32,384</b>
Bonds						
Canadian federal government	112,788	149,568	262,356	106,106	226,594	332,700
Canadian provincial governments	3,556,981	511,134	4,068,115	3,706,755	475,970	4,182,725
Canadian municipal governments	106,511	103,116	209,627	106,418	102,340	208,758
<b>Total Canadian government bonds</b>	<b>3,776,280</b>	<b>763,818</b>	<b>4,540,098</b>	<b>3,919,279</b>	<b>804,904</b>	<b>4,724,183</b>
Canadian corporate bonds by industry sector:						
Energy	94,805	54,618	149,423	107,996	60,018	168,014
Materials	16,143	6,682	22,825	15,799	6,822	22,621
Industrials	68,203	74,795	142,998	61,155	66,411	127,566
Consumer discretionary	15,441	990	16,431	15,263	991	16,254
Consumer staples	135,135	74,719	209,854	130,116	65,905	196,021
Health care	84,523	21,251	105,774	87,721	22,081	109,802
Financial services	550,123	300,955	851,078	615,089	296,760	911,849
Communication services	199,516	81,112	280,628	181,108	75,261	256,369
Utilities	502,632	113,498	616,130	479,903	99,925	579,828
Real estate	17,527	18,571	36,098	18,145	18,591	36,736
Infrastructure	313,492	37,609	351,101	319,442	30,810	350,252
<b>Total Canadian corporate bonds</b>	<b>1,997,540</b>	<b>784,800</b>	<b>2,782,340</b>	<b>2,031,737</b>	<b>743,575</b>	<b>2,775,312</b>
<b>Total foreign bonds</b>	<b>9,191</b>	<b>—</b>	<b>9,191</b>	<b>10,157</b>	<b>—</b>	<b>10,157</b>
<b>Total bonds</b>	<b>5,783,011</b>	<b>1,548,618</b>	<b>7,331,629</b>	<b>5,961,173</b>	<b>1,548,479</b>	<b>7,509,652</b>
<b>Total preferred shares - Canadian</b>	<b>411,605</b>	<b>7,413</b>	<b>419,018</b>	<b>463,826</b>	<b>10,203</b>	<b>474,029</b>
Common shares						
Canadian						
Canadian common shares	97,360	39,928	137,288	111,461	44,247	155,708
Exchange-traded funds	397,655	—	397,655	494,131	—	494,131
Canadian real estate limited partnership units	120,912	—	120,912	120,884	—	120,884
U.S.	34,763	—	34,763	42,306	—	42,306
Other	24,852	—	24,852	29,000	—	29,000
<b>Total common shares</b>	<b>675,542</b>	<b>39,928</b>	<b>715,470</b>	<b>797,782</b>	<b>44,247</b>	<b>842,029</b>
<b>Total derivative assets</b>	<b>32,032</b>	<b>—</b>	<b>32,032</b>	<b>2,930</b>	<b>—</b>	<b>2,930</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)

As at	March 31, 2020			December 31, 2019		
	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>Loans and receivables</b>						
Mortgages	—	—	165,330	—	—	169,827
Loans on policies	—	—	55,881	—	—	55,363
Policy contract loans	—	—	66,730	—	—	66,520
<b>Total financial instruments</b>	<b>\$ 7,060,262</b>	<b>\$ 1,595,959</b>	<b>\$ 8,944,162</b>	<b>\$ 7,398,428</b>	<b>\$ 1,602,929</b>	<b>\$ 9,293,067</b>

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

As at	March 31, 2020			December 31, 2019		
	Level 1	Level 2	Total fair value	Level 1	Level 2	Total fair value
<b>Fair value through profit or loss:</b>						
Cash and cash equivalents	\$ 54,506	\$ 97,567	\$ 152,073	\$ 20,698	\$ 119,635	\$ 140,333
Short-term investments	—	5,999	5,999	—	32,384	32,384
Bonds	—	5,783,011	5,783,011	—	5,961,173	5,961,173
Preferred shares	411,605	—	411,605	463,826	—	463,826
Common shares	554,594	120,948	675,542	676,858	120,924	797,782
Derivative assets	32,032	—	32,032	2,928	2	2,930
<b>Available for sale:</b>						
Short-term investments	—	—	—	—	—	—
Bonds	—	1,548,618	1,548,618	—	1,548,479	1,548,479
Preferred shares	7,413	—	7,413	10,203	—	10,203
Common shares	39,928	—	39,928	44,247	—	44,247
<b>Loans and Receivables</b>						
Mortgages	—	159,758	159,758	—	175,229	175,229
Loans on policies	—	55,881	55,881	—	55,363	55,363
Policy contract loans	—	66,730	66,730	—	66,520	66,520
<b>Total</b>	<b>\$ 1,100,078</b>	<b>\$ 7,838,512</b>	<b>\$ 8,938,590</b>	<b>\$ 1,218,760</b>	<b>\$ 8,079,709</b>	<b>\$ 9,298,469</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, 2020 or during the year ended December 31, 2019.

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 14.

## (b) Impairments

For the three months ended March 31, 2020, 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, 2019, \$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.

# 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 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 14.

## (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, 2020			December 31, 2019		
	Notional principal	Fair value assets	Fair value liabilities	Notional principal	Fair value assets	Fair value liabilities
Exchange-traded						
Equity index futures	\$ 43,373	\$ 634	\$ 592	\$ 49,964	\$ 585	\$ 28
Equity options	434,981	31,375	—	537,772	2,342	—
Over-the-counter						
Foreign currency forwards	43,365	23	756	37,103	3	402
Cross currency swaps	20,980	—	3,081	20,980	—	1,610
Total	\$ 542,699	\$ 32,032	\$ 4,429	\$ 645,819	\$ 2,930	\$ 2,040

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 14.

## (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, 2020 and December 31, 2019, the aggregate fair values of the Company's securities loaned and the collateral received were as follows:

As at	March 31, 2020			December 31, 2019		
	General Funds	Segregated Funds	Total	General Funds	Segregated Funds	Total
Value of securities loaned	\$ 1,090,940	\$ 1,061,955	\$ 2,152,895	\$ 1,184,675	\$ 1,511,859	\$ 2,696,534
Value of collateral received	\$ 1,112,776	\$ 1,088,284	\$ 2,201,060	\$ 1,208,397	\$ 1,542,231	\$ 2,750,628

## 4. Segregated Funds

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

As at	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 81,786	\$ 8,482
Short-term investments	247,449	595,621
Bonds	1,726,145	1,857,955
Common and preferred shares	5,074,419	6,100,714
Other net assets	3,273	13,577
	<b>7,133,072</b>	<b>8,576,349</b>
Less segregated funds held within general fund investments	<b>(68,060)</b>	<b>(77,766)</b>
<b>Total</b>	<b>\$ 7,065,012</b>	<b>\$ 8,498,583</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, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and cash equivalents	\$ 81,786	\$ —	\$ 81,786	\$ 8,482	\$ —	\$ 8,482
Short-term investments	—	247,449	247,449	—	595,621	595,621
Bonds	—	1,726,145	1,726,145	—	1,857,955	1,857,955
Common and preferred shares	5,074,419	—	5,074,419	6,100,714	—	6,100,714
<b>Total</b>	<b>\$ 5,156,205</b>	<b>\$ 1,973,594</b>	<b>\$ 7,129,799</b>	<b>\$ 6,109,196</b>	<b>\$ 2,453,576</b>	<b>\$ 8,562,772</b>

There were no transfers between Level 1 and Level 2 during the three months ended March 30, 2020 or during the year ended December 31, 2019. There were no level 3 investments as at March 30, 2020 or December 31, 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)

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

	For the three months ended	
	March 31, 2020	March 31, 2019
Segregated fund assets - beginning of period	\$ 8,498,583	\$ 7,822,790
Additions to segregated funds:		
Amounts received from policyholders	230,236	227,515
Interest	17,004	15,703
Dividends	35,676	32,894
Other income	5,753	6,089
Net realized gains on sale of investments	—	45,388
Net unrealized increase in fair value of investments	—	629,100
	<b>288,669</b>	<b>956,689</b>
Deductions from segregated funds:		
Amounts withdrawn or transferred by policyholders	339,772	311,700
Net realized losses on sale of investments	2,113	—
Net unrealized decrease in fair value of investments	1,357,058	—
Management fees and other operating costs	33,003	51,618
	<b>1,731,946</b>	<b>363,318</b>
Net change in segregated funds held within general fund investments	<b>9,706</b>	<b>(5,475)</b>
Segregated fund assets - end of period	\$ 7,065,012	\$ 8,410,686

## (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 14.

## 5. Insurance Premiums

	For the three months ended			For the three months ended		
	March 31, 2020			March 31, 2019		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life premiums	\$ 131,371	\$ (30,069)	\$ 101,302	\$ 126,561	\$ (27,019)	\$ 99,542
Health premiums	112,018	(24,796)	87,222	95,268	(10,581)	84,687
Total life and health premiums	243,389	(54,865)	188,524	221,829	(37,600)	184,229
Annuity premiums	27,313	(39)	27,274	53,356	301	53,657
Total insurance premiums	\$ 270,702	\$ (54,904)	\$ 215,798	\$ 275,185	\$ (37,299)	\$ 237,886

# 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 March 31, 2020			For the three months ended March 31, 2019		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life claims	\$ 57,273	\$ (13,609)	\$ 43,664	\$ 55,642	\$ (15,258)	40,384
Health claims	74,792	(14,234)	60,558	64,618	(5,225)	59,393
Total life and health claims	132,065	(27,843)	104,222	120,260	(20,483)	99,777
Annuity benefits	50,935	(702)	50,233	65,462	(802)	64,660
Benefits and claims paid	\$ 183,000	\$ (28,545)	\$ 154,455	\$ 185,722	\$ (21,285)	164,437

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

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Gross	Reinsurance ceded	Net	Gross	Reinsurance ceded	Net
Life	\$ (236,035)	\$ (27,425)	\$ (263,460)	\$ 380,239	\$ 47,829	428,068
Health	(3,644)	(2,967)	(6,611)	23,243	(3,217)	20,026
Total life and health	(239,679)	(30,392)	(270,071)	403,482	44,612	448,094
Annuity	56,474	502	56,976	13,523	(174)	13,349
Change in insurance contract liabilities	\$ (183,205)	\$ (29,890)	\$ (213,095)	\$ 417,005	\$ 44,438	461,443
Change attributable to:						
Normal changes - New Business	(32,079)	2,282	(29,797)	24,210	(309)	23,901
- In-Force Business	(151,126)	(32,172)	(183,298)	392,795	44,747	437,542
Change in insurance contract liabilities	\$ (183,205)	\$ (29,890)	\$ (213,095)	\$ 417,005	\$ 44,438	461,443



# 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 March 31, 2020			For the three months ended March 31, 2019		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (22,023)	\$ (5,842)	\$ (16,181)	64,134	17,130	47,004
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(4,673)	(1,243)	(3,430)	73	28	45
Remeasurements of post-employment benefit liabilities	1,223	324	899	(363)	(97)	(266)
<b>Total other comprehensive income (loss)</b>	<b>\$ (25,473)</b>	<b>\$ (6,761)</b>	<b>\$ (18,712)</b>	<b>63,844</b>	<b>17,061</b>	<b>46,783</b>

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

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (19,302)	\$ (5,121)	\$ (14,181)	58,653	15,666	42,987
Fair value change on available for sale investments reclassified to net income, including impairment write downs	(5,696)	(1,516)	(4,180)	206	63	143
Remeasurements of post-employment benefit liabilities	1,170	310	860	(349)	(93)	(256)
Shareholder portion of policyholder other comprehensive income (loss)	(84)	(22)	(62)	396	106	290
<b>Total other comprehensive income (loss)</b>	<b>\$ (23,912)</b>	<b>\$ (6,349)</b>	<b>\$ (17,563)</b>	<b>58,906</b>	<b>15,742</b>	<b>43,164</b>

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

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Before tax	Tax provision (recovery)	After tax	Before tax	Tax provision (recovery)	After tax
Unrealized fair value change on available for sale investments	\$ (2,721)	\$ (721)	\$ (2,000)	5,481	1,464	4,017
Fair value change on available for sale investments reclassified to net income, including impairment write downs	1,023	273	750	(133)	(35)	(98)
Remeasurements of post-employment benefit liabilities	53	14	39	(14)	(4)	(10)
Shareholder portion of policyholder other comprehensive income (loss)	84	22	62	(396)	(106)	(290)
<b>Total other comprehensive income (loss)</b>	<b>\$ (1,561)</b>	<b>\$ (412)</b>	<b>\$ (1,149)</b>	<b>4,938</b>	<b>1,319</b>	<b>3,619</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, 2020	March 31, 2019
Basic and diluted EPS		
Common shareholders' net income	\$ (31,574)	\$ 42,936
Weighted average number of common shares outstanding	985,076	985,076
Basic and diluted EPS	\$ (32.05)	\$ 43.59

## 9. Capital Stock

As at	March 31, 2020			December 31, 2019		
	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 26, 2020	985,076	\$ 113.435853	\$ 111,743	April 8, 2020
	October 30, 2019	985,076	\$ 17.440800	\$ 17,181	December 10, 2019
	August 1, 2019	985,076	\$ 17.440800	\$ 17,180	September 12, 2019
	May 2, 2019	985,076	\$ 17.440800	\$ 17,181	June 11, 2019
	February 27, 2019	985,076	\$ 17.440800	\$ 17,180	April 4, 2019
<b>Preferred shareholder dividends</b>					
<b>Series 1</b>	February 26, 2020	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2020
	October 30, 2019	5,980,000	\$ 0.359375	\$ 2,149	January 17, 2020
	August 1, 2019	5,980,000	\$ 0.359375	\$ 2,149	October 17, 2019
	May 2, 2019	5,980,000	\$ 0.359375	\$ 2,149	July 17, 2019
	February 27, 2019	5,980,000	\$ 0.359375	\$ 2,149	April 17, 2019
<b>Series 3</b>	February 26, 2020	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2020
	October 30, 2019	4,000,000	\$ 0.306250	\$ 1,225	January 17, 2020
	August 1, 2019	4,000,000	\$ 0.306250	\$ 1,225	October 17, 2019
	May 2, 2019	4,000,000	\$ 0.306250	\$ 1,225	July 17, 2019
	February 27, 2019	4,000,000	\$ 0.306250	\$ 1,225	April 17, 2019

On April 30, 2020, subsequent to the date of these Interim Consolidated Financial Statements, the Board approved the following cash dividends:

- \$2,149 (\$0.359375 per share) on the issued and outstanding Series 1 Preferred Shares, payable on July 17, 2020.
- \$1,225 (\$0.306250 per share) on the issued and outstanding Series 3 Preferred Shares, payable on July 17, 2020.

# 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, 2020				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Net premiums from external customers	\$ 27,274	\$ 91,106	\$ 97,418	\$ —	\$ 215,798
Interest income	\$ 7,333	\$ 1,563	\$ 46,451	\$ 13,853	\$ 69,200
Total investment income	9,869	1,149	52,936	16,997	80,951
Fair value change in fair value through profit or loss assets	(55,069)	(2,623)	(334,231)	(6,671)	(398,594)
Realized gain (loss) on fair value through profit or loss assets	(51)	909	29,877	2,993	33,728
Realized gain (loss) on available for sale assets including impairment write downs	(1,142)	(955)	(999)	7,770	4,674
Fee income from external customers	61,942	3,278	45	20	65,285
Net benefits and claims	50,233	63,407	40,815	—	154,455
Net change in insurance contract liabilities	56,976	396	(270,467)	—	(213,095)
Change in investment contract provision	333	—	—	—	333
Policy dividends	—	—	7,412	—	7,412
Amortization of property and equipment and intangibles	604	800	1,258	—	2,662
Total operating expenses	16,472	12,194	13,467	370	42,503
Net commission expense	20,420	11,365	16,987	—	48,772
Interest expense	—	—	—	3,560	3,560
Premium tax	—	2,370	2,280	—	4,650
Investment and capital tax	—	—	825	—	825
Income tax expense (recovery)	(27,524)	818	8,562	3,960	(14,184)
Net income (loss) after tax	(74,087)	2,314	25,165	13,219	(33,389)

# 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, 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

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

As at	March 31, 2020				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 918,770	\$ 167,807	\$ 5,713,686	\$ 2,361,238	\$ 9,161,501
Segregated funds	7,050,911	—	14,101	—	7,065,012
<b>Total assets</b>	<b>\$ 7,969,681</b>	<b>\$ 167,807</b>	<b>\$ 5,727,787</b>	<b>\$ 2,361,238</b>	<b>\$ 16,226,513</b>

As at	December 31, 2019				
	Wealth Management	Employee Benefits	Individual Insurance	Capital & Surplus	Total
Assets excluding segregated funds	\$ 958,480	\$ 171,166	\$ 5,982,511	\$ 2,350,049	\$ 9,462,206
Segregated funds	8,480,294	—	18,289	—	8,498,583
<b>Total assets</b>	<b>\$ 9,438,774</b>	<b>\$ 171,166</b>	<b>\$ 6,000,800</b>	<b>\$ 2,350,049</b>	<b>\$ 17,960,789</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 were outstanding commitments as at March 31, 2020 of \$20,494 (December 31, 2019, \$22,867). These outstanding commitments are payable at any time up to and including April 30, 2021.

## 13. 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 Life Insurance Capital Adequacy Test ("LICAT") framework. Under this framework, the Company's capital adequacy is 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, 2020, the Company was in compliance with these ratios.

## 14. 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 2019 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 2019 Annual Report.

#### (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

# 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 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, 2020			
	10% Increase	10% Decrease	20% Increase	20% Decrease
Shareholders' net income (including segregated fund guarantees)*	\$ (14,821)	\$ (135,601)	\$ 29,917	\$ (287,836)
Policyholders' net income	\$ nil	\$ nil	\$ nil	\$ nil
Shareholders' other comprehensive income	\$ 2,934	\$ (2,934)	\$ 5,868	\$ (5,868)
Policyholders' other comprehensive income	\$ nil	\$ nil	\$ nil	\$ nil

  

	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)

\*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, 2020	December 31, 2019
Holdings of common equities in the 10 issuers to which the Company had the greatest exposure	\$ 548,898	\$ 648,049
Percentage of total cash and investments	6.1%	7.0%
Exposure to the largest single issuer of common equities	\$ 358,798	\$ 444,366
Percentage of total cash and investments	4.0%	4.8%

## (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, 2020			
	50 bps Increase	50 bps Decrease	100 bps Increase	100 bps Decrease
Shareholders' net income	\$ 13,790	\$ (15,252)	\$ 26,271	\$ (32,171)
Policyholders' net income	\$ 216	\$ (236)	\$ 415	\$ (492)
Shareholders' other comprehensive income	\$ (44,616)	\$ 52,884	\$ (80,963)	\$ 114,036
Policyholders' other comprehensive income	\$ (1,232)	\$ 1,359	\$ (2,338)	\$ 2,845

# 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			
	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

### (3) Foreign exchange rate risk

The Company's primary foreign currency exposure arises from portfolio investments denominated in US dollars. As at March 31, 2020 a 10% fluctuation in the US dollar would have an impact of approximately \$nil (March 31, 2019, \$nil) on net income, \$nil (March 31, 2019, \$nil) on shareholders' OCI and \$nil (March 31, 2019, \$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, 2020	December 31, 2019
Cash and cash equivalents	\$ 152,073	\$ 140,333
Short-term investments	5,999	32,384
Bonds	7,331,629	7,509,652
Preferred shares	419,018	474,029
Derivative assets	32,032	2,930
Mortgages	165,330	169,827
Reinsurance	115,420	113,107
Loans on policies	55,881	55,363
Policy contract loans	66,730	66,520
Accrued investment income	47,038	35,401
Insurance receivables	38,948	48,728
Trade accounts receivable	24,996	13,180
<b>Total</b>	<b>\$ 8,455,094</b>	<b>\$ 8,661,454</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, 2020		December 31, 2019	
	Fair value	% of Fair value	Fair value	% of Fair value
AAA	\$ 278,219	4%	\$ 348,815	5%
AA	1,177,430	16%	1,167,357	16%
A	4,700,730	64%	4,831,528	64%
BBB (and lower ratings)	1,175,250	16%	1,161,952	15%
<b>Total</b>	<b>\$ 7,331,629</b>	<b>100%</b>	<b>\$ 7,509,652</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, 2020		December 31, 2019	
Provincial bond holdings	\$	4,068,115	\$	4,182,725
Percentage of total bond holdings		55.5%		55.7%

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

As at	March 31, 2020		December 31, 2019	
	Fair value	% of Fair value	Fair value	% of Fair value
1 year or less	\$ 112,546	2%	\$ 75,119	1%
1 - 5 years	736,493	10%	769,237	10%
5 - 10 years	681,929	9%	700,976	9%
Over 10 years	5,800,661	79%	5,964,320	80%
<b>Total</b>	<b>\$ 7,331,629</b>	<b>100%</b>	<b>\$ 7,509,652</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, 2020		December 31, 2019	
Holdings of fixed income securities* in the 10 issuers (excluding federal governments) to which the Company had the greatest exposure	\$	4,531,910	\$	4,744,433
Percentage of total cash and investments		50.7%		51.1%
Exposure to the largest single issuer of corporate bonds	\$	181,000	\$	199,877
Percentage of total cash and investments		2.0%		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, 2019, 1%) rated as P1, 97% rated as P2 (December 31, 2019, 97%) and the remaining 2% (December 31, 2019, 2%) rated as P3.

## (3) Mortgages

Mortgages in the province of Ontario represent the largest concentration with \$164,530 or 99% (December 31, 2019, \$169,058 or 99%) 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 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> Based on total assets as reported in December 31, 2018 OSFI filings.

<sup>2</sup> As at June 14, 2019. 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-05/20