

Empire Life reports fourth quarter and full year 2020 results

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

Q4 2020 highlights (compared to Q4 2019)

- Decrease in common shareholders' net income to \$72 compared to \$76
- Earnings per share (basic and diluted) of \$73.53 compared to \$77.25
- Return on common shareholders' equity¹ ("ROE") of 17.8% compared to 18.7%

2020 full year highlights (compared to full year 2019)

- Decrease in common shareholders' net income to \$140 compared to \$174
- Earnings per share (basic and diluted) of \$141.80 compared to \$176.58
- Return on common shareholders' equity¹ ("ROE") of 8.5% compared to 11.1%
- Assets under management¹ increased 4.1% to \$18.8 billion

(Kingston, ON – February 24, 2021) – The Empire Life Insurance Company ("Empire Life") (TSX: EML.PR.A) today reported common shareholders' net income of \$72 million for the fourth quarter of 2020, compared to \$76 million in 2019. For the year, common shareholders' net income was \$140 million compared to \$174 million in 2019.

The decrease in earnings from 2019 was due, in part, to a large one-time gain recognized in 2019 related to a reinsurance recapture initiative. In 2020, earnings from the Wealth Management line were lower due to reserve strengthening and assumption updates in the line as a result of poor market returns early in the year. This was partially offset by increased earnings from the Individual Insurance line, primarily as a result of asset trading gains from continued improvements in the Company's matching of assets and liabilities.

"We entered 2020 in a strong capital position," said Mark Sylvia, President and Chief Executive Officer. "Despite equity market declines early in the year and sustained low interest rates, we were able to maintain our capital strength and end the year in a strong position."

"The impacts of the coronavirus pandemic have been, and continue to be, far-reaching," he continued. "Lives have been lost and the health and well-being of individuals and families have been profoundly changed. Small businesses have been devastated and those that have survived continue to struggle to stay afloat. During these difficult times, we focused on providing continued service to our customers while protecting the health and safety of our employees, essential service providers and the general public. We were pleased to be able to introduce a number of relief measures for individual

¹ See non-IFRS Measures

customers who have life insurance or critical illness policies with us and for small businesses and plan members who have group benefits coverage with us."

Financial highlights

(in millions of dollars except per share amounts)	Fourth quarter		Year to Date	
	2020	2019	2020	2019
Common shareholders' net income	\$ 72	\$ 76	\$ 140	\$ 174
Earnings (loss) per share - basic and diluted	\$ 73.53	\$ 77.25	\$ 141.80	\$ 176.58
Return on common shareholders' equity (quarterly annualized)¹	17.8 %	18.7 %	8.5 %	11.1 %

Sources of Earnings¹				
(in millions of dollars)	Fourth quarter		Year to Date	
	2020	2019	2020	2019
Expected profit on in-force business	\$ 55	\$ 47	\$ 215	\$ 190
Impact of new business	(1)	(7)	(16)	(28)
Experience gains (losses)	61	5	(81)	(6)
Management actions and changes in assumptions	(22)	48	13	37
Earnings on operations before income taxes	92	94	130	194
Earnings on surplus	8	16	70	54
Income before income tax	\$ 101	\$ 110	\$ 200	\$ 247
Income taxes	25	30	47	60
Shareholders' net income	\$ 76	\$ 79	\$ 153	\$ 187
Dividends on preferred shares	(3)	(3)	(13)	(13)
Common shareholders' net income	\$ 72	\$ 76	\$ 140	\$ 174

The expected profit on in-force business for the fourth quarter and for the year increased by 18% and 13% respectively, due to higher levels of business inforce at the start of the year for all three business lines.

The improvement in impact of new business for the fourth quarter and the year was primarily driven by favourable new business profits at issue in the Individual Insurance line, combined with lower strain in the Employee Benefits line. For the year, the impact of new business improved over 2019, partially due to the Employee Benefits line where several new specialty partners were added in 2019, causing significant new business strain in that period. The Individual Insurance line also contributed to improved impact of new business as sales of term products, which generally contribute a positive impact of new business value, were strong in the fourth quarter. The impact of new business in the Individual Insurance line is positive when the present value of future profits from new business exceeds the sum of the margins in the initial policy liabilities plus the expenses incurred at the point of sale.

The improvement in experience gains for the fourth quarter of 2020 is primarily attributable to the Wealth Management line, as strong equity returns contributed to a partial reversal of provisions recorded for segregated fund benefit guarantees earlier in 2020. For the year, the increase in experience losses was primarily driven by the overall strengthening of policy liabilities supporting segregated fund benefit guarantees.

The effect of management actions and changes in assumptions in the fourth quarter of 2020 was lower than 2019, primarily due to unfavourable assumption updates in the Wealth Management line in

¹ See non-IFRS Measures

2020 and the favourable impact of a reinsurance recapture initiative in 2019. This was partially offset by favourable assumption updates in the Individual Insurance line. For the year, the effect of management actions and changes in assumptions was lower than 2019, primarily due to overall assumption updates which were less favourable than 2019, and due to the positive effect of the reinsurance recapture initiative recorded in 2019. This was partially offset by improved asset trading gains in the Individual Insurance line in 2020.

Earnings on surplus were lower in the fourth quarter of 2020, primarily due to lower realized gains on Available for Sale (AFS) assets. For the year, earnings on surplus were higher primarily due to realized gains on AFS bonds recorded earlier in the year and lower realized and unrealized losses on Fair Value through Profit and Loss (FVTPL) assets in this segment.

Empire Life's Insurance Capital Adequacy Test (LICAT) total ratio was 136% at December 31, 2020, well above the requirements set by the Office of the Superintendent of Financial Institutions Canada ("OSFI") as well as Empire Life's minimum internal targets.

Non-IFRS measures

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

Additional information

All amounts are in Canadian dollars and are based on the audited consolidated financial results of Empire Life for the period ended December 31, 2020. Additional information about Empire Life can be found in Empire Life's latest Management's Discussion & Analysis and Annual Information Form. These documents are filed on Empire Life's profile available at www.sedar.com. Empire Life's preferred shares are listed on the Toronto Stock Exchange as EML.PR.A (TSX: EML.PR.A).

About Empire Life

Established in 1923 and a subsidiary of E-L Financial Corporation Limited, Empire Life provides individual and group life and health insurance, investment and retirement products to Canadians. Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security. As of December 31, 2020, Empire Life had total assets under management of \$18.8 billion. Follow Empire Life on Twitter @EmpireLife or visit www.empire.ca for more information.

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¹ See non-IFRS Measures